

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM F-10

### REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

### AYR WELLNESS INC.

*(Exact name of Registrant as specified in its charter)*

**British Columbia, Canada**  
*(Province or other Jurisdiction of  
Incorporation or Organization)*

**2833**  
*(Primary Standard Industrial  
Classification  
Code Number)*

**98-1500584**  
*(I.R.S. Employer Identification  
Number, if  
applicable)*

**199 Bay Street, Suite 5300, Toronto, Ontario, M5L 1B9; (949) 574-3860**  
*(Address and telephone number of Registrant's principal executive offices)*

**CT Corporation System  
1015 15th Street N.W., Suite 1000  
Washington, DC 20005  
(202) 572-3100**

*(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)*

#### Copies to:

**Megan Kulick  
AYR Wellness Inc.  
199 Bay Street, Suite 5300  
Toronto, Ontario  
Canada, M5L 1B9  
(949) 574-3860**

**Richard Raymer  
Dorsey & Whitney LLP  
TD Canada Trust Tower  
Brookfield Place, 161 Bay Street,  
Suite 4310 Toronto, Ontario  
Canada, M5J 2S1  
(416) 367-7388**

#### Approximate date of commencement of proposed sale of the securities to the public:

As soon as practicable after this registration statement becomes effective

#### Ontario, Canada

*(Principal jurisdiction regulating this offering)*

It is proposed that this filing shall become effective (check appropriate box below):

- A. ☐ upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).
- B. ☒ at some future date (check the appropriate box below)
1. ☐ pursuant to Rule 467(b) on ( ) at ( ) (designate a time not sooner than 7 calendar days after filing).
  2. ☐ pursuant to Rule 467(b) on ( ) at ( ) (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on ( ).
  3. ☒ pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.
  4. ☐ after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction's shelf prospectus offering procedures, check the following box. ☒

#### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)(2)	Proposed Maximum Aggregate Offering Price(1)(2)(3)	Amount of Registration Fee(2)(3)
Subordinate Voting Shares			
Restricted Voting Shares			
Limited Voting Shares			
Warrants			
Subscription Receipts			
Debt Securities			

Convertible Securities				
Units				
Total	\$	396,750,000	\$	396,750,000
			\$	43,285.42

- (1) There are being registered under this registration statement such indeterminate number of Subordinate Voting Shares, Restricted Voting Shares, Limited Voting Shares, Warrants, Subscription Receipts, Debt Securities, Convertible Securities and Units of the Registrant as shall have an aggregate initial offering price of US\$396,750,000. Any securities registered by this registration statement may be sold separately or as units with other securities registered under this registration statement. The proposed maximum initial offering price per security will be determined, from time to time, by the Registrant in connection with the sale of the securities under this registration statement.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457 of the Securities Act of 1933, as amended (the "U.S. Securities Act").
- (3) Determined based on the proposed maximum aggregate offering price in Canadian dollars of Cdn.\$500,000,000 converted into U.S. dollars based on the exchange rate on February 23, 2021, as reported by the Bank of Canada, for the conversion of Canadian dollars into U.S. dollars of Cdn\$1.00 equals US\$0.7935

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registration Statement shall become effective as provided in Rule 467 under the U.S. Securities Act or on such date as the Commission, acting pursuant to Section 8(a) of the U.S. Securities Act, may determine.

## PART I

### INFORMATION REQUIRED TO BE DELIVERED TO OFFEREEES OR PURCHASERS

*Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the United States Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.*

### AMENDED AND RESTATED SHORT FORM BASE SHELF PROSPECTUS (AMENDING AND RESTATING THE SHORT FORM BASE SHELF PROSPECTUS DATED DECEMBER 17, 2020)

New Issue and/or Secondary Offering

February 24, 2021



C\$500,000,000

Subordinate Voting Shares  
Restricting Voting Shares  
Limited Voting Shares  
Warrants  
Subscription Receipts  
Debt Securities  
Convertible Securities  
Units

Ayr Wellness Inc. (the "Company", "Ayr", "us", "we" or "our") may offer, issue and sell, as applicable, from time to time: (i) subordinate voting shares ("Subordinate Voting Shares"); (ii) restricted voting shares ("Restricted Voting Shares"); (iii) limited voting shares ("Limited Voting Shares", and together with the Subordinate Voting Shares and the Restricted Voting Shares, the "Equity Shares"); (iv) warrants ("Warrants") to acquire any of the other securities that are described in this amended and restated short form base shelf prospectus (the "Prospectus"); (v) subscription receipts ("Subscription Receipts") convertible into other Securities (as defined below); (vi) debt securities ("Debt Securities"), which may consist of bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description and which may be issuable in series; (vii) securities convertible into or exchangeable for Equity Shares and/or other Securities ("Convertible Securities"); and (viii) units ("Units") comprised of one or more of any of the other Securities that are described in this Prospectus, or any combination of such Securities (all of the foregoing collectively, the "Securities" and individually, a "Security"), for up to an aggregate offering price of C\$500,000,000 (or its equivalent in any other currencies), in one or more transactions during the 25-month period that this Prospectus, including any amendments hereto, remains effective.

This Prospectus amends and restates the Company's base shelf prospectus dated December 17, 2020 (the "Original Base Shelf Prospectus") in order to reflect (i) the change in

the name of the Company from “Ayr Strategies Inc.” to “Ayr Wellness Inc.”, effective as of February 12, 2021, and (ii) various events since December 17, 2020. As of the date of this Prospectus, the Company has issued an aggregate of C\$157,550,000 of Securities under the Original Base Shelf Prospectus and therefore has an aggregate of C\$342,450,000 of Securities remaining unallocated as of the date of the receipt for this Prospectus.

We will provide the specific terms of any offering of Securities, including the specific terms of the Securities with respect to a particular offering and the terms of such offering, in one or more prospectus supplements (each a “**Prospectus Supplement**”) and may include, without limitation, where applicable: (i) in the case of Equity Shares, the number of Equity Shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis, including sales in transactions that are deemed to be “at-the-market distributions” as defined in National Instrument 44-102 – *Shelf Distributions* (“**NI 44-102**”)) and any other specific terms; (ii) in the case of Warrants, the number of Equity Shares and/or other Securities issuable upon exercise thereof, the exercise price and exercise period and the terms of any provisions allowing or providing for adjustments in the exercise price or the number of Securities issuable upon exercise thereof; (iii) in the case of Subscription Receipts, the number of Subscription Receipts being offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the terms, conditions and procedures for the exchange or conversion of the Subscription Receipts for or into Equity Shares and/or other Securities and any other specific terms; (iv) in the case of Debt Securities, the specific designation, aggregate principal amount, currency or currency unit for the Debt Securities, maturity, interest rate (which may be fixed or variable) and time of payment of interest, authorized denominations, covenants, events of default, any terms for redemption, any terms for sinking fund payments, any exchange or conversion provisions, the initial offering price (or the manner of determination thereof if offered on a non-fixed price basis), any terms for subordination of the Debt Securities to other indebtedness, whether the Debt Securities will be secured by any assets or guaranteed by any subsidiaries of the Company and any other specific terms; (v) in the case of Convertible Securities, the number of Convertible Securities offered, the offering price, the procedures for the conversion or exchange of such Convertible Securities into or for Equity Shares and/or other Securities and any other specific terms; and (vi) in the case of Units, the designation, number and terms of the Equity Shares, Warrants, Subscription Receipts, Debt Securities or Convertible Securities comprising the Units. A Prospectus Supplement may include specific variable terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus. The Securities may be offered separately or together or in any combination, and as separate series. One or more securityholders of the Company may also offer and sell Securities under this Prospectus. See “*Secondary Sales*”.

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The sale of Equity Shares may be effected from time to time in one or more transactions at non-fixed prices pursuant to transactions that are deemed to be “at the-market distributions” as defined in NI 44-102, including sales made directly on the CSE or other existing trading markets for the Equity Shares, and as set forth in a Prospectus Supplement for such purpose. See “*Plan of Distribution*”.

In addition, the Securities may be offered and issued in consideration for the acquisition of other businesses, assets or securities by the Company or one of its subsidiaries. The consideration for any such acquisition may consist of the Securities separately, a combination of Securities or any combination of, among other things, Securities, cash and assumption of liabilities.

Prospective investors should be aware that the purchase of any Securities may have tax consequences that may not be fully described in this Prospectus or in any Prospectus Supplement, and should carefully review the tax discussion, if any, in the applicable Prospectus Supplement and in any event consult with a tax adviser.

The global outbreak of 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 pandemic, will have on the Company is highly uncertain and difficult to predict at this time. See “*COVID-19*”.

All information permitted under applicable securities laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus except in cases where an exemption from such delivery has been obtained. For the purposes of applicable securities laws, each Prospectus Supplement will be incorporated by reference into this Prospectus as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which that Prospectus Supplement pertains. You should read this Prospectus and any applicable Prospectus Supplement carefully before you invest in any Securities offered pursuant to this Prospectus.

Our Securities may be offered and sold pursuant to this Prospectus through underwriters, dealers, directly or through agents designated from time to time at amounts and prices and other terms determined by us or any selling securityholders. In connection with any underwritten offering of Securities, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Securities offered at levels other than those that might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See “*Plan of Distribution*”. A Prospectus Supplement will set out the names of any underwriters, dealers, agents or selling securityholders involved in the sale of our Securities, the amounts, if any, to be purchased by underwriters, the plan of distribution for such Securities, including the net proceeds we expect to receive from the sale of such Securities, if any, the amounts and prices at which such Securities are sold, the compensation of such underwriters, dealers or agents and other material terms of the plan of distribution.

The Securities may be sold from time to time in one or more transactions at a fixed price or prices or at non-fixed prices. If offered on a non-fixed price basis, the Securities may be offered at market prices prevailing at the time of sale, at prices determined by reference to the prevailing price of a specified security in a specified market or at prices to be negotiated with purchasers, in which case the compensation payable to an underwriter, dealer or agent in connection with any such sale will be decreased by the amount, if any, by which the aggregate price paid for Securities by the purchasers is less than the gross proceeds paid by the underwriter, dealer or agent to the Company or any selling securityholder. The price at which the Securities will be offered and sold may vary from purchaser to purchaser and during the period of distribution. This Prospectus may qualify an “at-the-market distribution” (as defined under applicable Canadian securities legislation).

The Company currently has four classes of issued and outstanding shares: Subordinate Voting Shares, Restricted Voting Shares, Limited Voting Shares and multiple voting shares (“**Multiple Voting Shares**”, and together with the Equity Shares, “**Shares**”). The Multiple Voting Shares and Equity Shares are substantially identical with the exception of the voting rights and conversion rights attached to the Multiple Voting Shares. Each Subordinate Voting Share is entitled to one vote per Subordinate Voting Share and each Multiple Voting Share is entitled to 25 votes per Multiple Voting Share (subject in the case of Mercer Park CB, L.P. (“**Mercer**”) to the terms of a voting agreement with the Company dated as of June 26, 2019 (the “**Voting Agreement**”), which may be found on Ayr’s profile on SEDAR at [www.sedar.com](http://www.sedar.com)) on all matters upon which the holders of such classes of securities are entitled to vote, as applicable. The Company intends to terminate the Voting Agreement in the near future. On December 3, 2020, the Company amended its constating documents (the “**Capital Structure Amendments**”) to, among other things, (i) create and set the terms of the Restricted Voting Shares and Limited Voting Shares, including applying coattail terms to such shares similar to those applicable to its existing Subordinate Voting Shares, as more particularly described below, and (ii) amend the terms of the existing Multiple Voting Shares and Subordinate Voting Shares, including by amending the requirements in respect of who may hold Subordinate Voting Shares. The Company implemented the Capital Structure Amendments in order to seek to maintain its “foreign private issuer” (“**FPI**”) status under U.S. securities laws and thereby avoid a commensurate material increase in its ongoing costs. This was accomplished by implementing a mandatory conversion mechanism in the Company’s share capital to decrease the number of shares eligible to be voted for directors of the Company if the Company’s FPI Threshold (as defined below) is exceeded. Each of the classes of Equity Shares is economically identical and mandatorily inter-convertible (continuously and without formality) based on (i) the holder’s status as a U.S. Person or Non-U.S.

Person (each as defined below), and (ii) the status of the Company's FPI Threshold (as defined below). Each class of Equity Shares is entitled to one vote per share on all matters to be brought before the Company's shareholders for approval, except in respect of votes regarding the election of directors of the Company, where the holders of Limited Voting Shares do not have any entitlement to vote. See "*Description of Securities – Equity Shares and Multiple Voting Shares*".

Holders of Shares will vote together on all matters subject to a vote of holders of each of these classes of securities as if they were one class of shares, except to the extent that a separate vote of holders as a separate class is required by law or provided by our articles and except that holders of Limited Voting Shares will not be entitled to vote on the election of directors. The Multiple Voting Shares are convertible into Subordinate Voting Shares or Restricted Voting Share, as applicable, at a ratio of one Subordinate Voting Share or Restricted Voting Shares, as applicable, for every one Multiple Voting Share at any time at the option of the holders thereof and automatically in certain other circumstances. The holders of Equity Shares benefit from provisions in the articles of the Company (the "**Articles**") that give them certain conversion rights in the event of a take-over bid for the Multiple Voting Shares. Each class of Equity Shares is also subject to similar coattail provisions under the Articles, pursuant to which each class of Equity Shares may be converted into another class of Shares in the event an offer is made to purchase such other class of Shares and the offer is one which is required to be made to all or substantially all the holders in Canada of such other class of Shares (assuming that the offeree was resident in Ontario). See "*Description of Securities – Non-Multiple Voting Shares and Multiple Voting Shares – Take-Over Bid Protection*" and "*Description of Securities – Non-Multiple Voting Shares and Multiple Voting Shares*".

The issued and outstanding Equity Shares are listed on the Canadian Securities Exchange (the "**CSE**") under the symbol "AYR.A" and quoted on the OTCQX Best Market under the trading symbol "AYRWF". On February 23, 2021, the last trading day prior to the date of this Prospectus, the closing price of the Equity Shares on the CSE was C\$40.20 and the closing price of the Equity Shares on the OTCQX Best Market was \$32.00. The issued and outstanding Warrants (the "**Listed Warrants**") which were issued pursuant to the Company's 2017 initial public offering (the "**IPO**") are listed on the CSE under the symbol "AYR.WT" and quoted on the OTCQX Best Market under the trading symbol "CNBQF". On February 23, 2021, the last trading day prior to the date of this Prospectus, the closing price of the Listed Warrants on the CSE was C\$30.20 and the closing price of the Listed Warrants on the OTCQX Best Market was \$23.81.

Unless otherwise specified in the applicable Prospectus Supplement, each class of Securities (other than Equity Shares and Listed Warrants) will not be listed on any securities exchange. Accordingly, there is currently no market through which the Securities (other than Equity Shares and Listed Warrants) may be sold and purchasers may not be able to resell any such Securities purchased under this Prospectus and the Prospectus Supplement relating to such Securities. This may affect the pricing of such Securities in the secondary market, the transparency and availability of trading prices, the liquidity of such Securities and the extent of issuer regulation.

In connection with any offering of Securities, other than an "at-the-market distribution" (as defined in NI 44-102), unless otherwise specified in a Prospectus Supplement, the underwriters, dealers or agents, as the case may be, may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Securities at a level other than those which otherwise might prevail on the open market. Such transactions may be commenced, interrupted or discontinued at any time. A purchaser who acquires Securities forming part of the underwriters', dealers' or agents' over-allocation position acquires those Securities under this Prospectus and the Prospectus Supplement relating to the particular offering of Securities, regardless of whether the over-allocation position is ultimately filled through the exercise of the over-allotment option or secondary market purchases. See "*Plan of Distribution*". No underwriter, dealer or agent involved in an "at-the-market distribution" under this Prospectus, no affiliate of such an underwriter, dealer or agent and no person or company acting jointly or in concert with such underwriter, dealer or agent will over-allot Securities in connection with such distribution or effect any other transactions that are intended to stabilize or maintain the market price of the Securities.

The directors and certain officers of the Company reside outside of Canada and certain experts retained by the Company are organized outside of Canada. Each of these individuals and entities have appointed the following agents for service of process:

<b>Name of Director or Officer</b>	<b>Name and Address of Agent</b>
Jonathan Sandelman, Chairman, Chief Executive Officer and Corporate Secretary	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Brad Asher, Chief Financial Officer	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Jennifer Drake, Chief Operating Officer	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Jason Griffith, Chief Integration Officer	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Jamie Mendola, Head of Strategy and M&A	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Charles Miles, Director	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Chris R. Burggraeve, Director	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Louis F. Karger, Director	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Steve Menzies, Director	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9
Glenn Isaacson	152928 Canada Inc., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, ON, Canada M5L 1B9

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada, even if the party has appointed an agent for service of process.

An investment in the Securities is speculative and involves significant risks. Readers should carefully review and evaluate the risk factors contained in this Prospectus, the applicable Prospectus Supplement and in the documents incorporated by reference herein before purchasing any Securities. See "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*".

**The Company is not making an offer of the Securities in any jurisdiction where such offer is not permitted.**

Unless otherwise specified in a Prospectus Supplement relating to any Securities offered, certain legal matters in connection with the offering of Securities will be passed upon on behalf of the Company by Stikeman Elliott LLP.

**No underwriter has been involved in the preparation of this Prospectus nor has any underwriter performed any review of the contents of this Prospectus.**

Our head office is located at 590 Madison Ave., 26th Floor, New York, NY, USA 10022.

#### **Note to U.S. Holders**

This offering is made by a foreign issuer that is permitted, under a multijurisdictional disclosure system ("MJDS") adopted by the United States, to prepare this Prospectus in accordance with the disclosure requirements of its home country. Prospective investors should be aware that such requirements are different from those of the United States. Financial statements included or incorporated herein, if any, have been prepared in accordance with foreign generally accepted accounting principles, and may be subject to foreign auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies.

Prospective investors should be aware that the acquisition of the securities described herein may have tax consequences both in the United States and in Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein.

The enforcement by investors of civil liabilities under U.S. federal securities laws may be affected adversely by the fact that the Company is incorporated or organized under the laws of a foreign country, that some of its officers and directors may be residents of a foreign country.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Ayr derives a substantial portion of its revenues from the cannabis industry in certain states ("States", each a "State") of the United States, which industry is illegal under U.S. federal law. Ayr is a vertically-integrated multi-State operator in the U.S. cannabis sector, with a portfolio in the States of Massachusetts, Nevada and Pennsylvania. Currently, through its operating companies, Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods, and is directly engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses in the adult-use and/or medicinal cannabis marketplace in the Commonwealths of Massachusetts and Pennsylvania and provides administrative, consulting and operations services to licensed establishments in the State of Nevada.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811) (the "CSA"), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration ("FDA") has not approved cannabis as a safe and effective drug for any indication. The FDA has, however, approved one cannabis-derived drug product, Epidiolex, for the treatment of seizures associated with Lennox-Gastaut syndrome or Dravet syndrome.

In the United States, marijuana is largely regulated at the State level. State laws regulating cannabis are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and State law, the federal law shall apply.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice (the "DOJ") specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein).<sup>1</sup> With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law, subject to budgetary constraints. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, Matthew Whitaker began serving as Acting United States Attorney General, until February 14, 2019, when William Barr was appointed as the United States Attorney General. Mr. Barr is a former Attorney General under George H.W. Bush, with an anti-drug stance during his tenure. During his Senate confirmation hearing, Mr. Barr stated that he disagrees with efforts by States to legalize marijuana, but will not go after marijuana companies in States that legalized it under Obama administration policies. He stated further that he would not upset settled expectations that have arisen as a result of the Cole Memorandum. In June 2020, a federal prosecutor accused Mr. Barr of ordering "politically motivated" antitrust reviews of 10 marijuana business mergers, allegedly because he personally did not support their underlying business in the marijuana industry. At least one of those investigations allegedly resulted in the collapse of a proposed merger between two large cannabis businesses. On December 14, 2020, President Trump announced that Mr. Barr would be resigning from his post as Attorney General, effective December 23, 2020. On December 24, 2020, Jeffrey Rosen began serving as the Acting Attorney General of the United States. On January 7, 2021, President Joe Biden announced Judge Merrick Garland as his nomination for the next U.S. Attorney General. On January 20, 2021, Robert Wilkinson replaced Jeffrey Rosen as the Acting Attorney General of the United States while Judge Garland seeks confirmation from the U.S. Senate.

During his campaign, President Biden stated a policy goal to decriminalize possession of cannabis at the federal level, but he has not publicly supported the full legalization of cannabis. It is unclear what impact, if any, the new administration will have on U.S. federal government enforcement policy on cannabis. Nonetheless, there is no guarantee that the position of the Department of Justice will not change.

<sup>1</sup> On August 29, 2013, the DOJ attempted to address this inconsistency and to provide guidance to enforcement agencies when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all United States Attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several States have enacted laws relating to cannabis for medical and recreational purposes. In March 2017, then newly-appointed Attorney General Jeff Sessions, a long-time opponent of State-regulated medical and recreational cannabis, noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he had previously stated that he did not believe it had been implemented effectively. On January 4, 2018, the Cole Memorandum was rescinded by then Attorney General Sessions. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

There is also no guarantee that State laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of State laws within their respective jurisdictions. Unless and until the United States Congress (“Congress”) amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that U.S. federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in States where the sale and use of cannabis is currently legal, or if existing applicable State laws are repealed or curtailed, Ayr’s results of operations, financial condition and prospects and Ayr would be materially adversely affected. See “U.S. Federal Enforcement Priorities”, in the Company’s annual information form dated September 30, 2020 (the “AIF”), incorporated by reference herein.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators published a staff notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”) setting out the Canadian Securities Administrator’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Ayr’s involvement in the U.S. cannabis market may subject Ayr to heightened scrutiny by regulators, stock exchanges, clearing agencies and other U.S. and Canadian authorities. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Ayr’s ability to operate in the U.S. or any other jurisdiction. There are a number of risks associated with the business of Ayr. See “Cannabis Market Overview” and “Risk Factors” in the AIF, incorporated by reference herein.

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## ABOUT THIS PROSPECTUS

Readers should rely only on the information contained or incorporated by reference in this Prospectus and any applicable Prospectus Supplement in connection with an investment in the Securities. No person or entity is authorized by the Company to provide any information or to make any representation other than as contained in this Prospectus (or incorporated by reference herein) or any Prospectus Supplement in connection with the issue and sale of the Securities offered hereunder. We take no responsibility for and can provide no assurance as to the reliability of, any other information that others may give readers of this Prospectus. We are not making an offer of Securities in any jurisdiction where the offer is not permitted.

Readers should not assume that the information contained or incorporated by reference in this Prospectus is accurate as of any date other than the date of this Prospectus or the respective dates of the documents incorporated by reference herein, unless otherwise noted herein or as required by law. It should be assumed that the information appearing in this Prospectus, any Prospectus Supplement and the documents and the information contained in any document incorporated by reference is accurate only as of the date of that document unless specified otherwise. The business, financial condition, results of operations and prospects of the Company may have changed since those dates.

This Prospectus shall not be used by anyone for any purpose other than in connection with an offering of Securities in compliance with applicable securities laws. We do not undertake to update the information contained or incorporated by reference herein, including any Prospectus Supplement, except as required by applicable securities laws. Information contained on, or otherwise accessed through, our website shall not be deemed to be a part of this Prospectus and such information is not incorporated by reference herein.

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference into this Prospectus from documents filed with securities commissions or similar authorities in Canada** Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Ayr Strategies Inc. at 590 Madison Ave., 26<sup>th</sup> Floor, New York, NY, USA 10022, telephone: (949) 574-3860, and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents, filed by the Company with the various securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this Prospectus:

- a) the AIF;
- b) the audited consolidated financial statements for (i) the year ended December 31, 2019, and (ii) the period ended December 31, 2018 and the year ended September 30, 2018;
- c) the management's discussion and analysis for the year ended December 31, 2019;
- d) the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2020 and 2019 (the **Q3 Interim Financial Statements**);
- e) the management's discussion and analysis for the three and nine months ended September 30, 2020 and 2019;
- f) the statement of executive compensation for the year ended December 31, 2019;
- g) the business acquisition report dated August 7, 2019;
- h) the management information circular filed on SEDAR on October 14, 2020);
- i) the material change report dated November 4, 2020 relating to the entering into by Ayr of a binding term sheet to acquire a vertically integrated cannabis operation in the State of Arizona (the **"Arizona MCR"**);
- j) the material change report dated November 30, 2020 relating to the entering into by Ayr of a definitive membership interest purchase agreement dated November 20, 2020 to acquire 100% of the membership interest CannTech PA, LLC;
- k) the material change report dated December 11, 2020 relating to the closing of a private placement offering of US\$110 million aggregate principal amount of 12.5% senior secured notes due 2024 and the completion of the Company's incentive cash exercise of 3,000,000 Listed Warrants;
- l) the material change report dated December 30, 2020 relating to (i) the entering into by Ayr of a definitive arrangement agreement dated December 21, 2020 to acquire all of the issued and outstanding common shares of Liberty Health Sciences Inc. (**"Liberty"**), and (ii) the entering into by Ayr of a binding letter of intent dated December 21, 2020 whereby Ayr, GSD NJ LLC (**"GSD"**) and its equity owners will work together to negotiate and enter into a membership purchase agreement in respect of which Ayr will acquire all of the membership interests of GSD; and

- m) the material change report dated January 14, 2021 relating the closing of an underwritten overnight marketed offering of an aggregate of 4,600,000 Equity Shares (the **"Equity Share Offering"**) at a price of C\$34.25 per Equity Share for total gross proceeds of approximately \$157,550,000.

**Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference in this Prospectus will be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference into this Prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.**

Any document of the type required by National Instrument 44-101 – *"Short Form Prospectus Distributions"* to be incorporated by reference into a short form prospectus, including any annual information forms, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, annual financial statements (in each case, including any applicable exhibits containing updated earnings coverage information) and the independent auditor's report thereon, management's discussion and analysis and information circulars of the Company filed by the Company with securities commissions or similar authorities in Canada after the date of this Prospectus and prior to the completion or withdrawal of any offering under this Prospectus shall be deemed to be incorporated by reference into this Prospectus. The documents incorporated or deemed to be incorporated herein by reference contain meaningful and material information relating to the Company and readers should review all information contained in this Prospectus, the applicable Prospectus Supplement and the documents incorporated or deemed to be incorporated by reference herein and therein.

To the extent that any document or information incorporated by reference into this Prospectus is included in any report on Form 6-K, Form 8-K, Form 40-F or Form 20-F (or any respective successor form) that is filed with or furnished to the SEC after the date of this Prospectus, such document or information shall be deemed to be incorporated by reference as an exhibit to the registration statement on Form F-10 of which this Prospectus forms a part. In addition, the Company may incorporate by reference into this Prospectus, or the registration statement on Form F-10 of which it forms part, other information from documents that the Company will file with or furnish to the SEC pursuant to Section 13(a) or 15(d) of the U.S. Exchange Act if and to the extent expressly provided therein.

Upon a new annual information form and annual consolidated financial statements being filed by the Company with the applicable Canadian securities commissions or similar regulatory authorities in Canada during the period that this Prospectus is effective, the previous annual information form, the previous annual consolidated financial statements and all interim consolidated financial statements and in each case the accompanying management's discussion and analysis of financial condition and results of operations, and

material change reports filed prior to the commencement of the financial year of the Company in which the new annual information form is filed shall be deemed to no longer be incorporated into this Prospectus for purpose of future offers and sales of Securities under this Prospectus. Upon interim consolidated financial statements and the accompanying management's discussion and analysis of financial condition and results of operations being filed by the Company with the applicable Canadian securities commissions or similar regulatory authorities during the period that this Prospectus is effective, all interim consolidated financial statements and the accompanying management's discussion and analysis of financial condition and results of operations filed prior to such new interim consolidated financial statements and management's discussion and analysis of financial condition and results of operations shall be deemed to no longer be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus. In addition, upon a new management information circular for an annual (or annual and special) meeting of shareholders being filed by the Company with the applicable Canadian securities commissions or similar regulatory authorities during the period that this Prospectus is effective, the previous management information circular filed in respect of the prior annual (or annual and special) meeting of shareholders shall no longer be deemed to be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus.

References to our website in any documents that are incorporated by reference into this Prospectus and any Prospectus Supplement do not incorporate by reference the information on such website into this Prospectus or any Prospectus Supplement, and we disclaim any such incorporation by reference.

Any "template version" of "marketing materials" (as those terms are defined in National Instrument 41-101 –*General Prospectus Requirements* ("NI 41-101")) pertaining to a distribution of Securities filed after the date of a Prospectus Supplement and before termination of the distribution of Securities offered pursuant to such Prospectus Supplement will be deemed to be incorporated by reference into the Prospectus Supplement for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

A Prospectus Supplement containing the specific terms of an offering of Securities and other information in relation to the Securities will be delivered to prospective purchasers of such Securities together with this Prospectus and shall be deemed to be incorporated by reference into this Prospectus as of the date of such Prospectus Supplement but only for the purposes of the distribution of the Securities to which that Prospectus Supplement pertains.

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus and the documents incorporated by reference herein contain certain "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws, including Canadian securities laws and United States securities laws (collectively, "**forward-looking statements**"). All information, other than statements of historical facts, included in this Prospectus and the documents incorporated by reference herein, including estimates, plans, expectations, opinions, forecasts, projections, targets and guidance, constitutes forward-looking information. Forward-looking information is often identified by the words "may", "would", "could", "should", "will", "intend", "plan", "anticipate", "believe", "estimate", "project", "expect", "target", "continue", "forecast", "design", "goal" or similar expressions and includes, among others, information regarding:

- the extent of the impact of COVID-19, including government and/or regulatory responses to the outbreak (see "COVID-19");
- the business and future activities of, and developments related to, the Company after the date hereof or the date of any document incorporated by reference, as applicable, including such things as future business strategy, financial and operating performance, results and terms of strategic initiatives, strategic agreements and supply agreements, competitive strengths, goals, expansion and growth of the Company's business, and anticipated profitability, including new revenue streams;
- the completion and integration of contemplated acquisitions by the Company or other possible acquisitions or dispositions (directly or indirectly) of businesses or assets which may or may not be material and/or investment opportunities;
- the application for additional licenses and the grant of licenses and other regulatory approvals that have been applied for;
- the renewal of licenses held by the Company;
- the potential time frame for the implementation of legislation to legalize and regulate medical or recreational cannabis federally (and the consumer products derived from each of the foregoing) in the United States, if any, and the potential form that any such legislation and regulations will take;
- the number of users of cannabis and the size of the regulated cannabis market in the United States;
- the market for the Company's current and proposed products and services, as well as the Company's ability to capture market share;
- the benefits and applications of the Company'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 Company operates and the Company's market expertise;
- the Company's ability to secure further equity or debt financing;
- consistent or increasing pricing of various cannabis products;
- the level of demand for cannabis products, including the Company's products and third-party products sold by the Company;
- the Company's ability to mitigate risks relating to the cannabis industry, the larger economy, breaches of and unauthorized access to the Company's systems and related cybersecurity risks, money laundering, and potential for litigation;
- the impact of health pandemics, including COVID-19;

- 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;
- any markets for the Company's securities; and
- other events or conditions that may occur in the future.

Prospective investors and other readers are cautioned that the forward-looking information contained in this Prospectus and the documents incorporated herein by reference is based on the assumptions and estimates of management of the Company at the time they were provided or made and involve known and unknown risks, uncertainties and other factors which may cause the actual results, level of activity, performance or achievements of the Company, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Although the Company believes that the expectations reflected in such forward-looking information are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking information is expressly qualified in its entirety by this cautionary statement.

A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking information. See "Risk Factors" for further details. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. In formulating the forward-looking information contained herein, the Company has assumed, without limitation, receipt of requisite regulatory approvals on a timely basis, receipt and/or maintenance of required licenses and third-party consents in a timely manner, successful integration of the



Company's and its subsidiaries' operations, and no unplanned materially adverse changes to its facilities, assets, customer base and the economic conditions affecting the Company's current and proposed operations. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. In addition, the Company has assumed that there will be no material adverse change to the current regulatory landscape affecting the cannabis industry and has also assumed that the Company will remain compliant in the future with all laws, regulations and rules imposed upon it by law.

There can be no assurance that such forward-looking information will prove to be accurate as actual results and future events could differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Forward-looking information is provided and made as of the date of this Prospectus and the Company does not undertake any obligation to revise or update any forward-looking information or statements other than as expressly required by applicable law. The Company's forward-looking information is expressly qualified in its entirety by this cautionary statement.

#### CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

Unless the context otherwise requires, all references to "\$", "US\$" and "dollars" mean references to the lawful money of the United States. All references to "C\$" refer to Canadian dollars. On February 23, 2021, the Bank of Canada daily average rate of exchange was US\$1.00 = C\$1.2603 or C\$1.00 = US\$0.7935.

#### MARKET AND INDUSTRY DATA

This Prospectus includes market and industry data that has been obtained from third-party sources, including industry publications. The Company believes that the industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, the Company has not independently verified any of the data from third-party sources referred to in this Prospectus or ascertained the underlying economic assumptions relied upon by such sources.

#### WHERE YOU CAN FIND MORE INFORMATION

We are subject to the full informational requirements of the securities commissions in all provinces and territories of Canada. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we have filed or intend to file with the Canadian provincial securities commissions. These filings are electronically available from the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Except as expressly provided herein, documents filed on SEDAR are not, and should not be considered, part of this Prospectus.

We will be filing with the SEC a registration statement on Form F-10 of which this Prospectus forms a part. This Prospectus does not contain all the information set out in the registration statement. For further information about the Company and the Securities, please refer to the registration statement, including the exhibits to the registration statement.

The Company is currently subject to the information requirements under Canadian securities laws and, upon the effectiveness of the registration statement, the Company will become subject to certain information requirements of the United States Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"). Consequently, the Company files reports and other information with the securities regulatory authorities of the provinces and territories of Canada and will file reports and other information with the SEC. Under the MJDS, the Company may generally prepare these reports and other information in accordance with the disclosure requirements of Canada. These requirements are different from those of the United States. As a "foreign private issuer" (as defined under United States securities laws), the Company is exempt from the rules under the U.S. Exchange Act prescribing the furnishing and content of proxy statements, and officers, directors and principal shareholders of the Company are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the U.S. Exchange Act. In addition, the Company is not required to publish financial statements as promptly as United States companies.

The SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that makes available reports and other information that the Company files electronically with it, including the registration statement that the Company has filed with respect hereto.

#### DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been or will be filed with the SEC as part of the registration statement of which this Prospectus forms a part: (i) the documents referred to in "Documents Incorporated by Reference"; (ii) the consents of auditors, counsel and any experts identified herein, if applicable; (iii) powers of attorney of the directors and officers of the Company; and (iv) a copy of the form of indenture for Debt Securities. A copy of the form of any applicable warrant agreement, warrant indenture, subscription receipt agreement, convertible securities agreement or statement of eligibility of trustee on Form T-1, as applicable, will be filed by post-effective amendment or by incorporation by reference to documents filed or furnished with the SEC under the U.S. Exchange Act.

#### AYR WELLNESS INC.

Ayr is a vertically-integrated multi-State operator in the U.S. cannabis sector, with a portfolio of (i) licensed operations in the Commonwealths of Massachusetts and Pennsylvania, and (ii) services and operations agreements in the State of Nevada. Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods, and is engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses or services or operations agreements in the adult-use and/or medicinal cannabis marketplace in the Commonwealths of Massachusetts and Pennsylvania and provides administrative, consulting and operations services to licensed establishments in the State of Nevada.

In Massachusetts, Ayr is vertically-integrated with cultivation, extraction, production, manufacturing, distribution and medical retail dispensary operations. The medical dispensaries are under the Sira Naturals brand, which is actively seeking licenses to operate adult-use cannabis retail establishments. Ayr's retail and wholesale products include cannabis and cannabis products, including concentrates, edibles, and vaporizer products.

In Nevada, Ayr provides administrative, consulting and operations services for five (5) dispensaries under service agreements or operations agreements, as applicable. Each dispensary is licensed to sell in both the medical and adult-use recreational markets in Nevada. Three (3) of the dispensaries are under the brand "The Dispensary" with retail operations in Clark County, Henderson and Reno, Nevada. The two (2) remaining dispensaries are under the MYNT brand, which was named Best Dispensary in Reno in 2018. In addition to the five (5) retail stores to which Ayr provides operational services, Ayr also provides operational services to cultivation, production and distribution businesses in northern Nevada, focused in Reno and distributing to Las Vegas, also with extraction, processing and manufacturing capabilities. The licensed cultivation and production facilities to which Ayr provides operational services, produce premium cannabis flower, pre-rolls, and a full line of vape pens, concentrates, and cannabis-infused products, including chocolates, beverages and gummies.

In Pennsylvania, Ayr is vertically-integrated with cultivation, production, manufacturing, distribution and medical retail dispensary operations.

Ayr is looking to expand in these and other states, including Ohio, Arizona, Florida and New Jersey. See "*Recent Developments*".

The Company does not currently accept payment for products or services online.

See “*Description of the Business*” in the AIF, incorporated herein by reference.

## Recent Developments

### Massachusetts

On February 26, 2020, the Company, through its wholly-owned subsidiary Sira Naturals Inc. (“Sira”), entered into a binding term sheet with Eskar Holdings, LLC to acquire 100% of the membership interests in Eskar Holdings LLC. Subsequent to the signing of the term sheet, the Company entered into both a definitive Membership Interest Purchase Agreement and Purchase and Sale Agreement. Pursuant to such agreements, the Company will on closing acquire rights to legally open and operate a recreational cannabis licensed retail store along with the purchase of the property located in the City of Watertown, Massachusetts. The Company has agreed to pay a purchase price consisting of (i) US\$1 million in cash, and (ii) a 4% non-voting interest in the net profits of Eskar Holdings, LLC. In addition, for the purchase of the property, the Company has agreed to pay a purchase price of \$5 million in cash. The closing of the acquisition is subject to, among other things, regulatory approval.

On October 9, 2020, the City of Somerville Marijuana Advisory Committee recommended Sira be offered an host community agreement to co-locate an adult-use dispensary with Sira’s existing medical-use dispensary in the Somerville neighbourhood of Davis Square.

Following unanimous approval of the Town Council of the Town of Watertown, on October 20, 2020, Sira executed a host community agreement with the Town of Watertown approving the Company to operate co-located medical- and adult-use cannabis sales in the Town of Watertown.

On November 16, 2020, Sira fully executed a host community agreement with the City of Boston’s Cannabis Board to operate an adult-use dispensary at 829 Boylston Street in Boston.

### Nevada

At a meeting of the Nevada Cannabis Compliance Board on August 25, 2020, LivFree Wellness, LLC (“LivFree”), an entity to whom Ayr provides administrative, consulting and operations services (see “*Material Contracts – Services Agreements*” and “*Material Contracts – Operations Agreement*”), was awarded two (2) additional dispensary licenses in the greater Las Vegas market, one (1) in Clark County and one (1) in Henderson. LivFree aims to open the additional Clark County dispensary in Q1 2021.

### Pennsylvania

On November 19, 2020, Ayr acquired 100% of the membership interests in DocHouse LLC (“DocHouse”), a licensed grower-processor in Pottsville, Pennsylvania. The acquisition included DocHouse’s 38,400 sq. ft. cultivation and extraction facility, which is approved as operational and has the capacity to expand to 74,000 sq. ft. Consideration for the transaction totaled US\$20.8 million, including US\$16.7 million of cash, US\$2.1 million in stock and US\$2.0 million in seller notes.

On December 23, 2020, Ayr acquired 100% of the membership interests in CannTech PA, LLC (“CannTech”), a Pennsylvania-licensed cannabis operator, for total purchase consideration of US\$57.4 million. The purchase consideration was paid as to US\$27.2 million in cash, US\$15 million in Exchangeable Shares and US\$15.2 million in notes. The acquisition included a 143,000 ft² cultivation and processing facility under development with the initial construction phase comprising 45,000 ft² recently approved for cultivation and with an expected first harvest in March 2021. The site provides room for further expansion beyond the 143,000 ft² facility. CannTech also has the right to operate six (6) dispensaries expected to open in retail locations, most of which are clustered in the Pittsburgh and Philadelphia regions. The first such dispensary opened in October 2020 in New Castle, PA, with two (2) more expected to open in early 2021. CannTech also has a research program in collaboration with a local medical school.

## Announced Acquisitions

### Ohio

On September 20, 2020, Ayr entered into a non-binding term sheet in connection with the acquisition of (i) a 49.9% equity stake in the holder (the “**Ohio Cultivation Licensee**”) of a level 1 cultivation license (the largest canopy license in the State), and (ii) a 100% equity stake in a management company that holds exclusive management rights over the Ohio Cultivation Licensee.

On September 30, 2020, Ayr entered into (i) a definitive purchase agreement for an operational processing facility, and (ii) an asset purchase agreement to acquire a 9,000 sq. ft. medical marijuana processor facility that is licensed as part of the Ohio medical cannabis program. The aggregate purchase price for the assets is approximately US\$1.2 million in cash.

The approximately 58,000 sq. ft. cultivation facility of the Ohio Cultivation Licensee is under construction and the approximately 9,000 sq. ft. processing facility is fully operational. Consideration for the two transactions totals US\$18.2 million, including US\$10.2 million of cash and US\$8.0 million in convertible seller notes. Following regulatory approvals, closing and completion of the initial phase of the level 1 cultivation facility build-out, Ayr would have the flexibility to further expand canopy subject to the approval of the Ohio Department of Commerce (the “DOC”).

The following are the required regulatory steps that must be completed in order to complete these Ohio transactions:

- State and FBI background checks and clearance of all Ayr-related individuals who own more than 10% of the business or who have substantial influence thereover;
- required employee badging; and
- application submittal and regulatory approvals from the DOC.

The Company believes that the transfer of applicable licenses in Ohio may take up to four to six months.

### Florida

On December 22, 2020, Ayr announced that it had entered into a binding agreement to acquire licensed Liberty Health Sciences Inc. (CSE: LHS, OTC: LHSIF) in a stock-for-stock combination that will take the form of a Plan of Arrangement under the *Business Corporations Act* (British Columbia). Liberty shareholders will receive 0.03683 Equity Shares for each Liberty share held (subject to certain collars described in the purchase agreement that is filed under the Company’s profile on SEDAR), equating to the issuance approximately 13.1 million new Equity Shares on closing. The total purchase price is equivalent to approximately US\$290 million based on the closing price of the Equity

Shares as of December 21, 2020. Liberty will have the right to nominate one new member to the Board at closing, which will increase Ayr's total number of board members to seven.

The assets being acquired from Liberty include (i) a 387-acre cultivation campus in Gainesville, FL with over 300,000 sq. ft. of current production facilities in operation, (ii) 28 open retail dispensaries, (iii) seven (7) completed and ready-to-open dispensaries, and (iv) seven (7) dispensaries currently under construction. Liberty currently employs 335 people, all of whom are expected to be retained by Ayr.

Ayr plans to spend approximately US\$15 million in capital expenditures in 2021 to improve and expand the Gainesville cultivation campus, as well as expand Liberty's dispensary footprint.

The Liberty acquisition is subject to customary closing conditions and regulatory approvals. Shareholders holding approximately 29% of Liberty's common shares have agreed to support and vote in favor of the proposed transaction.

#### New Jersey

On December 22, 2020, Ayr announced that it had entered into a binding agreement to acquire licensed operator Garden State Dispensary, one of the 12 existing vertical license holders in New Jersey and one of the state's original six (6) alternative treatment centers. GSD has three open dispensaries, the largest footprint of any operator in New Jersey, at heavily trafficked highway locations throughout the central region of the state, as well as 30,000 sq. ft. of cultivation and production facilities in operation. An additional 75,000 sq. ft. is currently under construction. GSD currently employs 110 people, all of whom are expected to be retained by Ayr.

Total up-front consideration of US\$101 million includes \$41 million in cash, \$30 million in stock and \$30 million in the form of a promissory note. Earn-outs based on exceeding revenue target thresholds in 2022 will be capped at a maximum of US\$97 million and payable in a combination of cash, promissory notes and Exchangeable Shares.

The GSD acquisition is subject to final due diligence, customary closing conditions and regulatory approvals.

#### Arizona

On January 27, 2021, Ayr entered into a definitive agreement to acquire a vertically integrated cannabis operation in the State of Arizona ("**Oasis**"), including three licensed dispensaries in greater Phoenix, two in Chandler and one in Glendale, a 10,000 sq. ft. licensed cultivation and processing facility in Chandler and an 80,000 sq. ft. licensed cultivation facility under development in Phoenix (the "**Phoenix Facility**").

The terms of the transaction include upfront consideration of US\$75.4 million, made up of US\$9.5 million in cash, US\$37.4 million in Exchangeable Shares (representing approximately 2.57 million Equity Shares, and priced at the 10-day VWAP prior to announcement, namely US\$14.55) and US\$28.5 million in seller notes.

An additional two million Exchangeable Shares, which are to be issued at closing but placed in escrow, would be payable when the Phoenix Facility produces in excess of 3,000 pounds of sellable dry weight cannabis flower (excluding trim) over a trailing 90-day period. Additional earn-out consideration in 2021 and 2022 may be paid in Exchangeable Shares in the event that Oasis exceeds certain financial hurdles in calendar years 2021 and/or 2022 (the "**Oasis Earn-Out**"). See the Arizona MCR for further details on the Arizona Earn-Out.

#### **Senior Secured Notes**

On December 10, 2020, Ayr announced the closing of a private placement offering of US\$110 million aggregate principal amount of 12.5% senior secured notes due 2024. The notes were sold at an issue price of US\$985 per US\$1,000 aggregate principal amount. The notes bear interest of 12.5% per annum, payable semi-annually, in equal instalments, with a maturity date 48 months from the issue date. See "*Documents Incorporated by Reference*" and "*Consolidated Capitalization*".

#### **Warrant Incentive Program**

On November 23, 2020, Ayr announced incentive exercise rights available on a short-term basis to the holders of the Listed Warrants (the "**Warrant Incentive Program**"). Pursuant to the Warrant Incentive Program, the holders of Listed Warrants received a temporary C\$0.50 incentive for the cash exercise of up to an aggregate of three million Listed Warrants. On December 9, 2020, Ayr announced that it completed an oversubscribed incentive cash exercise of three million Listed Warrants under the Warrant Incentive Program, resulting in gross proceeds to the Company of over US\$25 million.

#### **Equity Share Offering**

On January 14, 2021, Ayr announced the closing of an overnight marketed offering of an aggregate of 4,600,000 Equity Shares at a price of C\$34.25 per share for total gross proceeds of approximately C\$157,550,000, which included the exercise in full of the over-allotment option granted to the underwriters, before deducting the underwriters' fees and estimated offering expenses. See "*Documents Incorporated by Reference*" and "*Consolidated Capitalization*".

#### **Name Change**

Effective February 12, 2021, the Company changed its name from "Ayr Strategies Inc." to "Ayr Wellness Inc."

#### **Licenses**

The following table provides a list of the licenses granted to companies and facilities operated by, or to which operational support is provided by, the Company as of November 30, 2020. Licenses which individually account for 10% or more of the consolidated revenue of the Company for the nine-months ended September 30, 2020 (which are indicated in the chart below and which exclude the licenses held by DocHouse and CannTech, which were acquired by the Company subsequent to the Q3 Interim Financial Statements) are indicated with an asterisk.

Entity	Address Attached to License	Type	License	Certificate / License #	Expiration / Renewal Date	Summary
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LivFree Wellness LLC	3900 Ponderosa Way Las Vegas, NV 89118	Certificate	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	74378723704914675084	June 30, 2021	Cultivation – Medical
		License	State of Nevada Marijuana Cultivation Facility License – Department of Taxation	68096361433916615303	October 31, 2021	Cultivation - Recreational
		Certificate	State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	52864127312203226338	June 30, 2021	Production - Medical
		License	State of Nevada Marijuana Product Manufacturing License – Department of Taxation	59998657224967428496	October 31, 2021	Manufacturing - Recreational
The Dispensary	5347 S. Decatur, Las Vegas, NV 89118	Certificate	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	60215712221216816750	June 30, 2021	Retail - Medical
		License	State of Nevada Retail Marijuana Store License – Department of Taxation*	71224329369156133247	June 30, 2021	Retail - Recreational
		License	State of Nevada Retail Marijuana Distributor License – Department of Taxation	14504799651148975256	June 30, 2021	Distribution - Recreational
		License	Clark County – Marijuana Master License Retail Store*	2000118.MMR-301	September 30, 2020 (issued quarterly)	Retail - Recreational
	50 N. Gibson, Henderson, NV 89014	Certificate	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	54403159919762505142	June 30, 2021	Retail - Medical
		License	State of Nevada Retail Marijuana Store License – Department of Taxation*	08792343110299625005	September 30, 2020	Retail - Recreational
		License	City of Henderson – Medical Marijuana Dispensary License	2017305992	October 31, 2020 (issued quarterly)	Retail - Medical
		License	City of Henderson – Marijuana Establishment – Retail Marijuana Store License*	2017305994	October 31, 2020 (issued quarterly)	Retail - Recreational
	100 W. Plumb Lane, Reno, NV 89509	Certificate	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	04186481440349513323	June 30, 2021	Retail - Medical
		License	State of Nevada Retail Marijuana Store License – Department of Taxation*	71702389611437559364	June 30, 2021	Retail - Recreational
		License	City of Reno – Medical Marijuana Dispensary License	R101848Q	September 30, 2020 (issued quarterly)	Retail - Medical
		License	City of Reno – Marijuana Establishment – Retail Marijuana Store License*	R145282Q	September 30, 2020 (issued quarterly)	Retail - Recreational
	435 Eureka Avenue, Reno, NV 89512	Certificate	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	96804690721657828547	June 30, 2021	Cultivation - Medical
		Certificate	State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	18668881888004789228	June 30, 2021	Production - Medical
		License	State of Nevada Marijuana Cultivation Facility License – Department of Taxation	94104154254817748080	November 30, 2020	Cultivation - Recreational
		License	State of Nevada Marijuana Product Manufacturing License – Department of Taxation	56693629355290417097	November 30, 2020	Manufacturing - Recreational
		License	City of Reno – Medical Marijuana Production Facility	R145364Q	September 30, 2020 (issued quarterly)	Production - Medical

		License	City of Reno – Medical Marijuana Cultivation Facility	R145363Q	September 30, 2020 (issued quarterly)	Cultivation - Medical
		License	City of Reno – Marijuana Establishment	R145362A	October 31, 2020 (issued quarterly)	Misc.
		License	City of Reno – Marijuana Establishment	R145361A	October 31, 2020 (issued quarterly)	Misc.
		License	City of Reno – Marijuana Establishment Product - Manufacturing	R145418Q	September 30, 2020 (issued quarterly)	Manufacturing - Recreational
		License	City of Reno – Marijuana Establishment Cultivation	R145417Q	September 30, 2020 (issued quarterly)	Cultivation - Recreational

Kynd Cannabis Company	1645 Crane Way, Sparks, NV 89431	Certificate	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	82842542964915513809	June 30, 2021	Cultivation - Medical
		License	State of Nevada Marijuana Cultivation Facility License – Department of Taxation	20856188563796491040	June 30, 2021	Cultivation - Recreational
		Certificate	State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	12078072637090304628	June 30, 2021	Production - Medical
		License	State of Nevada Marijuana Product Manufacturing License – Department of Taxation	76163748746660781629	June 30, 2021	Manufacturing - Recreational
		License	The State of Nevada Marijuana Distributor License – Department of Taxation	77027711033924812731	June 30, 2021	Distribution - Medical/Rec
Tahoe-Reno Botanicals LLC		License	City of Sparks - Marijuana Cultivation - Adult Use Quarterly License	S080844Q-LIC	September 30, 2020 (issued quarterly)	Cultivation - Medical/Rec
Tahoe-Reno Extractions LLC		License	City of Sparks: Marijuana Production Facility License	S080842Q-LIC	September 30, 2020 (issued quarterly)	Production - Medical/Rec
		License	City of Sparks: Retail Marijuana Distributor License	S080843Q-LIC	September 30, 2020 (issued quarterly)	Distribution - Medical/Rec
		Certificate	Industrial Hemp Handler Certificate - Department of Agriculture	202042H	December 31, 2020	Cultivation - Hemp

Mynt Cannabis Dispensary	132 E. Second St., Reno, NV 89501	Certificate	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	97519348303293892007	June 30, 2021	Retail - Medical
		License	State of Nevada Retail Marijuana Store License – Department of Taxation	46934338604709544132	June 30, 2021	Retail - Recreational
		License	City of Reno – Medical Marijuana Dispensary License	R101872Q	September 30, 2020 (issued quarterly)	Retail - Medical
		License	City of Reno – Marijuana Establishment – Retail Marijuana Store License	R145321Q	September 30, 2020 (issued quarterly)	Retail - Recreational
Lemon Aide, LLC	340 Lemmon Drive, Reno, NV 89506	Certificate	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	80994578239784321818	June 30, 2021	Retail - Medical
		License	State of Nevada Retail Marijuana Store License – Department of Taxation	13244303247046007918	July 31, 2021	Retail - Recreational

		License	Washoe County Marijuana License (Issued to Lemon Aide LLC dba MYNT Cannabis Dispensary)	W000013ME-LIC	October 1, 2020 (issued quarterly)	Retail - Medical/Recreational
Sira Naturals, Inc.	1001 Massachusetts Avenue, Cambridge, MA 02138	License	Registered Marijuana Dispensary Registration	RMD-325	June 27, 2021	Retail - Medical
	240 Elm Street, Somerville, MA 02114	License	Registered Marijuana Dispensary Registration	RMD-245	June 27, 2021	Retail - Medical
	29 Franklin Street, Needham, MA 02492	License	Registered Marijuana Dispensary Registration	RMD-625	July 12, 2021	Retail - Medical
	13 Commercial Way, Milford, MA 01757	License	Marijuana Establishment License (Cultivation/Tier 3 –Indoor)*	MC281252	September 30, 2021	Cultivation
		License	Marijuana Establishment License (Product Manufacturer)*	MP281303	September 30, 2021	Production
		License	Marijuana Establishment License (Transporter with Other Existing ME License)	MX281310	September 29, 2021	Transportation
	1 Industrial Way, Milford MA 01751	License	Marijuana Establishment License (Cultivation/Tier 3 – Indoor)*	MC282015	August 19, 2021	Cultivation
DocHouse, LLC	740 Ann Street, Pottsville, PA 17901	License	Registered Marijuana Cultivation and Processing Registration	GP18-1002	License awarded July 31, 2018 <sup>2</sup>	Cultivation and Processing – Medical

<sup>2</sup> License renewals by the Pennsylvania Department of Health are completed annually and typically occur during the month during which the original license was awarded. DocHouse was awarded this license on July 31, 2018 and therefore its renewal period should be in July 2021. However, this license is currently subject to a period of administrative extension, and, accordingly, the Pennsylvania Department of Health has not yet set a definitive renewal date in respect of this license.

## COVID-19

The global outbreak of 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 pandemic, will have on the Company is highly uncertain and difficult to predict at this time.

During the pandemic to date, the Company has been able to maintain consistent operations and expand delivery options and curbside pick-up in Massachusetts and continue to provide administrative, consulting and operations support in Nevada for such services in order to provide additional fulfillment models that are safe and efficient for employees and customers. Although cannabis has generally been deemed an “essential business” throughout the course of the pandemic in the United States, the regulators in Massachusetts and Nevada were among the few state regulators in the United States to place material restrictions on cannabis sales. In Nevada, cannabis sales were limited to delivery only beginning on March 21, 2020, with curbside pick-up approved on May 1, 2020 and in-store sales returning on May 9, 2020. In Massachusetts, adult-use cannabis sales were restricted from March 24, 2020 through May 25, 2020. As a result of these business interruptions, the Company estimates a combined revenue impact of approximately \$10 million during the applicable closure periods. However, revenue quickly returned to pre-pandemic levels within the same quarter (Q2 2020), as state regulators began to unwind such local cannabis restrictions in Massachusetts and Nevada, leading to record revenue by June 2020. As such, at this time the Company continues to generate operating cash flows to meet its short-term liquidity needs. While an impairment test has not been performed, management has not observed any indications of impairment to assets or a significant change in the fair value of its assets due to the COVID-19 pandemic.

The Company evaluated the risk of supply chain disruption as well as staffing disruption. While the Company has not to date experienced any failure to secure critical supplies or services, future disruptions in the supply chain are possible and may significantly increase costs or delay production times. To mitigate this risk, bulk orders for key supplies are being placed far in advance with key vendors where practicable. To remediate the risk of staffing disruption, the Company has sought to implement new safety procedures in accordance with the guidance of the U.S. Centers for Disease Control and Prevention at all locations to better protect the health and safety of both employees and customers. These changes include, but are not limited to: required face masks for employees and customers, installation of plexiglass shields in customer facing areas, frequent cleaning and sanitizing of surfaces and workstations, and adequate social distancing of staff and customers. The Company is re-assessing its response to the COVID-19 pandemic on an ongoing basis. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact of these developments on all aspects of the Company’s business.

## LEGAL AND REGULATORY MATTERS

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352, which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular State’s regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in disclosure documents. As a result of the Company’s (i) existing operations in Massachusetts and Pennsylvania, (ii) provision of administrative, consulting and operations services to licensed cannabis establishments in Nevada, and (iii) binding acquisition commitments in Ohio, Arizona, Florida and New Jersey. Ayr provides the following disclosure:

The legalization and regulation of marijuana for medical use is being implemented at the State level in the United States. **State laws regulating cannabis are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain States and territories of the United States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the CSA. Although the Company’s business activities are believed to be compliant with applicable U.S. State and local law, strict compliance with State and local laws with respect to cannabis may neither absolve Ayr of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against Ayr.**

The following table is intended to assist readers in identifying those parts of this Prospectus and the documents incorporated by reference therein that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Prospectus Cross-Reference
<b>All Issuers with U.S. Marijuana- Related Activities</b>	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	<ul style="list-style-type: none"> <li>- Cover page (disclosure in bold typeface)</li> <li>- Ayr Strategies Inc.</li> </ul>
	Prominently State that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	<ul style="list-style-type: none"> <li>- Cover page (disclosure in bold typeface)</li> <li>- Cannabis Market Overview (disclosure in bold typeface)</li> </ul>
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	<ul style="list-style-type: none"> <li>- Cover page (disclosure in bold typeface)</li> <li>- Federal Regulatory Environment</li> <li>- U.S. Federal Enforcement Priorities</li> <li>- Risk Factors – While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law</li> <li>- See "Risk Factors – The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined" in the AIF, incorporated by reference herein</li> </ul>
	Outline related risks including, among others, the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.	<ul style="list-style-type: none"> <li>- See "Risk Factors – Service providers could suspend or withdraw service" in the AIF, incorporated by reference herein</li> <li>- See "Risk Factors - While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law" in the AIF, incorporated by reference herein</li> </ul>
	Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.	<ul style="list-style-type: none"> <li>- Ability to Access Public and Private Capital</li> <li>- See "Risk Factors – Ayr may be subject to restricted access to banking in the United States and Canada" in the AIF, incorporated by reference herein</li> <li>- See "Risk Factors – Ayr's investments in the U.S. are subject to applicable anti-money laundering laws and regulations" in the AIF, incorporated by reference herein</li> </ul>
	Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana related activities.	<ul style="list-style-type: none"> <li>- Exposure to U.S. Marijuana Related Activities</li> </ul>
	Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable State regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	<ul style="list-style-type: none"> <li>- The Company has received and continues to receive legal input regarding (a) compliance with applicable State regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law in certain respects. The Company receives such advice on an ongoing basis but does not have a formal legal opinion on such matters.</li> </ul>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Prospectus Cross-Reference
<b>U.S. Marijuana Issuers with direct involvement in cultivation or distribution</b>	Outline the regulations for U.S. States in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. State.	<ul style="list-style-type: none"> <li>- Cannabis Market Overview – Nevada</li> <li>- Cannabis Market Overview – State Regulatory Environment – Massachusetts</li> <li>- Cannabis Market Overview – State Regulatory Environment –Pennsylvania</li> <li>- Cannabis Market Overview – State Regulatory Environment – Ohio</li> <li>- Cannabis Market Overview – State Regulatory Environment – Arizona</li> <li>- Compliance with State Regulatory Frameworks</li> </ul>
	Discuss the issuer's program for monitoring compliance with U.S. State law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. State law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	<ul style="list-style-type: none"> <li>- Cannabis Market Overview – Compliance with State Regulatory Frameworks</li> </ul>

In accordance with Staff Notice 51-352, below is a discussion of the federal and State-level U.S. regulatory regimes in those jurisdictions where Ayr is directly or indirectly involved through its subsidiaries. Ayr is currently indirectly engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses in the adult-use and/or medicinal cannabis marketplace in the Commonwealths of Massachusetts and Pennsylvania and provides administrative, consulting and operations services to licensed establishments in the State of Nevada, and has entered into definitive purchase agreements or binding letters of intent with the intention to expand into Ohio, Arizona, Florida and New Jersey. In accordance with Staff Notice 51-352, Ayr will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation. As noted under "Non-Compliance with State and Local Cannabis Laws" below, Ayr intends to cause its businesses to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations, and Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations.

#### Exposure to U.S. Marijuana Related Activities

As of September 30, 2020, 100% of the businesses was directly derived from United States cannabis-related activities. As such, the Company's balance sheet and operating statement exposure to United States cannabis related activities is 100%.

## Federal Regulatory Environment

The federal government of the United States regulates controlled substances through the Controlled Substances Act (CSA), which places controlled substances on one of five schedules. Currently, marijuana is classified as a Schedule I controlled substance. A Schedule I controlled substance means the Drug Enforcement Agency considers it to have a high potential for abuse, no accepted medical treatment, and a lack of accepted safety for the use of it even under medical supervision. Overall, the United States federal government has specifically reserved the right to enforce federal law regarding the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by State law. **Accordingly, there are a number of significant risks associated with the business of the Company and unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Company may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.**

The Company's operations, to the Company's knowledge, are in compliance with applicable State laws, regulations and licensing requirements. Additionally, the Company uses the same proprietary, best-practices policies and procedures in its managed facilities as in its owned facilities in order to ensure systematic operations and, as such, to the Company's knowledge, the facilities that the Company operates are in compliance with applicable State laws, regulations and licensing requirements. Nonetheless, for the reasons described above and risks described under the "Cautionary Note Regarding Forward-Looking Information", but not limited to these reasons, there are significant risks associated with the business of the Company. Readers are strongly encouraged to carefully read all the risk factors contained in this Prospectus and the documents incorporated herein by reference.

On December 20, 2018, the U.S. Agriculture Improvement Act of 2018 (the "**2018 Farm Bill**") became law. The law legalizes hemp as an agricultural commodity by removing hemp, its derivatives, cannabinoids, and extracts (including CBD and any part of the cannabis plant which contains 0.3% THC or less on a dry weight basis) from the list of controlled substances in the U.S. Controlled Substances Act.<sup>3</sup> Each State can now develop a plan for the regulation of hemp production, which will be administered subject to the approval and oversight of the United States Department of Agriculture ("USDA"). The USDA will also develop its own regulatory scheme, which will govern in any State that does not develop its own approved regulatory plan. With the passage of the 2018 Farm Bill, hemp and its derivatives cultivated and produced in compliance with federal and state laws and regulations are now legal. However, cultivation is still subject to serious restrictions that, ultimately, may vary greatly between different jurisdictions. Moreover, under a recently released interim final rule ("**IFR**") from the Drug Enforcement Agency, "a cannabis derivative, extract, or product that exceeds the 0.3% [THC] limit is a schedule I controlled substance, even if the plant from which it was derived contained 0.3% or less [THC] on a dry weight basis." This IFR is currently subject to legal challenges, but if it stands, it could significantly impact the ability to legally produce consumer hemp derivatives and extracts under federal law.

The following sections entitled "*Nevada*" and "*Massachusetts*" and "*Pennsylvania*" describe the legal and regulatory landscape in respect of the States in which the Company currently operates.

While the Company's compliance controls have been developed to mitigate the risk of any violations of a license arising, there is no assurance that the Company's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Company and have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

As of the date of this Prospectus, Joseph R. Biden Jr. is the President of the United States. During his campaign, he stated his policy goal to decriminalize possession of cannabis at the federal level, but did not show support for fully legalizing marijuana. There can be no assurance as to the position any new administration may take on marijuana and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Company and its shareholders. Further, future presidential administrations may want to treat marijuana differently and potentially enforce the federal laws more aggressively.

## U.S. Federal Enforcement Priorities

Due to the current federal regulatory environment in the United States, as further described herein, Ayr may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the U.S. As a result, Ayr may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Ayr's ability to invest in the U.S. or any other jurisdiction. See "*Risk Factors – While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law*" and "*Risk Factors – The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined*" in the AIF, incorporated herein by reference.

Changes in government policy or public opinion can significantly influence the regulation of the cannabis industry in Canada, the United States and elsewhere. A negative shift in the public's perception of cannabis in the U.S. or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause State jurisdictions to abandon initiatives or proposals to legalize cannabis, thereby limiting the number of new State jurisdictions into which Ayr could expand. Any inability to fully implement Ayr's expansion strategy may have a material adverse effect on Ayr's business, financial condition and results of operations. See "*Risk Factors*" in the AIF, incorporated herein by reference.

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<sup>3</sup> Specifically, the law defines "hemp" as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis".

Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from criminal charges or civil proceedings conducted by either the U.S. federal government or private citizens (who have the right to seek private relief for Ayr's "aiding and abetting" activities that violate U.S. federal law), including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Ayr, including on its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity, or the market price of its publicly-traded shares. In addition, it is difficult for Ayr to estimate the time or resources that would be needed for the investigation or final resolution of any such matters because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "*Risk Factors – Risks Related to Legality of Cannabis*" in the AIF, incorporated herein by reference.

## State Regulatory Environment

### Nevada



## Nevada Regulatory Landscape

The use of medical marijuana was legalized in Nevada by a ballot initiative in 2000. Nevada has legislatively enacted the licensing of medical marijuana business establishments since 2013. Adult-use cannabis was approved in November 2016, when voters in Nevada passed an adult-use cannabis measure to allow for the licensing of business establishments to engage in the sale of adult-use cannabis in the State. The first retail stores to sell adult-use marijuana began sales in July 2017. As of July 1, 2020, the Nevada Cannabis Compliance Board (the successor to the Nevada Department of Taxation as the applicable regulatory agency) governs and administers regulatory oversight for the medical and adult-use cannabis programs. Cities and counties in Nevada are allowed to determine the number of local marijuana licenses they will issue up to the maximum number allocated by the statute. The Company provides operational support for facilities in Nevada cities or counties with clearly defined marijuana programs. Currently, the Company provides operational support to facilities located in the Clark County, Henderson, Reno and Washoe County jurisdictions.

## Licenses

The Company provides administrative, consulting and operations services to one (1) cultivation facility, two (2) production facilities, and five (5) dispensaries in the State of Nevada. Under applicable laws, the licenses issued for these facilities permit the businesses to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses and Nevada regulations.

State issued licenses are renewed annually, and local business licenses are renewed quarterly or annually, and there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner along with the necessary supporting documents, including requisite background investigations, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business. One of the entities to whom Ayr provides administrative, consulting and operations services, LivFree, was recently awarded two (2) additional dispensary licenses in the greater Las Vegas market, one (1) in Clark County and one (1) in Henderson, and aims to open the additional Clark County dispensary this year.

## Regulations

In the State of Nevada, only marijuana that is grown/produced in the State by a licensed establishment may be sold in the State. The companies to which the Company provides operational support are vertically-integrated and have the capabilities to cultivate, harvest, process and sell/dispense/deliver adult-use and medical cannabis and cannabis products.

## Reporting Requirements

The State of Nevada uses METRC solution ("METRC") as the State's computerized seed-to-sale tracking system used to track commercial marijuana activity. Individual licensees whether directly or through third-party integration systems are required to push data to the State to meet reporting requirements. The companies to which the Company provides operational support each have a seed-to-sale system in the State which is designed to capture the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes sections 453A and 453D.

## Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against diversion, theft, and loss of cannabis and cannabis products Nevada licensed cannabis establishments are required to do the following:

1. Maintain an enclosed, locked facility;
2. Have a single secure entrance;
3. Train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;
4. Implement and install, at a minimum, the following security equipment and practices to deter and prevent unauthorized entrances:
  - a. devices that detect unauthorized intrusion (which may include a signal system);
  - b. exterior lighting designed to facilitate surveillance;
  - c. electronic monitoring devices, further including (without limitation):
    - i. at least one call-up monitor that is at least 19 inches in size;
    - ii. a video printer that can immediately produce a clear still photo from any video camera image;
    - iii. video cameras with a recording resolution of at least 704 x 480 that full capture all of the building's points of ingress and egress as well as all interior limited access areas such that such cameras capture and can identify any activity occurring in or adjacent to the building;
    - iv. a video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;
    - v. a video camera in each grow room that can identify any activity occurring within the grow room in low light conditions;
    - vi. a method for storing video recordings from the video cameras for at least 30 calendar days;
    - vii. a failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system;
    - viii. sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage; and
    - ix. a security alarm to alert local law enforcement of unauthorized breach of security; and
5. Implement security procedures that:

- a. restrict access of the establishment to only those persons/employees authorized to be there;
- b. deter and prevent theft;
- c. provide identification (badge) for those persons/employees authorized to be in the establishment;
- d. prevent loitering;
- e. require and explain electronic monitoring; and
- f. require and explain the use of automatic or electronic notifications to alert local law enforcement of any security breaches.

The Company is not aware of any specific risks associated with providing administrative, consulting and operations services to licensed cannabis establishments in Nevada. To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action specific to the State of Nevada. For more information on federal enforcement and the risks associated with the U.S. cannabis regulatory environment generally, see, without limitation, “*Risk Factors – Risks Related to Legality of Cannabis*” in the AIF.

## ***Massachusetts***

### ***Massachusetts Regulatory Landscape***

The use of cannabis for medical use was legalized in Massachusetts by a voter approval of the Massachusetts Marijuana Initiative in 2012. The law took effect on January 1, 2013, eliminating criminal and civil penalties for the possession and use of up to a 60-day or ten (10) ounce supply of marijuana for medical use for patients possessing a State issued registration card.

On November 8, 2016, Massachusetts voters approved Question 4 of the Massachusetts Marijuana Legalization Initiative, which allowed for recreational or “adult use” cannabis in the Commonwealth. On September 12, 2017, the Cannabis Control Commission (“CCC”) was established under Chapter 55 of the Acts of 2017 (the “**Massachusetts Act**”) to implement and administer laws enabling access to medical and adult-use cannabis.

On November 16, 2018, the CCC issued the first notices for retail marijuana establishments to commence adult-use operations in Massachusetts.

Under the current program there are no State-wide limits on the total number of licenses permitted; however, no individual or entity shall be a controlling person over more than three licenses in a particular class of license. Similarly, no individual, corporation or other entity shall be in a position to control the decision making of more than three licenses in a particular class of license. In addition, all marijuana establishments are required to enter into host community agreements with the municipality in which they are located.

### ***Licenses***

The Company maintains two (2) adult-use cultivation licenses, one (1) adult-use product manufacturer license and one (1) adult-use transportation license in the Commonwealth of Massachusetts. In addition, the Company owns medical licenses that allow it to maintain three (3) medical marijuana dispensaries in the Commonwealth. These licenses permit the Company to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses.

### ***Regulations***

Under the terms of the marijuana cultivator license, the licensee may cultivate, process and package marijuana, to transfer and deliver marijuana products to marijuana establishments, but not to consumers. A marijuana product manufacturer is an entity authorized to obtain, manufacture, process and package marijuana and marijuana products, to deliver marijuana and marijuana products to marijuana establishments and to transfer marijuana and marijuana products to other marijuana establishments, but not to consumers. A marijuana retailer is an entity authorized to purchase and deliver marijuana and marijuana products from marijuana establishments and to sell or otherwise transfer marijuana and marijuana products to marijuana establishments and to consumers. A marijuana retailer provides a retail location which may be accessed by consumers 21 years of age or older or, if the retailer is co-located with a registered marijuana dispensary (“**RMD**”) by individuals who are registered qualifying patients with the Medical Use of Marijuana Program with a registration card.

In order for a customer to be dispensed marijuana, they must present a valid government issued photo ID immediately upon entry of the retail facility. If the individual is younger than 21 years old but 18 years of age or older, he or she shall not be admitted unless he or she produces an active medical registration card issued by the CCC. If the individual is younger than 18 years old, he or she shall not be admitted unless he or she produces an active medical registration card and is accompanied by a personal caregiver with an active medical registration card. In addition to the medical registration card, registered qualifying patients 18 years of age and older and personal caregivers must also produce proof of identification.

Each recreational customer may be dispensed no more than one ounce of marijuana or five grams of marijuana concentrate per transaction as outlined in 935 CMR 500.140(4). Medical patients may be dispensed up to a 60-day supply of marijuana, or the equivalent amount of marijuana in marijuana infused products (“**MIPs**”), that a registered qualifying patient would reasonably be expected to need over a period of 60 calendar days for his or her personal medical use, which is ten ounces, subject to 105 CMR 725.010(l).

Allowable forms of marijuana in Massachusetts include smokable dried flower, dried flower for vaporizing, cannabis derivative products (i.e., vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products, including edibles.

In the Commonwealth of Massachusetts, only cannabis that is grown and manufactured in the Commonwealth can be sold in the State. For adult-use, Massachusetts is not a vertically-integrated system. As a result, a marijuana retailer may purchase and transport marijuana products from marijuana establishments and transport, sell or otherwise transfer marijuana products to marijuana establishments and to consumers. Licensed cultivators and product manufacturers may cultivate, harvest, process, produce package and sell marijuana products to marijuana establishments.

### ***Reporting Requirements***

The CCC has selected METRC as the State's track-and-trace ("T&T") system used to track commercial cannabis activity and movement across the distribution chain ("Seed-to-sale"). The system allows for other third-party system integration via API.

The Company is not aware of any specific risks associated with operating in Massachusetts. To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action specific to the State of Massachusetts. For more information on federal enforcement and the risks associated with the U.S. cannabis regulatory environment generally, see, without limitation, "*Risk Factors – Risks Related to Legality of Cannabis*" in the AIF.

## ***Pennsylvania***

### ***Pennsylvania Regulatory Landscape***

The Pennsylvania Medical Marijuana Act (the "PAMMA") was signed into law on April 17, 2016 and originally provided access to Pennsylvania residents with one of 17 qualifying conditions, including epilepsy, chronic pain, and post-traumatic stress disorder. Retail sales began in February 2018. The Commonwealth of Pennsylvania, which consists of nearly 13 million residents and qualifies as the fifth largest population in the U.S., operates as a high-barrier market with very limited market participation. The PAMMA authorizes only a maximum of 25 grower/processor permits and 50 dispensary permits. As part of "Phase 1" of the Commonwealth's permitting process in 2017, the Pennsylvania Department of Health (the "PA DOH") which administers the Commonwealth's Medical Marijuana Program, originally awarded only 12 grower/processor permits and 27 dispensary permits. Subsequently, in 2018, PA DOH conducted "Phase 2" of the permitting process, during which it awarded the remaining 13 grower/processor permits and 23 dispensary permits authorized under the PAMMA. In July of 2019, the PA DOH expanded the list of qualifying medical conditions to include anxiety disorders and Tourette syndrome, increasing the number of qualifying conditions to 23. As of May 2020, there were 297,317 patients registered in the program.

Chapter 20 of the PAMMA established a marijuana research program whereby clinical registrants collaborate with medical schools and hospitals to design and implement a research plan. Chapter 20 authorizes PA DOH to issue grower/processor and dispensary permits to up to eight (8) clinical registrants. Under these permits, which are in addition to the 25 grower/processor and 50 dispensaries mentioned above, clinical registrants effectively operate as vertically integrated entities. Furthermore, the dispensary permits authorize clinical registrants to operate dispensaries at up to six (6) locations in any region of the Commonwealth. The dispensaries must dispense marijuana for the purpose of conducting research. As of August 2020, PA DOH selected the eight (8) final clinical registrants.

### ***Pennsylvania Licenses***

All dispensaries must register with the PA DOH. Registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email and include a renewal form.

### ***License and Regulations***

Each retail dispensary license permits the holder to purchase marijuana and marijuana products from grower/processor facilities and allows the sale of marijuana and marijuana products to registered patients.

### ***Site-Visits & Inspections***

All licensed dispensary locations must be inspected and approved by the PA DOH before commencing live operations. Thereafter, dispensaries are subject to PA DOH inspection, whether with or without notice.

### ***Reporting Requirements***

The Commonwealth of Pennsylvania uses MJ Freeway as a T&T system for seed-to-sale reporting. Individual permittees are required to use MJ Freeway to push data to the Commonwealth to meet all reporting requirements. The Company uses MJ Freeway as its Pennsylvania subsidiary's in-house computerized seed-to-sale software, which integrates with the Commonwealth's MJ Freeway program and captures the required data points for cultivation, manufacturing and retail as required in the Pennsylvania medical marijuana laws and regulations.

### ***Storage and Security***

All dispensaries are required to have a locked limited access area for the storage of medical marijuana that is expired, damaged, deteriorated, mislabeled, contaminated, recalled or whose containers or packages have been opened or breached until such product is returned to the grower/processor.

The Company is not aware of any specific risks associated with operating in Pennsylvania. To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action specific to the State of Pennsylvania. For more information on federal enforcement and the risks associated with the U.S. cannabis regulatory environment generally, see, without limitation, "*Risk Factors – Risks Related to Legality of Cannabis*" in the AIF.

## ***Ohio***

### ***Ohio Regulatory Landscape***

House Bill 523, effective on September 8, 2016, legalized medical marijuana in Ohio. The Ohio Medical Marijuana Control Program ("MMCP") allows people with certain medical conditions, upon the recommendation of an Ohio-licensed physician certified by the State Medical Board, to purchase and use medical marijuana. House Bill 523 required that the framework for the MMCP would be in place no later than September 2018. This timeframe allowed for a deliberate process to ensure the safety of the public and to promote access to a safe product. Sales of medical marijuana in Ohio began in January 2019.

The following three state government agencies are responsible for the operation of the MMCP: (i) the Ohio Department of Commerce is responsible for overseeing medical marijuana cultivators, processors and testing laboratories; (ii) the State of Ohio Board of Pharmacy is responsible for overseeing medical marijuana retail dispensaries, the registration of medical marijuana patients and caregivers, the approval of new forms of medical marijuana and coordinating the Medical Marijuana Advisory Committee; and (iii) the State Medical Board of Ohio is responsible for certifying physicians to recommend medical marijuana and may add to the list of qualifying conditions for which medical marijuana can be recommended. Qualifying medical conditions for medical marijuana include: acquired immune deficiency syndrome, Amyotrophic lateral sclerosis (also known as Lou Gehrig's disease), Alzheimer's disease, cancer, chronic traumatic encephalopathy, Crohn's disease, epilepsy or other seizure disorder, fibromyalgia, glaucoma, hepatitis C, inflammatory bowel disease, multiple sclerosis (MS), pain (either chronic and severe, or intractable), Parkinson's disease, positive status for HIV, post-traumatic stress disorder, sickle cell anemia, spinal cord disease or injury, Tourette's syndrome, traumatic brain injury, ulcerative colitis or any other disease or condition added by the state medical board under section 4731.302 of the Ohio Revised Code. In order for a patient to be eligible to obtain medical marijuana, a physician must make the diagnosis of one of these conditions. The State of Ohio Board of Pharmacy is in the process of revising its regulations for dispensaries, for the forms and methods for administering medical marijuana, and for patients and caregivers.

Several forms of medical marijuana are legal in Ohio, these include: inhalation of marijuana through a vaporizer (not direct smoking), oils, tinctures, plant material, edibles, patches and any other forms approved by the State Board of Pharmacy (other than smoking or combustion).

#### Ohio Licenses

Neither the Company nor its subsidiaries currently hold any cannabis licenses in Ohio.

#### License and Regulations

To be considered for approval of a processing license, the applicant must complete all mandated requirements. To obtain a Certificate of Operation for a processing facility, the prospective licensee must be capable of operating in accordance with Chapter 3796 of the Ohio Revised Code, the Medical Marijuana Control Program. Certificates of Operation for a processing license must be renewed annually. A certificate of operation will expire on the date identified on the certificate. Following issuance of a Certificate of Operation, the Company will be authorized to manufacture and produce medical cannabis products. A processor licensee must submit its renewal application at least 30 days prior to the expiration date of the certificate of operation. If a licensee's renewal application is not filed prior to the expiration date of the certificate of operation, the certificate of operation will be suspended for a maximum of 30 days. After 30 days, if the licensee has not successfully renewed the certificate of operation, including the payment of all applicable fees, the certificate of operations will be deemed expired.

#### Reporting

Ohio uses the METRC system as its seed-to-sale tracking system. Licensees are required to use METRC to push data to the State to meet all of the reporting requirements. The Company intends to implement its seed-to-sale tracking system to comply with the State's tracking and reporting requirements.

#### Storage and Security

All licensees must have a security system that remains operational at all times and that uses commercial grade equipment to prevent and detect diversion, theft or loss of medical cannabis, including:

- Fencing and gates;
- A perimeter alarm;
- Approved safes, vaults, or any other approved equipment or areas used for processing or storing of plant material, medical marijuana extract, and medical marijuana products;
- Back-up alarm systems;
- Motion detectors; and
- Duress and panic alarms.

Video cameras must be installed at the processing facility and directed at all approved safes, approved vaults, cannabis sales areas, and any other area where plant material, medical cannabis extract, or medical cannabis products are being processed, stored or handled. Live feed video surveillance with motion active recording capabilities must be in place 24 hours a day, seven days a week. Recordings from all video cameras must be readily available for immediate review by regulating and law enforcement with jurisdiction upon request and must be retained for at least six months.

The Company is not aware of any specific risks associated with operating in Ohio. To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action specific to the State of Ohio. For more information on federal enforcement and the risks associated with the U.S. cannabis regulatory environment generally, see, without limitation, "*Risk Factors – Risks Related to Legality of Cannabis*" in the AIF.

#### **Arizona**

##### Arizona Regulatory Landscape

In 2010, Arizona passed Ballot Proposition 203, which amended Title 36 to the Arizona Revised Statutes. This amendment added Chapter 28.1, titled the Arizona Medical Marijuana Act (the "AMMA"). The AMMA is codified in Arizona Revised Statutes ("ARS") § 36-2801 et. seq. The AMMA also appointed the Arizona Department of Health Services ("ADHS") as the regulator for the program and authorized ADHS to promulgate, adopt and enforce regulations for the AMMA. These ADHS regulations are embodied in the Arizona Administrative Code Title 9 Chapter 17 (the "Rules"). ARS § 36-2801(12) defines a "nonprofit medical marijuana dispensary" as "a not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses marijuana or related supplies and educational materials to cardholders."

The ADHS established the medical marijuana program. To operate within the medical marijuana program, an entity must apply for, and receive from ADHS, a Medical Marijuana Dispensary Registration Certificate ("Certificate"). Each Certificate is vertically integrated and authorizes the entity that holds the Certificate to dispense and cultivate medical cannabis. Each Certificate allows the holding entity to operate one retail dispensary, one on-site cultivation facility located at the same location as the retail dispensary, and one off-site cultivation facility located anywhere within the State of Arizona. Prior to opening its dispensary and cultivation operations, the entity must apply for, and receive from ADHS, an Approval to Operate. The entity must then file an application with ADHS to renew its Certificate every two years and must also submit audited annual financial statements. The Rules prohibit an entity from transferring or assigning the Certificate; however, entities that hold a Certificate may contract with third parties to provide various services related to the ongoing operation, maintenance, and governance of its dispensary and/or cultivation facility, so long as such contracts do not violate the requirements of the AMMA or the medical marijuana program.

The ADHS had until April 2012 to establish a registration application system for patients and nonprofit marijuana dispensaries, as well as a web-based verification platform for use by officials and dispensaries to verify a patient's status. It also specified patients' rights, qualifying medical conditions, and allowed out-of-state medical marijuana patients to maintain their patient status (though not to purchase marijuana). To purchase medical marijuana, a patient must apply for, and receive from ADHS, a medical marijuana patient card. On December 6, 2012, Arizona's first licensed medical marijuana dispensary opened in Glendale, Arizona.

To qualify to use medical marijuana under the AMMA, a patient must have a qualifying medical condition. Qualifying medical conditions include Human Immunodeficiency Virus ("HIV"), cancer, glaucoma, Acquired Immune Deficiency Syndrome ("AIDS"), Hepatitis C, Crohn's disease, agitation of Alzheimer's disease, Amyotrophic Lateral Sclerosis ("ALS"), Post-Traumatic Stress Disorder ("PTSD"), and a chronic or debilitating disease or medical condition, or the treatment for a chronic or debilitating disease or

medical condition, that causes cachexia or wasting syndrome, severe and chronic pain, severe nausea, seizures, or severe or persistent muscle spasms.

In 2019, Arizona Governor Doug Ducey signed into law Senate Bill 1494, which, among other items, requires testing of medical marijuana and establishes biannual renewal of patient cards. Senate Bill 1494 also authorizes the ADHS to adopt rules for inspecting medical marijuana dispensaries and creates an independent testing regime for marijuana cultivated by a medical marijuana dispensary. Beginning in November 2020, before marijuana is sold, the entity holding a Certificate must test the marijuana for unsafe levels of microbial contamination, heavy metals, pesticides, herbicides, fungicides, growth regulators, and residual solvents. Senate Bill 1494 also authorizes civil penalties of up to \$1,000 per violation (not to exceed \$5,000 in a 30-day period) on medical marijuana dispensaries. Regulations implementing Senate Bill 1494 went into effect on August 27, 2019. In February 2020, the ADHS began an additional round of rulemaking designed to improve the regulations regarding independent testing, which remains an ongoing process.

On November 3, 2020, Arizona voters passed Proposition 207, known as the “Smart and Safe Arizona Act,” which permits the lawful sale of marijuana to adults over 21 years old for recreational use. Proposition 207 directs ADHS to establish additional rules and regulations regarding the recreational sale of marijuana. Entities that hold a Certificate to sell medical marijuana have the right under Proposition 207 to obtain a Marijuana Establishment License to sell recreational marijuana. If ADHS does not issue Marijuana Establishment Licenses by April 5, 2021, entities that hold a Certificate may cultivate, produce, process, manufacture, transport, and test marijuana and marijuana products, and may sell marijuana and marijuana products to adult consumers, until ADHS issues Marijuana Establishment Licenses.

#### Arizona Licensing Requirements

In order for an applicant entity to receive a Certificate, it must: (i) fill out an application on the form proscribed by ADHS, (ii) submit the applicant’s articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer and board member of the applicant for a background check to exclude certain felonies, (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the dispensary will operate in compliance, and (v) designate an Arizona licensed physician as the Medical Director for the dispensary. Certificates are renewed every two years so long as the dispensary is in good standing with ADHS, pays the renewal fee, and submits an independent third party financial audit.

Once an applicant entity is issued a Certificate, it may establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary’s retail site (if allowed by local zoning), and one additional off-site cultivation location. None of these sites can be operational, however, until the dispensary receives an Approval to Operate from ADHS for the applicable site. This Approval to Operate requires: (i) an application on the ADHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by ADHS of the applicable location to ensure compliance with the Rules and consistency with the dispensary’s applicable policies and procedures.

With the passage of Senate Bill 1494, Certificates are renewed biennially. Before expiry, an entity holding a Certificate must submit a renewal application. While renewals are granted biennially, there is no ultimate expiry after which no renewals are permitted.

#### Arizona Security Requirements for Dispensary Facilities

Any dispensary facility (both retail and cultivation) must abide by the following security requirements: (i) ensure that access to the facilities is limited to authorized agents of the dispensary who are in possession of a dispensary agent identification card, and (ii) equip the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days’ video storage, (f) failure notifications and battery backups for the security system, and (g) panic buttons inside each building.

#### Arizona Storage Requirements

Any dispensary facility (both retail and cultivation) must abide by the following requirements for the storage of product: (i) product must be stored in an area that is separate from areas used to store toxic and flammable materials, (ii) product must be stored in a manner that is clean and sanitary, (iii) product must be protected from flies, dust, dirt, and any other contamination, and (iv) surfaces and objects used in the handling and storage of product must be cleaned daily. Additionally, the Rules establish strict inventory protocols for tracking product from “seed to sale,” which requires product to be traceable to the original plants used to grow the cannabis used in the product.

#### Arizona Transportation Requirements

Dispensaries may transport medical cannabis between their own sites, or between their sites and another dispensary’s site, and must comply with the following Rules: (i) prior to transportation, the dispensary agent must complete a trip plan showing: (a) the name of the dispensary agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported, and (d) the anticipated route of transportation; (ii) during transport the dispensary agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible; and (iii) dispensaries must maintain trip plan records.

#### ADHS Inspections and Enforcement

ADHS may inspect a facility at any time upon five (5) days’ notice to the dispensary. However, if ADHS receives a complaint that a dispensary is not in compliance with the AMMA or the Rules, ADHS may conduct an unannounced inspection. ADHS will provide written notice to the dispensary via a Statement of Deficiencies of any violations found during any inspection, after which the dispensary has 20 working days to take corrective action and to provide ADHS with a written Plan of Correction.

ADHS shall revoke a Certificate if a dispensary: (i) operates before obtaining Approval to Operate a dispensary from ADHS, (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another licensed dispensary, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (iii) acquires usable cannabis or mature cannabis plants from any entity other than another licensed dispensary, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (iv) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, ADHS may revoke a Certificate if a dispensary does not: (i) comply with the requirements of the AMMA or the Rules, or (ii) implement the policies and procedures or comply with the statements provided to ADHS with the dispensary’s application.

The Company is not aware of any specific risks associated with operating in Arizona. To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action specific to the State of Arizona. For more information on federal enforcement and the risks associated with the U.S. cannabis regulatory environment generally, see, without limitation, “Risk Factors – Risks Related to Legality of Cannabis” in the AIF.

## **Florida**

### Florida Regulatory Landscape

In 2014, the Florida Legislature passed the Compassionate Use Act (§381.986, Fla. Stat.), which was the first legal medical cannabis program in the state's history. The original Compassionate Use Act only allowed for low-THC cannabis to be dispensed and purchased by patients suffering from cancer and epilepsy. In 2016, the Florida Legislature passed the Right To Try Act which allowed for full potency cannabis to be dispensed to patients suffering from a diagnosed terminal condition. Also in 2016, the Florida Medical Marijuana Legalization Initiative was introduced by citizen referendum and passed with a 71.3% majority. This initiative amended the state constitution and mandated an expansion of the state's medical cannabis program.

The Florida Medical Marijuana Legalization Initiative, Amendment 2 ("Amendment 2"), and the expanded qualifying medical conditions, became effective on January 3, 2017. The Florida Department of Health ("FDOH"), physicians, dispensing organizations, and patients are currently subject to regulations provided for in Article X Section 29 of the Florida Constitution (the constitutional provision created by Amendment 2), §381.986 of the Florida Statutes, and administrative rules adopted by the FDOH. On June 9, 2017, the Florida House of Representatives and Florida Senate passed respective legislation to implement the expanded program by replacing large portions of the existing Compassionate Use Act, which officially became law on June 23, 2017. As amended, §381.986 provides licenses to operate as Medical Marijuana Treatment Centers ("MMTCs") to all entities that held an active, unrestricted license to cultivate, process, transport, and dispense low-THC cannabis or medical cannabis before July 1, 2017, as well as an additional 10 entities. The law also provides for another four licenses to be issued for every 100,000 patients added to the state's medical marijuana registry and allows MMTCs to open an unlimited number of dispensaries.

### Licenses

Subsection 381.986(8)(a) of the Florida Statutes provides a vertically-integrated regulatory framework that requires each MMTC to cultivate, process and dispense their own medical cannabis. Licenses issued by the FDOH may be renewed biennially so long as the license meets the requirements of the law and the license holder pays a renewal fee.

The license permits the sale of medical cannabis to qualified patients to treat certain medical conditions. In Florida, there is no state-imposed limitation on the permitted size, or number, of cultivation or processing facilities, nor is there a limit on the number of plants that may be grown. Dispensaries may be located in any location throughout Florida as long as the local government has not prohibited MMTC dispensaries in their respective municipality. Provided there is not a ban, a dispensary may be located in any site that meets applicable zoning requirements, and such zoning requirements cannot be more strict than the requirements applicable to a pharmacy. Additionally, the location must be greater than 500 feet from public or private elementary, middle, and secondary schools.

### Licensing Requirements

Licenses issued by the FDOH are renewed biennially so long as the licensee meets requirements of the law and pays a renewal fee. Provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, a licensee would expect to receive the applicable renewed license in the ordinary course of business.

An MMTC license applicant must demonstrate that: (i) they have been registered to do business in Florida for the previous five years, (ii) they possess a valid certificate of nursery registration issued by the Florida Department of Agriculture and Consumer Services, (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) they have the ability to maintain accountability of raw materials, finished products, and by-products to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure reasonably required to dispense cannabis to registered qualified patients statewide or regionally as determined by the FDOH, (vii) they have the financial ability to maintain operations for the duration of the two-year approval cycle, including the provision of certified financial statements to the FDOH, (viii) its owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees. Upon approval of the application by the FDOH, the applicant must post a performance bond of up to US\$5,000,000, which may be reduced to US\$2,000,000 by meeting certain criteria, such as a minimum number of patients served.

### Dispensary

An MMTC may not dispense to a patient more than a 70-day supply of cannabis within a 70-day period, except an MMTC may not dispense more than a 35-day supply of marijuana in a form for smoking within a 35-day period. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) the qualified patient and the caregiver, if applicable, each has an active registration in the registry and active and valid medical cannabis use registry identification card, (ii) the amount and type of cannabis dispensed matches the physician certification in the registry for the qualified patient, and (iii) the physician certification has not already been filled. An MMTC may not dispense to a qualified patient younger than 18 years of age, and must instead dispense to such patient's caregiver. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug-related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed, (ii) the type of cannabis delivery device dispensed, and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

### Storage and Security

Each MMTC must maintain a video surveillance system that records continuously 24 hours per day and has specified features. MMTCs must retain video surveillance recordings for at least 45 days, or longer upon the request of law enforcement.

An MMTC's outdoor premises must have sufficient lighting from dusk until dawn. An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area and such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may perform all other operations and deliver cannabis to qualified patients 24-hours a day.

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear a photographic identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis.

### Transportation

A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate

number; and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual, MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

### Inspections

The FDOH conducts announced and unannounced inspections of MMTC facilities to determine compliance with the laws and rules. The FDOH shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The FDOH shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

### New Jersey

#### New Jersey Regulatory Landscape

On January 18, 2010, the governor of New Jersey signed into law S.119, the Compassionate Use Medical Marijuana Act (now the "Compassionate Use Medical Cannabis Act" the "NJ Act"), terminating state-law prohibitions against the use of medical cannabis by persons with certain debilitating conditions including cancer, HIV/AIDS, amyotrophic lateral sclerosis (ALS), multiple sclerosis (MS), Crohn's disease and terminal illnesses, under certain circumstances. The NJ Act is administered by the New Jersey Department of Health ("NJDH"), which has issued regulations at N.J.A.C. 8:64.

The purpose of the NJ Act is to "protect from arrest, prosecution, property forfeiture, and criminal and other penalties, those patients who use marijuana to alleviate suffering from debilitating medical conditions, as well as their physicians, primary caregivers, and those who are authorized to produce marijuana for medical purposes." The NJ Act extends these protections, however, only to individuals acting under NJDH authorization. The NJ Act directs NJDH to establish a registry of qualified patients and caregivers and registration process, including requirements for background checks, the issuance of identification cards, and the "certification" by a treating physician. It further authorizes NJDH to approve additional debilitating conditions that would qualify patients to for registration.

The NJ Act permits the cultivation, processing (referred to as "manufacture" under the law) and dispensing of medical cannabis only by "Alternative Treatment Centers" ("ATCs") pursuant to a permit issued by NJDH. The NJ Act originally authorized a minimum of six ATC permits, which authorized vertical cannabis operations subject to NJDH approvals. Such operations are limited to one of three regions (North, Central, and South) within the state. In 2011, NJDOH selected six ATCs, two in each region, to receive permits pursuant to a request for application ("RFA") process.

Pursuant to a provision in the NJ Act, the original six ATCs were all non-profit entities. However, five of the six ATCs have since reorganized as for-profit entities. Subsequent RFAs have permitted both non-profit and for-profit entities to apply for permits.

Thereafter, further development of the New Jersey medical cannabis program stalled. As of 2015, 5,540 patients and 355 caregivers were registered in the program.

On March 27, 2018 through executive order No. 6 (2018), Governor Phil Murphy expanded the medical cannabis program, announcing the 20-plus recommendations presented by the NJDH on March 23, 2018. The NJDH's recommendations and next steps included certain measures that took effect immediately (e.g. the addition of debilitating conditions and the reduction of registration fees) and other recommendations (e.g. the home delivery model) that require further regulatory or statutory enactment.

In February 2019, the NJDH amended the list of debilitating conditions to include opioid use disorder, which had been accepted as petition by the review panel. The NJDH also implemented measures to streamline the enrollment process for patients, allow physicians to opt out of being listed publicly, and have started the permitting process for six new ATCs.

On July 2, 2019, Governor Murphy signed the Jake Honig Compassionate Use Medical Cannabis Act ("2019 NJ Act Amendments"), which amended the NJ Act by (1) expanding the monthly cannabis limit that may be dispensed to a patient from two to three ounces, (2) increasing the supply that a physician may authorize per certification from a three-month supply to a 12-month supply, (3) authorizing the inclusion of edible forms of cannabis to adult patients, (4) a phasing out of the sales tax by July, 2022, (4) authorizing physician assistants and advanced practice nurses to certify patients under the program, (5) instituting employment protections for patients registered in the program; (6) allowing for the registration of two caregivers per patient.

The 2019 NJ Act Amendments further identified three distinct permit "endorsements" for cultivation, manufacturing and dispensaries and allowed for the issuance of single-endorsement permits. The amendments further clarified that no ATC could hold more than one endorsement of the same type.

Initiatives during the As of February 1, 2021 approximately 101,496 patients were registered in New Jersey's program. These recent initiatives have facilitated expansion of New Jersey's medical cannabis program. As of February 1, 2021, approximately 101,496 patients were registered.

On November 3, 2020, New Jersey voters approved New Jersey Public Question 1, an amendment to the state constitution to legalize the recreational use of cannabis by people ages 21 and older. The amendment provides for the state to establish a regulated market for the cultivation, distribution, and sale of cannabis. However, the New Jersey General Assembly has not yet enacted necessary legislation to implement the constitutional change.

### Licenses

As part of NJDH's licensure authority it is responsible for the issuance of ATC permits under the NJ Act. ATC permits expire annually on December 31. A permit renewal application must be submitted at least 60 days prior to the expiration date. An ATC that seeks to renew its permit shall submit to the permitting authority an application for renewal with all required documentation and the required fees. An ATC shall update and ensure the correctness of all information submitted in previous applications for a permit or otherwise on file with the NJDH. Prior to the issuance of any permit, every principal officer, owner, director and board member of an ATC must certify stating that he or she submits to the jurisdiction of the courts of the State of New Jersey and agrees to comply with all the requirements of the laws of New Jersey pertaining to New Jersey's Medicinal Marijuana Program. Failure to provide correct and current up-to-date information is grounds for denial of the application for renewal of the permit.

the 2019 RFA.

#### Reporting Requirements

New Jersey does not have a unified T&T solution. All information is forwarded to the New Jersey Medical Marijuana Program through email. The ATC collects and submits to the NJDH for each calendar year statistical data on (a) the number of registered qualified patients and registered primary caregivers, (b) the debilitating medical conditions of the qualified patients, (c) patient demographic data, (d) summary of the patient surveys and evaluation of services and (e) other information as the NJDH may require. The ATC must retain records for at least two years.

#### Storage and Security

The ATC will establish inventory controls and procedures for the conduct of inventory reviews and comprehensive inventories of cultivating, stored, usable and unusable cannabis. The ATC will conduct a monthly inventory of cultivating, stored, usable and unusable cannabis. Through a unified T&T system is not currently in place, an ATC is required to have a T&T for tracking inventory and dispensing cannabis products to patients. CCF uses MJ Freeway as its T&T system. An ATC is authorized to possess two ounces of usable cannabis per registered qualifying patient plus an additional supply, not to exceed the amount needed to enable the alternative treatment center to meet the demand of newly registered qualifying patients.

Per regulatory requirements an ATC, at a minimum, must (a) establish inventory controls and procedures for the conduct of inventory reviews and comprehensive inventories of cultivating, stored, usable and unusable cannabis, (b) conduct a monthly inventory of cultivating, stored, usable and unusable cannabis, (c) perform a comprehensive inventory inspection at least once every year from the date of the previous comprehensive inventory, and (d) promptly transcribe inventories taken by use of an oral recording device. If cannabis is disposed of, the ATC must maintain a written record of the date, the quantity disposed of, the manner of disposal and the persons present during the disposal, with their signatures. ATCs must keep disposal records for at least two years. Results of the inventory inspection should document the date of the inventory review, a summary of the inventory findings and the name, signature and title of the individuals who conducted the inventory inspection.

An ATC shall limit access to medicinal cannabis storage areas to the absolute minimum number of specifically authorized employees. In the event non-employee maintenance personnel, business guests or visitors to be present in or pass through medical cannabis storage areas, the ATC must have a dedicated person who is specifically authorized by policy or job description to supervise the activity. The ATC must ensure that the storage of usable cannabis prepared for dispensing to patients is in a locked area with adequate security.

#### Security

An ATC is required to implement effective controls and procedures to guard against theft and diversion of cannabis including systems to protect against electronic records tampering. At a minimum, every ATC must (a) install, maintain in good working order and operate a safety and security alarm system that provides suitable protection 24 hours a day, seven days a week against theft and diversion, (b) immediately notifies the state or local police agencies of an unauthorized breach of security. An ATC must conduct maintenance inspections and tests of the security alarm system at intervals not to exceed 30 days from the previous inspection.

A video surveillance system must be installed and operated to clearly monitor all critical control activities of the ATC and must operate in good working order at all times. The ATC must provide two monitors for remote viewing via telephone lines to the NJDH offices. This security system must be approved by State of New Jersey's Medicinal Marijuana Program prior to permit issuance. The original tapes or digital pictures produced by the system must be stored in a safe place for a minimum of 30 days.

#### Transportation

An ATC that is authorized by permit to cultivate medicinal marijuana at one location and to dispense it at a second location shall transport only usable marijuana from the cultivation site to the dispensing site according to a delivery plan submitted to the Department. Each vehicle must be staffed with at least two registered ATC employees. At least one delivery team member shall remain with the vehicle at all times that the vehicle contains medicinal marijuana. Each delivery team member shall have access to a secure form of communication with the ATC, such as a cellular telephone, at all times that the vehicle contains medicinal marijuana. Each delivery team member must possess their ATC employee identification card at all times and shall produce it to NJDH staff or law enforcement officials upon demand.

Each transport vehicle needs to be equipped with a secure lockbox or locking cargo area, which shall be used for the sanitary and secure transport of medicinal marijuana. Each ATC must maintain current commercial automobile liability insurance on each vehicle used for transport of medicinal marijuana in the amount of one million dollars per incident. Each ATC must ensure that vehicles used to transport medicinal marijuana bear no markings that would either identify or indicate that the vehicle is used to transport medicinal marijuana, and each trip must be completed in a timely and efficient manner, without intervening stops or delays. Each ATC shall maintain a record of each transport of medicinal marijuana in a transport logbook, which must include dates and times of trips, names of employees on the delivery team, relevant facts about the products transported and the signatures of the delivery team.

ATCs must report any vehicle accidents, diversions, losses, or other reportable events that occur during transport to the permitting authority in accordance with New Jersey law.

The state has issued a number of waivers to regulatory requirements as a result of the COVID-19 pandemic, including a waiver to permit dispensaries to home-deliver products to registered patients.

#### Inspections

An ATC is subject to onsite assessment by the NJDH at any time. The NJDH may enter an ATC without notice to carry out an onsite assessment in accordance New Jersey laws and regulations. All ATCs are required to provide the NJDH or the NJDH's designee immediate access to any material and information so requested. Submission of an application for an ATC permit constitutes permission for entry and onsite assessment of an ATC, and failure to cooperate with an onsite assessment and or to provide the NJDH access to the premises or information may be grounds to revoke the permit of the ATC and to refer the matter to state law enforcement agencies.

An onsite assessment may include (1) the review of all ATC documents and records and conferences with qualifying patients and primary caregivers and other persons with information, and the making and retaining of copies and/or extracts, (2) the use of any computer system at the ATC to examine electronic data, (3) the reproduction and retention of any document and/or electronic data in the form of a printout or other output, (4) the examination and collection of samples of any marijuana found at the ATC, and (5) the seizure and detention of any marijuana or thing believed to contain marijuana found at the ATC.

#### **Compliance with State Regulatory Frameworks**

##### *Nevada Regulatory Compliance*

Each of the Nevada-based cannabis establishments for which the Company provides administrative, consulting and operations services possesses licenses and operates cannabis facilities in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Nevada in all material respects, and maintains the appropriate licenses for the cultivation, production, distribution and operation of dispensaries, as applicable.



None of the Nevada-based cannabis businesses for which the Company provides operational support has experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor are any of the Company's Nevada-based cannabis businesses subject to any outstanding notices of violation by the State of Nevada which may have an impact on its licenses, business activities or operations. As noted under "*Non-Compliance with State and Local Cannabis Laws*" below, on behalf of businesses for which it provides operational support, Ayr intends to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations and, on behalf of businesses for which it provides operational support, Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations.

Each of the Nevada-based cannabis businesses for which the Company provides operational support uses a seed-to-sale capable control system for tracking and tracing cannabis plants and products. Each of Leaflogix and Metrc are in use among the Company's Nevada-based businesses for which it provides operational support. These solutions have been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

In addition to these software-based control systems, each of the Nevada licensed cannabis establishments to which the Company provides operational support has designated a set of operating procedures, including employee training in respect of such procedures, to secure compliance.

Standard operating procedures in respect of regulatory compliance were developed by each of the Nevada licensed cannabis establishments to which the Company provides operational support and reviewed with the applicable regulators during each of the establishment's initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at each of the Nevada licensed cannabis establishments to which the Company provides operational support are empowered to identify key business processes that should be formally documented to seek to assure safety and regulatory compliance.

Each of the Nevada licensed cannabis establishments to which the Company provides operational support has detailed standard operating procedures in respect of building security, cash management, security of financial instruments, security monitoring systems, security of information, and general security and safety.

Each of the Nevada licensed cannabis establishments to which the Company provides operational support utilizes a security system around the perimeter of each dispensary designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with State regulatory requirements.

Additionally, each of the Nevada licensed cannabis establishments to which the Company provides operational support also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

**Inventory Management Requirements:** Each of the Nevada licensed cannabis establishments to which the Company provides operational support maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management;
- retail transactions; and
- sales data tracking and reporting.

Procedures exist to ensure each of the applicable Nevada licensed cannabis establishments to which the Company provides operational support facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch or lot number;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including:
  - o the date of harvest;
  - o the final yield weight of processed usable marijuana; and
  - o the name and agent registration card number of the agents responsible for the harvest;

- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

Retail dispensaries maintain current and complete books and records and sales reports, including invoices that reflect all purchases and sales of marijuana made to and by the applicable dispensary, that are available from an electronic verification systems, point of sale systems, and/or inventory control systems (which may be separate systems or functionalities combined into a single system) and are stored in secure safe rooms. Such records include:

- in respect of dispensary inventory:
  - o the date and time of delivery of each purchase or transfer from a cultivation or production facility;

- o the quantity, type and form and price of marijuana and infused or edible products purchased from a cultivation or production facility in each purchase as well as related products;
- o invoices and delivery documents, showing entry into the inventory control system; and
- o the quantity of marijuana still available for sale at the dispensary; and
- in respect of dispensary retail sales:
  - o the date and time of each retail sale;
  - o the quantity, type, form, and price of marijuana distributed or dispensed;
  - o the price paid or consideration given for the marijuana;
  - o identifying information of the purchaser (i.e., name and address, and card number in the case of medical marijuana transactions); and
  - o identifying information of the employee conducting the transaction (i.e., the name, initials, or employee identification number of the person who dispensed or sold the marijuana).

All invoices and delivery documents must be systematically filed and maintained for a period of five years from date of delivery and must show a legible and complete statement of terms and conditions for each purchase.

Sales records must be compliant with all of the applicable policies and procedures according to applicable documented plans of the Nevada licensed cannabis establishments to which the Company provides operational support, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution (on-site or delivery);
- the quantity, form, and price marijuana and any other products dispensed;
- the consideration given;
- the name, address, and identification number of the marijuana as recorded on the electronic verification system; and
- the names, initials, or employee identification numbers of the individuals who packaged, dispensed, delivered, and sold the marijuana.

**Disposal of Inventory:** All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed by the applicable Nevada licensed cannabis establishments to which the Company provides operational support is recorded in the relevant inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal;
- the method of disposal; and
- the name and card number of the agents responsible for the disposal.

Only specifically authorized employees can destroy product. A list of authorized employees that may destroy product is required to be maintained at each such Nevada-based business facility. Permissions are defined by agent and password protected. The destroyed weight and the reason for destruction is required and recorded. The inventory control systems of the Nevada licensed cannabis establishments to which the Company provides operational support can generate reports on destroyed material at any point in the destruction process.

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

**General Security Guidelines:** The applicable Nevada-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

**Cash Management:** As noted above, the Nevada licensed cannabis establishments to which the Company provides operational support have detailed standard operating procedures and protocols for cash management, including internal controls and cash security procedures. Examples of such standard operating procedures and protocols used by certain of the dispensaries of the Nevada licensed cannabis establishments to which the Company provides operational support include, without limitation:

- random review of cash register drawers by dispensary supervisors;
- random removal of cash from cash register drawers by dispensary supervisors and placement of such cash into a secure vault;
- insertion of all cash from cash registers drawers into a secure vault at the end of each day;

- recording of daily cash intake by supervisors on a “Register Close” sheet and daily reconciliation of such values against daily sales reports and the prior day’s recording of total cash on-hand;
- recording of all disbursements on a disbursement form; and
- daily audits of total cash on hand and investigations in respect of any noted variances.

The Nevada licensed cannabis establishments to which the Company provides operational support have worked with internal personnel and advisors to help prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and
- appropriate employee training for all standard operating procedures.

The Nevada licensed cannabis establishments to which the Company provides operational support enlist their internal compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

While the Nevada licensed cannabis establishments to which the Company provides operational support are compliant with State and local cannabis laws, their cannabis-related activities remain illegal under United States federal law. See “*Risk Factors*” below and in the AIF, incorporated herein by reference.

### ***Massachusetts Regulatory Compliance***

The Company’s Massachusetts-based business is in compliance with applicable licensing requirements and the regulatory framework enacted by the Commonwealth of Massachusetts, and maintains the appropriate licenses for the cultivation, production, distribution and operation of dispensaries, as applicable.

The Company’s Massachusetts-based business has not experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor is such business subject to any outstanding notices of violation by the Commonwealth of Massachusetts which may have an impact on its licenses, business activities or operations. As noted under “*Non-Compliance with State and Local Cannabis Laws*” below, Ayr intends to cause its businesses to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations and Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations. Given the stage of business of the Company’s Massachusetts-based business, such business has, on an on-going basis, internally reviewed applicable Massachusetts laws and regulations relating to the cultivation, manufacture, distribution and sale of cannabis and cannabis products and has internally analyzed its exposure to U.S. federal law. The Company’s Massachusetts-based business has enlisted internal compliance personnel to provide on-going advice on applicable U.S. federal and Massachusetts laws.

The Company’s Massachusetts-based business currently possesses three registered marijuana dispensary registrations which allow the business to sell medical marijuana in Massachusetts directly to consumers, and which allow for the right to open three adult use dispensaries subject to local municipality and other marijuana regulatory approvals. The Massachusetts-based business currently possesses licenses to cultivate, manufacture and transport to other marijuana establishments in Massachusetts. No assurance can be given that the applicable regulatory approvals allowing for the opening of adult use dispensaries will be received.

In order to secure compliance with applicable regulatory frameworks, the Company’s Massachusetts-based business employs a combination of software-based metric tracking and operational processes and procedures designed to comply with in-place regulatory requirements.

The Company’s Massachusetts-based business uses Leaflogix, a seed-to-sale capable control system, for tracking and tracing cannabis plants and products. This solution has been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

In addition to the software-based control systems, the Company’s Massachusetts-based business has designated a set of operating procedures, including employee training with respect to such procedures, to seek to secure compliance.

Standard operating procedures for regulatory compliance were developed by the Massachusetts-based business and reviewed with the applicable regulators during such business’ initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at the Company’s Massachusetts-based business are empowered to identify key business processes that should be formally documented to seek to assure safety and regulatory compliance.

The Company’s Massachusetts-based business has detailed standard operating procedures for building security, cash management, security of financial instruments, security monitoring systems, security of information, and general security and safety.

The Company’s Massachusetts-based business utilizes a security system around the perimeter of each dispensary designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with the Commonwealth’s regulatory requirements.

Additionally, the Company’s Massachusetts-based business also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

**Inventory Management Requirements:** The Company’s Massachusetts-based business maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management;
- retail transactions; and
- sales data tracking and reporting.

Procedures exist to ensure each applicable Massachusetts-based facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including:
  - o the date of harvest; and
  - o the final yield weight of processed usable marijuana;
- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

Retail dispensaries maintain current and complete books and records and sales reports, including invoices that reflect all purchases and sales of marijuana made to and by the applicable dispensary, that are available from the Massachusetts-based business' electronic verification systems, point of sale systems, and/or inventory control systems (which may be separate systems or functionalities combined into a single system) and are stored in secure safe rooms. Such records include:

- in respect of dispensary inventory:
  - o the date and time of delivery of each purchase or transfer from a cultivation or production facility;
  - o the quantity, type and form of marijuana and infused or edible products purchased from a cultivation or production facility in each purchase as well as related products;
  - o invoices and delivery documents, showing entry into the inventory control system; and
  - o the quantity of marijuana still available for sale at the dispensary; and
- in respect of dispensary retail sales:
  - o the date and time of each retail sale;
  - o the quantity, type, form, and price of marijuana distributed or dispensed;
  - o the price paid or consideration given for the marijuana;
  - o identifying information of the purchaser (i.e., name and address, and card number in the case of medical marijuana transactions); and
  - o identifying information of the employee conducting the transaction (i.e., the name, initials, or employee identification number of the person who dispensed or sold the marijuana).

All invoices and delivery documents must be systematically filed and must show a legible and complete statement of terms and conditions for each purchase.

Sales records must be compliant with all applicable Ayr policies and procedures according to applicable documented plans, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution (on-site or delivery);
- the quantity, form, and price marijuana and any other products dispensed;
- the consideration given;

- the name, address, and identification number of the marijuana as recorded on the electronic verification system; and
- the names, initials, or employee identification numbers of the individuals who packaged, dispensed, delivered, and sold the marijuana.

**Disposal of Inventory:** All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed of by the Massachusetts-based business is recorded in such business' inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal; and
- the method of disposal.

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

**General Security Guidelines:** The Massachusetts-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

**Cash Management:** As noted above, the Company's Massachusetts-based business has detailed standard operating procedures and protocols for cash management, including internal controls and cash security procedures. Examples of such standard operating procedures and protocols used by such business' dispensaries include, without limitation:

- random review of cash register drawers by dispensary supervisors;
- random removal of cash from cash register drawers by dispensary supervisors and placement of such cash into a secure vault;
- insertion of all cash from cash registers drawers into a secure vault at the end of each day;
- recording of daily cash intake by supervisors on a "Register Close" sheet and daily reconciliation of such values against daily sales reports and the prior day's recording of total cash on-hand;
- recording of all disbursements on a disbursement form; and
- daily audits of total cash on hand and investigations in respect of any noted variances.

The Company's Massachusetts-based business has worked with an internal advisor to help prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and
- appropriate employee training for all standard operating procedures.

In Massachusetts, Ayr enlists its management and compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

While the Company's Massachusetts-based business is compliant with State and local cannabis laws, its cannabis-related activities remain illegal under United States federal law. See "Risk Factors" below and in the AIF, incorporated herein by reference.

The Company's Pennsylvania-based business is in compliance with applicable licensing requirements and the regulatory framework enacted by the Commonwealth of Pennsylvania, and maintains the appropriate licenses for the cultivation, manufacture and transport of medical cannabis, as applicable.

The Company's Pennsylvania-based business has not experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor is such business subject to any outstanding notices of violation by the Commonwealth of Pennsylvania which may have an impact on its licenses, business activities or operations. As noted under "*Non-Compliance with State and Local Cannabis Laws*" below, Ayr intends to cause its businesses to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations and Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations. Given the stage of business of the Company's Pennsylvania-based business, such business has, on an on-going basis, internally reviewed applicable Pennsylvania laws and regulations relating to the cultivation, manufacture and transport of medical cannabis and has internally analyzed its exposure to U.S. federal law. The Company's Pennsylvania-based business has enlisted internal compliance personnel to provide on-going advice on applicable U.S. federal and Pennsylvania laws.

The Company's Pennsylvania-based business currently possesses a license to cultivate, manufacture and transport medical cannabis to other cannabis establishments in Pennsylvania. The Company's Pennsylvania-based business's license allows for unlimited cultivation with no cap on either canopy size or production volume.

In order to secure compliance with applicable regulatory frameworks, the Company's Pennsylvania-based business employs a combination of software-based metric tracking and operational processes and procedures designed to comply with in-place regulatory requirements.

The Company's Pennsylvania-based business uses MJ Freeway, a seed-to-sale capable control system, for tracking and tracing cannabis plants and products. This solution has been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

In addition to the software-based control systems, the Company's Pennsylvania-based business has designated a set of operating procedures, including employee training with respect to such procedures, to seek to secure compliance.

Standard operating procedures for regulatory compliance were developed by the Pennsylvania-based business and reviewed with the applicable regulators during such business' initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at the Company's Pennsylvania-based business are empowered to identify key business processes that should be formally documented to seek to assure safety and regulatory compliance.

The Company's Pennsylvania-based business has detailed standard operating procedures for building security, security of financial instruments, security monitoring systems, security of information, and general security and safety.

The Company's Pennsylvania-based business utilizes a security system around the perimeter of its premises designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with the Commonwealth's regulatory requirements.

Additionally, the Company's Pennsylvania-based business also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

**Inventory Management Requirements:** The Company's Pennsylvania-based business maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management; and
- sales data tracking and reporting.

Procedures exist to ensure each applicable Pennsylvania-based facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For each lot received at a cultivation/production facility, such inventory control systems are designed to document:

- the batch;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including:
  - o the date of harvest; and
  - o the final yield weight of processed usable marijuana;

- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

All invoices and delivery documents must be systematically filed and must show a legible and complete statement of terms and conditions for each purchase.

**Disposal of Inventory:** All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed of by the Pennsylvania-based business is recorded in such business' inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal; and
- the method of disposal.

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

**General Security Guidelines:** The Pennsylvania-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

The Company's Pennsylvania-based business has worked to prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and

- appropriate employee training for all standard operating procedures.

In Pennsylvania, Ayr enlists its management and compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

While the Company's Pennsylvania-based business is compliant with State and local cannabis laws, its cannabis-related activities remain illegal under United States federal law. See "*Risk Factors*" below and in the AIF, incorporated herein by reference.

## SECONDARY SALES

Securities may be sold under this Prospectus by way of secondary offering by or for the account of certain of our securityholders. The Prospectus Supplement that we will file in connection with any offering of Securities by selling securityholders will include the following information:

- the names of the selling securityholders;
- the number or amount of Securities owned, controlled or directed of the class being distributed by each selling securityholder;
- the number or amount of Securities of the class being distributed for the account of each selling securityholder;
- the number or amount of Securities of any class to be owned, controlled or directed by the selling securityholders after the distribution and the percentage that number, or amount represents of the total number of our outstanding Securities;
- whether the Securities are owned by the selling securityholders both of record and beneficially, of record only, or beneficially only;

- the Prospectus Supplement will contain, if applicable, the disclosure required by Item 1.11 of Form 44-101F1 – *Short Form Prospectus* (“**Form 44-101F1**”), and, if applicable, the selling securityholders will file a non-issuer’s submission to jurisdiction form with the corresponding Prospectus Supplement; and
- all other information that is required to be included in the applicable Prospectus Supplement.

## USE OF PROCEEDS

The net proceeds to the Company from any offering of Securities and the proposed use of those proceeds will be set forth in the applicable Prospectus Supplement relating to that offering of Securities. Among other potential uses, the Company may use the net proceeds from the sale of Securities for general corporate purposes, capital projects and potential future acquisitions and internal expansion. In addition, the Securities may be offered and issued in consideration for the acquisition of other businesses, assets or securities by the Company or one of its subsidiaries. The consideration for any such acquisition may consist of the Securities separately, a combination of Securities or any combination of, among other things, Securities, cash and assumption of liabilities. The Company will not receive any proceeds from any sale of any Securities by selling securityholders. Management of the Company will retain broad discretion in allocating the net proceeds of any offering of Securities by the Company under this Prospectus and the Company’s actual use of the net proceeds will vary depending on the availability and suitability of investment opportunities and its operating and capital needs from time to time. All expenses relating to an offering of Securities and any compensation paid to underwriters, dealers or agents, as the case may be, will be paid out of the proceeds from the sale of Securities, unless otherwise stated in the applicable Prospectus Supplement, provided that certain expenses in any secondary offering may be paid by the Company. See “*Risk Factors – Discretion in the use of proceeds*”.

The Company may, from time to time, issue securities (including Securities) other than pursuant to this Prospectus.

## DESCRIPTION OF SECURITIES

The following describes the material terms of the Company’s share capital and a brief summary of certain general terms and provisions of the Securities as at the date of this Prospectus. The summary does not purport to be complete, is indicative only and is qualified in its entirety by reference to the terms and provisions of our notice of articles and Articles, as amended. The specific terms of any Securities to be offered under this Prospectus, and the extent to which the general terms described in this Prospectus apply to such Securities, will be set forth in the applicable Prospectus Supplement. Moreover, a Prospectus Supplement relating to a particular offering of Securities may include terms pertaining to the Securities being offered thereunder that are not within the terms and parameters described in this Prospectus. The Securities will not include any novel derivatives or asset-backed securities as discussed under Part 4 of NI 44-102.

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The Company is currently authorized to issue an unlimited number of Subordinate Voting Shares, Restricted Voting Shares, Limited Voting Shares and Multiple Voting Shares. As of February 23, 2021, the Company had 34,149,557 Equity Shares and 3,696,486 Multiple Voting Shares issued and outstanding. In addition, the following securities were issued and outstanding as of February 23, 2021 that are convertible, exchangeable or exercisable for Equity Shares, as applicable: (i) 10,117,606 Listed Warrants to purchase Equity Shares, which are listed on the CSE and quoted on the OTCQX Best Market under the trading symbols “AYR.WT” and “CNBQF”, respectively; (ii) 462,348 rights (“**Rights**”), each of which entitles the holder to receive one-tenth (1/10) of an Equity Share until May 24, 2021; (iii) 1,912,592 exchangeable shares of CSAC Acquisition Inc. (“**Exchangeable Shares**”), a wholly owned subsidiary of the Company, which are exchangeable, on a one-for-one basis, into Equity Shares, at the option of the holder, and are designed to be economically equivalent (without taking into account tax consequences) to the Equity Shares; and (iv) 5,281,150 restricted stock units (“**RSUs**”) granted to acquire additional Exchangeable Shares. The Listed Warrants and Rights were issued to initial investors in the Company in connection with the IPO, the Exchangeable Shares were issued to the vendors of the Acquired Businesses (as such term is defined in the AIF) in connection with the Qualifying Transaction (as such term is defined in the AIF) or subsequent acquisitions and the RSUs were granted to employees as incentive compensation.

### Equity Shares and Multiple Voting Shares

As of February 23, 2021, (i) the Equity Shares collectively represent approximately 76% of the Company’s total issued and outstanding shares on an as-converted basis (including Rights, Exchangeable Shares and RSUs, but excluding Listed Warrants) and approximately 27% of the voting power attached to all of our issued and outstanding shares, and (ii) the Multiple Voting Shares collectively represent approximately 8% of our total issued and outstanding shares on an as-converted basis (including Rights, Exchangeable Shares and RSUs, but excluding Listed Warrants) and approximately 72% of the voting power attached to all of our issued and outstanding shares.

On December 3, 2020, the Company amended its constating documents to, among other things, (i) create and set the terms of the Restricted Voting Shares and Limited Voting Shares, including applying coattail terms to such shares similar to those applicable to the Subordinate Voting Shares as more particularly described below, and (ii) amend the terms of the existing Multiple Voting Shares and Subordinate Voting Shares, including by amending the requirements in respect of who may hold Subordinate Voting Shares. The Company implemented the Capital Structure Amendments in order to seek to maintain its FPI status under U.S. securities laws and thereby avoid a commensurate material increase in its ongoing costs. This has been accomplished by implementing a mandatory conversion mechanism in the Company’s share capital to decrease the number of shares eligible to be voted for directors of the Company if the Company’s FPI Threshold is exceeded. Each of the classes of Equity Shares is, as further described below, economically identical and mandatorily inter-convertible (continuously and without formality) based on (i) the holder’s status as a U.S. Person or Non-U.S. Person, and (ii) the status of the Company’s FPI Threshold. The Capital Structure Amendments were approved at the Company’s annual general and special meeting of shareholders on November 4, 2020 by, *inter alia*, a majority of the minority holders of Subordinate Voting Shares (i.e., other than those held by holders of Multiple Voting Shares and other persons not permitted to vote thereon under Ontario Securities Commission Rule 56-501 – *Restricted Shares* (“**OSC Rule 56-501**”)).

Each of the Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares may be considered “restricted securities” or “restricted shares”, as applicable (“**restricted securities**”) under applicable securities legislation, respectively, as (i) there is another class of Shares (namely, the Multiple Voting Shares) that carries a disproportionate vote per share relative to each class of Equity Shares, and (ii) the share terms of the Limited Voting Shares contain provisions that nullify certain of the voting rights attributable to the Limited Voting Shares (i.e., the Limited Voting Shares do not have votes in respect of the election of directors of the Company).

Under the Articles, the quorum for the transaction of business at a meeting of shareholders of the Company is two shareholders who are present in person or represented by proxy and who represent at least 25% of the applicable class or series of shares (and, for greater certainty, where more than one class or series of shares are voting together as if they were a single class of shares, at least 25% of the total issued and outstanding shares of such classes of series).

As of November 20, 2020, Senvest Master LP reported that it owned 626,367 Subordinate Voting Shares (approximately 3.3% of the issued and outstanding Subordinate Voting Shares as of such date) and 3,419,600 Listed Warrants (the “**Senvest Warrants**”), representing an aggregate of approximately 18.9% of the issued and outstanding Subordinate Voting Shares as of such date (assuming the exercise of the Senvest Warrants but excluding (i) the exercise of any other Listed Warrants outstanding as of such date), and (ii) any Subordinate Voting Shares issuable pursuant to the conversion, exchange or exercise, as applicable, of Rights, Exchangeable Shares and RSUs).

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The following is a brief summary of certain general terms and provisions of the Equity Shares that may be offered pursuant to this Prospectus. This summary does not purport to be complete.

#### Exercise of Voting Rights

The holders of each class of Equity Shares will be entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of shareholders of the Company, except that they will not be able to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the *Business Corporations Act* (British Columbia), and except that holders of Limited Voting Shares will not be entitled to vote for the election of directors. The Subordinate Voting Shares and Restricted Voting Shares carry one vote per share on all matters. The Limited Voting Shares carry one vote per share on all matters except the election of directors, as the holders of Limited Voting Shares do not have any entitlement to vote in respect of the election for directors of the Company.

In connection with any Change of Control Transaction (as defined below) requiring approval of the holders of all classes of Shares under the BCBCA, holders of the Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable, in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

For purposes herein, a “**Change of Control Transaction**” means an amalgamation, arrangement, recapitalization, business combination or similar transaction of the Company, other than an amalgamation, arrangement, recapitalization, business combination or similar transaction that would result in (i) the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the continuing entity or its direct or indirect parent) more than fifty percent (50%) of the total voting power of the voting securities of the Company, the continuing entity or its direct or indirect parent, and more than fifty percent (50%) of the total number of outstanding shares of the Company, the continuing entity or its direct or indirect parent, in each case as outstanding immediately after such transaction, and (ii) the shareholders of the Company immediately prior to the transaction owning voting securities of the Company, the continuing entity or its direct or indirect parent immediately following the transaction in substantially the same proportions (vis-a-vis each other) as such shareholders owned the voting securities of the Company immediately prior to the transaction (provided that in neither event shall the exercise of any exchangeable shares of a subsidiary of the Company that are exchangeable into shares of the Company be taken into account in such determination).

Notwithstanding the foregoing, the holders of Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares, as applicable, are each entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Articles, which would: (i) adversely affect the rights or special rights of the holders of Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable (including an amendment to the terms of the Articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in Articles) shall be automatically converted into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable); (ii) affect the holders of the Shares differently, on a per share basis; or (iii) except as otherwise set forth in the Company’s articles, as amended, create any class or series of shares ranking equal to or senior to the Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable.

#### Dividends

Holders of Equity Shares are entitled to receive, as and when declared by the Board, dividends in cash or property of the Company. No dividend will be declared or paid on any class of Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on all classes of Shares then issued and outstanding. Each class of Equity Shares shall rank equally with the other classes of Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares shall receive Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares, respectively, unless otherwise determined by the Board, provided an equal number of shares is declared as a dividend or distribution on a per-share basis, without preference or distinction, in each case.

#### Subdivision or Consolidation

No subdivision or consolidation of any class of Equity Shares shall occur unless simultaneously, all other classes of Shares are subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of each of the classes of Shares.

#### Liquidation, Dissolution or Winding-Up

In the case of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company for the purposes of a dissolution or winding-up of the Company, the holders of Equity Shares are entitled, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Equity Shares, to receive the Company’s remaining property and are entitled to share equally, on a share for share basis, with all other classes of Shares in all distributions of such assets.

#### Rights to Subscribe; Pre-Emptive Rights

The holders of Equity Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Company now or in the future.

#### Conversion

For the purposes of the Equity Shares, a “**U.S. Person**” means a U.S. person as defined in Regulation S (promulgated under the 1933 Act) in Section 902(k)(1) (as amended or replaced from time to time), and a “**Non-U.S. Person**” is any person who is not a U.S. Person. Under the Articles, where Subordinate Voting Shares are held, beneficially owned or controlled, directly or indirectly, or jointly by (a) one or more U.S. Persons and (b) one or more Non-U.S. Persons, such Subordinate Voting Shares shall be deemed to be held, beneficially owned or controlled by a U.S. Person. At the request of the Company, beneficial shareholders and actual or proposed transferees are required to respond to enquiries regarding their status as U.S. Persons or Non-U.S. Persons, and are required to provide declarations or other documents with respect thereto, as may be necessary or desirable, in the discretion of the Company, failing which they would, in the Company’s discretion, be deemed to be U.S. Persons.

If, at any given time, the Subordinate Voting Shares are held, beneficially owned or controlled by U.S. Persons, they will be automatically converted, without further act or formality, on a one-for-one basis into Restricted Voting Shares. If, at any given time, the Restricted Voting Shares or the Limited Voting Shares are held, beneficially owned or controlled by Non-U.S. Persons, they will be automatically converted, without further act or formality, on a one-for-one basis into Subordinate Voting Shares.

Notwithstanding the foregoing, if, at any given time, the total number of Restricted Voting Shares represents a number equal to or in excess of the formulaic threshold set forth below (the “**FPI Threshold**”), then the minimum number of Restricted Voting Shares required to stay within the FPI Threshold will be automatically converted, without further act or formality, on a *pro rata* basis across all registered holders of Restricted Voting Shares (rounded up to the next nearest whole number of shares), on a one-for-one basis,

into Limited Voting Shares:

$$(0.50 \times \text{Aggregate Number of Multiple Voting Shares, Subordinate Voting Shares and Restricted Voting Shares}) - (\text{Aggregate Number of Multiple Voting Shares held, beneficially owned or controlled by U.S. Persons})$$

If, at any given time, the total number of Restricted Voting Shares represents a number below the FPI Threshold, then a number of Limited Voting Shares will be automatically converted, without further act or formality, on a *pro rata* basis across all registered holders of Limited Voting Shares (rounded down to the next nearest whole number of shares), on a one-for-one basis, into Restricted Voting Shares, to the maximum extent possible such that the Restricted Voting Shares then represent a number of Shares that is one share less than the FPI Threshold.

The Company has received exemptive relief from the Canadian securities regulatory authorities such that, *inter alia*, each class of Equity Shares may be aggregated for the purposes of certain securities law reporting thresholds, including in respect of certain take-over bid and issuer bid rules and the early warning requirements under National Instrument 62-104 – *Take-Over Bid and Issuer Bids* (“NI 62-104”). See “Exemptions”.

If an offer is made to purchase any class of Shares (other than a class of Equity Shares) and such offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which such Shares that are subject to the offer are then listed, to be made to all or substantially all the holders of such Shares in a given province of Canada to which these requirements apply (assuming that the offeree was a resident in Ontario), each Subordinate Voting Share, Restricted Voting Share and/or Limited Voting Share shall become convertible, at the option of the holder, on a one-for-one basis, into such class of Shares that are subject to the offer, at any time while such offer is in effect until the date prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to such offer. The conversion right may only be exercised in respect of Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable, for the purpose of depositing the resulting Shares pursuant to the offer, and for no other reason, including with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable, notwithstanding their conversion. The transfer agent is required to deposit the resulting Shares pursuant to such offer on behalf of such holder.

Should the applicable Shares issued upon such conversion and tendered in response to such offer be withdrawn by shareholders of the Company or not taken up by the offeror, or should the offer be abandoned or withdrawn, then each Share resulting from such conversion shall be automatically reconverted, without any further act on the part of the Company or on the part of the holder, into one Subordinate Voting Share, Restricted Voting Share or Limited Voting Share, as applicable.

#### Constraints on Share Ownership

Subject to certain specified exceptions set out in the Company’s articles, as amended, the Subordinate Voting Shares may only be owned or controlled by Non-U.S. Persons.

#### Renamed as Common Shares

At the effective time that there are no Multiple Voting Shares issued and outstanding (by the conversion of all Multiple Voting Shares, in accordance with their terms, into Subordinate Voting Shares or Restricted Voting Shares, as applicable), the Subordinate Voting Shares will henceforth be named and referred to as “Common Shares”.

#### Multiple Voting Shares

##### Exercise of Voting Rights

The holders of Multiple Voting Shares will be entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of shareholders of the Company, except that they will not be able to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the BCBCA. The Multiple Voting Shares carry 25 votes per share (subject in the case of Mercer, to the terms of the Voting Agreement, which may be found on Ayr’s profile on SEDAR at [www.sedar.com](http://www.sedar.com)).

In connection with any Change of Control Transaction requiring approval of the holders of Subordinate Voting Shares and Multiple Voting Shares under the BCBCA, holders of the Subordinate Voting Shares and Multiple Voting Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Multiple Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

Notwithstanding the foregoing, the holders of Multiple Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Articles which would: (i) adversely affect the rights or special rights of the holders of Multiple Voting Shares (including an amendment to the terms of the Articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in the Articles) shall be automatically converted into Subordinate Voting Shares or Restricted Voting Shares); or (ii) affect the holders of the Multiple Voting Shares and Subordinate Voting Shares, Restricted Voting Shares and/or Limited Voting Shares, as applicable, differently, on a per share basis; or (iii) except as otherwise set forth in the Articles, create any class or series of shares ranking equal to or senior to the Multiple Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Multiple Voting Shares.

#### Dividends

Holders of Multiple Voting Shares shall be entitled to receive, as and when declared by the Board, dividends in cash or property of the Company. No dividend will be declared or paid on any class of Equity Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Multiple Voting Shares. The Multiple Voting Shares shall rank equally with the Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Multiple Voting Shares shall receive Multiple Voting Shares, unless otherwise determined by the Board, provided an equal number of shares is declared as a dividend or distribution on a per-share basis, without preference or distinction, in each case.

#### Subdivision or Consolidation

No subdivision or consolidation of the Multiple Voting Shares shall occur unless simultaneously each class of Equity Shares is subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of the Multiple Voting Shares and the Equity Shares.

### Liquidation, Dissolution or Winding-Up

In the case of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company for the purposes of a dissolution or winding-up of the Company, the holders of Multiple Voting Shares are entitled, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Multiple Voting Shares, to receive the Company's remaining property and are entitled to share equally, on a share for share basis, with the Equity Shares in all distributions of such assets.

### Rights to Subscribe; Pre-Emptive Rights

The holders of Multiple Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Company now or in the future.

### Conversion

At the holder's option, the Multiple Voting Shares are convertible, on a one-for-one basis, into Subordinate Voting Shares or Restricted Voting Shares, as applicable. In addition, the Multiple Voting Shares will be automatically converted, without further act or formality, into Subordinate Voting Shares or Restricted Voting Shares, as applicable, on the earliest of (i) the fifth anniversary of May 24, 2019, (ii) the date on which such Multiple Voting Shares are held or controlled by a person who is not a Permitted Holder (as defined in the Articles) under the Articles, and (iii) the date on which the aggregate number of Multiple Voting Shares issued and outstanding represents less than one-third of the number of Multiple Voting Shares issued and outstanding at the close of business on the first date of issuance, being May 24, 2019.

### Compliance Provisions

The Company's notice of articles and articles contain, in respect of the Equity Shares and Multiple Voting Shares, certain provisions to facilitate compliance with applicable regulatory and/or licensing regulations (the "**Compliance Provisions**"). The Compliance Provisions include a combination of certain remedies such as an automatic suspension of voting and/or dividend rights, a discretionary right to force a share transfer to a third party and/or a discretionary redemption right in favour of Ayr, in each case to seek to ensure that Ayr and its subsidiaries are able to comply with applicable regulatory and licensing regulations. The purpose of the Compliance Provisions is to provide Ayr with a means of protecting itself from having a shareholder, or as determined by the Board, a group of shareholders acting jointly or in concert, with an ownership interest of, whether of record or beneficially (or having the power to exercise control or direction over) ("**Owning or Controlling**"), five percent (5%) or more of the issued and outstanding Shares, or such other number as is determined by the Board from time to time, and: (i) who a governmental authority granting licenses to, or otherwise governing the operations of, Ayr or its subsidiaries has determined to be unsuitable to own Shares; (ii) whose ownership of Shares may reasonably result in the loss, suspension or revocation (or similar action) with respect to any licenses or permits relating to Ayr's or its subsidiaries' conduct of business (being the conduct of any activities relating to the cultivation, manufacturing and dispensing of cannabis and cannabis-derived products in the United States, which include the owning and operating of cannabis licenses) or in Ayr being unable to obtain any new licenses or permits in the normal course, all as determined by the Board; or (iii) who have not been determined by the applicable regulatory authority to be an acceptable person or otherwise have not received the requisite consent of such regulatory authority to own the Shares, in each case within a reasonable time period acceptable to the Board or prior to acquiring any Shares (in each case, an "**Unsuitable Person**"). The ownership restrictions in Ayr's notice of articles and articles are also subject to an exemption for applicable depositaries and clearing houses as well as underwriters (as defined in the *Securities Act* (Ontario)) in the course of a distribution of securities of Ayr.

Notwithstanding the foregoing, the Compliance Provisions provide that any shareholder (or group of shareholders acting jointly or in concert) proposing to Own or Control five percent (5%) or more of the issued and outstanding Shares (or such other number as is determined by the Board from time to time) will be required to provide not less than 30 days' advance written notice to Ayr by mail sent to Ayr's registered office to the attention of the Jonathan Sandelman, the Company's corporate secretary (the "**Corporate Secretary**"), and to obtain all necessary regulatory approvals. Upon any such shareholder(s) Owning or Controlling five percent (5%) or more of the issued and outstanding Shares (or such other number as is determined by the Board from time to time), and having not received the requisite approval of any applicable regulatory authority to own the Shares, the Compliance Provisions will provide: (i) that such shareholder(s) may, in the discretion of the Board, be prohibited from exercising any voting rights and/or receiving any dividends from Ayr, unless and until all requisite regulatory approvals are obtained; and (ii) Ayr with a right, but not the obligation, at its option, upon notice to the Unsuitable Person, to: (A) redeem any or all Shares directly or indirectly held by an Unsuitable Person; and/or (B) forcibly transfer any or all Shares directly or indirectly held directly or indirectly by an Unsuitable Person to a third party. Such rights are required in order for Ayr to comply with regulations in various jurisdictions where Ayr or its subsidiaries conduct business or are expected to conduct business.

Upon receipt by the holder of a notice to redeem or to transfer any or all of its Shares, the holder will be entitled to receive, as consideration therefor, no less than 95% of the lesser of: (i) the closing price of the Equity Shares on the CSE (or the then principal exchange on which Ayr's securities are quoted for trading) on the trading day immediately prior to the closing of the redemption or transfer (or the average of the last bid and last asking prices if there was no trading on the specified date); and (ii) the five-day volume weighted average price of the Equity Shares on the CSE (or the then principal exchange on which CSAC's securities are quoted for trading) for the five trading days immediately prior to the closing of the redemption or transfer (or the average of the last bid and last asking prices if there was no trading on the specified dates).

Further, a holder of Shares is prohibited from acquiring five percent (5%) or more of the issued and outstanding Shares, directly or indirectly, in one or more transactions, without providing 30 days' advance written notice to Ayr by mail sent to Ayr's registered office to the attention of the Corporate Secretary. The foregoing restriction will not apply to the ownership, acquisition or disposition of Shares as a result of: (i) transfer of Shares occurring by operation of law including, *inter alia*, the transfer of Shares to a trustee in bankruptcy, (ii) an acquisition or proposed acquisition by one or more underwriters who hold Shares for the purposes of distribution to the public or for the benefit of a third party provided that such third party is in compliance with the foregoing restriction, or (iii) conversion, exchange or exercise of securities issued by Ayr or a subsidiary into or for Shares in accordance with their respective terms. If the Board reasonably believes that any such holder of the Shares may have failed to comply with the foregoing restrictions, Ayr may apply to the Supreme Court of British Columbia, or any other court of competent jurisdiction, for an order directing that such shareholder disclose the number of Shares directly or indirectly held.

Ayr may not be able to exercise such rights in full or at all, including its redemption rights. Under the BCBCA, a corporation may not make any payment to redeem shares if there are reasonable grounds for believing that the company is unable to pay its liabilities as they become due in the ordinary course of its business or if making the payment of the redemption price or providing the consideration would cause the company to be unable to pay its liabilities as they become due in the ordinary course of its business. Furthermore, Ayr may become subject to contractual restrictions on its ability to redeem its Shares by, for example, entering into a secured credit facility subject to such restrictions. In the event that restrictions prohibit Ayr from exercising its redemption rights in part or in full, Ayr will not be able to exercise its redemption rights absent a waiver of such restrictions, which Ayr may not be able to obtain on acceptable terms or at all.

As of February 23, 2021, there were 10,117,606 issued and outstanding Listed Warrants to purchase Subordinate Voting Shares, which are listed on the CSE and quoted on the OTCQX Best Market under the trading symbol “AYR.WT” and “CNBQF”, respectively. Such outstanding Listed Warrants were issued in connection with the IPO. The Company may issue additional Warrants, separately or together with Equity Shares, Subscription Receipts, Debt Securities, Convertible Securities or Units, or any combination thereof, as the case may be.

The following is a brief summary of certain general terms and provisions of the Warrants that may be offered pursuant to this Prospectus. This summary does not purport to be complete.

The Warrants may be issued under a warrant agreement. The applicable Prospectus Supplement will include details of the warrant agreement, if any, governing the Warrants being offered. The Company will file a copy of the warrant agreement, if any, relating to an offering of Warrants with the relevant securities regulatory authorities in Canada after it has been entered into by the Company.

The specific terms and provisions that will apply to any Warrants that may be offered by us pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement. This description will include, where applicable:

- the number of Warrants offered;
- the price or prices, if any, at which the Warrants will be issued;
- the currency at which the Warrants will be offered and in which the exercise price under the Warrants may be payable;
- upon exercise of the Warrant, the events or conditions under which the amount of Securities may be subject to adjustment;
- the date on which the right to exercise such Warrants shall commence and the date on which such right shall expire;
- if applicable, the identity of the Warrant agent;
- whether the Warrants will be listed on any securities exchange;
- whether the Warrants will be issued with any other Securities and, if so, the amount and terms of these Securities;
- any minimum or maximum subscription amount;
- whether the Warrants are to be issued in registered form, “book-entry only” form, non-certificated inventory system form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof;
- any material risk factors relating to such Warrants and any other Securities to be issued upon exercise of the Warrants;
- any other rights, privileges, restrictions and conditions attaching to the Warrants and the Securities to be issued upon exercise of the Warrants; and
- any other material terms or conditions of the Warrants and the Securities to be issued upon exercise of the Warrants.

The terms and provisions of any Warrants offered under a Prospectus Supplement may differ from the terms described above and may not be subject to or contain any or all of the terms described above.

Prior to the exercise of any Warrants, holders of such Warrants will not have any of the rights of holders of the Securities purchasable upon such exercise, including the right to receive payments of dividends or the right to vote such underlying securities.

### **Subscription Receipts**

As of the date of this Prospectus, the Company has no Subscription Receipts outstanding. The Company may issue Subscription Receipts, separately or together, with Equity Shares, Warrants, Debt Securities, Convertible Securities or Units or any combination thereof, as the case may be. The particular terms and provisions of the Subscription Receipts as may be offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement pertaining to such offering of Subscription Receipts, and the extent to which the general terms and provisions described below may apply to such Subscription Receipts will be described in the applicable Prospectus Supplement.

The following is a brief summary of certain general terms and provisions of the Subscription Receipts that may be offered pursuant to this Prospectus. This summary does not purport to be complete.

The Subscription Receipts may be issued under a subscription receipt agreement. The applicable Prospectus Supplement will include details of the subscription receipt agreement, if any, governing the Subscription Receipts being offered. The Company will file a copy of the subscription receipt agreement, if any, relating to an offering of Subscription Receipts with the relevant securities regulatory authorities in Canada after it has been entered into by the Company.

The specific terms and provisions that will apply to any Subscription Receipts that may be offered by us pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement. This description will include, where applicable:

- the number of Subscription Receipts offered;
- the price or prices, if any, at which the Subscription Receipts will be issued;
- the manner of determining the offering price(s);
- the currency at which the Subscription Receipts will be offered and whether the price is payable in installments;
- the Securities into which the Subscription Receipts may be exchanged;
- conditions to the exchange of Subscription Receipts into other Securities and the consequences of such conditions not being satisfied;
- the number of Securities that may be issued upon the exchange of each Subscription Receipt and the price per Security or the aggregate principal amount and the events or conditions under which the amount of Securities may be subject to adjustment;

- the dates or periods during which the Subscription Receipts may be exchanged;
- the circumstances, if any, which will cause the Subscription Receipts to be deemed to be automatically exchanged;
- provisions applicable to any escrow of the gross or net proceeds from the sale of the Subscription Receipts plus any interest or income earned thereon, and for the release of such proceeds from such escrow;
- if applicable, the identity of the Subscription Receipt agent;
- whether the Subscription Receipts will be listed on any securities exchange;
- whether the Subscription Receipts will be issued with any other Securities and, if so, the amount and terms of these Securities;
- any minimum or maximum subscription amount;
- whether the Subscription Receipts are to be issued in registered form, "book-entry only" form, non-certificated inventory system form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof;
- any material risk factors relating to such Subscription Receipts and the Securities to be issued upon exchange of the Subscription Receipts;
- any other rights, privileges, restrictions and conditions attaching to the Subscription Receipts and the Securities to be issued upon exchange of the Subscription Receipts; and
- any other material terms or conditions of the Subscription Receipts and the Securities to be issued upon exchange of the Subscription Receipts.

The terms and provisions of any Subscription Receipts offered under a Prospectus Supplement may differ from the terms described above and may not be subject to or contain any or all of the terms described above.

Prior to the exchange of any Subscription Receipts, holders of such Subscription Receipts will not have any of the rights of holders of the Securities for which the Subscription Receipts may be exchanged, including the right to receive payments of dividends or the right to vote such underlying securities.

#### Debt Securities

The following sets forth certain general terms and provisions of the Debt Securities. The particular terms and provisions of the Debt Securities offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement, which particular terms and provisions of such Debt Securities may differ from the general terms and provisions described below in some or all respects.

The Company may issue Debt Securities, separately or together, with Equity Shares, Warrants, Subscription Receipts, Convertible Securities or Units or any combination thereof, as the case may be. The Debt Securities will be issued in one or more series under an indenture (the "**Indenture**") to be entered into between the Company and one or more trustees (the "**Trustee**") that will be named in a Prospectus Supplement for a series of Debt Securities. To the extent applicable, the Indenture will be subject to and governed by the United States Trust Indenture Act of 1939, as amended. A copy of the form of the Indenture to be entered into has been or will be filed with the SEC as an exhibit to the registration statement and will be filed with the securities commissions or similar authorities in Canada when it is entered into. The description of certain provisions of the Indenture in this section do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the provisions of the Indenture. Terms used in this summary that are not otherwise defined herein have the meaning ascribed to them in the Indenture. The particular terms relating to Debt Securities offered by a Prospectus Supplement will be described in the related Prospectus Supplement. This description may include, but may not be limited to, any of the following, if applicable:

- the specific designation of the Debt Securities; any limit on the aggregate principal amount of the Debt Securities; the date or dates, if any, on which the Debt Securities will mature and the portion (if less than all of the principal amount) of the Debt Securities to be payable upon declaration of acceleration of maturity;
- the rate or rates (whether fixed or variable) at which the Debt Securities will bear interest, if any, the date or dates from which any such interest will accrue and on which any such interest will be payable and the record dates for any interest payable on the Debt Securities that are in registered form;
- the terms and conditions under which the Company may be obligated to redeem, repay or purchase the Debt Securities pursuant to any sinking fund or analogous provisions or otherwise;
- the terms and conditions upon which the Company may redeem the Debt Securities, in whole or in part, at our option;
- the covenants applicable to the Debt Securities;
- the terms and conditions for any conversion or exchange of the Debt Securities for any other securities;
- the extent and manner, if any, to which payment on or in respect of the Debt Securities of the series will be senior or will be subordinated to the prior payment of other liabilities and obligations of the Company;
- whether the Debt Securities will be secured or unsecured;
- whether the Debt Securities will be issuable in registered form or bearer form or both, and, if issuable in bearer form, the restrictions as to the offer, sale and delivery of the Debt Securities which are in bearer form and as to exchanges between registered form and bearer form;
- whether the Debt Securities will be issuable in the form of registered global securities ("**Global Securities**"), and, if so, the identity of the depositary for such registered Global Securities;
- the denominations in which registered Debt Securities will be issuable, if other than denominations of \$1,000 and integral multiples of \$1,000 and the denominations in which bearer Debt Securities will be issuable, if other than denominations of \$5,000;
- each office or agency where payments on the Debt Securities will be made and each office or agency where the Debt Securities may be presented for registration of transfer or exchange;

- if other than United States dollars, the currency in which the Debt Securities are denominated or the currency in which the Company will make payments on the Debt Securities;
- material Canadian federal income tax consequences and United States federal income tax consequences of owning the Debt Securities;
- any index, formula or other method used to determine the amount of payments of principal of (and premium, if any) or interest, if any, on the Debt Securities; and
- any other terms, conditions, rights or preferences of the Debt Securities which apply solely to the Debt Securities.

If the Company denominates the purchase price of any of the Debt Securities in a currency or currencies other than United States dollars or a non-United States dollar unit or units, or if the principal of and any premium and interest on any Debt Securities is payable in a currency or currencies other than United States dollars or a non-United States dollar unit or units, we will provide investors with information on the restrictions, elections, general tax considerations, specific terms and other information with respect to that issue of Debt Securities and such non-United States dollar currency or currencies or non-United States dollar unit or units in the applicable Prospectus Supplement.

Each series of Debt Securities may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The terms on which a series of Debt Securities may be convertible into or exchangeable for Equity Shares or other securities of the Company will be described in the applicable Prospectus Supplement. These terms may include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at the option of the Company, and may include provisions pursuant to which the number of Subordinate Voting Shares or other securities to be received by the holders of such series of Debt Securities would be subject to adjustment.

To the extent any Debt Securities are convertible into Subordinate Voting Shares or other securities of the Company, prior to such conversion the holders of such Debt Securities will not have any of the rights of holders of the securities into which the Debt Securities are convertible, including the right to receive payments of dividends or the right to vote such underlying securities.

### **Convertible Securities**

The Company may issue Convertible Securities, separately or together, with Equity Shares, Warrants, Subscription Receipts, Debt Securities or Units or any combination thereof, as the case may be. The particular terms and provisions of the Convertible Securities as may be offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement pertaining to such offering of Convertible Securities, and the extent to which the general terms and provisions described below may apply to such Convertible Securities will be described in the applicable Prospectus Supplement.

The following is a brief summary of certain general terms and provisions of the Convertible Securities that may be offered pursuant to this Prospectus. This summary does not purport to be complete.

The Convertible Securities will be convertible or exchangeable into Subordinate Voting Shares, Restricted Voting Shares or Limited Voting Shares, as applicable, and/or other Securities. The Convertible Securities convertible or exchangeable into Equity Shares and/or other Securities may be offered separately or together with other Securities, as the case may be. The applicable Prospectus Supplement will include details of the agreement, indenture or other instrument to which such Convertible Securities will be created and issued. The Company will file a copy of any applicable agreement relating to an offering of Convertible Securities with the relevant securities regulatory authorities in Canada after it has been entered into by the Company, and the applicable Prospectus Supplement will include details of any such agreement governing the Convertible Securities being offered.

The specific terms and provisions that will apply to any Convertible Securities that may be offered by us pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement. This description will include, where applicable:

- the number of such Convertible Securities offered;
- the price at which such Convertible Securities will be offered;
- the procedures for the conversion or exchange of such Convertible Securities into or for Equity Shares and/or other Securities;
- the number of Equity Shares and/or other Securities that may be issued upon the conversion or exchange of such Convertible Securities;
- the period or periods during which any conversion or exchange may or must occur;
- the designation and terms of any other Convertible Securities with which such Convertible Securities will be offered, if any;
- the gross proceeds from the sale of such Convertible Securities;
- whether the Convertible Securities will be listed on any securities exchange;
- whether the Convertible Securities are to be issued in registered form, “book-entry only” form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof;
- certain material Canadian tax consequences of owning the Convertible Securities; and
- any other material terms and conditions of the Convertible Securities.

### **Units**

As of the date of this Prospectus, the Company has no Units outstanding. The Company may issue Units, separately or together, with Equity Shares, Warrants, Subscription Receipts, Debt Securities or Convertible Securities or any combination thereof, as the case may be. Each Unit would be issued so that the holder of the Unit is also the holder of each Security comprising the Unit. Thus, the holder of a Unit will have the rights and obligations of a holder of each applicable Security. The Company will file a copy of any

applicable agreement relating to an offering of Units with the relevant securities regulatory authorities in Canada after it has been entered into by the Company, and the applicable Prospectus Supplement will include details of any such agreement governing the Units being offered.

The specific terms and provisions that will apply to any Units that may be offered by us pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement. This description will include, where applicable:

- the number of Units offered;
- the price or prices, if any, at which the Units will be issued;
- the manner of determining the offering price(s);
- the currency at which the Units will be offered;
- the Securities comprising the Units and whether such Securities (or the Units themselves) will be listed and/or quoted on a stock exchange;
- whether the Units will be issued with any other Securities and, if so, the amount and terms of these Securities;
- any minimum or maximum subscription amount;
- whether the Units and the Securities comprising the Units are to be issued in registered form, “book-entry only” form, non-certificated inventory system form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof;
- any material risk factors relating to such Units or the Securities comprising the Units;
- any other rights, privileges, restrictions and conditions attaching to the Units or the Securities comprising the Units; and
- any other material terms or conditions of the Units or the Securities comprising the Units, including whether and under what circumstances the Securities comprising the Units may be held or transferred separately.

The terms and provisions of any Units offered under a Prospectus Supplement may differ from the terms described above and may not be subject to or contain any or all of the terms described above.

#### MATERIAL CONTRACTS

As of the date hereof, the following are the material contracts of Ayr, other than contracts entered into in the ordinary course of business:

- (a) the warrant agency agreement dated December 21, 2017 between the Company and Odyssey Trust Company (“**Odyssey**”), as warrant agent, as amended;
- (b) the rights agreement dated December 21, 2017 between the Company and Odyssey, as rights agent, as amended;
- (c) the definitive agreements, as may have been amended, in respect of the acquisitions of Sira, Washoe Wellness, LLC (“**Washoe**”), The Canopy NV LLC (“**Canopy**”), LivFree and CannaPunch of Nevada, LLC in connection with the Qualifying Transaction;
- (d) the Services Agreements (as defined below);
- (e) the Operations Agreement (as defined below);
- (f) the Exchange Rights Agreements (as defined below); and
- (g) the arrangement agreement between the Company and Liberty dated December 21, 2020.

To the extent that cannabis-related licenses could also be considered to be material contracts, see the licenses which individually account for 10% or more of the consolidated revenue of the Company for the nine-months ended September 30, 2020 (excluding the licenses held by DocHouse and CannTech, which were acquired by the Company subsequent to the Q3 Interim Financial Statements) listed under “*Ayr Strategies Inc. – Licenses*”.

During the nine months ended September 30, 2020, the Company had no leases representing over 10% of its revenues, to the extent that such contracts would be considered to be material contracts entered into outside of the ordinary course of business for the purposes of this Prospectus.

The following are brief summaries of the terms and conditions of each of (i) the Services Agreements, (ii) the Operations Agreement, and (iii) the Exchange Rights Agreements, Support Agreements (as defined below) and Exchangeable Share Provisions (as defined below). These summaries in each case do not purport to be complete, are indicative only and are qualified in their entirety by reference to the respective agreements, which are available for inspection at the Company’s offices during ordinary business hours and which are available on Ayr’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### Services Agreements

Ayr provides administrative, consulting, and operations services to licensed cannabis establishments in the State of Nevada, specifically to the businesses of Washoe, Canopy and LivFree through separate services and operations agreements governed by Nevada law (collectively, the “**Services Agreements**”). As at the date hereof, Washoe, Canopy, and LivFree have not yet received regulatory approval to transfer licenses to the Company.

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. Washoe’s cultivation activities include the growing of raw cannabis from clones, including breeding, genetics and hybridization activities. Washoe’s extraction activities include the processing of cannabis plant material into cannabis oil and refined extract products. Washoe’s manufacturing/production activities include the finishing of dried/cured cannabis into finished flower, pre-rolls and other dried plant products, as well as the manufacturing of infused products such as edibles, tinctures and topicals. Washoe’s distribution activities include selling Washoe’s flower, oil and cannabis consumer goods into the Nevada wholesale market.

Canopy is a leading 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.

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.

The Services Agreements set out the terms by which an Ayr affiliate (the “**Service Company**”) will, as an independent contractor, provide services that are necessary for the day-to-day administration and management of the Canopy, Washoe and LivFree cannabis business operations. The Services Agreement for LivFree relates to cannabis business operations in Washoe County and the City of Reno only. The Service Company acts as an agent for Canopy, Washoe and LivFree in connection with billing, collection, banking, appointment and removal of officers and directors of Canopy, Washoe and LivFree and the other services provided under the applicable Services Agreement. The Service Company provides assistance with respect to personnel matters, training, cultivation, regulatory compliance, insurance, accounting, tax matters, financial and bank reporting, budgets, expenditures, contract negotiation, billing and collections (including the right to endorse checks in the name of Canopy, Washoe and LivFree, respectively, and to make deposits to their accounts), support services, real estate leases, construction and build-out, litigation management, marketing, advertising and public relations, information technology and computer systems, and supplies, as applicable.

Subject to the terms of the respective Services Agreement, Canopy, Washoe and LivFree have ultimate authority over their operations, including from a regulatory perspective. Under the respective Services Agreement, Canopy, Washoe and LivFree require the Service Company’s consent to the issuance, transfer or pledge of any equity of Canopy, Washoe and LivFree, distributions to members, any consolidation, conversion, merger or membership exchange, any sale, pledge, lease, encumbrance, transfer or other distribution of assets, any purchase of assets at an aggregate cost of more than \$1,000, any incurrence of debt of more than \$1,000, any reclassification or recapitalization of membership interests, any redemption or purchase of membership interests, any dissolution or liquidation, the engagement, modification or termination of any employment or independent contractor relationship with compensation in excess of \$5,000 per year, the entering into any contract with payment greater than \$1,000, the creation of any indebtedness or other obligations to or from members, any act outside the ordinary course of business, or the engagement of any other person to provide services of the type to be provided by the Service Company under the Services Agreement.

Pursuant to the Services Agreements, Canopy’s, Washoe’s and LivFree’s applicable revenues are allocated in the following order: (i) first, to its direct costs and operating expenses, (ii) second, to the Service Company’s direct and indirect expenses, and (iii) third, to a monthly management fee payable to the Service Company. The Service Company prepares annual budgets for each of Canopy’s, Washoe’s and LivFree’s approval, not to be unreasonably withheld, delayed or conditioned. To the extent the Service Company has funds available, it will loan them to Canopy, Washoe and/or LivFree under a credit and security agreement to make up any shortfalls in working capital, for budgeted capital expenditures and for budgeted expansion. Each of the applicable companies to which certain licenses, associated inventory and other related assets of Canopy, Washoe and LivFree are to be transferred, subject to consent from regulatory authorities (“**Canopy NewCo**”, “**Washoe NewCo**” and “**LivFree NewCo**”, respectively), licenses its intellectual property and other assets to Canopy, Washoe and LivFree, respectively, so that each of them may continue its applicable cannabis business operations, to which the Service Company provides administrative, consulting and operations services under the Services Agreement.

Unless terminated early in accordance with its terms, each of the Services Agreements has a 20-year term with automatic five-year renewals. The Service Company may terminate the Services Agreement upon: the conviction of Canopy, Washoe or LivFree (as applicable), or any member or anyone employed or engaged by any of them (as applicable), of any crime punishable as a felony under federal or State law; any transfer of Canopy, Washoe or LivFree membership interests (as applicable) without the approval of the Service Company; any merger, consolidation, reorganization, conversion, sale, liquidation, dissolution or disposition or substantially all membership interests or assets of Canopy, Washoe or LivFree (as applicable) without the approval of the Service Company; any failure to timely pay the management fee; any change in scope of operations without the approval of the Service Company; any breach by Canopy, Washoe or LivFree (as applicable) of the Services Agreement; or any failure to obtain regulatory consent for a license transfer or change of control. Each of the Services Agreements may also be terminated by mutual consent, by either party upon a bankruptcy filing or insolvency of the other party, by either party for the other party’s material breach that is not cured within 60 days or if a non-monetary breach not capable of cure within 60 days, failure to commence a cure within 60 days and continuation of that cure. All service fees become due upon termination.

Enforcement of Ayr’s protections under the Services Agreements and other related agreements is dependent on continuing validity and enforceability of those agreements. If such agreements are found to be invalid or unenforceable, or are terminated by the counterparty, this could have a material adverse effect on Ayr’s business, prospects, financial condition, and operating results.

## **Operations Agreement**

An operations agreement governed under Nevada law (the “**Operations Agreement**”) was entered into by LivFree and LivFree NewCo, an Ayr affiliate, for operations in the City of Henderson, unincorporated Clark County and the City of Las Vegas. Under the Operations Agreement, LivFree provides the services that are necessary for the day-to-day administration and management of LivFree cannabis business operations in the City of Henderson, unincorporated Clark County and the City of Las Vegas. LivFree has granted LivFree NewCo discretion regarding removal and replacement of officers and managers of LivFree. In the unlikely event that the license transfer approvals in Nevada are ultimately not able to be obtained, Ayr would not become entitled to such income in question and could be materially adversely affected.

Subject to the terms of the Operations Agreement, LivFree has been granted ultimate authority over its operations. However, under the Operations Agreement, LivFree requires LivFree NewCo’s consent to the issuance, transfer or pledge of any equity of LivFree, distributions to members, any consolidation, conversion, merger or membership exchange, any sale, pledge, lease, encumbrance, transfer or other distribution of assets, any purchase of assets at an aggregate cost of more than \$1,000, any incurrence of debt of more than \$1,000, any reclassification or recapitalization of membership interests, any redemption or purchase of membership interests, any dissolution or liquidation, the engagement, modification or termination of any employment or independent contractor relationship with compensation in excess of \$5,000 per year, the entering into any contract with payment greater than \$1,000, the creation of any indebtedness or other obligations to or from members, any act outside the ordinary course of business, or the engagement of any other person to provide services of the type to be provided by LivFree under the Operations Agreement.

Pursuant to the Operations Agreement, LivFree prepares annual budgets for LivFree NewCo’s approval. To the extent LivFree NewCo or any Ayr affiliate has funds available, it may choose to loan them to LivFree under a credit and security agreement to make up any shortfalls in working capital, for budgeted capital expenditures and for budgeted expansion. LivFree NewCo licenses its intellectual property and other assets to LivFree so that LivFree may continue its cannabis business operations under the Operations Agreement.

Unless terminated early in accordance with its terms, the Operations Agreement has a 20-year term with automatic five-year renewals. LivFree NewCo may terminate the Operations Agreement upon: the conviction of LivFree, or any member or anyone employed or engaged by LivFree, of any crime punishable as a felony under federal or State law; any transfer of LivFree membership interests without the approval of LivFree NewCo; any merger, consolidation, reorganization, conversion, sale, liquidation, dissolution or disposition or substantially all membership interests or assets of LivFree without the approval of LivFree NewCo; any change in scope of operations without the approval of LivFree NewCo; any breach by LivFree of the Operations Agreement; or any failure to obtain regulatory consent for a license transfer or change of control. The Operations Agreement may also be terminated by mutual consent, by either party, upon a bankruptcy filing or insolvency of the other party, by either party for the other party’s material breach that is not cured within 60 days or if a non-monetary breach not capable of cure within 60 days, failure to commence a cure within 60 days and the continuation of that



cure.

Enforcement of Ayr's protections under the Operations Agreement and other related agreements is dependent on continuing validity and enforceability of those agreements. If such agreements are found to be invalid or unenforceable, or are terminated by the counterparty, this could have a material adverse effect on Ayr's business, prospects, financial condition, and operating results.

### **Exchangeable Shares and Exchange Rights Agreements**

For tax reasons, rather than receiving Subordinate Voting Shares, the sellers of the Acquired Businesses in connection with the Qualifying Transaction received as part of their consideration, Exchangeable Shares which, pursuant to the applicable Exchange Rights Agreements, are exchangeable on a one-for-one basis into Subordinate Voting Shares.

The Exchangeable Shares entitle their holders to dividends and other rights that are, as nearly as practical, economically equivalent (without taking into account tax consequences) to those rights attaching to the Subordinate Voting Shares. Until its Exchangeable Shares are exchanged for the applicable Subordinate Voting Shares pursuant to the Exchange Rights Agreements, or the Exchangeable Share Provisions, holders of Exchangeable Shares will not have the right to vote at meetings of shareholders of Ayr or at meetings of the shareholders of Ayr's wholly owned subsidiary in Nevada, CSAC Acquisition Inc. ("**CSAC AcquisitionCo**"), except that they may vote at meetings of the shareholders of CSAC AcquisitionCo with respect to altering the rights of holders of any of the Exchangeable Shares, or if CSAC AcquisitionCo decides to take certain actions without fully protecting the holders of any of the Exchangeable Shares, or as otherwise required by law. The Exchangeable Shares will be exchangeable at any time, on a one-for-one basis, for Subordinate Voting Shares, at the option of the holder. Certain ancillary rights, as further described below, have been provided to the holders of the Exchangeable Shares pursuant to the terms and conditions of the Exchange Rights Agreements.

#### ***Exchangeable Share Procedures***

In connection with each definitive agreement (as amended) pursuant to Ayr's Qualifying Transaction, Ayr entered into the corresponding support agreement (each, a "**Support Agreement**", and collectively, the "**Support Agreements**") as well as exchange rights agreements with CSAC AcquisitionCo and the respective holders of the Exchangeable Shares (each, an "**Exchange Rights Agreement**", and collectively, the "**Exchange Rights Agreements**") for the benefit of the sellers under each definitive agreement, whereby Ayr has agreed to make certain covenants in favor of the sellers to protect their rights as holders of Exchangeable Shares. Ayr agrees to reserve an amount of applicable Subordinate Voting Shares for issuance upon exchange of the Exchangeable Shares, and ensure such shares remain protected from pre-emptive and other rights. Upon notice to Ayr and CSAC AcquisitionCo, Ayr will issue such number of applicable Subordinate Voting Shares to a holder of Exchangeable Shares in exchange for the Exchangeable Shares of such holder, subject to the terms specified in the Exchange Rights Agreements. Additionally, Ayr has an overriding liquidation call right under the Exchange Rights Agreements to purchase all, but not less than all, of the Exchangeable Shares from the holders thereof upon a proposed liquidation, dissolution or winding-up of CSAC AcquisitionCo, as well as a redemption call right and retraction call right on the Exchangeable Shares, in each case for the consideration set forth in such agreements.

#### ***General***

The ancillary rights, consisting of the Automatic Exchange Right (as defined below) and the Exchangeable Shareholders' Put Right (as defined below), are rights established for the benefit of the holders of Exchangeable Shares pursuant to the Exchange Rights Agreements and are intended to ensure that such holders have the right to receive the applicable Subordinate Voting Shares in the event of: (i) a Liquidation Event (as defined below) (by the operation of the Automatic Exchange Right); or (ii) an Insolvency Event (as defined below) (by the operation of the Exchangeable Shareholders' Put Right).

In connection with the issuance of the Exchangeable Shares, Call Rights (as defined below) are provided in favour of Ayr, which are triggered in certain circumstances. The Call Rights, consisting of the Liquidation Call Right, the Redemption Call Right and the Retraction Call Right (in each case, as defined below) (collectively, the "**Call Rights**"), are rights established in favour of Ayr to allow it to purchase Exchangeable Shares: (i) in the event of the liquidation, dissolution or winding-up of CSAC AcquisitionCo (by the operation of the Liquidation Call Right); or (ii) that would otherwise be redeemed by CSAC AcquisitionCo (by the operation of the Redemption Call Right or the Retraction Call Right). The consideration received by a holder of Exchangeable Shares will be the same whether such holder's Exchangeable Shares are redeemed by CSAC AcquisitionCo or purchased by Ayr.

#### ***Dividend Rights***

Holders of Exchangeable Shares will be entitled to receive, subject to applicable law, dividends economically equivalent to all dividends paid on the Subordinate Voting Shares. The Support Agreements restrict Ayr from declaring or paying dividends on the Subordinate Voting Shares unless economically equivalent dividends are declared and paid on the Exchangeable Shares, subject to applicable law. Cash dividends on the Exchangeable Shares are payable in an amount equal to and in the currency of the corresponding cash dividend payable on Subordinate Voting Shares, or the U.S. dollar equivalent. Stock dividends declared on the Subordinate Voting Shares to be paid in Subordinate Voting Shares will be satisfied for each Exchangeable Share by the issue or transfer of such number of Exchangeable Shares as is equal to the number of Subordinate Voting Shares to be paid on each Subordinate Voting Share (or by way of an economically equivalent stock split). Dividends declared on Subordinate Voting Shares in property, other than cash or Subordinate Voting Shares, will be satisfied by such type and amount of property for each Exchangeable Share as is the same as, or economically equivalent to, the type and amount of property declared as a dividend on each Subordinate Voting Share. The declaration date, record date and payment date for dividends on the Exchangeable Shares will be the same as the relevant date for the corresponding dividends on the Subordinate Voting Shares.

The record date for the determination of the holders of Exchangeable Shares entitled to receive payment of, and the payment date for, any dividend or distribution declared on the Exchangeable Shares shall be the same dates as the record date and payment date, respectively, for the corresponding dividend or distribution declared on the Subordinate Voting Shares.

Any dividend which should have been declared or paid on the Exchangeable Shares but was not so declared or paid due to the provisions of applicable law shall be declared and paid by CSAC AcquisitionCo as soon as payment of such dividend is permitted by such law.

If, on any payment date for any dividends or distributions declared on the Exchangeable Shares, the dividends or distributions are not paid in full on all of the Exchangeable Shares then outstanding, any such dividends or distributions that remain unpaid shall be paid on the first subsequent date or dates determined by the CSAC AcquisitionCo board of directors on which CSAC AcquisitionCo shall have sufficient moneys, assets or other property properly applicable to the payment of such dividend or distribution.

The CSAC AcquisitionCo board of directors shall determine, in good faith and acting reasonably (with the assistance of such reputable and qualified independent financial advisors and/or other experts as it may require), economic equivalence for these purposes, and shall provide the holders of the Exchangeable Shares ("**Exchangeable Shareholders**") with a copy of a written determination of economic equivalence and the underlying calculations supporting such determination and the final version of any written report provided by such financial advisors and/or other experts supporting such determination, if requested. For greater certainty, the CSAC AcquisitionCo board of directors shall not be under any obligation to procure any such assistance in support of their determination of economic equivalence for these purposes.

#### ***Ranking and Liquidation Rights***

Except for the exchange features and related rights of the Exchangeable Shares and the fact that the Exchangeable Shares are non-voting (except as described herein), the Exchangeable Shares rank *pari passu* with the CSAC AcquisitionCo common shares. Subject to applicable law and the due exercise by Ayr of its Liquidation Call Right, in the

event of the liquidation, dissolution or winding-up of CSAC AcquisitionCo, a holder of Exchangeable Shares shall be entitled to receive in respect of each Exchangeable Share held by such holder on the effective date of such liquidation, dissolution or winding-up (the “**Liquidation Date**”), before any distribution of any part of the assets of CSAC AcquisitionCo among the holders of the common shares of CSAC AcquisitionCo or any other shares in CSAC AcquisitionCo, an amount per Exchangeable Share equal to the Exchangeable Share Consideration applicable on the last business day prior to the Liquidation Date (the “**Liquidation Amount**”).

On or promptly after the Liquidation Date, and subject to the exercise by Ayr of its Liquidation Call Right in accordance with the terms of the Exchange Rights Agreement, CSAC AcquisitionCo shall cause to be delivered to the holders of the Exchangeable Shares the Liquidation Amount for each such Exchangeable Share upon presentation and surrender of the certificates representing such Exchangeable Shares and a document (in the case of a holder who is a U.S. Resident (as defined below)) containing a representation and warranty that the holder is a U.S. Resident, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under applicable law and the articles and by-laws of CSAC AcquisitionCo at the registered office of CSAC AcquisitionCo. Upon such payment of the total Liquidation Amount, the holders of the Exchangeable Shares (other than any holder which is an Ayr affiliate (as such term is defined in the Exchange Rights Agreement)) shall thereafter be considered and deemed for all purposes to be holders of the Subordinate Voting Shares delivered to them as part or all of the Exchangeable Share Consideration notwithstanding that the certificate or certificates representing such Exchangeable Shares have not been delivered by the holder or holders thereof to Ayr, and such holders shall not be entitled, in respect of the Exchangeable Shares, to share in any further distribution of the assets of CSAC AcquisitionCo.

For the purposes hereof, a “**U.S. Resident**” means a person who is a resident of the United States for purposes of the Internal Revenue Code of 1986, as amended or, if a partnership, all of whose partners are U.S. Residents, and the “**Exchangeable Share Consideration**” per Exchangeable Share means one Subordinate Voting Share and any unpaid dividend entitlements, less applicable withholding taxes.

#### *Exchange of Exchangeable Shares for Subordinate Voting Shares*

Subject to the exercise by Ayr of its Retraction Call Right, a holder of Exchangeable Shares is entitled to retract (meaning require CSAC AcquisitionCo to redeem) any or all of the Exchangeable Shares held by such holder for a retraction price per share equal to the then Retraction Price (as defined below). A holder of Exchangeable Shares may affect such retraction by presenting: (i) a certificate or certificates to CSAC AcquisitionCo or Odyssey, acting as Ayr’s transfer agent (or any successor thereto), representing the number of Exchangeable Shares the holder desires to retract, duly endorsed in blank; (ii) a duly executed request (a “**Retraction Request**”) indicating the number of Exchangeable Shares the holder desires to retract (the “**Retracted Shares**”) and the date of retraction (the “**Retraction Date**”) and acknowledging the Retraction Call Right; and (iii) such other documents as may be required to effect the retraction of the Retracted Shares.

When a holder requests CSAC AcquisitionCo to redeem Exchangeable Shares, Ayr will have an overriding Retraction Call Right to purchase on the Retraction Date all but not less than all of the Retracted Shares, at a purchase price per share equal to the then Retraction Price. Upon receipt of a Retraction Request, CSAC AcquisitionCo is required to immediately notify Ayr in writing of the Retraction Request. Ayr must then advise CSAC AcquisitionCo and the Exchangeable Shareholder within five business days as to whether the Retraction Call Right will be exercised. If Ayr advises CSAC AcquisitionCo that Ayr will exercise the Retraction Call Right within such five business day period, then provided the Retraction Request is not validly revoked by the holder, the Retraction Request shall be considered to be an offer by the holder to sell the Retracted Shares to Ayr in accordance with the Retraction Call Right.

On and after the close of business on the Retraction Date, the holder of the Retracted Shares shall cease to be a holder of such Retracted Shares and shall not be entitled to exercise any of the rights of a holder in respect thereof, other than the right to receive the Retraction Price, unless upon presentation and surrender of certificates in accordance with the foregoing provisions, payment of the total Retraction Price payable to such holder shall not be made, in which case the rights of such holder shall remain unaffected until the total Retraction Price has been paid in the manner hereinbefore provided. On and after the close of business on the Retraction Date, provided that presentation and surrender of certificates and payment of the total Retraction Price has been made in accordance with the foregoing provisions, the holder of the Retracted Shares so redeemed by CSAC AcquisitionCo shall thereafter be considered and deemed for all purposes to be a holder of the Subordinate Voting Shares delivered to such holder.

Notwithstanding the foregoing, CSAC AcquisitionCo shall not be obligated to redeem Retracted Shares specified by a holder in a Retraction Request to the extent that such redemption of Retracted Shares would be contrary to solvency requirements or other provisions of applicable law. If CSAC AcquisitionCo believes that on any Retraction Date it would not be permitted by any of such provisions to redeem the Retracted Shares tendered for redemption on such date, CSAC AcquisitionCo shall only be obligated to redeem Retracted Shares to the extent of the maximum number that may be so redeemed (rounded down to the next whole number of shares) as would not be contrary to such provisions. In any case in which the redemption by CSAC AcquisitionCo of Retracted Shares would be contrary to solvency requirements or other provisions of applicable law, and more than one holder has duly delivered a Retraction Request, CSAC AcquisitionCo shall redeem Retracted Shares on a pro-rata basis. Provided that the Retraction Request is not revoked by the holder, the holder of any such Retracted Shares not redeemed by CSAC AcquisitionCo as a result of solvency requirements or other provisions of applicable law shall be deemed by giving the Retraction Request to require Ayr to purchase such Retracted Shares from such holder on the Retraction Date or as soon as practicable thereafter on payment by Ayr to such holder of the Retraction Price for each such Retracted Share.

For the purposes hereof, the “**Retraction Price**” per Exchangeable Share means one Subordinate Voting Share and any unpaid dividend entitlements, less applicable withholding taxes.

Upon exchange of the Exchangeable Shares into Subordinate Voting Shares and any other event requiring the issuance of Subordinate Voting Shares, CSAC Holdings Inc., the parent company of CSAC AcquisitionCo, will be issued an equivalent number of voting common shares of CSAC AcquisitionCo.

#### *Redemption Rights*

Subject to applicable law, and provided that Ayr has not exercised the Redemption Call Right or an Exchangeable Shareholder has not exercised the Exchangeable Shareholders’ Put Right pursuant to the Exchange Rights Agreement, upon the occurrence of a Redemption Event (as defined below), CSAC AcquisitionCo shall have the right to redeem all but not less than all of the then outstanding Exchangeable Shares for an amount per Exchangeable Share equal to the Exchangeable Share Consideration on the last business day prior to the Redemption Date (the “**Redemption Price**”). “**Redemption Date**” means the date for redemption as established in accordance with the terms of the Exchangeable Shares.

In the case of a proposed redemption by CSAC AcquisitionCo of Exchangeable Shares, CSAC AcquisitionCo shall:

- (a) at least 15 days before the Redemption Date (other than a Redemption Date established in connection with a Control Transaction (as defined below)), notify Ayr in writing (the “**Redemption Notice**”) of the intention of CSAC AcquisitionCo to redeem the Exchangeable Shares; and

- (b) at least 10 days before the Redemption Date (other than a Redemption Date established in connection with a Control Transaction), send or cause to be sent to Ayr and each holder of Exchangeable Shares a notice in writing (the “**Shareholder Redemption Notice**”) of the proposed redemption by CSAC AcquisitionCo of the Exchangeable Shares held by such holder.

In the case of a Redemption Date established in connection with a Control Transaction, the Redemption Notice and the Shareholder Redemption Notice must be sent on or before the Redemption Date, on as many days prior written notice as may be determined by the CSAC AcquisitionCo board of directors, to be reasonably practicable in the circumstances (provided that at least ten business days’ notice is given). In any such case, such notice shall set out the Redemption Date.

On the Redemption Date and subject to the exercise by Ayr of the Redemption Call Right or the exercise of the Exchangeable Shareholders’ Put Right pursuant to the Exchange Rights Agreement, CSAC AcquisitionCo shall cause to be delivered to the holders of the Exchangeable Shares to be redeemed the Exchangeable Share Consideration representing the full Redemption Price for each such Exchangeable Share, upon presentation and surrender at the registered office of CSAC AcquisitionCo of the certificates representing such Exchangeable Shares, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the applicable law and (in the case of a holder who is a U.S. Resident) a representation and warranty by such holder of Exchangeable Shares to be redeemed that such holder is a U.S. Resident. On and after the Redemption Date, the holders of the Exchangeable Shares called for redemption shall cease to be holders of such Exchangeable Shares and shall not be entitled to exercise any of the rights of holders in respect thereof, other than the right to receive their proportionate part of the total Redemption Price, unless payment of the total Redemption Price delivered to a holder for such Exchangeable Shares shall not be made upon presentation and surrender of share certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected until the total Redemption Price has been paid in the manner hereinbefore provided. Upon such payment of the total Redemption Price, the holders of the Exchangeable Shares shall thereafter be considered and deemed for all purposes to be holders of the Subordinate Voting Shares delivered to them.

For the purposes hereof, a “**Redemption Event**” means (a) the occurrence of a Control Transaction, (b) the occurrence of an Insolvency Event, (c) the day upon which U.S. tax legislation is amended and becomes effective such that all U.S. Resident holders of Exchangeable Shares may receive Subordinate Voting Shares in exchange for their Exchangeable Shares on a tax-deferred basis for U.S. income tax purposes, or (d) the seventh anniversary of the closing or any date thereafter; a “**Control Transaction**” means any of the following: (i) any person or group of persons acting jointly or in concert (within the meaning of NI 62-104) acquires, directly or indirectly, control (as defined in NI 62-104) of Ayr; (ii) the shareholders of Ayr shall have approved merger, consolidation, recapitalization or reorganization of Ayr, or, if shareholder approval is not sought or obtained, any such transaction shall have been consummated, in either case other than any such transaction which would result in at least 50% of the total voting power represented by the voting securities of the resulting entity outstanding immediately after such transaction being beneficially owned by holders of outstanding voting securities of Ayr immediately prior to the transaction, with the voting power of each such continuing holder relative to such other continuing holders being not altered substantially in the transaction; or (iii) the shareholders of Ayr shall approve an agreement for the sale or disposition by Ayr of all or substantially all of Ayr’s assets; and an “**Insolvency Event**” means the institution by CSAC AcquisitionCo of any proceeding to be adjudicated a bankrupt or insolvent or to be liquidated, dissolved or wound-up, or the consent of CSAC AcquisitionCo to the institution of bankruptcy, insolvency, liquidation, dissolution or winding up proceedings against it, or the filing of a petition, answer or consent seeking liquidation, dissolution or winding up under any bankruptcy, insolvency or analogous laws in any jurisdiction, and the failure by CSAC AcquisitionCo to contest in good faith any such proceedings instituted by any person other than CSAC AcquisitionCo commenced in respect of CSAC AcquisitionCo within 30 days of becoming aware thereof, or the consent by CSAC AcquisitionCo to the filing of any such petition or to the appointment of a receiver, or the making by CSAC AcquisitionCo of a general assignment for the benefit of creditors, or the admission in writing by CSAC AcquisitionCo of its inability to pay its debts generally as they become due, or CSAC AcquisitionCo not being permitted, pursuant to solvency requirements of applicable law, to purchase any Retracted Shares (as defined below).

#### ***Purchase for Cancellation***

Subject to applicable law, CSAC AcquisitionCo may at any time and from time to time purchase for cancellation all or any part of the Exchangeable Shares by private contract with any holder of Exchangeable Shares at any price agreed to between CSAC AcquisitionCo and such holder of Exchangeable Shares.

#### ***Amendments and Approval***

The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares in the Exchange Rights Agreements may be added to, changed or removed but only with the approval of Ayr and the holders of the Exchangeable Shares given as hereinafter specified.

Any approval given by the holders of the Exchangeable Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Exchangeable Shares or any other matter requiring the approval or consent of the holders of the Exchangeable Shares shall be deemed to have been sufficiently given if it shall have been given in accordance with applicable law subject to a minimum requirement that such approval be evidenced by resolution passed by not less than two-thirds of the votes cast on such resolution at a meeting of holders of Exchangeable Shares duly called and held at which the holders of at least 50% of the outstanding Exchangeable Shares at that time are present or represented by proxy. If at any such meeting the holders of at least 50% of the outstanding Exchangeable Shares at that time are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date not less than five days thereafter and to such time and place as may be designated by the Chairman of such meeting. At such adjourned meeting the holders of Exchangeable Shares present or represented by proxy thereat shall form a quorum and may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of not less than two-thirds of the votes cast on such resolution at such meeting shall constitute the approval or consent of the holders of the Exchangeable Shares.

#### ***Certain Restrictions***

So long as any of the Exchangeable Shares are outstanding, CSAC AcquisitionCo shall not at any time without, but may at any time with, the approval of the holders of the Exchangeable Shares by special resolution: (i) amend the articles of CSAC AcquisitionCo; or (ii) initiate the voluntary liquidation, dissolution or winding-up of CSAC AcquisitionCo, nor take any action or omit to take any action that is designed to result in the liquidation, dissolution or winding-up of CSAC AcquisitionCo.

#### ***Grant of Exchange Rights***

Subject to Ayr’s Call Rights under the Exchange Rights Agreement, Ayr grants to each of the Exchangeable Shareholders the right, exercisable upon the occurrence and during the continuance of: (i) an Insolvency Event, or (ii) subject to the Liquidation Call Right and Redemption Call Right, any event causing the automatic exchange of the Exchangeable Shares for Subordinate Voting Shares or requiring the Exchangeable Shareholders to exchange their Exchangeable Shares for Subordinate Voting Shares to require Ayr to purchase from such Exchangeable Shareholder all or any part of the Exchangeable Shares held by such Exchangeable Shareholder, all in accordance with the provisions of the Exchange Rights Agreement and the share terms of CSAC AcquisitionCo governing the Exchangeable Shares (the “**Exchangeable Share Provisions**”) (the “**Exchangeable Shareholders’ Put Right**”).

The purchase price payable by Ayr for each Exchangeable Share to be purchased by Ayr upon the exercise of the Exchangeable Shareholders’ Put Right shall be an amount per Exchangeable Share equal to the Exchangeable Share Consideration.

Ayr will also grant the Automatic Exchange Right to the Exchangeable Shareholders.

#### *Automatic Exchange Right on Liquidation of Ayr*

Ayr will give each Exchangeable Shareholder written notice of each of the following events (each a **“Liquidation Event”**) at the time set forth below:

- (a) in the event of any determination by the Board to institute voluntary liquidation, dissolution or winding-up proceedings with respect to Ayr or to affect any other distribution of assets of Ayr among its stockholders for the purpose of winding up its affairs, at least 30 days prior to the proposed effective date of such liquidation, dissolution, winding-up or other distribution; and
- (b) as soon as practicable following the earlier of:
  - (i) receipt by Ayr of notice of; and
  - (ii) Ayr’s otherwise becoming aware of any threatened or instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding-up of Ayr or to affect any other distribution of assets of Ayr among its stockholders for the purpose of winding up its affairs, in each case where Ayr has failed to contest in good faith any such proceeding commenced in respect of Ayr within 30 days of becoming aware thereof.

Such notice shall include a brief description of the automatic exchange of Exchangeable Shares for Subordinate Voting Shares (the **“Automatic Exchange Right”**).

In order for the Exchangeable Shareholders to participate on a pro-rata basis with the holders of the Subordinate Voting Shares in the distribution of assets of Ayr in connection with a Liquidation Event, immediately prior to the effective date of a Liquidation Event (the **“Liquidation Event Effective Date”**), subject to each of the Liquidation Call Right and Exchangeable Shareholders’ Put Right (if applicable) not having been exercised, each of the then outstanding Exchangeable Shares shall be automatically exchanged for Subordinate Voting Shares. To effect such automatic exchange, Ayr shall be deemed to have purchased each Exchangeable Share outstanding on the Liquidation Event Effective Date held by Exchangeable Shareholders, and each Exchangeable Shareholder shall be deemed to have sold the Exchangeable Shares held by it at such time to Ayr, for an amount per share equal to the Exchangeable Share Consideration applicable on the business day prior to the Liquidation Event Effective Date.

#### *Liquidation Call Right*

Ayr shall have the overriding right (the **“Liquidation Call Right”**), in the event of and notwithstanding the proposed liquidation, dissolution or winding-up of Ayr and notwithstanding the Exchangeable Share Provisions, to purchase from all, but not less than all, of the Exchangeable Shareholders (other than any Exchangeable Shareholder which is an affiliate of Ayr) on the Liquidation Date all, but not less than all, of the Exchangeable Shares held by each such Exchangeable Shareholder on payment by Ayr to each such Exchangeable Shareholder an amount per Exchangeable Share equal to the Exchangeable Share Consideration applicable on the business day prior to the Liquidation Date (the **“Liquidation Call Purchase Price”**). In the event of the exercise of the Liquidation Call Right by Ayr, each Exchangeable Shareholder (other than any Exchangeable Shareholder which is an affiliate of Ayr) shall be obligated to sell all the Exchangeable Shares held by such Exchangeable Shareholder to Ayr on the Liquidation Date on payment by Ayr to the Exchangeable Shareholder of the Liquidation Call Purchase Price, less any applicable withholding taxes, for each such Exchangeable Share and CSAC AcquisitionCo shall have no obligation to pay the Liquidation Amount to the holders of such Exchangeable Shares so purchased by Ayr.

#### *Redemption Call Right*

Upon the receipt of a Redemption Notice, Ayr shall have the overriding right (the **“Redemption Call Right”**), notwithstanding the proposed redemption of the Exchangeable Shares by Ayr pursuant to the Exchangeable Share Provisions, to purchase from all but not less than all of the Exchangeable Shareholders (other than any Exchangeable Shareholder which is an affiliate of Ayr) on the Redemption Date or, if the Exchangeable Shares have not otherwise been redeemed or retracted by such date, any date following the Redemption Date (the **“Later Redemption Date”**), all but not less than all of the Exchangeable Shares held by each such holder on payment by Ayr to each Exchangeable Shareholder an amount per Exchangeable Share (the **“Redemption Call Purchase Price”**) equal to the Exchangeable Share Consideration on the last business day prior to the Redemption Date or the Later Redemption Date, as applicable. In the event of the exercise of the Redemption Call Right by Ayr, each Exchangeable Shareholder shall be obligated to sell all the Exchangeable Shares held by the Exchangeable Shareholder to Ayr on the Redemption Date or the Later Redemption Date, as applicable, on payment by Ayr to the Exchangeable Shareholder of the Redemption Call Purchase Price for each such Exchangeable Share, and CSAC AcquisitionCo shall have no obligation to redeem such Exchangeable Shares so purchased by Ayr.

#### *Retraction Call Right*

Upon receipt by Ayr of a Retraction Request, CSAC AcquisitionCo shall immediately notify Ayr in writing thereof (a **“Retraction Call Notice”**) and shall provide to Ayr a copy of the Retraction Request. Upon receipt by Ayr of a Retraction Call Notice, Ayr shall have the right (the **“Retraction Call Right”**), notwithstanding the Exchangeable Share Provisions, to purchase from each such Exchangeable Shareholder that has delivered a Retraction Request, on the Retraction Date, all but not less than all of the Exchangeable Shares held by such holder on payment by Ayr to each such Exchangeable Shareholder an amount per Exchangeable Share equal to the Exchangeable Share Consideration on the last business day prior to the Retraction Date.

### **CONSOLIDATED CAPITALIZATION**

Since September 30, 2020, the date of the Q3 Interim Financial Statements, there have been no material changes to the Company’s share and loan capitalization on a consolidated basis as of February 23, 2021 except the following:

- the issuance of 105,420 Subordinate Voting Shares pursuant to the conversion of 1,054,200 Rights;
- the issuance of 5,445,419 Subordinate Voting Shares pursuant to the conversion of 5,445,419 Exchangeable Shares;
- the issuance of 5,901,252 Subordinate Voting Shares pursuant to the exercise of 5,901,252 Listed Warrants;
- the issuance of 128,265 Subordinate Voting Shares pursuant to the acquisition of DocHouse (see *“Ayr Strategies Inc. – Recent Developments – Pennsylvania”*);
- the issuance of 1,310,041 Exchangeable Shares pursuant to the acquisition of Canntech (see *“Ayr Strategies Inc. – Recent Developments – Pennsylvania”*);
- the issuance of US\$110 million aggregate principal amount of 12.5% senior secured notes due 2024, bearing 12.5% interest per annum, payable semi-annually, in equal instalments, with a maturity date 48 months from the issue date (see *“Documents Incorporated by Reference”* and *“Ayr Strategies Inc. – Recent Developments – Senior Secured Notes”*);
- the issuance of 4,600,000 Equity Shares pursuant to the Equity Share Offering; and

the issuance of 1,044,000 Restricted Exchangeable Shares pursuant to a grant under the Company's equity incentive plan.

The applicable Prospectus Supplement will describe any material change, and the effect of such material change, on the share and loan capitalization of the Company that will result from the issuance of Securities pursuant to such Prospectus Supplement.

#### EARNINGS COVERAGE RATIOS

The applicable Prospectus Supplement will provide, if required, the earnings coverage ratios with respect to the issuance of Securities pursuant to such Prospectus Supplement.

#### PLAN OF DISTRIBUTION

We may offer and sell Securities directly to one or more purchasers through agents or through underwriters or dealers designated by us from time to time. We may distribute the Securities from time to time in one or more transactions at fixed prices (which may be changed from time to time), at market prices prevailing at the times of sale, at varying prices determined at the time of sale, at prices related to prevailing market prices or at negotiated prices. A description of such pricing will be disclosed in the applicable Prospectus Supplement. We may offer Securities in the same offering, or we may offer Securities in separate offerings. The sale of Equity Shares may be effected from time to time in one or more transactions at non-fixed prices pursuant to transactions that are deemed to be "at-the-market distributions" as defined in NI 44-102, including sales made directly on the CSE or other existing trading markets for the Equity Shares, and as set forth in the Prospectus Supplement for such purpose.

This Prospectus may also, from time to time, relate to the offering of our Securities by certain selling securityholders. The selling securityholders may sell all or a portion of our Securities beneficially owned by them and offered thereby from time to time directly or through one or more underwriters, broker-dealers or agents. Our Securities may be sold by the selling securityholders in one or more transactions at fixed prices (which may be changed from time to time), at market prices prevailing at the time of the sale, at varying prices determined at the time of sale, at prices related to prevailing market prices or at negotiated prices.

A Prospectus Supplement will describe the terms of each specific offering of Securities, including: (i) the terms of the Securities to which the Prospectus Supplement relates, including the type of Security being offered; (ii) the name or names of any agents, underwriters or dealers involved in such offering of Securities; (iii) the name or names of any selling securityholders; (iv) the purchase price of the Securities offered thereby (or the manner of determination thereof if offered on a non-fixed price basis, including sales in transactions that are deemed to be "at-the-market distributions" as defined in NI 44-102) and the proceeds to, and the portion of expenses borne by, the Company from the sale of such Securities; (v) any agents' commission, underwriting discounts and other items constituting compensation payable to agents, underwriters or dealers; and (vi) any discounts or concessions allowed or re-allowed or paid to agents, underwriters or dealers. The Securities may be offered and issued in consideration for the acquisition of other businesses, assets or securities by the Company or one of its subsidiaries. The consideration for any such acquisition may consist of the Securities separately, a combination of Securities or any combination of, among other things, Securities, cash and assumption of liabilities.

The Securities may be sold in transactions that are deemed to be "at-the-market distributions" as defined in NI 44-102, including sales made directly on the CSE or other existing trading markets for the Subordinate Voting Shares.

If underwriters are used in an offering, the Securities offered thereby may be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase Securities, if applicable, will be subject to the conditions precedent agreed upon by the parties.

The Securities may also be sold (i) directly by the Company or the selling securityholders at such prices and upon such terms as agreed to, or (ii) through agents designated by the Company or the selling securityholders from time to time. Any agent involved in the offering and sale of the Securities in respect of which this Prospectus is delivered will be named, and any commissions payable by the Company and/or selling securityholder to such agent will be set forth, in the Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent is acting on a "best efforts" basis for the period of its appointment.

We and/or the selling securityholders may agree to pay the underwriters, broker-dealers or agents a commission for various services relating to the issue and sale of any Securities offered under any Prospectus Supplement. Underwriters, broker-dealers or agents who participate in the distribution of the Securities may be entitled under agreements to be entered into with the Company and/or the selling securityholders to indemnification by the Company and/or the selling securityholders against certain liabilities, including liabilities under securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Any public offering price and any discounts or concessions allowed or re-allowed or paid to underwriters, broker-dealers or agents may be changed from time to time.

Each class or series of Warrants (other than the Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities and Units will be, unless specified in the applicable Prospectus Supplement, a new issue of Securities with no established trading market and, unless otherwise specified in the applicable Prospectus Supplement, none of the Warrants (other than the Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities or Units will be listed on any securities or stock exchange. Unless otherwise specified in the applicable Prospectus Supplement, there is no market through which the Warrants (other than the Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities or Units (other than constituent Equity Shares and/or Listed Warrants) may be sold and purchasers may not be able to resell Warrants (other than Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities or Units (other than constituent Equity Shares and/or Listed Warrants) purchased under this Prospectus or any Prospectus Supplement. This may affect the pricing of the Warrants (other than the Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities or Units in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. Subject to applicable laws, certain dealers may make a market in the Warrants, Subscription Receipts, Debt Securities, Convertible Securities or Units, as applicable, but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given that any dealer will make a market in the Warrants, Subscription Receipts, Debt Securities, Convertible Securities or Units or as to the liquidity of the trading market, if any, for the Warrants, Subscription Receipts, Debt Securities, Convertible Securities or Units.

Sales of Equity Shares under an "at-the-market distribution", if any, may be made pursuant to an accompanying Prospectus Supplement. Sales of Equity Shares under any "at-the-market" program will be made in transactions that are deemed to be "at-the-market distributions" as defined in NI 44-102. The volume and timing of any "at-the-market distributions" will be determined at the Company's sole discretion.

In connection with any offering of Securities, unless otherwise specified in a Prospectus Supplement, underwriters, broker-dealers or agents may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of Securities offered at levels other than those which might otherwise prevail on the open market. Such transactions may be commenced, interrupted or discontinued at any time. No underwriter, broker-dealer or agent involved in an "at-the-market distribution" under this Prospectus, no affiliate of such underwriter, broker-dealer or agent, and no person or company acting jointly or in concert with such underwriter, broker-dealer or agent will

over-allot Securities in connection with such distribution or effect any other transactions that are intended to stabilize or maintain the market price of the Securities.

Unless stated to the contrary in any Prospectus Supplement, the Securities have not been and will not be registered under the 1933 Act or any state securities laws and may not be offered, sold or delivered within the United States or to U.S. persons within the meaning of Regulation S under the 1933 Act, except in certain transactions that are exempt from the registration requirements of the 1933 Act. In addition, until 40 days after the commencement of an offering of Securities, an offer or sale of the Securities within the United States or to U.S. persons by any dealer, whether or not participating in the offering, may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the 1933 Act.

#### **PRIOR SALES**

Information in respect of prior sales of Equity Shares or other Securities distributed under this Prospectus and for securities that are convertible or exchangeable into Equity Shares or such other Securities within the previous 12-month period will be provided, as required, in a Prospectus Supplement with respect to the issuance of Equity Shares or other Securities pursuant to such Prospectus Supplement.

#### **TRADING PRICE AND VOLUME**

The Equity Shares and Listed Warrants are currently (i) listed on the CSE under the trading symbols “AYR.A” and “AYR.WT”, respectively, and (ii) quoted on the OTCQX Best Market under the trading symbols “AYRWF” and “CNBQF”, respectively. Trading prices and volumes in respect of the Equity Shares and Listed Warrants will be provided, as required, in each Prospectus Supplement.

#### **DIVIDENDS**

The Company has no dividend record and does not currently anticipate paying any dividends on the in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

#### **TAX CONSIDERATIONS**

Owning any of the Securities may subject holders to tax consequences. The applicable Prospectus Supplement may describe certain Canadian federal income tax considerations generally applicable to an investor acquiring, owning and disposing of any of the Securities offered thereunder, including, in the case of an investor who is not a resident of Canada, Canadian non-resident withholding tax considerations. Prospective investors should consult their own tax advisors prior to deciding to purchase any of the Securities. The applicable Prospectus Supplement may describe certain United States federal income tax considerations generally applicable to investors described therein of the acquisition, ownership and disposition of any Securities offered thereunder by an investor who is a U.S. person (within the meaning of the United States Internal Revenue Code of 1986, as amended). Prospective investors should consult their own tax advisors prior to deciding to purchase any of the Securities.

#### **RISK FACTORS**

Before making an investment decision, prospective purchasers of Securities should carefully consider the information described in this Prospectus and the documents incorporated by reference herein, including the AIF and any applicable Prospectus Supplement. Additional risk factors relating to a specific offering of Securities may be described in the applicable Prospectus Supplement. Some of the risk factors described herein and in the documents incorporated by reference herein, including the applicable Prospectus Supplement, are interrelated and, consequently, investors should treat such risk factors as a whole. If any event arising from these risks occurs, our business, prospects, financial condition, results of operations and cash flows, and your investment in the Securities could be materially adversely affected. Additional risks and uncertainties of which we currently are unaware or that are unknown or that we currently deem to be immaterial could have a material adverse effect on our business, financial condition and results of operation. We cannot assure you that we will successfully address any or all of these risks.

In addition to the risk factors described elsewhere herein and in the documents incorporated by reference herein, prospective investors should carefully consider the risks below together with the other information provided elsewhere in this Prospectus and the applicable Prospectus Supplement. Prospective investors should consult with their professional advisors to assess any investment in the Company.

##### **Risks Related to the Company's Securities**

###### ***Return on Securities is not guaranteed***

There is no guarantee that the Securities will earn any positive return in the short-term or long-term. A holding of Securities is speculative and involves a high degree of risk and should be undertaken only by holders whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. A holding of Securities is appropriate only for holders who have the capacity to absorb a loss of some or all of their holdings.

###### ***Discretion in the use of proceeds***

Management of the Company will have broad discretion with respect to the timing and application of net proceeds received by the Company from the sale of Securities under this Prospectus or a future Prospectus Supplement and may spend such proceeds in ways that do not improve the Company's results of operations or enhance the value of the Equity Shares or its other securities issued and outstanding from time to time. As a result, purchasers will be relying on the ongoing judgment of management as determined from time to time for the application of the proceeds of any such offering. The results and the effectiveness of the application of the net proceeds are uncertain. Any failure by management to apply these funds effectively could result in financial losses that could have a material adverse effect on the Company's business or cause the price of the securities of the Company issued and outstanding from time to time to decline. The Company will not receive any proceeds from any sale of any Securities by selling securityholders in a secondary offering.

###### ***Dilution***

The offering price of Equity Shares or other Securities that are convertible or exchangeable into Equity Shares may significantly exceed the net tangible book value per share of the Equity Shares. Accordingly, a purchaser of Equity Shares or other Securities that are convertible or exchangeable into Equity Shares may incur immediate and substantial dilution of his, her or its investment. If outstanding options and warrants to purchase Equity Shares are exercised or securities convertible into Equity Shares are converted, additional dilution will occur. The Company may sell additional Equity Shares or other securities that are convertible or exchangeable into Equity Shares in subsequent offerings or may issue additional Equity Shares or other securities to finance future acquisitions. The Company cannot predict the size or nature of future sales or issuances of securities or the effect, if any, that such future sales and issuances will have on the market price of the Equity Shares. Sales or issuances of substantial numbers of Equity Shares or other securities that are convertible or exchangeable into Equity Shares, or the perception that such sales or issuances could occur, may adversely affect prevailing market prices of the Equity Shares. With any additional sale or issuance of Equity Shares or other securities that are convertible or exchangeable into Equity Shares, investors will suffer dilution to their voting power and economic interest in the Company. Furthermore, to the extent holders of the Company's stock options or other convertible securities convert or exercise their securities and sell the Equity Shares they receive, the trading price of the Equity Shares on the CSE and OTCQX Best Market may decrease due to the additional amount of Equity Shares available in the market.

### ***Liquidity***

There is currently no market through which the Securities, other than the Equity Shares and Listed Warrants, may be sold and, unless otherwise specified in the applicable Prospectus Supplement, none of the Warrants (other than Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities or Units (other than in respect of constituent Equity Shares and/or Listed Warrants) will be listed on any securities or stock exchange or any automated dealer quotation system. As a consequence, purchasers may not be able to resell Warrants (other than Listed Warrants), Subscription Receipts, Debt Securities, Convertible Securities or Units purchased under this Prospectus or any Prospectus Supplement. This may affect the pricing of the Securities, other than the Equity Shares and Listed Warrants, in the secondary market, the transparency and availability of trading prices, the liquidity of these securities and the extent of issuer regulation. There can be no assurance that an active trading market for the Securities, other than the Equity Shares and Listed Warrants, will develop or, if developed, that any such market, including for the Equity Shares and Listed Warrants, will be sustained.

### ***Loss of Foreign Private Issuer Status***

The Company is a Foreign Private Issuer as defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the U.S. Exchange Act. If, as of the last business day of the Company's second fiscal quarter for any year, more than 50% of the Company's outstanding voting securities (as determined under Rule 405 of the U.S. Securities Act) are directly or indirectly held of record by residents of the United States, the Company will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Company's ability to raise capital in private placements or Canadian prospectus offerings. In addition, the loss of the Company's Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs. These increased costs may significantly affect the Company's business, financial condition and results of operations.

The term "Foreign Private Issuer" is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

- (a) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and
- (b) any one of the following:
  - (i) the majority of the executive officers or directors are United States citizens or residents, or
  - (ii) more than 50 percent of the assets of the issuer are located in the United States, or
  - (iii) the business of the issuer is administered principally in the United States.

A "holder of record" is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder. In December 2016, the SEC issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding Multiple Voting Share is counted as one voting security and each issued and outstanding Subordinate Voting Shares is counted as one voting security for the purposes of determining the 50 percent U.S. resident threshold and the Company is a "Foreign Private Issuer". Should the SEC's guidance and interpretation change, it is likely the Company will lose its Foreign Private Issuer status.

### ***The Company's Status as an "Emerging Growth Company" under United States securities laws***

The Company is an "emerging growth company" as defined in section 3(a) of the U.S. Exchange Act (as amended by the JOBS Act, enacted on April 5, 2012), and the Company will continue to qualify as an emerging growth company until the earliest to occur of: (a) the last day of the fiscal year during which the Company has total annual gross revenues of US\$1.07 billion (as such amount is indexed for inflation every five years by the SEC) or more; (b) the last day of the fiscal year of the Company following the fifth anniversary of the date of the first sale of common equity securities of the Company pursuant to an effective registration statement under the U.S. Securities Act; (c) the date on which the Company has, during the previous three year period, issued more than US\$1 billion in non-convertible debt; and (d) the date on which the Company is deemed to be a "large accelerated filer", as defined in Rule 12b-2 under the U.S. Exchange Act. The Company will qualify as a large accelerated filer (and would cease to be an emerging growth company) at such time when on the last business day of its second fiscal quarter of such year the aggregate worldwide market value of its common equity held by non-affiliates will be US\$700 million or more.

For so long as the Company remains an emerging growth company, it is permitted to and intends to rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the JOBS Act. The Company takes advantage of some, but not all, of the available exemptions available to emerging growth companies. The Company cannot predict whether investors will find the Subordinate Voting Shares less attractive because the Company relies upon certain of these exemptions. If some investors find the Subordinate Voting Shares less attractive as a result, there may be a less active trading market for the Subordinate Voting Shares and the price per Subordinate Voting Share may be more volatile. On the other hand, if the Company no longer qualifies as an emerging growth company, the Company would be required to divert additional management time and attention from the Company's development and other business activities and incur increased legal and financial costs to comply with the additional associated reporting requirements, which could negatively impact the Company's business, financial condition and results of operations.

### **INTERESTS OF EXPERTS**

The following persons or companies are named as having prepared or certified a report, valuation, statement or opinion in this Prospectus, either directly or in a document incorporated herein by reference, and whose profession or business gives authority to the report, valuation, statement or opinion made by the expert.

MNP LLP is the auditor of the Company. MNP LLP has confirmed that it is independent of the Company within the meaning of the Chartered Professional Accountants of Ontario Code of Professional Conduct.

### **LEGAL MATTERS**

Unless otherwise specified in a Prospectus Supplement relating to any Securities offered, certain legal matters relating to an offering of Securities will be passed upon by Stikeman Elliott LLP on behalf of the Company. As at the date hereof, the partners and associates of Stikeman Elliott LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Shares.

In addition, certain legal matters in connection with any offering of Securities will be passed upon for any underwriters, dealers or agents by counsel to be designated at the time of the offering by such underwriters, dealers or agents, as the case may be.

#### AUDITORS, REGISTRAR AND TRANSFER AGENT

Our auditors are MNP LLP, located at 111 Richmond Street West, Suite 300, Toronto, Ontario, Canada M5H 2G4. MNP LLP is independent with respect to the Company within the meaning of the Chartered Professional Accountants of Ontario Code of Professional Conduct.

The transfer agent and registrar of the Company is Odyssey, located at 702, 67 Yonge Street, Toronto, Ontario, Canada M5E 1J8.

#### PROMOTER

Mercer, the controlling shareholder of the Company, is considered a promoter of the Company within the meaning of Canadian securities legislation. As of the date hereof, Mercer owns, of record and beneficially, (i) 3,677,626 Multiple Voting Shares, representing approximately 99.5% of the issued and outstanding Multiple Voting Shares, (ii) 2,621,870 Listed Warrants, representing 26% of the issued and outstanding Listed Warrants, and (iii) 262,188 Rights, representing 57% of the issued and outstanding Rights, which were acquired by Mercer in connection with the IPO.

## PART II

### INFORMATION NOT REQUIRED TO BE DELIVERED TO OFFEREES OR PURCHASERS

#### Indemnification of Directors and Officers.

Under the *Business Corporations Act* (British Columbia) (the "BCBCA") the Registrant may indemnify a director or officer, a former director or officer, or an individual who acts or acted as a director or officer of an affiliate of the Registrant, or at the Registrant's request as a director or officer (or in a similar capacity) of another corporation or other legal entity, against all judgments, penalties or fines awarded or imposed in, or amounts paid in settlement of, any legal proceeding or investigative action, whether current, threatened, pending or completed, in which such individual or any of his or her heirs and personal or other legal representatives is or may be joined as a party, or is or may be liable for in respect of a judgment, penalty or fine in, or expenses related to such legal proceeding or investigative action because of serving in such capacity, on condition that (i) the individual acted honestly and in good faith with a view to the best interests of the Registrant or such other corporation or legal entity, and (ii) in the case of such a proceeding or investigative action other than a civil proceeding, the individual had reasonable grounds for believing that his or her conduct was lawful. The Registrant may also indemnify a person described above in respect of all costs, charges and expenses, including legal and other fees, actually and reasonably incurred by such person in respect of such a legal proceeding or investigative action, providing such person complies with (i) and (ii) above. The Registrant may provide indemnification in respect of such costs, charges and expenses after the final disposition of such legal proceeding or investigative action, and may pay such costs, charges and expenses as they are incurred in advance of such final disposition, provided it obtains a written undertaking that such person will repay the amounts advanced if it is ultimately determined that the individual did not comply with (i) and (ii) above. Under the BCBCA, an individual described above is entitled to indemnification from the Registrant in respect of such costs, charges and expenses after the final disposition of such legal proceeding or investigative action as a matter of right if the individual has not been reimbursed for such costs, charges and expenses and is wholly successful in the outcome of such legal proceeding or investigative action, or is substantially successful on the merits thereof, providing such individual complies with (i) and (ii) above. On application of the Registrant or an individual described above, the Supreme Court of British Columbia may order the Registrant to indemnify a person described above in respect of any liability incurred by such person in respect of such a legal proceeding or investigative action, and to pay some or all of the expenses incurred by such individual in respect of such legal proceeding or investigative action.

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In accordance with the BCBCA, the Articles of the Registrant provide that the Registrant must indemnify a person named above, and such person's heirs and legal personal representatives, as set out in the BCBCA, against all judgments, penalties or fines awarded or imposed in, or amounts paid in settlement of, any legal proceeding or investigative action, whether current, threatened or completed, in which such individual or any of his or her heirs and legal personal representatives is or may be joined as a party, or is or may be liable for or in respect of a judgment, penalty or fine in such legal proceeding or investigative action, by reason of that person having been a director or officer of the Registrant. The Articles of the Registrant provide that the Registrant must, after the final disposition of such legal proceeding or investigative action, pay the costs, charges and expenses, including legal and other fees, actually and reasonably incurred by such person in respect of that proceeding.

The Articles of the Registrant also provide that the Registrant must pay, as they are incurred in advance of the final disposition of a legal proceeding or investigative action, the costs, charges and expenses, including legal and other fees relating to such legal proceeding or investigative action, actually and reasonably incurred by such person in respect of a proceeding, but the Registrant must first receive from such person a written undertaking that, if it is ultimately determined that the payment of expenses is prohibited by the BCBCA, such person will repay the amounts advanced.

A policy of directors' and officers' liability insurance is maintained by the Registrant which insures directors and officers for losses as a result of claims against the directors and officers of the Registrant in their capacity as directors and officers and also reimburses the Registrant for payments made pursuant to the indemnity provisions under the Articles of the Registrant and the BCBCA.

Insofar as indemnification for liabilities arising under the U.S. Securities Act may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the U.S. Securities Act and is therefore unenforceable.



<a href="#">4.2</a>	<a href="#">The audited consolidated financial statements of the Registrant for the year ended December 31, 2019</a>
<a href="#">4.3</a>	<a href="#">The audited consolidated financial statements of the Registrant for the period ended December 31, 2018 and the year ended September 30, 2018</a>
<a href="#">4.4</a>	<a href="#">The management’s discussion and analysis of the Registrant for the year ended December 31, 2019</a>
<a href="#">4.5</a>	<a href="#">The unaudited condensed interim consolidated financial statements of the Registrant for the three and nine months ended September 30, 2020 and 2019</a>
<a href="#">4.6</a>	<a href="#">The management’s discussion and analysis of the Registrant for the three and nine months ended September 30, 2020 and 2019</a>
<a href="#">4.7</a>	<a href="#">The statement of executive compensation of the Registrant for the year ended December 31, 2019</a>
<a href="#">4.8</a>	<a href="#">The business acquisition report of the Registrant dated August 7, 2019</a>
<a href="#">4.9</a>	<a href="#">The management information circular of the Registrant dated September 30, 2020</a>
<a href="#">4.10</a>	<a href="#">The material change report dated November 4, 2020 relating to the entering into by the Registrant of a binding term sheet to acquire a vertically integrated cannabis operation in the State of Arizona</a>
<a href="#">4.11</a>	<a href="#">The material change report dated November 30, 2020 relating to the entering into by the Registrant of a definitive membership interest purchase agreement dated November 20, 2020 to acquire 100% of the membership interest CannTech PA, LLC</a>
<a href="#">4.12</a>	<a href="#">The material change report dated December 11, 2020 relating to the closing of a private placement offering of US\$110 million aggregate principal amount of 12.5% senior secured notes due 2024 and the completion of the Registrant’s incentive cash exercise of 3,000,000 Listed Warrants</a>
<a href="#">4.13</a>	<a href="#">The material change report dated December 30, 2020 relating to (i) the entering into by the Registrant of a definitive arrangement agreement dated December 21, 2020 to acquire all of the issued and outstanding common shares of Liberty Health Sciences Inc., and (ii) the entering into by the Registrant of a binding letter of intent dated December 21, 2020 whereby the Registrant, GSD NJ LLC and its equity owners will work together to negotiate and enter into a membership purchase agreement in respect of which the Registrant will acquire all of the membership interests of GSD NJ LLC</a>
<a href="#">4.14</a>	<a href="#">The material change report dated January 14, 2021 relating the closing of an underwritten overnight marketed offering of an aggregate of 4,600,000 Equity Shares at a price of C\$34.25 per Offered Security for total gross proceeds of approximately \$157,550,000</a>
<a href="#">5.1</a>	<a href="#">Consent of MNP LLP</a>
<a href="#">6.1</a>	<a href="#">Powers of Attorney (contained in the signature page hereto)</a>
<a href="#">7.1</a>	<a href="#">Form of Indenture</a>

### PART III

#### UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

##### Item 1. Undertaking.

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities registered pursuant to this Form F-10 or to transactions in said securities.

##### Item 2. Consent to Service of Process.

- (a) Concurrently with the filing of this Registration Statement, the Registrant is filing with the Commission a written irrevocable consent and power of attorney on Form F-X.
- (b) Any change to the name or address of the Registrant’s agent for service shall be communicated promptly to the Commission by amendment to Form F-X referencing the file number of this Registration Statement.

#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-10 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2021.

**AYR WELLNESS INC.**

By: /s/ Jonathan Sandelman

Name: Jonathan Sandelman

Title: Chief Executive Officer

#### POWERS OF ATTORNEY

Each person whose signature appears below constitutes and appoints Joseph Lusardi and Michael Carloti and each of them, either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to this Registration Statement and registration statements filed pursuant to Rule 429 under the Securities Act, and to file the same, with all exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said

attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jonathan Sandelman</u> Jonathan Sandelman	Chairman, Chief Executive Officer and Corporate Secretary	February 24, 2021
<u>/s/ Brad Asher</u> Brad Asher	Chief Financial Officer	February 24, 2021
<u>/s/ Charles Miles</u> Charles Miles	Director	February 24, 2021
<u>/s/ Chris R. Burggraeve</u> Chris R. Burggraeve	Director	February 24, 2021
<u>/s/ Steve Menzies</u> Steve Menzies	Director	February 24, 2021
<u>/s/ Louis F. Karger</u> Louis F. Karger	Director	February 24, 2021
<u>/s/ Glenn Isaacson</u> Glenn Isaacson	Director	February 24, 2021

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#### AUTHORIZED REPRESENTATIVE

Pursuant to the requirements of Section 6(a) of the Securities Act of 1933, the Authorized Representative has duly caused this Registration Statement to be signed on its behalf by the undersigned, solely in its capacity as the duly authorized representative of the Registrant in the United States, on February 24, 2021.

By: /s/ Brad Asher  
Name: Brad Asher  
Title: Chief Financial Officer

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**AYR STRATEGIES INC.**

**ANNUAL INFORMATION FORM**

For the Financial Year Ended December 31, 2019, and as at June 30, 2020  
Dated September 30, 2020

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Ayr Strategies Inc. (the “Corporation” or “Ayr” or “we” or “us”) derives a substantial portion of its revenues from the cannabis industry in certain states (“States”, each a “State”) of the United States of America (“U.S.” or “United States”), which industry is illegal under U.S. federal law. Ayr is a vertically-integrated multi-State operator in the U.S. cannabis sector, with a portfolio in the States of Massachusetts and Nevada. Currently, through its operating companies, Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods, and is engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses in the adult-use and/or medicinal cannabis marketplace in the State of Massachusetts and provides administrative, consulting and operations services to licensed establishments in the State of Nevada.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811) (the “CSA”), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration (“FDA”) has not approved marijuana as a safe and effective drug for any indication.

In the United States, marijuana is largely regulated at the State level. State laws regulating cannabis are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and State law, the federal law shall apply.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice (the “DOJ”) specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein).<sup>1</sup> With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law, subject to budgetary constraints. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions’ resignation, Matthew Whitaker began serving as Acting United States Attorney General, until February 14, 2019, when William Barr was appointed as the United States Attorney General. Mr. Barr is a former Attorney General under George H.W. Bush, with an anti-drug stance during his tenure. During his Senate confirmation hearing, Mr. Barr stated that he disagrees with efforts by States to legalize marijuana, but will not go after marijuana companies in States that legalized it under Obama administration policies. He stated further that he would not upset settled expectations that have arisen as a result of the Cole Memorandum. In June 2020, a federal prosecutor accused Mr. Barr of ordering “politically motivated” antitrust reviews of 10 marijuana business mergers, allegedly because he personally did not support their underlying business in the marijuana industry. At least one of those investigations allegedly resulted in the collapse of a proposed merger between two large cannabis businesses. If true, Mr. Barr’s actions may reflect a hostility to the cannabis industry and further adverse actions could be taken. It is unclear what further impact, if any, Mr. Barr’s appointment will have on U.S. federal government enforcement policy on marijuana.

<sup>1</sup> On August 29, 2013, the DOJ attempted to address this inconsistency and to provide guidance to enforcement agencies when then Deputy Attorney General, James Cole, authored a memorandum (the “Cole Memorandum”) addressed to all United States Attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several States have enacted laws relating to cannabis for medical and recreational purposes. In March 2017, then newly-appointed Attorney General Jeff Sessions, a long-time opponent of State-regulated medical and recreational cannabis, noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he had previously stated that he did not believe it had been implemented effectively. On January 4, 2018, the Cole Memorandum was rescinded by then Attorney General Sessions. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ’s guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority.

There is no guarantee that State laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of State laws within their respective jurisdictions. Unless and until the United States Congress (“Congress”) amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that U.S. federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in States where the sale and use of cannabis is currently legal, or if existing applicable State laws are repealed or curtailed, Ayr’s results of operations, financial condition and prospects and Ayr would be materially adversely affected. See “*U.S. Federal Enforcement Priorities*”.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators published a staff notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”) setting out the Canadian Securities Administrator’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Ayr’s involvement in the U.S. cannabis market may subject Ayr to heightened scrutiny by regulators, stock exchanges, clearing agencies and other U.S. and Canadian authorities. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Ayr’s ability to operate in the U.S. or any other jurisdiction. There are a number of risks associated with the business of Ayr. See “*Cannabis Market Overview*” and “*Risk Factors*”.

## EXPLANATORY NOTES

Unless otherwise indicated, the information appearing in this annual information form (“AIF”) is stated as of June 30, 2020, and all amounts are in United States dollars.

## FORWARD-LOOKING INFORMATION

This AIF and the documents incorporated by reference herein contain certain “forward-looking statements” and “forward-looking information” within the meaning of applicable securities laws, including Canadian securities laws and United States securities laws (collectively, “**forward-looking statements**”). All information, other than statements of historical facts, included in this AIF and the documents incorporated by reference herein, including estimates, plans, expectations, opinions, forecasts, projections, targets and guidance, constitutes forward-looking information. 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”.

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;
- the business and future activities of, and developments related to, the Corporation after the date hereof, including such things as future business strategy, financial and operating performance, results and terms of strategic initiatives, strategic agreements and supply agreements, competitive strengths, goals, expansion and growth of the Corporation’s business, and anticipated profitability including new revenue streams;

- the completion and integration of contemplated acquisitions by the Corporation or other possible acquisitions or dispositions (directly or indirectly) of businesses or assets which may or may not be material and/or investment opportunities;
- the application for additional licenses and the grant of licenses and other regulatory approvals that have been applied for;
- the renewal of licenses held by the Corporation;
- 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, if any, and the potential form any such legislation and regulations will take;
- the number of users of cannabis or the size of the regulated cannabis market in the United States;
- 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;
- consistent or increasing pricing of various cannabis products;
- the level of demand for cannabis products, including the Corporation's products and third-party products sold by the Corporation;
- 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 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.

See "*Risk Factors*" for further details. No assurance can be given that these expectations will prove to be correct and such forward-looking information included in this AIF should not be unduly relied upon, and the Corporation does not undertake any obligation to revise or update any forward-looking information or statements other than as required by applicable law. In making these statements, in addition to those described above and elsewhere herein, the parties have made assumptions with respect to, without limitation, receipt of requisite regulatory approvals on a timely basis, receipt and/or maintenance of required licenses and third-party consents in a timely manner, successful integration of the Corporation's and its subsidiaries' operations, and no unplanned materially adverse changes to its facilities, assets, customer base and the economic conditions affecting the Corporation's current and proposed operations. These assumptions, although considered reasonable by the Corporation at the time of preparation, may prove to be incorrect. In addition, the Corporation has assumed that there will be no material adverse change to the current regulatory landscape affecting the cannabis industry and has also assumed that the Corporation will remain compliant in the future with all State and local laws, regulations and rules imposed upon it by law. The Corporation's forward-looking information is expressly qualified in its entirety by this cautionary statement.

## MARKET AND INDUSTRY DATA

This AIF includes market and industry data that has been obtained from third-party sources, including industry publications. The Corporation believes that the industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, the Corporation has not independently verified any of the data from third-party sources referred to in this AIF or ascertained the underlying economic assumptions relied upon by such sources.

## CORPORATE STRUCTURE

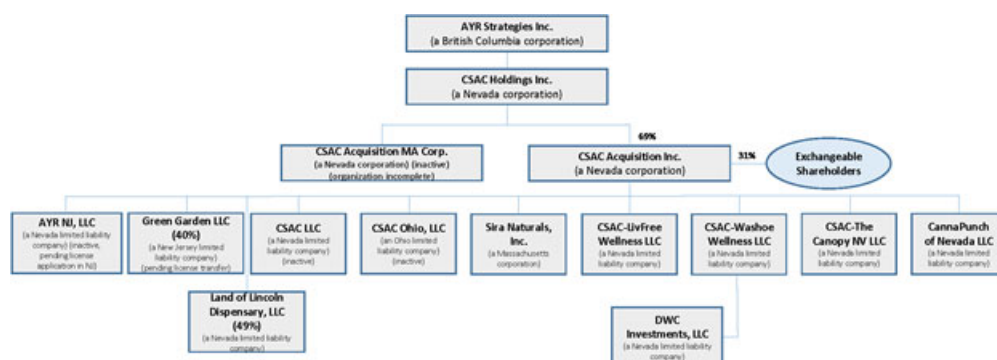
### Name, Address and Incorporation

The Corporation (formerly known as Cannabis Strategies Acquisition Corp.) was incorporated on July 31, 2017 under the *Business Corporations Act* (Ontario). Ayr continued on May 24, 2019 into British Columbia under the *Business Corporations Act* (British Columbia) (“**BCBCA**”), changed its name to “Ayr Strategies Inc.”, and amended its financial year-end from September 30 to December 31 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, 26<sup>th</sup> Floor, New York, New York, United States, 10022.

The subordinate voting shares of the Corporation (the “**Subordinate Voting Shares**”), warrants of the Corporation (the “**Warrants**”), and rights of the Corporation (the “**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 in the United States under the symbol “AYRSF”. The multiple voting shares of the Corporation (the “**Multiple Voting Shares**”) are unlisted.

### Intercorporate Relationships

The following is an organizational chart of Ayr as of June 30, 2020.



On September 12, 2018, Ayr incorporated a wholly-owned subsidiary in Nevada, United States, named CSAC Holdings Inc., to facilitate the Qualifying Transaction (as defined below). On September 17, 2018, CSAC Holdings Inc. incorporated a wholly-owned subsidiary in Nevada, United States, named CSAC Acquisition Inc. (“**CSAC AcquisitionCo**”). On May 24, 2019, the Corporation completed its acquisitions of control of the target businesses of: (i) Washoe Wellness, LLC (“**Washoe**”), a Nevada limited liability company, (ii) The Canopy NV, LLC (“**Canopy**”), a Nevada limited liability company, (iii) Sira Naturals, Inc. (“**Sira**”), a Massachusetts corporation, (iv) LivFree Wellness, LLC (“**LivFree**”), a Nevada limited liability company, and (v) CannaPunch of Nevada LLC, a Nevada limited liability company (“**CannaPunch**”), and entered into either a services agreement or operations agreement with Washoe, Canopy and LivFree pending regulatory approval for the consummation of the transaction, which collectively constituted its qualifying transaction (collectively, the “**Qualifying Transaction**”).



Ayr's principal shareholder, Mercer Park CB, L.P. (" **Mercer**"), is a limited partnership formed under the laws of the State of Delaware, of which Mercer Park CB GP, LLC is the general partner, and which is indirectly controlled by Jonathan Sandelman. Mercer is a privately-held family office based in New York, United States, the executive leadership and entrepreneurial expertise, investment and deal experience and network of which have been a critical component of Ayr's success to date. Mercer Park, L.P., the parent of Mercer, provides management services to the Corporation pursuant to a management services agreement.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year Summary

#### Initial Public Offering

On December 21, 2017, the Corporation completed its initial public offering (the "**Offering**").

Concurrent with the completion of the Offering, Mercer, Kamaldeep Thindal and Charles Miles (or persons or companies controlled by them) (collectively with Mercer, the "**Founders**") purchased an aggregate of 3,434,298 Class B shares of the Corporation (each, a "**Class B Share**") (such Class B Shares issued to the Founders referred to as the "**Founders' Shares**"), consisting of 3,415,438 Class B Shares purchased by Mercer, 9,430 Class B Shares purchased by Kamaldeep Thindal, and 9,430 Class B Shares purchased by Charles Miles. In addition, Mercer purchased an aggregate of 262,188 Class B units of the Corporation (each, a "**Class B Unit**") at C\$10.00 per Class B Unit and 2,621,870 warrants (the "**Founders' Warrants**") at C\$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 of the Corporation (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.

#### Qualifying Transaction

On May 24, 2019, Ayr completed its acquisitions which qualified as its Qualifying Transaction, the businesses of which are briefly summarized below under "*Ayr's Businesses*". The Corporation's businesses operate in the cultivation, manufacturing, branding and/or retail, as applicable, of cannabis products in the states of Massachusetts and Nevada.

The aggregate purchase price consideration for the Qualifying Transaction payable by Ayr was comprised of a combination of cash, debt and the issuance of non-voting Exchangeable Shares of CSAC AcquisitionCo (the "**Exchangeable Shares**") to the vendors thereof, which are exchangeable, on a one-for-one basis, into Subordinate Voting Shares, at the option of the holder, and are designed to be economically equivalent (without taking into account tax consequences) to the Subordinate Voting Shares.

Any summary information of certain material terms from definitive agreements, as may have been amended, in respect of the acquisitions of Washoe, Canopy, Sira, LivFree, and CannaPunch (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](http://www.sedar.com).

Ayr obtained control of certain of its businesses, being Washoe, Canopy and LivFree through separate management service agreements (collectively, the "**Management Services Agreements**"). Each Management Service Agreement provides the Corporation with 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 at June 30, 2020, Washoe, Canopy, and LivFree are awaiting State approval to transfer licenses to the Corporation.

In connection with each Definitive Agreement, Ayr entered into the corresponding support agreement as well as an exchange rights agreements with CSAC AcquisitionCo and the respective holders of the Exchangeable Shares (collectively, the “**Exchange Rights Agreements**”) for the benefit of the sellers under each Definitive Agreement, whereby Ayr agreed to make certain covenants in favor of the sellers to protect their rights as holders of Exchangeable Shares. Among other things, Ayr agreed to reserve an amount of applicable Subordinate Voting Shares for issuance upon exchange of the Exchangeable Shares, and upon notice to Ayr and CSAC AcquisitionCo, Ayr will issue such number of applicable Subordinate Voting Shares to a holder of Exchangeable Shares in exchange for the Exchangeable Shares of such holder, subject to the terms specified in the Exchange Rights Agreements. Additionally, Ayr has an overriding liquidation call right under the Exchange Rights Agreements to purchase all, but not less than all, of the Exchangeable Shares from the holders thereof upon a proposed liquidation, dissolution or winding-up of CSAC AcquisitionCo, as well as a redemption call right and retraction call right on the Exchangeable Shares, in each case for the consideration set forth in such agreements.

The description of the Management Service Agreements and the Exchange Rights Agreement is not exhaustive and qualified in its entirety by reference to the terms of such agreements, which may be found on Ayr’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Subsequent Developments

##### *Stock Repurchase Program*

On October 1, 2019, the Corporation commenced a stock repurchase program to purchase up to five percent (5%) of the total issued and outstanding Subordinate Voting Shares during each twelve-month period through the facilities of the CSE and other marketplaces. As at June 30, 2020, 7,400 Subordinate Voting Shares were repurchased and cancelled, and 63,300 Subordinate Voting Shares were repurchased and are held by the Corporation as treasury shares under the stock repurchase program.

##### *Proposed Acquisitions*

##### Massachusetts Acquisition

On February 26, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in a Massachusetts LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to legally open and operate a recreational cannabis licensed retail store in the Commonwealth of Massachusetts. The Corporation has agreed to pay a purchase price consisting of cash and non-voting interest in the net profits of the Massachusetts LLC. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. The closing of the acquisition will be subject to, among other things, regulatory approval. As at June 30, 2020, the acquisition has not yet closed.

##### Pennsylvania Acquisition

On August 25, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in CannTech PA, LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to legally operate six retail dispensaries along with a 143,000 square foot cultivation and production facility. CannTech PA, LLC operates in the medical cannabis market in Pennsylvania. The Corporation has agreed to pay a purchase price consisting of cash, debt, Exchangeable Shares, and other consideration totaling an aggregate value of approximately \$57 million. The purchase price is inclusive of a minimum of \$2.4 million of bridge financing the Corporation has agreed to provide to the target company. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. The closing of the acquisition will be subject to, among other things, regulatory approval, absence of a material adverse change and the Corporation being satisfied with its due diligence investigations. In addition, the Corporation will on closing receive an option to acquire certain real estate at its fair market value. As at June 30, 2020, the acquisition has not yet closed.

#### **DESCRIPTION OF THE BUSINESS**

Ayr is a vertically-integrated multi-State operator in the U.S. cannabis sector, with a portfolio of licensed operations in the State of Massachusetts and of services and operations agreements in the State of Nevada. Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods, and is engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses or services or operations agreements in the adult-use and/or medicinal cannabis marketplace in the State of Massachusetts and provides administrative, consulting and operations services to licensed establishments in the State of Nevada.

In Massachusetts, Ayr is vertically-integrated with cultivation, extraction, production, manufacturing, distribution and medical retail dispensary operations. The medical dispensaries are under the Sira Naturals brand, which is actively seeking licenses to operate adult-use cannabis retail establishments. Ayr's retail and wholesale products include cannabis and cannabis products, including concentrates, edibles, and vaporizer products.

In Nevada, Ayr provides operational services for five (5) dispensaries under service agreements or operations agreements, as applicable. Each dispensary is licensed to sell in both the medical and adult-use recreational markets in Nevada. Three (3) of the dispensaries are under the brand "The Dispensary" with retail operations in Clark County, Henderson and Reno, Nevada. The two (2) remaining dispensaries are under the MYNT brand, which was named Best Dispensary in Reno in 2018. In addition to the five (5) retail stores to which Ayr provides operational services, Ayr also provides operational services to cultivation, production and distribution businesses in northern Nevada, focused in Reno and distributing to Las Vegas, also with extraction, processing and manufacturing capabilities. The licensed cultivation and production facilities to which Ayr provides operational services, produce premium cannabis flower, pre-rolls, and a full line of vape pens, concentrates, and cannabis-infused products, including chocolates, beverages and gummies.

### Strategy

The Corporation's business strategy is to evaluate each market opportunity pursuant to the relevant local competitive and regulatory landscape, supply/demand dynamics, and growth potential. The Corporation evaluates the economic viability of each opportunity before making capital allocation decisions and may decide to participate in one or more facets of the supply chain based on the dynamics mentioned above. The Corporation targets best-in-class assets in relevant markets with large addressable populations in limited license states that are either currently or soon expected to be approved for adult-use. By establishing a substantial presence in markets that have the greatest growth potential, the Corporation expects to be well-positioned to have a first-mover advantage for future growth in adult-use cannabis as the market continues to expand.

### Growth

The Corporation remains focused on pursuing acquisition opportunities in limited license markets that complement the existing portfolio while expanding its presence in current markets. The Corporation's financial capacity will help the Corporation emerge as an even stronger player in this distressed industry. The Corporation plans to implement its growth strategy by targeting acquisition opportunities in limited license jurisdictions, applying for de novo licenses and expanding its presence in current markets.

As of June 30, 2020, 100% the Corporation's business was directly derived from U.S. cannabis-related activities. As such, the Corporation's balance sheet and operating statement exposure to U.S. cannabis related activities is 100%.

*Targeting acquisition opportunities in limited licenses jurisdictions* The Corporation is pursuing acquisition opportunities in limited license markets with high barriers to entry.

*Applying for de novo licenses* The Corporation is actively seeking additional avenues of growth in its existing markets and other key markets. The Corporation is in the process of evaluating, preparing to enter, or has submitted applications for municipal cannabis licenses in New Jersey and Illinois. Ayr was recently awarded two additional dispensary licenses in the greater Las Vegas market, one in Clark County and one in Henderson, and aims to open the additional Clark County dispensary this year.

*Expanding its presence in current markets* The Corporation currently operates in limited license markets where State-level restrictions limit the number of cannabis licenses awarded, resulting in high barriers to entry, limited market participants, and long-term competitive advantages.

## Current Operations

### *Cultivation & Production*

The Corporation provides operational support to licensed Nevada establishments engaging in cultivation and production operations in Nevada under services and operations agreements and in Massachusetts. Pursuant to its licenses and services and operations agreements, the Corporation currently supports approximately 123,000 square feet of cultivation and production facilities across four (4) sites. Engaging in cultivation and production operations allows for meaningful penetration of markets via vertically integrated operations. The Corporation has developed a suite of products with hundreds of SKUs in over 20 brands of flower, extracts and edibles.

### *Product Selection and Brands*

The Corporation prides itself on its best-in-class grow facilities producing high quality products along with dependable and reliable distribution. In Nevada, the licensed establishments to which Ayr provides operational support, produce premium cannabis flower, pre-rolls, vape pens, concentrates, and edibles, and also operate a production facility where cannabis oil is sourced to manufacture a variety of cannabis-infused products, including beverages, gummies, and vaporizer pens. The top branded products in Nevada include Kynd flower, Tumbleweed vape pens, Cannapunch beverages, Highly Edible and Kanji gummies, Dutch Girl edibles and Nordic Goddess balm. In Nevada, the licensed establishments to which Ayr provides operational support sell their branded products through the wholesale channel as well as the five (5) dispensaries referenced above. Under the services and operations agreements, Ayr provides operational support to three (3) dispensaries under the “The Dispensary” brand and two (2) dispensaries under the MYNT brand, which was named Best Dispensary in Reno in 2018.

In Massachusetts, Ayr’s retail and wholesale products include premium cannabis flower and cannabis products, including concentrates, edibles, and vaporizer products. Its top branded products in Massachusetts include Entourage vaporize pens, Wicked Sour gummies, Jimmy’s Choice flower, Nantucket Nuggets flower and Root 90 flower. In Massachusetts, the Corporation sells in-house products at its medical dispensaries under the Sira Naturals brand, which is actively seeking licenses to operate adult-use cannabis retail establishments.

This wide variety of products across Ayr’s portfolio provides customers and patients the ability to select from numerous high-quality products. By sharing brands across Nevada and Massachusetts, Ayr has further expanded the variety offered to customers and patients while expanding brand visibility. The Corporation maintains strict brand and quality assurance standards and implements standard operating procedures across its cultivation, processing and production facilities to ensure product continuity and customer experiences across operating markets. This includes the centrally-managed procurement of all equipment and supplies.

### *Sales and Distribution*

With respect to cannabis retail locations, the Corporation targets highly visible locations adjacent or near heavily trafficked roads. For cultivation, production and other forms of industrial activity, the Corporation targets locations with immediate capabilities as well as future expansion potential. The Corporation uses an internal team for the selection of real estate, as well as a broad network of real estate brokers. The Corporation makes its determination to purchase or lease its underlying real estate on a case-by-case basis.

The Corporation plans to expand its network of cannabis retail locations in select markets. The Corporation has developed key indicators to identify attractive sites based on existing competition, population, real estate, parking, traffic and regulatory market attractiveness.

### *Principal Markets & Competition*

The Corporation competes against other businesses across the various State markets in which it operates. The Corporation aims to minimize competitive risk in these markets by picking strategic locations, with defensible buffers naturally built in through local regulations and local dispensaries laws.

With respect to cultivation and production, the Corporation expects to compete with both multi-State operator (“MSOs”) and local operators in the States in which it operates. The Corporation expects to compete with larger MSOs that may have access to public markets, experienced management teams, or be further along in terms of reaching scale. The Corporation is positioning itself to minimize all of the above risks through accretive acquisitions, superior execution, and strong operating talent.

## Revenues

The Corporation recognized total net retail and wholesale revenues of \$75.2 million for the financial year ended December 31, 2019. The Corporation recognized total net retail and wholesale revenues of \$61.9 million for the six months ended June 30, 2020.

## Licenses

The following table provides a list of the licenses granted to companies and facilities operated by, or to which operational support is provided by, the Corporation as of June 30, 2020.

Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
LivFree Wellness LLC	3900 Ponderosa Way, Las Vegas, NV 89118	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	74378723704914675084	June 30, 2021	Cultivation - Medical
		State of Nevada Marijuana Cultivation Facility License – Department of Taxation	68096361433916615303	October 31, 2020	Cultivation - Recreational
		State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	52864127312203226338	June 30, 2021	Production - Medical
		State of Nevada Marijuana Product Manufacturing License – Department of Taxation	59998657224967428496	October 31, 2020	Production - Recreational
The Dispensary	5347 S. Decatur, Las Vegas, NV 89118	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	60215712221216816750	June 30, 2021	Retail - Medical

Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
		State of Nevada Retail Marijuana Store License – Department of Taxation	71224329369156133247	June 30, 2021	Retail - Recreational
		State of Nevada Retail Marijuana Distributor License – Department of Taxation	14504799651148975256	June 30, 2021	Distribution - Recreational
	50 N. Gibson, Henderson, NV 89014	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	54403159919762505142	June 30, 2021	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	08792343110299625005	September 30, 2020	Retail - Recreational
	100 W. Plumb Lane, Reno, NV 89509	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	04186481440349513323	June 30, 2021	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	71702389611437559364	June 30, 2021	Retail - Recreational

Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
		City of Reno – Medical Marijuana Dispensary License	R101848Q	September 30, 2020 (issued quarterly)	Retail - Medical
		City of Reno – Marijuana Establishment – Retail Marijuana Store License	R145282Q	September 30, 2020 (issued quarterly)	Retail - Recreational
	435 Eureka Avenue, Reno, NV 89512	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	96804690721657828547	June 30, 2021	Cultivation - Medical
		State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	18668881888004789228	June 30, 2021	Production - Medical
		State of Nevada Marijuana Cultivation Facility License – Department of Taxation	94104154254817748080	November 30, 2020	Cultivation - Recreational
		State of Nevada Marijuana Product Manufacturing License – Department of Taxation	56693629355290417097	November 30, 2020	Production - Recreational
		City of Reno – Medical Marijuana Production Facility	R145364Q	September 30, 2020 (issued quarterly)	Production - Medical

Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
		City of Reno – Medical Marijuana Cultivation Facility	R145363Q	September 30, 2020 (issued quarterly)	Cultivation - Medical
		City of Reno – Marijuana Establishment	R145362A	October 31, 2020 (issued quarterly)	Miscellaneous
		City of Reno – Marijuana Establishment	R145361A	October 31, 2020 (issued quarterly)	Miscellaneous
		City of Reno – Marijuana Establishment Product - Manufacturing	R145418Q	September 30, 2020 (issued quarterly)	Manufacturing - Recreational
		City of Reno – Marijuana Establishment Cultivation	R145417Q	September 30, 2020 (issued quarterly)	Cultivation - Recreational
Kynd Cannabis Company	1645 Crane Way, Sparks, NV 89431	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	82842542964915513809	June 30, 2021	Cultivation - Medical
		State of Nevada Marijuana Cultivation Facility License – Department of Taxation	20856188563796491040	June 30, 2021	Cultivation - Recreational
		State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	12078072637090304628	June 30, 2021	Production - Recreational



Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
		State of Nevada Marijuana Product Manufacturing License – Department of Taxation	76163748746660781629	June 30, 2021	Manufacturing - Recreational
		The State of Nevada Marijuana Distributor License – Department of Taxation	77027711033924812731	June 30, 2021	Distribution – Medical / Recreational
Tahoe-Reno Botanicals LLC		Marijuana Cultivation - Adult Use Quarterly License	S080844Q-LIC	September 30, 2020 (issued quarterly)	Cultivation – Medical / Recreational
Tahoe-Reno Extractions LLC		Medical/Retail Marijuana Production Facility License (Issued to Tahoe-Reno Extractions LLC dba Kynd Cannabis Company)	S080842Q-LIC	September 30, 2020 (issued quarterly)	Production – Medical / Recreational
		Retail Marijuana Distributor License (Issued to Tahoe-Reno Extractions LLC dba Kynd Cannabis Company)	S080843Q-LIC	September 30, 2020 (issued quarterly)	Distribution – Medical / Recreational
		Industrial Hemp Handler Certificate - Department of Agriculture	202042H	December 31, 2020	Cultivation - Hemp

Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
Mynt Cannabis Dispensary	132 E. Second St., Reno, NV 89501	State of Nevada Medical Marijuana Dispensary Registration Certificate –Department of Taxation	97519348303293892007	June 30, 2021	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	46934338604709544132	June 30, 2021	Retail - Recreational
		City of Reno – Medical Marijuana Dispensary License	R101872Q	September 30, 2020 (issued quarterly)	Retail - Medical
		Marijuana Establishment – Retail Marijuana Store License	R145321Q	September 30, 2020 (issued quarterly)	Retail - Recreational
Lemon Aide, LLC	340 Lemmon Drive, Reno, NV 89506	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	80994578239784321818	June 30, 2021	Retail - Medical
		State of Nevada Retail Marijuana Store License –Department of Taxation	13244303247046007918	July 31, 2021	Retail - Recreational
		Washoe County Marijuana License (Issued to Lemon Aide LLC dba MYNT Cannabis Dispensary)	W000013ME-LIC	October 1, 2020 (issued quarterly)	Retail – Medical / Recreational

Entity	Address Attached to License	Certificate/ License	Certificate/ License #	Expiration/Renewal Date	Summary
Sira     Naturals, Inc.	1001 Massachusetts Avenue, Cambridge, MA 02138	Registered Marijuana Dispensary Registration	RMD-325	June 27, 2021	Retail - Medical
	240 Elm Street, Somerville, MA 02114	Registered Marijuana Dispensary Registration	RMD-245	June 27, 2021	Retail - Medical
	29 Franklin Street, Needham, MA 02492	Registered Marijuana Dispensary Registration	RMD-625	July 12, 2021	Retail - Medical
	13 Commercial Way, Milford, MA 01757	Marijuana Establishment License (Cultivation/Tier 3 – Indoor)	MC281252	September 30, 2021	Cultivation
		Marijuana Establishment License (Product Manufacturer)	MP281303	September 30, 2021	Production
		Marijuana Establishment License (Transporter with Other Existing ME License)	MX281310	September 29, 2021	Transportation
	1 Industrial Way, Milford MA 01751	Marijuana Establishment License (Cultivation/Tier 3 – Indoor)	MC282015	August 19, 2021	Cultivation

#### Intangible Assets

As of June 30, 2020, intangible assets had a net book value of \$183 million (excluding goodwill) and consisted of the following: Licenses, Right-to-use Licenses, Host community agreements and Trade name / brand which have useful lives of 15, 15, 15, and 5 years, respectively. Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Such assets are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired.

## Employees

As of June 30, 2020, the Corporation had approximately 600 employees. The Corporation seeks to attract, hire and promote the most qualified and diverse candidates for each position. Based on both acquisitions and hires, the Corporation leverages experience from multiple individuals that have been in the regulated cannabis market. The Corporation draws upon this knowledge base and proven training program to develop and educate employees. With policies and procedures that have successfully been rolled out in multiple markets, the Corporation uses these proven policies and procedures where applicable to other businesses in order to meet the operational expectations for each market. The Corporation seeks to ensure that staff are appropriately trained and ensure the safety and welfare of employees at Company facilities. Leveraging existing operations in legal adult use States, all new employees receive true hands-on training prior to starting in their new market. Setting the tone from the top, the Corporation's executive team goes above and beyond to seek to ensure that all individuals within the Corporation are held to the highest standards, particularly with respect to compliance.

## Foreign Operations

The Corporation does not currently have any foreign operations outside of the United States. Neither the Corporation nor any reportable segment of the Corporation has any dependence upon foreign operations outside of the United States.

## Investment Policies

The Corporation may provide working capital facilities to its acquisition targets in order to fund development of assets prior to completion of the acquisitions, where it is to the benefit of the Corporation to do so.

## No Bankruptcy Proceedings

There are presently no bankruptcy, receivership, or similar proceedings against the Corporation or any of its subsidiaries, including voluntary bankruptcy, receivership, or similar proceedings, nor have there been any such proceedings within the three (3) most recently completed financial years.

## **CANNABIS MARKET OVERVIEW**

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352, which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular State's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in disclosure documents. As a result of the Corporation's existing operations in Nevada and Massachusetts, Ayr provides the following disclosure:

The legalization and regulation of marijuana for medical use is being implemented at the State level in the United States. **State laws regulating cannabis are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain States and territories of the United States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the CSA. Although the Corporation's business activities are believed to be compliant in all material respects with applicable U.S. State and local law, strict compliance with State and local laws with respect to cannabis may neither absolve Ayr of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against Ayr.**

The following table is intended to assist readers in identifying those parts of this AIF that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	AIF Cross-Reference
All Issuers with U.S. Marijuana- Related Activities	<p>Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.</p> <p>Prominently State that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.</p> <p>Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.</p> <p>Outline related risks including, among others, the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.</p> <p>Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.</p> <p>Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana related activities.</p> <p>Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable State regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.</p>	<ul style="list-style-type: none"> <li>- Description of the Business</li> <li>- Cover page (disclosure in bold typeface)</li> <li>- Cannabis Market Overview (disclosure in bold typeface)</li> <li>- Cover page (disclosure in bold typeface)</li> <li>- Federal Regulatory Environment</li> <li>- U.S. Federal Enforcement Priorities</li> <li>- Risk Factors – While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law</li> <li>- Risk Factors – The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined</li> <li>- Risk Factors – Service providers could suspend or withdraw service</li> <li>- Risk Factors - While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law</li> <li>- Ability to Access Public and Private Capital</li> <li>- Risk Factors – Ayr may be subject to restricted access to banking in the United States and Canada</li> <li>- Risk Factors – Ayr's investments in the U.S. are subject to applicable anti-money laundering laws and regulations</li> <li>- Exposure to U.S. Marijuana Related Activities</li> <li>- The Corporation has received and continues to receive legal input regarding (a) compliance with applicable State regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law in certain respects. The Corporation receives such advice on an ongoing basis but does not have a formal legal opinion on such matters.</li> <li>- Cannabis Market Overview – Nevada</li> <li>- Cannabis Market Overview – Massachusetts</li> <li>- Cannabis Market Overview – Compliance with State Regulatory Frameworks</li> </ul>
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. States in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. State.	

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	AIF Cross-Reference
	Discuss the issuer's program for monitoring compliance with U.S. State law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. State law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	Cannabis Market Overview – Compliance with State Regulatory Frameworks

In accordance with Staff Notice 51-352, below is a discussion of the federal and State-level U.S. regulatory regimes in those jurisdictions where Ayr is directly or indirectly involved through its subsidiaries. Ayr is currently indirectly engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses in the adult-use and/or medicinal cannabis marketplace in the State of Massachusetts and provides administrative, consulting and operations services to licensed establishments in the State of Nevada, and has entered into a binding term sheet with the intention to expand into the State of Pennsylvania. In accordance with Staff Notice 51-352, Ayr will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation. As noted under “*Non-Compliance with State and Local Cannabis Laws*” below, Ayr intends to cause its businesses to promptly remedy any material known occurrences of non-compliance with applicable State and local cannabis rules and regulations, and Ayr intends to publicly disclose any material non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations.

#### Exposure to U.S. Marijuana Related Activities

As of June 30, 2020, 100% of the businesses was directly derived from United States cannabis-related activities. As such, the Corporation's balance sheet and operating statement exposure to United States cannabis related activities is 100%.

#### Federal Regulatory Environment

The federal government of the United States regulates controlled substances through the Controlled Substances Act (CSA), which places controlled substances on one of five schedules. Currently, marijuana is classified as a Schedule I controlled substance. A Schedule I controlled substance means the Drug Enforcement Agency considers it to have a high potential for abuse, no accepted medical treatment, and a lack of accepted safety for the use of it even under medical supervision. Overall, the United States federal government has specifically reserved the right to enforce federal law regarding the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by State law. **Accordingly, there are a number of significant risks associated with the business of the Corporation and unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.**

The Corporation's operations, to the Corporation's knowledge, are in compliance with applicable State laws, regulations and licensing requirements in all material respects. Additionally, the Corporation uses the same proprietary, best-practices policies and procedures in its managed facilities as in its owned facilities in order to ensure systematic operations and, as such, to the Corporation's knowledge, the facilities that the Corporation operates are in compliance with applicable State laws, regulations and licensing requirements in all material respects. Nonetheless, for the reasons described above and risks described under the “*Forward-Looking Information*”, but not limited to these reasons, there are significant risks associated with the business of the Corporation. Readers are strongly encouraged to carefully read all the risk factors contained herein.

The following sections entitled “–*Nevada*” and “–*Massachusetts*” and “–*Pennsylvania*” describe the legal and regulatory landscape in respect of the States in which the Corporation currently operates, in the cases of Nevada and Massachusetts, and where it intends to operate, in the case of Pennsylvania.

While the Corporation's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the Corporation's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Corporation and have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

Depending upon the results of the upcoming November 2020 U.S. federal election, it is possible that additional changes could occur. There can be no assurance as to the position any new administration may take on marijuana and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Corporation and its shareholders. Further, future presidential administrations may want to treat marijuana differently and potentially enforce the federal laws more aggressively.

#### **U.S. Federal Enforcement Priorities**

Due to the current federal regulatory environment in the United States, as further described herein, Ayr may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the U.S. As a result, Ayr may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Ayr's ability to invest in the U.S. or any other jurisdiction. See "*Risk Factors – While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law*" and "*Risk Factors – The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined*".

Changes in government policy or public opinion can significantly influence the regulation of the cannabis industry in Canada, the United States and elsewhere. A negative shift in the public's perception of cannabis in the U.S. or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause State jurisdictions to abandon initiatives or proposals to legalize cannabis, thereby limiting the number of new State jurisdictions into which Ayr could expand. Any inability to fully implement Ayr's expansion strategy may have a material adverse effect on Ayr's business, financial condition and results of operations. See "*Risk Factors*".

Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from criminal charges or civil proceedings conducted by either the U.S. federal government or private citizens (who have the right to seek private relief for Ayr's "aiding and abetting" activities that violate U.S. federal law), including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Ayr, including on its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity, or the market price of its publicly-traded shares. In addition, it is difficult for Ayr to estimate the time or resources that would be needed for the investigation or final resolution of any such matters because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "*Risk Factors – Risks Related to Legality of Cannabis*".

#### **Nevada**

##### *Nevada Regulatory Landscape*

The use of medical marijuana was legalized in Nevada by a ballot initiative in 2000. Nevada has legislatively enacted the licensing of medical marijuana business establishments since 2013. Adult-use cannabis was approved in November 2016, when voters in Nevada passed an adult-use cannabis measure to allow for the licensing of business establishments to engage in the sale of adult-use cannabis in the State. The first retail stores to sell adult-use marijuana began sales in July 2017. As of July 1, 2020, the Nevada Cannabis Compliance Board (the successor to the Nevada Department of Taxation as the applicable regulatory agency) governs and administers regulatory oversight for the medical and adult-use cannabis programs. Cities and counties in Nevada are allowed to determine the number of local marijuana licenses they will issue up to the maximum number allocated by the statute. The Corporation provides operational support for facilities in Nevada cities or counties with clearly defined marijuana programs. Currently, the Corporation provides operational support to facilities located in the Clark County, Henderson, Reno and Washoe County jurisdictions.

### *Licenses*

The Corporation provides operational support to one (1) cultivation facility, two (2) production facilities, and five (5) dispensaries in the State of Nevada. Under applicable laws, the licenses issued for these facilities permit the businesses to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses and Nevada regulations.

State issued licenses are renewed annually, and local business licenses are renewed quarterly or annually, and there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner along with the necessary supporting documents, including requisite background investigations, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business. One of the entities to whom Ayr provides operational support, LivFree, was recently awarded two (2) additional dispensary licenses in the greater Las Vegas market, one (1) in Clark County and one (1) in Henderson, and aims to open the additional Clark County dispensary this year.

### *Regulations*

In the State of Nevada, only marijuana that is grown/produced in the State by a licensed establishment may be sold in the State. The companies to which the Corporation provides operational support are vertically-integrated and have the capabilities to cultivate, harvest, process and sell/dispense/deliver adult-use and medical cannabis and cannabis products.

### *Reporting Requirements*

The State of Nevada uses METRC solution (“**METRC**”) as the State’s computerized seed-to-sale tracking system used to track commercial marijuana activity. Individual licensees whether directly or through third-party integration systems are required to push data to the State to meet reporting requirements. The companies to which the Corporation provides operational support each have a seed-to-sale system in the State which is designed to capture the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes sections 453A and 453D.

### *Storage and Security*

To ensure the safety and security of cannabis business premises and to maintain adequate controls against diversion, theft, and loss of cannabis and cannabis products, Nevada licensed cannabis establishments are required to do the following:

1. Maintain an enclosed, locked facility;
2. Have a single secure entrance;
3. Train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;
4. Implement and install, at a minimum, the following security equipment and practices to deter and prevent unauthorized entrances:
  - a. devices that detect unauthorized intrusion (which may include a signal system);
  - b. exterior lighting designed to facilitate surveillance;
  - c. electronic monitoring devices, further including (without limitation):
    - i. at least one call-up monitor that is at least 19 inches in size;
    - ii. a video printer that can immediately produce a clear still photo from any video camera image;
    - iii. video cameras with a recording resolution of at least 704 x 480 that full capture all of the building’s points of ingress and egress as well as all interior limited access areas such that such cameras capture and can identify any activity occurring in or adjacent to the building;



- iv. a video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;
- v. a video camera in each grow room that can identify any activity occurring within the grow room in low light conditions;
- vi. a method for storing video recordings from the video cameras for at least 30 calendar days;
- vii. a failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system;
- viii. sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage; and
- ix. a security alarm to alert local law enforcement of unauthorized breach of security; and

5. Implement security procedures that:

- a. restrict access of the establishment to only those persons/employees authorized to be there;
- b. deter and prevent theft;
- c. provide identification (badge) for those persons/employees authorized to be in the establishment;
- d. prevent loitering;
- e. require and explain electronic monitoring; and
- f. require and explain the use of automatic or electronic notifications to alert local law enforcement of any security breaches.

## Massachusetts

### *Massachusetts Regulatory Landscape*

The use of cannabis for medical use was legalized in Massachusetts by a voter approval of the Massachusetts Marijuana Initiative in 2012. The law took effect on January 1, 2013, eliminating criminal and civil penalties for the possession and use of up to a 60-day or ten (10) ounce supply of marijuana for medical use for patients possessing a State issued registration card.

On November 8, 2016, Massachusetts voters approved Question 4 or the Massachusetts Marijuana Legalization Initiative, which allowed for recreational or “adult use” cannabis in the Commonwealth. On September 12, 2017, the Cannabis Control Commission (“CCC”) was established under Chapter 55 of the Acts of 2017 (the “**Massachusetts Act**”) to implement and administer laws enabling access to medical and adult-use cannabis.

On November 16, 2018, the CCC issued the first notices for retail marijuana establishments to commence adult-use operations in Massachusetts.

Under the current program there are no State-wide limits on the total number of licenses permitted; however, no individual or entity shall be a controlling person over more than three licenses in a particular class of license. Similarly, no individual, corporation or other entity shall be in a position to control the decision making of more than three licenses in a particular class of license. In addition, all marijuana establishments are required to enter into host community agreements with the municipality in which they are located.

### *Licenses*

The Corporation maintains two (2) adult-use cultivation licenses, one (1) adult-use product manufacturer license and one (1) adult-use transportation license in the Commonwealth of Massachusetts. In addition, the Corporation owns medical licenses that allow it to maintain three (3) medical marijuana dispensaries in the Commonwealth. These licenses permit the Corporation to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses.

## *Regulations*

Under the terms of the marijuana cultivator license, the licensee may cultivate, process and package marijuana, to transfer and deliver marijuana products to marijuana establishments, but not to consumers. A marijuana product manufacturer is an entity authorized to obtain, manufacture, process and package marijuana and marijuana products, to deliver marijuana and marijuana products to marijuana establishments and to transfer marijuana and marijuana products to other marijuana establishments, but not to consumers. A marijuana retailer is an entity authorized to purchase and deliver marijuana and marijuana products from marijuana establishments and to sell or otherwise transfer marijuana and marijuana products to marijuana establishments and to consumers. A marijuana retailer provides a retail location which may be accessed by consumers 21 years of age or older or, if the retailer is co-located with a registered marijuana dispensary (“**RMD**”) by individuals who are registered qualifying patients with the Medical Use of Marijuana Program with a registration card.

In order for a customer to be dispensed marijuana, they must present a valid government issued photo ID immediately upon entry of the retail facility. If the individual is younger than 21 years old but 18 years of age or older, he or she shall not be admitted unless he or she produces an active medical registration card issued by the CCC. If the individual is younger than 18 years old, he or she shall not be admitted unless he or she produces an active medical registration card and is accompanied by a personal caregiver with an active medical registration card. In addition to the medical registration card, registered qualifying patients 18 years of age and older and personal caregivers must also produce proof of identification.

Each recreational customer may be dispensed no more than one ounce of marijuana or five grams of marijuana concentrate per transaction as outlined in 935 CMR 500.140(4). Medical patients may be dispensed up to a 60-day supply of marijuana, or the equivalent amount of marijuana in marijuana infused products (“**MIPs**”), that a registered qualifying patient would reasonably be expected to need over a period of 60 calendar days for his or her personal medical use, which is ten ounces, subject to 105 CMR 725.010(I).

Allowable forms of marijuana in Massachusetts include smokable dried flower, dried flower for vaporizing, cannabis derivative products (i.e., vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products, including edibles.

In the Commonwealth of Massachusetts, only cannabis that is grown and manufactured in the Commonwealth can be sold in the State. For adult-use, Massachusetts is not a vertically-integrated system. As a result, a marijuana retailer may purchase and transport marijuana products from marijuana establishments and transport, sell or otherwise transfer marijuana products to marijuana establishments and to consumers. Licensed cultivators and product manufacturers may cultivate, harvest, process, produce package and sell marijuana products to marijuana establishments.

## *Reporting Requirements*

The CCC has selected METRC as the State’s track-and-trace (“**T&T**”) system used to track commercial cannabis activity and movement across the distribution chain (“**seed-to-sale**”). The system allows for other third-party system integration via API.

For a more detailed analysis of the federal and State regulatory environment, see the “*Cannabis Market Overview*” section in the final non-offering prospectus of Ayr dated February 15, 2019 (the “**Final QT Prospectus**”).

## **Pennsylvania**

### *Pennsylvania Regulatory Landscape*

The Pennsylvania Medical Marijuana Act (the “**PAMMA**”) was signed into law on April 17, 2016 and originally provided access to Pennsylvania residents with one of 17 qualifying conditions, including epilepsy, chronic pain, and post-traumatic stress disorder. Retail sales began in February 2018. The Commonwealth of Pennsylvania, which consists of nearly 13 million residents and qualifies as the fifth largest population in the U.S., operates as a high-barrier market with very limited market participation. The PAMMA authorizes only a maximum of 25 grower/processor permits and 50 dispensary permits. As part of “Phase 1” of the Commonwealth’s permitting process in 2017, the Pennsylvania Department of Health (the “**PA DOH**”) which administers the Commonwealth’s Medical Marijuana Program, originally awarded only 12 grower/processor permits and 27 dispensary permits. Subsequently, in 2018, PA DOH conducted “Phase 2” of the permitting process, during which it awarded the remaining 13 grower/processor permits and 23 dispensary permits authorized under the PAMMA. In July of 2019, the PA DOH expanded the list of qualifying medical conditions to include anxiety disorders and Tourette syndrome, increasing the number of qualifying conditions to 23. As of May 2020, there were 297,317 patients registered in the Program.

Chapter 20 of the PAMMA established a marijuana research program whereby clinical registrants collaborate with medical schools and hospitals to design and implement a research plan. Chapter 20 authorizes PA DOH to issue grower/processor and dispensary permits to up to eight (8) clinical registrants. Under these permits, which are in addition to the 25 grower/processor and 50 dispensaries mentioned above, clinical registrants effectively operate as vertically integrated entities. Furthermore, the dispensary permits authorize clinical registrants to operate dispensaries at up to six (6) locations in any region of the Commonwealth. The dispensaries must dispense marijuana for the purpose of conducting research. To date, PA DOH has issued permits to seven (7) clinical registrants.

#### *Pennsylvania Licenses*

All dispensaries must register with the PA DOH. Registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email and include a renewal form.

#### *License and Regulations*

Each retail dispensary license permits the holder to purchase marijuana and marijuana products from grower/processor facilities and allows the sale of marijuana and marijuana products to registered patients.

#### *Site-Visits & Inspections*

All licensed dispensary locations must be inspected and approved by the PA DOH before commencing liver operations. Thereafter, dispensaries are subject to PA DOH inspection, whether with or without notice.

#### *Reporting Requirements*

The Commonwealth of Pennsylvania uses MJ Freeway as a T&T system for seed-to-sale reporting. Individual permittees are required to use MJ Freeway to push data to the Commonwealth to meet all reporting requirements. The Corporation's subsidiaries use MJ Freeway as its in-house computerized seed-to-sale software, which integrates with the Commonwealth's MJ Freeway program and captures the required data points for cultivation, manufacturing and retail as required in the Pennsylvania medical marijuana laws and regulations.

#### *Storage and Security*

All dispensaries are required to have a locked limited access area for the storage of medical marijuana that is expired, damaged, deteriorated, mislabeled, contaminated, recalled or whose containers or packages have been opened or breached until such product is returned to the grower/processor.

### **Compliance with State Regulatory Frameworks**

#### *Nevada Regulatory Compliance*

Each of the Nevada-based cannabis establishments for which the Corporation provides operational support possess licenses and/or operate dispensaries in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Nevada in all material respects, and maintains the appropriate licenses for the cultivation, production, distribution and operation of dispensaries, as applicable.

None of the Nevada-based cannabis businesses for which the Corporation provides operational support has experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor are any of the Corporation's Nevada-based cannabis businesses subject to any outstanding notices of violation by the State of Nevada which may have an impact on its licenses, business activities or operations. As noted under "*Non-Compliance with State and Local Cannabis Laws*" below, on behalf of businesses for which it provides operational support, Ayr intends to promptly remedy any material known occurrences of non-compliance with applicable State and local cannabis rules and regulations and, on behalf of businesses for which it provides operational support, Ayr intends to publicly disclose any material non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations.

Each of the Nevada-based cannabis businesses for which the Corporation provides operational support uses an end-to-end (“seed to sale”) capable control system for tracking and tracing cannabis plants and products. Each of Leaflogix and Metrc are in use among the Corporation’s Nevada-based businesses for which it provides operational support. These solutions have been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

In addition to these software-based control systems, each of the Nevada licensed cannabis establishments to which the Corporation provides operational support has designated a set of operating procedures, including employee training in respect of such procedures, to secure compliance.

Standard operating procedures in respect of regulatory compliance were developed by each of the Nevada licensed cannabis establishments to which the Corporation provides operational support and reviewed with the applicable regulators during each of the establishment’s initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at each of the Nevada licensed cannabis establishments to which the Corporation provides operational support are empowered to identify key business processes that should be formally documented to assure safety and regulatory compliance.

Each of the Nevada licensed cannabis establishments to which the Corporation provides operational support has detailed standard operating procedures in respect of building security, cash management, security of financial instruments, security monitoring systems, security of information, and general security and safety.

Each of the Nevada licensed cannabis establishments to which the Corporation provides operational support utilizes a security system around the perimeter of each dispensary designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with State regulatory requirements.

Additionally, each of the Nevada licensed cannabis establishments to which the Corporation provides operational support also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

**Inventory Management Requirements:** Each of the Nevada licensed cannabis establishments to which the Corporation provides operational support maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management;
- retail transactions; and
- sales data tracking and reporting.

Procedures exist to ensure each of the applicable Nevada licensed cannabis establishments to which the Corporation provides operational support facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;

- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch or lot number;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including:
  - the date of harvest;
  - the final yield weight of processed usable marijuana; and
  - the name and agent registration card number of the agent responsible for the harvest;
- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

Retail dispensaries maintain current and complete books and records and sales reports, including invoices that reflect all purchases and sales of marijuana made to and by the applicable dispensary, that are available from an electronic verification systems, point of sale systems, and/or inventory control systems (which may be separate systems or functionalities combined into a single system) and are stored in secure safe rooms. Such records include:

- in respect of dispensary inventory:
  - the date and time of delivery of each purchase or transfer from a cultivation or production facility;
  - the quantity, type and form and price of marijuana and infused or edible products purchased from a cultivation or production facility in each purchase as well as related products;
  - invoices and delivery documents, showing entry into the inventory control system; and
  - the quantity of marijuana still available for sale at the dispensary; and
- in respect of dispensary retail sales:
  - the date and time of each retail sale;
  - the quantity, type, form, and price of marijuana distributed or dispensed;
  - the price paid or consideration given for the marijuana;

- identifying information of the purchaser (i.e., name and address, and card number in the case of medical marijuana transactions); and
- identifying information of the employee conducting the transaction (i.e., the name, initials, or employee identification number of the person who dispensed or sold the marijuana).

All invoices and delivery documents must be systematically filed and maintained for a period of five years from date of delivery and must show a legible and complete statement of terms and conditions for each purchase.

Sales records must be compliant with all of the applicable policies and procedures according to applicable documented plans of the Nevada licensed cannabis establishments to which the Corporation provides operational support, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution (on-site or delivery);
- the quantity, form, and price marijuana and any other products dispensed;
- the consideration given;
- the name, address, and identification number of the marijuana as recorded on the electronic verification system; and
- the names, initials, or employee identification numbers of the individuals who packaged, dispensed, delivered, and sold the marijuana.

**Disposal of Inventory:** All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed by the applicable Nevada licensed cannabis establishments to which the Corporation provides operational support is recorded in the relevant inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal;
- the method of disposal; and
- the name and card number of the agent responsible for the disposal.

Only specifically authorized employees can destroy product. A list of authorized employees that may destroy product is required to be maintained at each such Nevada-based business facility. Permissions are defined by agent and password protected. The destroyed weight and the reason for destruction is required and recorded. The inventory control systems of the Nevada licensed cannabis establishments to which the Corporation provides operational support can generate reports on destroyed material at any point in the destruction process.

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

**General Security Guidelines:** The applicable Nevada-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;

- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

**Cash Management:** As noted above, the Nevada licensed cannabis establishments to which the Corporation provides operational support have detailed standard operating procedures and protocols for cash management, including internal controls and cash security procedures. Examples of such standard operating procedures and protocols used by certain of the dispensaries of the Nevada licensed cannabis establishments to which the Corporation provides operational support include, without limitation:

- random review of cash register drawers by dispensary supervisors;
- random removal of cash from cash register drawers by dispensary supervisors and placement of such cash into a secure vault;
- insertion of all cash from cash registers drawers into a secure vault at the end of each day;
- recording of daily cash intake by supervisors on a “Register Close” sheet and daily reconciliation of such values against daily sales reports and the prior day’s recording of total cash on-hand;
- recording of all disbursements on a disbursement form; and
- daily audits of total cash on hand and investigations in respect of any noted variances.

The Nevada licensed cannabis establishments to which the Corporation provides operational support have worked with internal personnel and advisors to help prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and
- appropriate employee training for all standard operating procedures.

The Nevada licensed cannabis establishments to which the Corporation provides operational support enlist their internal compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

While the Nevada licensed cannabis establishments to which the Corporation provides operational support are compliant with State and local cannabis laws in all material respects, their cannabis-related activities remain illegal under United States federal law. See “*Risk Factors*”.

The Corporation's Massachusetts-based business is in compliance with applicable licensing requirements and the regulatory framework enacted by the Commonwealth of Massachusetts in all material respects, and maintains the appropriate licenses for the cultivation, production, distribution and operation of dispensaries, as applicable.

The Corporation's Massachusetts-based business has not experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor is such business subject to any outstanding notices of violation by the Commonwealth of Massachusetts which may have an impact on its licenses, business activities or operations. As noted under "*Non-Compliance with State and Local Cannabis Laws*" below, Ayr intends to cause its businesses to promptly remedy any material known occurrences of non-compliance with applicable State and local cannabis rules and regulations and Ayr intends to publicly disclose any material non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations. Given the stage of business of the Corporation's Massachusetts-based business, such business has, on an on-going basis, internally reviewed applicable Massachusetts laws and regulations relating to the cultivation, manufacture, distribution and sale of cannabis and cannabis products and has internally analyzed its exposure to U.S. federal law. The Corporation's Massachusetts-based business has enlisted internal compliance personnel to provide on-going advice on applicable U.S. federal and Massachusetts laws.

The Corporation's Massachusetts-based business currently possesses three (3) registered marijuana dispensary registrations which allow the business to sell medical marijuana in Massachusetts directly to consumers, and which allow for the right to open three (3) adult use dispensaries subject to local municipality and other marijuana regulatory approvals. The Massachusetts-based business currently possesses licenses to cultivate, manufacture and transport to other marijuana establishments in Massachusetts. No assurance can be given that the applicable regulatory approvals allowing for the opening of adult use dispensaries will be received.

In order to secure compliance with applicable regulatory frameworks, the Corporation's Massachusetts-based business employs a combination of software-based metric tracking and operational processes and procedures designed to comply with in-place regulatory requirements.

The Corporation's Massachusetts-based business uses Leaflogix, an end-to-end ("**seed to sale**") capable control system, for tracking and tracing cannabis plants and products. This solution has been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

In addition to the software-based control systems, the Corporation's Massachusetts-based business has designated a set of operating procedures, including employee training with respect to such procedures, to secure compliance.

Standard operating procedures for regulatory compliance were developed by the Massachusetts-based business and reviewed with the applicable regulators during such business' initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at the Corporation's Massachusetts-based business are empowered to identify key business processes that should be formally documented to assure safety and regulatory compliance.

The Corporation's Massachusetts-based business has detailed standard operating procedures for building security, cash management, security of financial instruments, security monitoring systems, security of information, and general security and safety.

The Corporation's Massachusetts-based business utilizes a security system around the perimeter of each dispensary designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with the Commonwealth's regulatory requirements.

Additionally, the Corporation's Massachusetts-based business also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

**Inventory Management Requirements:** The Corporation's Massachusetts-based business maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;



- inventory intake;
- inventory management;
- retail transactions; and
- sales data tracking and reporting.

Procedures exist to ensure each applicable Massachusetts-based facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including:
  - the date of harvest; and
  - the final yield weight of processed usable marijuana;
- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

Retail dispensaries maintain current and complete books and records and sales reports, including invoices that reflect all purchases and sales of marijuana made to and by the applicable dispensary, that are available from the Massachusetts-based business' electronic verification systems, point of sale systems, and/or inventory control systems (which may be separate systems or functionalities combined into a single system) and are stored in secure safe rooms. Such records include:

- in respect of dispensary inventory:
  - the date and time of delivery of each purchase or transfer from a cultivation or production facility;

- the quantity, type and form of marijuana and infused or edible products purchased from a cultivation or production facility in each purchase as well as related products;
- invoices and delivery documents, showing entry into the inventory control system; and
- the quantity of marijuana still available for sale at the dispensary; and
- in respect of dispensary retail sales:
  - the date and time of each retail sale;
  - the quantity, type, form, and price of marijuana distributed or dispensed;
  - the price paid or consideration given for the marijuana;
  - identifying information of the purchaser (i.e., name and address, and card number in the case of medical marijuana transactions); and
  - identifying information of the employee conducting the transaction (i.e., the name, initials, or employee identification number of the person who dispensed or sold the marijuana).

All invoices and delivery documents must be systematically filed and must show a legible and complete statement of terms and conditions for each purchase.

Sales records must be compliant with all applicable Ayr policies and procedures according to applicable documented plans, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution (on-site or delivery);
- the quantity, form, and price marijuana and any other products dispensed;
- the consideration given;
- the name, address, and identification number of the marijuana as recorded on the electronic verification system; and
- the names, initials, or employee identification numbers of the individuals who packaged, dispensed, delivered, and sold the marijuana.

**Disposal of Inventory:** All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed of by the Massachusetts-based business is recorded in such business' inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal; and
- the method of disposal;

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

**General Security Guidelines:** The Massachusetts-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;

- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

**Cash Management:** As noted above, the Corporation's Massachusetts-based business has detailed standard operating procedures and protocols for cash management, including internal controls and cash security procedures. Examples of such standard operating procedures and protocols used by such business' dispensaries include, without limitation:

- random review of cash register drawers by dispensary supervisors;
- random removal of cash from cash register drawers by dispensary supervisors and placement of such cash into a secure vault;
- insertion of all cash from cash registers drawers into a secure vault at the end of each day;
- recording of daily cash intake by supervisors on a "Register Close" sheet and daily reconciliation of such values against daily sales reports and the prior day's recording of total cash on-hand;
- recording of all disbursements on a disbursement form; and
- daily audits of total cash on hand and investigations in respect of any noted variances.

The Corporation's Massachusetts-based business has worked with an internal advisor to help prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and
- appropriate employee training for all standard operating procedures.

In Massachusetts, Ayr enlists its management and compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

While the Corporation's Massachusetts-based business is compliant with State and local cannabis laws in all material respects, its cannabis-related activities remain illegal under United States federal law. See "*Risk Factors*".

## Non-Compliance with State and Local Cannabis Laws

From time to time, as with all businesses and all rules, it is anticipated that the Corporations, through its subsidiaries and establishments to which the Corporation provides operational support, may experience incidences of non-compliance with applicable rules and regulations, which may include minor matters such as:

- staying open slightly too late due to an excess of customers at stated closing time;
- minor inventory discrepancies with regulatory reporting software;
- missing fields in regulatory reports;
- cleaning schedules not available on display;
- educational materials and/or interpreter services not available in a sufficient number of languages;
- updated staffing plan not immediately available on site;
- improper illumination of external signage;
- marijuana infused product utensils improperly stored;
- labels out of compliance with most recent regulatory guidelines;
- partial obstruction of camera views; and
- onsite surveillance room used for any other function (i.e. storage).

In addition, either on an inspection basis or in response to complaints, such as from neighbours, customers or former employees, State or local regulators may among other things issue “show cause” letters, give warnings to or cite businesses for which Ayr provides operational support for violations, including those listed above. Such regulatory actions could lead to the requirement to remedy the situation, or, in more serious cases, lead to penalties and/or amendments, suspensions or revocations of licenses or otherwise have an impact on Ayr’s licenses, business activities, operational support activities or operations.

Ayr has implemented regular compliance reviews to seek to ensure compliance with applicable State and local cannabis rules and regulations. Ayr intends to promptly remedy any material known occurrences of non-compliance with applicable State and local cannabis rules and regulations and Ayr intends to publicly disclose any material non-compliance, citations or notices of violation which may have an impact on its licenses, business activities, operational support activities or operations.

## Ability to Access Public and Private Capital

Ayr has historically had and will continue to have access to equity financing from the public capital markets by virtue of its status as a reporting issuer in each of the provinces and territories of Canada, other than Québec.

Ayr has access to equity and debt financing from the prospectus exempt (private placement) markets in Canada and the U.S. and has relationships with sources of private capital (such as funds and high net worth individuals) that could be investigated at a higher cost of capital.

While Ayr is unable to obtain traditional bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has access to equity financing through markets in Canada and the U.S. Since the use of marijuana is illegal under U.S. federal law, and in light of concerns in the banking industry regarding money laundering and other federal financial crime related to marijuana, U.S. banks have been reluctant to accept deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. Likewise, marijuana businesses have limited, if any, access to credit card processing services. As a result, marijuana businesses in the U.S. are largely cash-based. This complicates the implementation of financial controls and increases security issues.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and businesses similar to Ayr’s. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to Ayr when needed or on terms which are acceptable to Ayr. Ayr’s inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See “*Risk Factors – Ayr may be subject to restricted access to banking services in the United States and Canada*”.

## RISK FACTORS

The Corporation is subject to various risks and uncertainties and an investment in securities of the Corporation should be considered highly speculative. Prior to making an investment decision, investors should consider the investment risks set forth below and those described elsewhere in this AIF, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The Corporation considers the risks set forth below to be the most significant, but do not consider them to be all the risks associated with an investment in securities of the Corporation.

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF and in the Final QT Prospectus. Additional risks and uncertainties not presently known to Ayr or currently deemed immaterial by Ayr may also impair the operations of Ayr. If any such risks actually occur, shareholders of Ayr could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of Ayr could be materially adversely affected and the ability of Ayr to implement its growth plans could be adversely affected. Prospective investors should consult with their professional advisors to assess any investment in the Corporation.

### **Risks Related to Legality of Cannabis**

*While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law.*

Investors are cautioned that in the United States, cannabis is largely regulated at the State level. To Ayr's knowledge, as of July 2020, some form of cannabis has been legalized in 33 States, the District of Columbia, and the territories of Guam, U.S. Virgin Islands, Northern Mariana Islands and Puerto Rico. Additional States have pending legislation regarding the same. Although each State in which Ayr will operate authorizes, as applicable, medical and/or adult-use cannabis production and distribution by licensed or registered entities, and numerous other States have legalized cannabis in some form, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law under any and all circumstances under the Substances Act. The concepts of "medical cannabis", "retail cannabis" and "adult-use cannabis" do not exist under U.S. federal law. Marijuana is a Schedule I drug under the Substances Act. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of safety for the use of the drug under medical supervision. Although Ayr believes its businesses are compliant with applicable U.S. State and local law, strict compliance with State and local laws with respect to cannabis may not absolve Ayr of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against Ayr. Any such proceedings brought against the Ayr may result in a material adverse effect on Ayr.

Since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, Ayr may be deemed to be aiding and abetting illegal activities. The Corporation's businesses manufacture and/or distribute medical and adult-use cannabis. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against Ayr, including, but not limited to, a claim regarding the possession, use and sale of cannabis, and/or aiding and abetting another's criminal activities. The U.S. federal aiding and abetting statute provides that anyone who "commits an offense or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result, the U.S. Department of Justice ("DOJ"), under the current administration, could allege that Ayr has "aided and abetted" violations of federal law by providing financing and services to the Corporation. Under these circumstances, the federal prosecutor could seek to seize the assets of Ayr, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing. In these circumstances, Ayr's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison. Such an action would result in a material adverse effect on Ayr.

U.S. Customs and Border Protection (“CBP”) enforces the laws of the United States. Crossing the border while in violation of the Substances Act and other related federal laws may result in denied admission, seizures, fines and apprehension. CBP officers administer the Immigration and Nationality Act to determine the admissibility of travelers, who are non-U.S. citizens, into the United States. An investment in Ayr, if it became known to CBP, could have an impact on a shareholder’s admissibility into the United States and could lead to a lifetime ban on admission. See *“Risk Factors - U.S. border officials could deny entry of non-U.S. citizens into the U.S. to employees of or investors in companies with cannabis operations in the United States and Canada”*.

The Corporation derives 100% of their revenues from the cannabis industry in certain States, which industry is illegal under U.S. federal law. Even where the Corporation’s cannabis-related activities are compliant with applicable State and local law, such activities remain illegal under U.S. federal law. **The enforcement of relevant laws is a significant risk.**

Medical cannabis has been protected against enforcement by enacted legislation from the United States Congress in the form of what is commonly called the “Rohrabacher-Blumenauer Amendment”, which prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the State-level, subject to the United States Congress restoring such funding. Notably, this amendment has always applied to only medical cannabis programs, and has no effect on pursuit of recreational cannabis activities. The amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. Subsequent to the issuance of the Sessions Memorandum by then Attorney General Sessions on January 4, 2018, the United States Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the Leahy Amendment) and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the U.S. DOJ up and through the 2018 appropriations deadline of September 30, 2018.

The deadline passed, but the Rohrabacher-Leahy Amendment remained in effect by virtue of a continuing resolution under which the entire 2018 budget continued to operate. Following the expiration of the continuing resolution on December 7, 2018, Congress failed to agree upon an appropriations bill, and the United States government entered a partial shutdown. The Rohrabacher-Leahy Amendment was no longer in effect during the partial shutdown. The partial shutdown ended on January 25, 2019 when the United States Congress passed an appropriations bill funding the United States government through February 15, 2019. This temporary appropriations bill included language similar to the Rohrabacher Leahy Amendment (now referred to as the “**Joyce/Leahy Amendment**”). On February 15, 2019, the amendment was renewed through the signing of the Fiscal Year 2019 omnibus spending bill, effective through September 30, 2019. On September 27, 2019, the amendment was renewed through a stopgap spending bill, and it was renewed again on November 21, 2019. On December 20, 2019, the amendment was renewed by the signing of the Fiscal Year 2020 omnibus spending bill, effective through September 30, 2020. That legislation also contains a provision continuing to block Washington, D.C. from using its own local tax dollars to implement a legal marijuana sales program.

As he did when signing the 2017 and 2019 spending bills (but not the 2018 bill), President Trump included a signing statement when he signed the 2020 spending bill. That statement reads, in part, “My Administration will treat [the amendment] consistent with the President’s constitutional responsibility to faithfully execute the laws of the United States.” Some have interpreted this as a reservation of the right to disregard the language of the amendment when enforcing federal drug laws against those who are otherwise compliant with State medical cannabis laws.

President Trump’s 2021 budget plan released in February 2020 did not include the amendment. This is not unusual, as he made similar proposals in his 2019 and 2020 plans. Congress still voted to include the amendment both times. In July 2020, the House of Representatives passed the “Blumenauer-McClintock-Norton-Lee amendment,” to the Commerce, Justice, Science (CJS) Appropriations bill. That amendment would continue the Joyce/Leahy amendment’s protections for state medical cannabis programs, and extend those protections to include recreational programs in states where recreational cannabis is legal. The House passed a CJS appropriations bill with the same expansion last year, but ultimately agreed with the Senate’s proposal to continue protections only for medical cannabis programs. Senate Majority Leader Mitch McConnell opposes marijuana legalization, and the Senate may take the same approach this year.

Should the Joyce/Leahy amendments language not be included in the final Fiscal Year 2021 appropriations package, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law. Such potential proceedings could involve significant restrictions being imposed upon Ayr or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on Ayr, even if such proceedings were concluded successfully in favour of Ayr.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Ayr, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the United States, its financial position, operating results, profitability or liquidity or the market price of its publicly-traded shares. In addition, it will be difficult for Ayr to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

***The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.***

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memorandum addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several States have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain priorities for the U.S. DOJ relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the U.S. DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the U.S. DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. In March 2017, then newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he had previously stated that he did not believe it had been implemented effectively and, on January 4, 2018, former Attorney General Jeff Sessions issued the Sessions Memorandum, which rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principles are included in chapter 9.27.000 of the USAM and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of State-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active U.S. federal prosecutors will be in relation to such activities.

As discussed above, should the Joyce/Leahy amendment not be renewed, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law.

Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. While dozens of U.S. attorneys from across the country have affirmed that their view of federal enforcement priorities has not changed, there can be no assurances that such views are universally held or will continue in the near future. In California, at least one U.S. Attorney has made comments indicating a desire to enforce the Controlled Substances Act, stating that the Sessions Memorandum and the rescission of the Cole Memorandum “returns trust and local control to federal prosecutors” to enforce the Controlled Substances Act. These and other so called “enforcement hawks” in California or elsewhere may choose to enforce the Controlled Substances Act in accordance with federal policies prior to the issuance of the Cole Memorandum. As such, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with State law. Contrastingly, Andrew Lelling, the U.S. Attorney for the District of Massachusetts, issued a statement explaining that while marijuana is illegal under federal law, his “office’s resources [...] are primarily focused on the opioid epidemic.”<sup>2</sup> In this statement, U.S. Attorney Lelling also clarified that his marijuana enforcement efforts will be focused on overproduction, targeted sales to minors, and organized crime and interstate transportation of drug proceeds.

On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, Matthew Whitaker began serving as Acting United States Attorney General, and William Barr was eventually appointed to the role. Mr. Barr is a former Attorney General under George H.W. Bush, with an anti-drug stance during his tenure. During his Senate confirmation hearing, Mr. Barr stated that he disagrees with efforts by States to legalize marijuana, but will not go after marijuana companies in states that legalized it under Obama administration policies. He stated further that he would not upset settled expectations that have arisen as a result of the Cole Memorandum. In June 2020, a federal prosecutor accused Mr. Barr of ordering "politically motivated" antitrust reviews of 10 marijuana business mergers, allegedly because he personally did not support their underlying business in the marijuana industry. At least one of those investigations allegedly resulted in the collapse of a proposed merger between two large cannabis businesses. If true, Mr. Barr's actions reflect a hostility to the cannabis industry and further adverse actions could be taken.

Such potential proceedings could involve significant restrictions being imposed upon Ayr or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on Ayr, as well as Ayr's reputation, even if such proceedings were concluded successfully in favour of Ayr. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of Ayr or the seizure of corporate assets; however as of the date hereof, Ayr believes that proceedings of this nature are remote.

There is no certainty as to how the U.S. DOJ, Federal Bureau of Investigation and other government agencies will handle cannabis matters in the future. Ayr regularly monitors the activities of the current administration in this regard.

Depending upon the results of the upcoming November 2020 U.S. federal election, it is possible that additional changes could occur. There can be no assurance as to the position any new administration may take on marijuana and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Corporation and its shareholders. Further, future presidential administrations may want to treat marijuana differently and potentially enforce the federal laws more aggressively.

***Ayr may be subject to restricted access to banking services in the United States and Canada.***

In February 2014, FinCEN issued guidance through the FinCEN Memorandum (which is not law) with respect to financial institutions providing banking services to cannabis businesses. This guidance includes burdensome due diligence expectations and reporting requirements, and does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the U.S. DOJ, FinCEN or other federal regulators. Thus, many banks and other financial institutions in the United States choose not to provide banking services to cannabis-related businesses or rely on this guidance, which can be amended or revoked at any time by the Trump administration. In addition to the foregoing, banks may refuse to process debit card payments, and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, Ayr may have limited or no access to banking or other financial services in the United States. The inability, or limitation of Ayr's ability, to open and maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for Ayr to operate and conduct its business as planned or to operate efficiently. Ayr does not consider this to be a risk at the current time in Nevada.

Additionally, Canadian banks may potentially refuse to provide banking services to companies engaged in U.S. cannabis activities while it is illegal under U.S. federal law.

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<sup>2</sup> Statement by U.S. Attorney Andrew Lelling Regarding the Legalization of Recreational Marijuana in Massachusetts (July 10, 2018). Available at <https://www.justice.gov/usao-ma/pr/statement-us-attorney-andrew-elling-regarding-legalization-recreational-marijuana>.



There are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and businesses similar to the Corporation. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to Ayr when needed or on terms which are acceptable to Ayr. Ayr's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

***The differing regulatory requirements across State jurisdictions may hinder or otherwise prevent Ayr from achieving economies of scale.***

Traditional rules of investing may prove to be imperfect in the cannabis industry. For example, while it would be common for investment managers to purchase equity in companies in different States to reach economies of scale and to conduct business across State lines, such an investment thesis may not be feasible in the cannabis industry because of varying State-by-State legislation. Applicable regulations in many States may require advance disclosure of and approval of State regulators to accomplish an investment. As no two regulated markets in the cannabis industry are exactly the same, doing business across State lines may not be possible or commercially practicable. As a result, Ayr may be limited to identifying opportunities in individual States, which may have the effect of slowing the growth prospects of Ayr.

***Risk of legal, regulatory or other political change.***

The success of the business strategy of Ayr depends on the legality of the cannabis industry. The political environment surrounding the cannabis industry in general can be volatile and the regulatory framework remains in flux. To Ayr's knowledge, as of July 2020, some form of cannabis has been legalized in 33 States, the District of Columbia, and the territories of Guam, U.S. Virgin Islands, Northern Mariana Islands and Puerto Rico; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting Ayr's business, results of operations, financial condition or prospects.

Delays in enactment of new State or federal regulations could restrict the ability of Ayr to reach strategic growth targets. The growth strategy of Ayr is contingent upon certain federal and State regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of Ayr could be negatively impacted, and thus, the effect on the return of investor capital, could be detrimental.

Ayr is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guarantee that State laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of State laws within their respective jurisdictions, including prohibiting ownership of cannabis businesses by public companies. If the federal government begins to enforce federal laws relating to cannabis in States where the sale and use of cannabis is currently legal under State law, or if existing applicable State laws are repealed or curtailed, Ayr's business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of marijuana in a manner that will make it extremely difficult or impossible to transact business in that jurisdiction, which may adversely affect Ayr's continued operations. Federal actions against individuals or entities engaged in the cannabis industry or a repeal of applicable marijuana legislation could adversely affect Ayr and its business, results of operations, financial condition and prospects.

Ayr is also aware that multiple States are considering special taxes or fees on businesses in the cannabis industry. It is a potential yet unknown risk at this time that other States are in the process of reviewing such additional fees and taxation. Should such special taxes or fees be adopted, this could have a material adverse effect upon Ayr's business, results of operations, financial condition or prospects.

Overall, the medical and adult-use cannabis industry is subject to significant regulatory change at both the State and federal level. For instance, in Massachusetts, the State's Department of Public Health recently transferred the medical cannabis program, which it has been regulating since 2013, to the Cannabis Control Commission (the current regulator of the State's adult-use cannabis program). The inability of Ayr to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

***The cannabis industry is a new industry that may not succeed.***

Should the U.S. federal government change course and decide to prosecute those dealing in medical or adult-use cannabis under applicable law, there may not be any market for Ayr's products and services. It is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit Ayr to succeed. Ayr is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures.

***Ayr's operations in the U.S. cannabis market may become the subject of heightened scrutiny.***

For the reasons set forth above, Ayr's existing operations in the U.S., and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the U.S. As a result, Ayr may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Ayr's ability to operate or invest in the U.S. or any other jurisdiction, in addition to those described herein.

Given the heightened risk profile associated with cannabis in the U.S., CDS Clearing and Depository Services Inc. ("CDS") may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the U.S. On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("TMX MOU") with the NEO Exchange, the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, Subordinate Voting Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of Subordinate Voting Shares through the facilities of a stock exchange.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice – 51-352 *Issuers with U.S. Marijuana-Related Activities* setting out their disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. The Staff Notice confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. The Staff Notice includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. Ayr views the Staff Notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as Ayr's ability to pursue further investment and opportunities in Ayr.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the U.S. or elsewhere. A negative shift in the public's perception of medical and/or adult-use cannabis in the U.S. or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause State jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new State jurisdictions into which Ayr could expand. Any inability to fully implement Ayr's expansion strategy may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Regulatory scrutiny of Ayr's industry may negatively impact its ability to raise additional capital.***

Ayr's business activities rely on newly established and/or developing laws and regulations in the various States in which Ayr operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect Ayr's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, Securities and Exchange Commission, the U.S. DOJ, the Financial Industry Regulatory Advisory or other federal, State or non-governmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical and/or adult-use purposes in the U.S. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding Ayr's industry may adversely affect the business and operations of Ayr, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, create a public trading market in the U.S. for securities of Ayr or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in Ayr.

***Ayr's investments in the U.S. are subject to applicable anti-money laundering laws and regulations.***

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the Substances Act, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-transmitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and other related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under U.S. federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the Substances Act. As a result, a majority of the United States' banks and financial institutions have refused to open bank accounts for the deposit of funds from businesses involved with the cannabis industry. Others have agreed to accept deposits from medical cannabis sales, but not recreational cannabis sales. The inability to open bank accounts with certain institutions could materially and adversely affect the business of Ayr. See "*Risk Factors – Ayr may be subject to restricted access to banking in the United States and Canada*".

In February 2014, the U.S. Department of the Treasury's Financial Crimes Enforcement Network issued the FinCEN Memorandum providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors in the 2014 Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the Substances Act. It is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memorandum.

In the event that any of Ayr's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of Ayr to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while Ayr has no current intention to declare or pay dividends on the Subordinate Voting Shares in the foreseeable future, in the event that a determination was made that Ayr's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, Ayr may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

***Any re-classification of cannabis or changes in U.S. controlled substance laws and regulations may affect Ayr's business.***

If cannabis and/or CBD is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be simpler and more accessible; however, if cannabis is re-categorized as a Schedule II or other controlled substance, the resulting re-classification would result in the requirement for FDA approval if medical claims are made for Ayr's products such as medical cannabis. As a result, the manufacture, importation, exportation, domestic distribution, storage, sale and use of such products may be subject to a significant degree of regulation by the Drug Enforcement Administration ("DEA"). In that case, Ayr may be required to be registered (licensed) to perform these activities and have the security, control, recordkeeping, reporting and inventory mechanisms required by the DEA to prevent drug loss and diversion. Obtaining the necessary registrations may result in delay of the manufacturing or distribution of Ayr's anticipated products. The DEA conducts periodic inspections of certain registered establishments that handle controlled substances. Failure to maintain compliance could have a material adverse effect on Ayr's business, financial condition and results of operations. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to restrict, suspend or revoke those registrations. In certain circumstances, violations could lead to criminal proceedings.

***The availability of favourable locations may be severely restricted.***

In Massachusetts and other States, the local municipality has authority to choose where any cannabis establishment will be located. These authorized areas are frequently removed from other retail operations.

Because the cannabis industry remains illegal under U.S. federal law, the disadvantaged tax status of businesses deriving their income from cannabis, and the reluctance of the banking industry to support cannabis businesses, it may be difficult for Ayr to locate and obtain the rights to operate at various preferred locations. Property owners may violate their mortgages by leasing to Ayr, and those property owners that are willing to allow use of their facilities may require payment of above fair market value rents to reflect the scarcity of such locations and the risks and costs of providing such facilities.

***U.S. border officials could deny entry of non-U.S. citizens into the U.S. to employees of or investors in companies with cannabis operations in the United States and Canada.***

Because cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-U.S. citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in U.S. States where it is deemed legal or Canada may affect admissibility to the U.S. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the U.S. or Canada (such as Ayr), who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the U.S. for reasons unrelated to the cannabis industry will generally be admissible to the U.S.; however, if such person is found to be coming into the U.S. for reasons related to the cannabis industry, such person may be deemed inadmissible.

**Business Structure Risks**

***Ayr's dual-class structure will have the effect of concentrating voting control and the ability to influence corporate matters with the Founders.***

The Multiple Voting Shares have 25 votes per share, whereas the Subordinate Voting Shares have one vote per share. As of June 30, 2020, Mercer holds 3,677,626 Multiple Voting Shares and approximately 18.79% of the voting power of the outstanding voting shares of Ayr (including the Multiple Voting Shares and Subordinate Voting Shares, and assuming the outstanding Warrants are not determined to be "out of the money" by the Corporation's board of directors) and would therefore have significant influence over the management and affairs of Ayr and over all matters requiring shareholder approval, including the election of directors and significant corporate transactions. In addition, because of the 25-to-1 voting ratio between the Multiple Voting Shares and Subordinate Voting Shares, the holders of Multiple Voting Shares will control a majority of the combined voting power of Ayr's voting shares even though the Multiple Voting Shares will represent a substantially reduced percentage of the total outstanding shares of Ayr. The concentrated voting control of the holders of Multiple Voting Shares will limit the ability of the holders of Subordinate Voting Shares to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to Ayr's decisions to amend its share capital, create and issue additional classes of shares, make significant acquisitions, sell significant assets or parts of its business, merge with other companies and/or undertake other significant transactions. As a result, holders of Multiple Voting Shares will have the ability to influence or control many matters affecting Ayr and actions may be taken that the holders of Subordinate Voting Shares may not view as beneficial. The market price of the Subordinate Voting Shares could be adversely affected due to the significant influence and voting power of the holders of Multiple Voting Shares. Additionally, the significant voting interest of the holders of Multiple Voting Shares could discourage transactions involving a change of control, including transactions in which an investor, as a holder of the Subordinate Voting Shares, might otherwise receive a premium for the Subordinate Voting Shares over the then-current market price, or discourage competing proposals if a going private transaction is proposed by one or more holders of Multiple Voting Shares.

At the holder's option, the Multiple Voting Shares will be convertible, on a one-for-one basis, into Subordinate Voting Shares. In addition, the Multiple Voting Shares will be automatically converted, without further act or formality, into Subordinate Voting Shares on the earliest of (i) the fifth anniversary of May 24, 2019, (ii) the date on which such Multiple Voting Shares are held or controlled by a person who is not a Permitted Holder (as defined in the Corporation's articles) under the Corporation's articles, and (iii) the date on which the aggregate number of Multiple Voting Shares issued and outstanding represents less than one-third of the number of Multiple Voting Shares issued and outstanding at the close of business on the first date of issuance, being May 24, 2019.

#### **General Regulatory and Legal Risks**

##### ***Ayr may be subject to the risk of civil asset forfeiture.***

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

##### ***Ayr may lack access to U.S. bankruptcy protections.***

Because the use of cannabis is illegal under U.S. federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If Ayr was to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to Ayr's U.S. operations, which could have a material adverse effect on Ayr.

##### ***Ayr may be subject to the risk of an inability to enforce its contracts.***

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges in multiple States have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of State law. There remains doubt and uncertainty that Ayr will be able to legally enforce contracts it enters into if necessary. Ayr cannot be assured that it will have a remedy for breach of contract, which would have a material adverse effect on Ayr.

##### ***Ayr may be subject to the risk of changes in Canadian laws or regulations, or a failure to comply with any such laws and regulations.***

Ayr is subject to laws and regulations enacted by the federal and provincial governments of Canada. In particular, Ayr will be required to comply with certain Canadian securities law, income tax law and the CSE and other legal and regulatory requirements. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application also may change from time to time and those changes could have a material adverse effect on Ayr's business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

##### ***Ayr is subject to general regulatory and licensing risks.***

The Corporation is subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Achievement of Ayr's business objectives is contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. Changes to such laws, regulations and guidelines due to matters beyond the control of Ayr may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

Certain of the Corporation's businesses may be required to obtain or renew further government permits and licenses for its current and contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, public hearings and costly undertakings on the Corporation's part. The duration and success of the Corporation's efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Corporation may not be able to obtain, amend or renew permits or licenses that are necessary to its operations or to achieve the growth of its business. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Corporation. To the extent necessary, permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Corporation may be curtailed or prohibited from proceeding with ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

Several of the licenses held by the Corporation are subject to renewal on an annual or periodic basis; however, they are generally renewed, as a matter of course, if the license holder continues to operate in compliance with applicable legislation and regulations and without any material change to its operations. For example, Massachusetts' medical and adult-use cannabis programs each require annual renewal of registrations. These renewals are contingent upon the registration holder's past and continued ability to meet the statutory and regulatory requirements of the given program. Compliance personnel of each of the Corporation's businesses check renewal dates for licenses to seek to ensure that licenses are renewed as and when required. Ayr has implemented an additional centralized review of such renewal process.

While Ayr believes that the its compliance controls have been developed to mitigate the risk of any violations of any licenses they hold arising, there is no assurance that the Corporation's licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Corporation could impede the ongoing or planned operations of the Corporation and have a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

Ayr may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm Ayr's reputation, require Ayr to take, or refrain from taking, actions that could harm its operations or require Ayr to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on Ayr's business, financial condition, results of operations or prospects.

#### ***Nevada Regulatory Regime and Transfer and Grant of Licenses.***

The business and activities of Ayr are heavily regulated in Nevada. Ayr's operations are subject to various laws, regulations and guidelines by governmental authorities, relating to the manufacture, marketing, management, transportation, storage, sale, pricing and disposal of medical marijuana and cannabis oil, and also including laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant the Nevada Cannabis Compliance Board (as successor regulatory agency to the Nevada Taxation Department over the Nevada cannabis industry) and self-regulatory bodies broad administrative discretion over the activities of Ayr in Nevada, including the power to limit or restrict business activities as well as impose additional disclosure requirements on Ayr's products and services. Achievement of Ayr's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by the Nevada Cannabis Compliance Board and other governmental authorities and obtaining all regulatory approvals from the Nevada Cannabis Compliance Board and other governmental authorities, where necessary, for the sale of its cannabis products. Similarly, Ayr cannot predict the time required to secure all appropriate regulatory approvals for its licenses, including the transfer of licenses and/or the grant of new licenses in Nevada, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals or licenses, including the transfer of licenses and/or the grant of new licenses in Nevada, would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of Ayr.

Ayr will incur ongoing costs and obligations related to regulatory compliance and obtaining new licenses. Failure to comply with regulations may lead to possible sanctions including the revocation or imposition of additional conditions on licenses to operate Ayr's business, the suspension or expulsion from the Nevada cannabis market or of its key personnel, and the imposition of fines and censures. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Ayr's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Ayr.

***Limitations on ownership of licenses.***

In certain States, the cannabis laws and regulations limit not only the number of cannabis licenses issued, but also the number of cannabis licenses that one person may own. For example, in Massachusetts, no person may have an ownership interest, or control over, more than three medical licenses or three adult-use licenses in any category – for example, cultivation, product manufacturing, transport or retail. Ayr believes that, where such restrictions apply, it may still capture significant share of revenue in the market through the provision of management or support services and similar arrangements with other operators. Nevertheless, such limitations on the acquisition of ownership of additional licenses within certain States may limit Ayr's ability to grow organically or to increase its market share in such States.

***Regulatory action and approvals from the Food and Drug Administration.***

The Corporation's cannabis-based products are supplied to patients diagnosed with certain medical conditions. However, the Corporation's cannabis-based products are not approved by the FDA as "drugs" or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the FDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Food, Drug and Cosmetic Act ("FDCA").

In recent years, the FDA has issued letters to a number of companies selling products that contain CBD oil derived from hemp warning them that the marketing of their products violates the FDCA. FDA enforcement action against the Corporation could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial or total suspension of the Corporation's production or distribution of its products. Any such event could have a material adverse effect on Ayr's business, prospects, financial condition, and operating results.

***Risks related to acquisitions.***

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Corporation's ongoing business; (ii) distraction of management; (iii) the Corporation may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Corporation's operations; and (vi) loss or reduction of control over certain of the Corporation's assets. Additionally, Ayr may issue additional Subordinate Voting Shares in connection with such transactions, which would dilute an Ayr shareholder's holdings in Ayr or indirect holdings in Ayr.

The Corporation could incur additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from the acquisition of businesses or strategic assets. All of these factors could cause dilution to the Corporation's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Corporation's securities.

The Corporation may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such acquired company with its existing operations. If integration is not managed successfully by the Corporation's management, the Corporation may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Corporation's business, financial condition and results of operations. The Corporation may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of any such acquired companies may also impose substantial demands on management. There is no assurance that these acquisitions will be successfully integrated in a timely manner.

Such transactions could involve other risks, including the assumption of unidentified or unknown liabilities, disputes or contingencies, for which the Corporation, as a successor owner, may be responsible, and/or changes in the industry, location, or regulatory or political environment in which these investments are located, that the Corporation's due diligence review may not adequately uncover and that may arise after entering into such transactions. Although the Corporation has and expects to continue to realize strategic, operational and financial benefits as a result of the Corporation's mergers and acquisitions, the Corporation cannot predict whether and to what extent such benefits will be achieved.

Furthermore, any future merger or acquisition may result in diversion of management's attention from other business concerns, and such transactions may be dilutive to the Corporation's financial results and/or result in impairment charges and write-offs.

The presence of one or more material liabilities of an acquired company that are unknown to Ayr at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of Ayr. A strategic transaction may result in a significant change in the nature of Ayr's business, operations and strategy. In addition, Ayr may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into Ayr's operations.

***Risks related to expansion strategy.***

There is no guarantee that the Corporation's expansion strategy will be completed, nor is there any guarantee that the Corporation will be able to expand into additional jurisdictions. There is also no guarantee that the Corporation's intentions to acquire and/or construct additional cannabis production, manufacturing, distribution or sales facilities, and to expand the Corporation's marketing and sales initiatives will be successful. Any such activities will require, among other things, various regulatory approvals, licences and permits and there is no guarantee that all required approvals, licences and permits will be obtained in a timely fashion or at all. There is also no guarantee that the Corporation will be able to complete any of the foregoing activities as anticipated or at all.

The Corporation's failure to successfully execute its expansion strategy (including receiving required regulatory approvals, licences and permits) could adversely affect the Corporation's business, financial condition and results of operations and may result in the Corporation failing to meet anticipated or future demand for its cannabis products, when and if it arises.

***Risks related to evaluating prospective target businesses.***

Although the Corporation has identified specific criteria and guidelines for evaluating prospective target businesses, it is possible that a target business with which the Corporation enters into a transaction will not have all of these positive attributes. If the Corporation consummates a transaction with a target that does not meet some or all of these guidelines, such transaction may not prove to be successful. In addition, there is no guarantee that an investment that meets the criteria and guidelines established by the Corporation will prove to be successful.

***Risks related to transactions that are not consummated.***

The Corporation anticipates that the investigation of each specific target business and the negotiation, drafting, and execution of relevant agreements, disclosure documents, and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and other experts. If the Corporation decides not to complete a specific transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, if the Corporation reaches an agreement relating to a specific target business, the Corporation may fail to consummate the transaction for any number of reasons, including those beyond its control. Any such event will result in losses to the Corporation of the related costs incurred which could materially adversely affect subsequent attempts to locate and acquire or merge with another business.

***Risks related to loss of officers and directors.***

The Corporation's operations are dependent upon a relatively small group of individuals and, in particular, its officers and directors. The Corporation believes that its success will depend on the continued service of its officers and directors. In addition, the Corporation's officers and directors are not required to commit any specified amount of time to the Corporation's affairs and, accordingly, may have conflicts of interest in allocating management time among various business activities, including identifying potential acquisitions and monitoring the related due diligence. The Corporation does not have key-man insurance on the life of any of its directors or officers. The unexpected loss of the services of one or more of its directors or officers could have a detrimental effect on the Corporation, its operations and its ability to make acquisitions.



### ***Risks related to conflicts of interest.***

The Corporation engages in the business of identifying and combining with one or more businesses. The Corporation's officers and directors may now be, or may in the future become, affiliated with entities that are engaged in a similar business.

The Corporation's officers and directors also may become aware of business opportunities which may be appropriate for presentation to the Corporation and the other entities to which it owes duties. In the course of its other business activities, the Corporation's officers and directors may owe similar or other duties, and may have obligations, to other entities or pursuant to other outside business arrangements, including seeking and presenting investment and business opportunities. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. These conflicts may not be resolved in the Corporation's favour, as the Corporation's officers and directors are not required to present investment and business opportunities to the Corporation in priority to other entities with which they are affiliated or to which they owe duties.

The Corporation has not adopted a policy that expressly prohibits its directors, officers, security holders, affiliates or associates from having a direct or indirect financial interest in any investment to be acquired or disposed of by the Corporation or in any transaction to which it is a party or has an interest. In fact, even though it is not the Corporation's current intentions to do so, they may enter into a transaction with a target business that is affiliated with the Corporation's directors or officers.

Pursuant to the strategic opportunities agreement entered into among Ayr, Mercer Park Brand Acquisition Corp. (a special purpose acquisition corporation with a sponsor that is an affiliate of Mercer, for which Jonathan Sandelman is an officer and director and Louis Karger is an officer) and Mercer Park, L.P. (the parent of Mercer), regarding the allocation of corporate opportunities, the parties thereto granted rights of first refusal in an established order to the parties thereto for certain corporate opportunities involving businesses with a value, in the opinion of Mercer, of more than \$20 million, that are in alignment with either Mercer Park Brand Acquisition Corp.'s priority business focus (being cannabis-related brands, trade marks and/or service marks and ancillary businesses) or Ayr's priority business focus (being cultivation, manufacturing, wholesale, retail operations and/or licenses in respect of cannabis, not mainly attributable to brand value). For greater certainty, the rights of first refusal are not intended to apply to: (i) acquisition opportunities with respect to businesses with a value, in the opinion of Mercer, of less than \$20 million; or (ii) acquisition opportunities in respect of non-controlling interests. See "*Conflicts of Interest and Interests of Management and Others in Material Transactions*".

### **Business Risks Related to the Cannabis Industry**

***Scientific research related to the benefits of marijuana remains in early stages, is subject to a number of important assumptions and may prove to be inaccurate.***

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids remains in early stages. To Ayr's knowledge, there have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Any statements made in this AIF concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, any statements made in this AIF are subject to the experimental parameters, qualifications, assumptions and limitations in the studies that have been completed.

Although Ayr believes that the articles and reports, and details of research studies and clinical trials that are publicly available reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy and dosing of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding and perceptions relating to cannabis. Given these risks, uncertainties and assumptions, prospective and current Ayr shareholders should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this AIF or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Competition in the cannabis industry is intense and increased competition by larger and better-financed competitors could materially and adversely affect the business, financial condition and results of operations of Ayr.***

Ayr expects to face intense competition in the cannabis industry, some of which can be expected to come from companies with longer operating histories and more financial resources, manufacturing and marketing experience than Ayr. In addition, there is potential that the cannabis industry will undergo consolidation, creating larger companies with financial resources, manufacturing and marketing capabilities, and products that will be greater than those of Ayr. As a result of this competition, Ayr may be unable to maintain its operations or develop them as currently proposed on terms it considers to be acceptable or at all. Increased competition by larger, better-financed competitors with geographic advantages may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Negative publicity or consumer perception may affect the success of Ayr's business.***

The success of the cannabis industry may be significantly influenced by the public's perception of marijuana. Both the medical and adult-use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favourable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and adult-use marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of marijuana, whether in Canada, the U.S. or elsewhere, may have a material adverse effect on Ayr's operational results, consumer base and financial results.

Public perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for adult-use or medical marijuana and on the business, results of operations, financial condition, cash flows or prospects of Ayr.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or associating the consumption of adult-use and medical marijuana with illness or other negative effects or events, could have such a material adverse effect. There is no assurance that such adverse publicity reports or other media attention will not arise. Among other things, a negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could cause State jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new State jurisdictions into which Ayr could expand. Any inability to fully implement Ayr's expansion strategy may have a material adverse effect on Ayr's business, results of operations or prospects.

***Results of future clinical research may negatively impact the cannabis industry.***

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC) and future research and clinical trials may discredit the medical benefits, viability, safety, efficacy, and social acceptance of cannabis or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of Ayr's securities should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this AIF or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for Ayr's products with the potential to lead to a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***The cannabis industry is difficult to forecast.***

Ayr must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations, financial condition or prospects of Ayr.

***Reliable data on the medical and adult-use cannabis industry is not available.***

As a result of recent and ongoing regulatory and policy changes in the medical and adult-use cannabis industry, the market data available is limited and unreliable. Federal and State laws prevent widespread participation and hinder market research. Therefore, market research and projections by Ayr of estimated total retail sales, demographics, demand, and similar consumer research, are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of Ayr's management team as of the date of this AIF.

***Ayr may be subject to the risk of constraints on marketing products.***

The development of Ayr's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the U.S. limits companies' abilities to compete for market share in a manner similar to other industries. If Ayr is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, Ayr's sales and results of operations or prospects could be adversely affected.

**Risks Related to Ayr's Business**

***COVID-19 pandemic.***

COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The outbreak has caused companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions. While the impact of these restrictions cannot be reasonably estimated at this time, the Corporation has sought to assess the potential impact of the pandemic on its operating results. The Corporation has attempted to assess the impact of the pandemic by identifying risks in the following principle areas:

***Mandatory Closure.*** In response to the pandemic, most States and localities have deemed cannabis sales to be "essential business" and made only limited changes (if any) to normal business practices to prevent the spread of COVID-19. While the Corporation has and continues to work closely with State and local regulators to remain in compliance with COVID-19 guidelines, there is no guarantee further measures may nevertheless require Ayr to shut operations in some or all States. The Corporation's ability to generate revenue would be materially impacted by any shut down of its operations.

***Customer Impact.*** The Corporation has implemented several initiatives prioritizing its medical patients and customers most susceptible to COVID-19 during the pendency of the COVID-19 outbreak. While the Corporation is seeking to implement measures, where permitted, such as "curbside" sales and delivery, to reduce infection risk to our customers, regulators may not permit such measures, or such measures may not prevent a reduction in demand.

***Health and Safety of Patients, Customers, and Employees.*** In accordance with the guidance of the Centers of Disease Control and Prevention ("CDC"), the Corporation made essential changes to promote a healthy and safe operating environment for all of its patients, customers and employees, including:

- frequently sanitizing high-touch surfaces;
- deep cleaning and sanitizing workstations;
- sanitizing or washing hands after each transaction;
- ensuring hand sanitizer is easily accessible;
- suspending all use of paper menus, demo products, and demo samples;
- positioning staff at every other register when possible;
- taking the temperature of store employees before they begin their shift;
- requiring all dispensary staff to wear face masks;
- installed plexi-shields in areas where patients/customers come face to face with staff (check-in and at registers where glass doesn't already exist); and

- placed markers on the floor to dictate 6 feet + of space between patients/customers.

*Supply Chain Disruption.* The Corporation relies on third party suppliers for equipment and services to produce its products and keep its operations going. If its suppliers are unable to continue operating due to mandatory closures or other effects of the pandemic, it may negatively impact its own ability to continue operating. At this time, the Corporation has not experienced any failure to secure critical supplies or services. However, disruptions in our supply chain may affect our ability to continue certain aspects of the Corporation's operations or may significantly increase the cost of operating its business and significantly reduce its margins.

*Staffing Disruption.* The Corporation is, for the time being, implementing among its staff where feasible "social distancing" measures recommended by such bodies as the CDC, the Presidential Administration, as well as state and local governments. The Corporation has cancelled nonessential travel by employees, implemented remote meetings where possible, and permitted all staff who can work remotely to do so. For those whose duties require them to work on-site, measures have been implemented to reduce infection risk, such as reducing contact with customers, mandating additional cleaning of workspaces and hand disinfection, providing masks and taking the temperature of employees before they begin their shift. Nevertheless, despite such measures, the Corporation may find it difficult to ensure that its operations remain staffed due to employees falling ill with COVID-19, becoming subject to quarantine, or deciding not to come to work on their own volition to avoid infection.

The Corporation is actively addressing the risk to business continuity represented by each of the above factors through the implementation of a broad range of measures throughout its structure and is re-assessing its response to the COVID-19 pandemic on an ongoing basis. The above risks individually or collectively may have a material impact on the Corporation's ability to generate revenue. Implementing measures to remediate the risks identified above may materially increase our costs of doing business, reduce our margins and potentially result in losses. While the Corporation is not currently in financial distress, if the Corporation's financial situation materially deteriorates as a result of the impact of the pandemic, the Corporation could eventually be unable to meet its obligations to third parties, including observing financial covenants under the Corporation's senior notes payable or other debt, which in turn could lead to insolvency and bankruptcy of the Corporation.

***Ayr has a limited operating history.***

As a high-growth enterprise, Ayr does not have a history of profitability. As such, Ayr has no immediate prospect of generating profit from its intended operations. Ayr is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Ayr will be successful in achieving a return on its shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

***Ayr will be reliant on its management team.***

The success of Ayr is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on Ayr's business, operating results, financial condition or prospects.

News media have reported that U.S. immigration authorities have increased scrutiny of Canadian citizens who are crossing the U.S.-Canada border with respect to persons involved in cannabis businesses in the U.S. There have been a number of Canadians barred from entering the U.S. as a result of an investment in or act related to U.S. cannabis businesses. In some cases, entry has been barred for extended periods of time. Ayr employees traveling from Canada to the U.S. for the benefit of Ayr may encounter enhanced scrutiny by U.S. immigration authorities that may result in the employee not being permitted to enter the U.S. for a specified period of time. If this happens to Ayr employees, then this may reduce our ability to manage effectively our business in the U.S.

Certain of Ayr's officers and directors may now be, and all of them may in the future become, affiliated with entities engaged in business activities similar to those intended to be conducted by Ayr and, accordingly, may have conflicts of interest in allocating their time and determining to which entity a particular business opportunity should be presented.

Ayr's officers and directors also may become aware of business opportunities which may be appropriate for presentation to Ayr and the other entities to which they owe duties. In the course of their other business activities, Ayr's officers and directors may owe similar or other duties, and may have obligations, to other entities or pursuant to other outside business arrangements, including seeking and presenting investment and business opportunities. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. These conflicts may not be resolved in our favour, as Ayr's officers and directors are not required to present investment and business opportunities to Ayr in priority to other entities with which they are affiliated or to which they owe duties, and such conflicts may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Ayr may be subject to the risk of competition from synthetic production and technological advances.***

The pharmaceutical industry may attempt to dominate the cannabis industry, and in particular, legal marijuana, through the development and distribution of synthetic products which emulate the effects and treatment of organic marijuana. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of Ayr to secure long-term profitability and success through the sustainable and profitable operation of its business. There may be unknown additional regulatory fees and taxes that may be assessed in the future that may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Ayr may be subject to the risks associated with fraudulent or illegal activity by its employees, contractors and consultants.***

Ayr is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to Ayr that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for Ayr to identify and deter misconduct by its employees and other third parties, and the precautions taken by Ayr to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting Ayr from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Ayr, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on Ayr's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of Ayr's operations, any of which could have a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Certain events or developments in the cannabis industry more generally may impact Ayr's reputation.***

Damage to Ayr's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of Ayr. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to Ayr and its activities, whether true or not, and the cannabis industry in general, whether true or not. Ayr does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to Ayr's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Third parties with whom Ayr may do business may perceive themselves as being exposed to reputational risk as a result of their relationship with Ayr.***

The parties with which Ayr may do business may perceive that they are exposed to reputational risk as a result of Ayr's cannabis-related business activities. Failure to establish or maintain business relationships due to reputational risk arising in connection with the nature of Ayr's business may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Ayr may be subject to advertising and promotional risk in the event it cannot effectively implement a successful branding strategy.***

Ayr's future growth and profitability may depend on the effectiveness and efficiency of advertising and promotional costs, including its ability to (i) create brand recognition for any products we may develop or sell; (ii) determine appropriate advertising strategies, messages and media; and (iii) maintain acceptable operating margins on such costs. There can be no assurance that advertising and promotional costs will result in revenues for Ayr's business in the future or will generate awareness for any of Ayr's products. In addition, no assurance can be given that Ayr will be able to manage our advertising and promotional costs on a cost-effective basis.

The cannabis industry in Canada, including both the medical and adult-use cannabis markets, is in its early development stage and restrictions on advertising, marketing and branding of cannabis companies and products by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect Ayr's ability to conduct sales and marketing activities and to create brand recognition, and could potentially result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Certain of the Corporation's businesses are subject to product liability regimes and strict product recall requirements.***

Certain of the Corporation's businesses are distributors of products designed to be ingested by humans. Accordingly, Ayr faces the risk of exposure to product liability claims, regulatory action and litigation if any of its businesses' products are alleged to have caused significant loss or injury. In addition, the sale of cannabis products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. Ayr may be subject to various product liability claims, including, among others, that specific cannabis products caused injury or illness, or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Ayr could result in increased costs, could adversely affect our reputation with Ayr's clients and consumers generally, and may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

In addition, manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. To the extent any products are recalled due to an alleged product defect or for any other reason, Ayr could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Ayr may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Moreover, a recall for any of the foregoing reasons could lead to decreased demand and could have a material adverse effect on Ayr. Product recalls may lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***Ayr may not be able to successfully develop new products or find a market for their sale.***

The cannabis industry is in its early stages of development and Ayr, and its competitors, may seek to introduce new products in the future. In attempting to keep pace with any new market developments, Ayr may need to expend significant amounts of capital in order to successfully develop and generate revenues from new products introduced by Ayr. Ayr may also be required to obtain additional regulatory approvals from Health Canada and any other applicable regulatory authorities, which may take significant amounts of time. Ayr may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Ayr will be reliant on third-party suppliers, manufacturers and contractors.***

Ayr intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the U.S., Ayr's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for Ayr's operations. Loss of these suppliers, manufacturers and contractors may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Ayr will be reliant on key inputs.***

The marijuana business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of Ayr. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, Ayr might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to Ayr in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of Ayr.

***Ayr will be reliant on equipment and skilled labour.***

The ability of Ayr to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Ayr will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by Ayr's capital expenditure plans may be significantly greater than anticipated by Ayr's management, and may be greater than funds available to Ayr, in which circumstance Ayr may curtail, or extend the timeframes for completing, its capital expenditure plans. This may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Service providers could suspend or withdraw service.***

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third-party service providers to Ayr could suspend or withdraw their services, which may have a material adverse effect on Ayr's business, revenues, operating results, financial condition or prospects.

***Ayr may be subject to the risk of litigation.***

Ayr may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which Ayr becomes involved be determined against Ayr, such a decision could adversely affect Ayr's ability to continue operating and the market price for the Subordinate Voting Shares. Even if Ayr is involved in litigation and wins, litigation can redirect significant company resources.

***Ayr may be subject to risks related to the protection and enforcement of intellectual property rights, and may become subject to allegations that Ayr is in violation of intellectual property rights of third parties.***

The ownership and protection of intellectual property rights may be a significant aspect of Ayr's future success. Ayr may rely on trade secrets, technical know-how and proprietary information that are not protected by patents to maintain its competitive position. Ayr will try to protect such intellectual property by entering into confidentiality agreements with parties that have access to it, such as Ayr's partners, collaborators, employees and consultants. Any of these parties may breach these agreements and we may not have adequate remedies for any specific breach. In addition, trade secrets and technical know-how, which are not protected by patents, may otherwise become known to or be independently developed by competitors, in which event Ayr could be materially adversely affected.

Unauthorized parties may attempt to replicate or otherwise obtain and use Ayr's products, trade secrets, technical know-how and proprietary information. Policing the unauthorized use of Ayr's future intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. Identifying unauthorized use of intellectual property rights is difficult as Ayr may be unable to effectively monitor and evaluate the products being distributed by its competitors, including parties such as unlicensed dispensaries, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of Ayr's future trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same for the benefit of Ayr, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of Ayr's future trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly. Any or all of these events could result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

In addition, other parties may claim that Ayr's products infringe on their proprietary and perhaps patent-protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, injunctions, temporary restraining orders and/or require the payment of damages. As well, Ayr may need to obtain licenses from third parties who allege that Ayr has infringed on their lawful rights. However, such licenses may not be available on terms acceptable to Ayr or at all. In addition, Ayr may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

*Ayr may be subject to risks related to information technology systems, including cyber-attacks.*

Ayr's operations may depend, in part, on how well it and its suppliers protect networks, equipment, information technology systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. Ayr's operations may also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact Ayr's reputation and results of operations. Ayr's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access may become a priority to ensure the ongoing success and security of the business. As cyber threats continue to evolve, Ayr may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

*Ayr may be subject to risks related to security breaches.*

Given the nature of the Corporation's product and its lack of legal availability outside of channels approved by the Government of the United States, as well as the concentration of inventory in its facilities, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Corporation's facilities could expose Ayr to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing Ayr's products.

In addition, the Corporation collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on Ayr's business, financial condition and results of operations or prospects.

*Ayr may be subject to risks related to high bonding and insurance coverage.*

There is a risk that a greater number of State regulatory agencies will begin requiring entities engaged in certain aspects of the business or industry of legal marijuana to post a bond or significant fees when applying, for example, for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. Ayr is not able to quantify at this time the potential scope for such bonds or fees in the States in which it currently or may in the future operate. Any bonds or fees of material amounts could have a negative impact on the ultimate success of Ayr's business.

Ayr's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although Ayr maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. Ayr may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of Ayr is not generally available on acceptable terms. Ayr might also become subject to liability for pollution or other hazards which may not be insured against or which Ayr may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Ayr to incur significant costs that could have a material adverse effect upon its business, results of operations, financial condition or prospects.



***Ayr may be subject to transportation risks.***

Ayr's business involves, both directly and indirectly, the production, sale and distribution of cannabis products. Due to the perishable nature of such products, Ayr depends on fast and efficient direct and third-party transportation services to distribute its product. Any prolonged disruption of third-party transportation services could have an adverse effect on Ayr. Rising costs associated with the third-party transportation services which will be used by Ayr to ship its proposed products may also adversely impact the business of Ayr.

***Ayr's share price may be vulnerable to rising energy costs.***

Ayr's business may involve, directly or indirectly, the production of cannabis products which will consume considerable energy, making Ayr vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of Ayr and its ability to operate profitably.

***Ayr may be subject to risks inherent in an agricultural business.***

Ayr's business may involve, directly or indirectly, the growing of cannabis, which is an agricultural product. As such, the business may be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Even when grown indoors under climate-controlled conditions monitored by trained personnel, there can be no assurance that natural elements, such as insects and plant diseases, will not have a material adverse effect on the production of cannabis products and on Ayr's business, financial condition, results of operations or prospects of Ayr.

***Management of growth may prove to be difficult.***

Ayr may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Ayr to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Ayr to deal with this growth may result in a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

***Ayr may be subject to the risks of leverage.***

Ayr anticipates utilizing leverage in connection with Ayr's investments in the form of secured or unsecured indebtedness. Although Ayr will seek to use leverage in a manner it believes is prudent, such leverage will increase the exposure of an investment to adverse economic factors such as downturns in the economy or deterioration in the condition of the investment. If Ayr defaults on secured indebtedness, the lender may foreclose and Ayr could lose its entire investment in the security of such loan. If Ayr defaults on unsecured indebtedness, the terms of the loan may require Ayr to repay the principal amount of the loan and any interest accrued thereon in addition to heavy penalties that may be imposed. Because Ayr may engage in financings where several investments are cross-collateralized, multiple investments may be subject to the risk of loss. As a result, Ayr could lose its interest in performing investments in the event such investments are cross-collateralized with poorly performing or nonperforming investments.

In addition to leveraging Ayr's investments, Ayr may borrow funds in its own name for various purposes, and may withhold or apply from distributions amounts necessary to repay such borrowings. The interest expense and such other costs incurred in connection with such borrowings may not be recovered by income from investments purchased by Ayr. If investments fail to cover the cost of such borrowings, the value of the investments held by Ayr would decrease faster than if there had been no such borrowings. Additionally, if the investments fail to perform to expectation, the interests of investors in Ayr could be subordinated to such leverage, which will compound any such adverse consequences.

***Risks related to the difficulty of attracting and retaining personnel.***

Ayr's success depends to a significant degree upon its ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical personnel, sales and marketing personnel and skilled management could adversely affect Ayr's business. If Ayr fails to attract, train and retain sufficient numbers of these highly qualified people, its prospects, business, financial condition and results of operations will be materially and adversely affected.

***Co-investment risk in terms of control over Ayr's investments.***

Ayr has co-invested and may continue to co-invest in one or more investments with certain strategic investors and/or other third parties through joint ventures or other entities, which parties in certain cases may have different interests or superior rights to those of Ayr. Although it is Ayr's intent to retain control and other superior rights over Ayr's investments, under certain circumstances it may be possible that Ayr relinquishes such rights over certain of its investments and, therefore, may have a limited ability to protect its position therein. In addition, even when Ayr does maintain a control position with respect to its investments, Ayr's investments may be subject to typical risks associated with third-party involvement, including the possibility that a third-party may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of Ayr, or may be in a position to take (or block) action in a manner contrary to Ayr's objectives. Ayr may also, in certain circumstances, be liable for the actions of its third-party partners or co-investors. Co-investments by third parties may or may not be on substantially the same terms and conditions as Ayr, and such different terms may be disadvantageous to Ayr.

***Reliance on Management Services Agreements with subsidiaries and affiliates could adversely affect prospects and results.***

Certain of Ayr's subsidiaries and other affiliates are likely to engage in the medicinal cannabis business through Management Services Agreements entered into with State-licensed entities. Under such agreements, its subsidiaries and affiliates perform a number of services, including cultivation, growing and handling of marijuana plants, trimming, curing and packaging of dry flower, patient advisory, lab and scientific research services, consultation on regulatory issues and a variety of management functions and are required to obtain cannabis business support licenses. In exchange for providing these services, Ayr's subsidiaries and affiliates receive management fees which are a key source of revenue. Payment of such fees is dependent on the continuing validity and enforceability of the relevant Management Services Agreements. If such agreements are found to be invalid or unenforceable, or are terminated by the counter-party, this could have a material adverse effect on the business, prospects, financial condition, and operating results. If ultimate approval of license transfers is not able to be obtained, this could have a material adverse effect on Ayr.

***Liabilities arising from Ayr's website accessibility.***

Internet websites are visible by people everywhere, not just in jurisdictions where the activities described therein are considered legal. As a result, to the extent Ayr sells services or products via web-based links targeting only jurisdictions in which such sales or services are compliant with State law, Ayr may face legal action in other jurisdictions which are not the intended object of any of Ayr's marketing efforts for engaging in any web-based activity that results in sales into such jurisdictions deemed illegal under applicable laws.

***Ayr is subject to the costs of being a public company.***

As a public issuer, Ayr is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which Ayr's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase Ayr's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business and financial condition.

***Certain remedies may be limited to Ayr.***

Pursuant to its governing documents, Ayr and the shareholders of Ayr may be prevented from recovering damages for alleged errors or omissions made by the members of the Corporation's board of directors and its officers. Ayr's governing documents also provide that Ayr will, to the fullest extent permitted by law, indemnify members of the Corporation's board of directors and its officers for certain liabilities incurred by them by virtue of their acts on behalf of Ayr.

***Ayr may have difficulty enforcing judgments and effecting service of process on directors and officers.***

The directors and officers of Ayr reside outside of Canada. Some or all of the assets of such persons may be located outside of Canada. Therefore, it may not be possible for Ayr shareholders to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for Ayr shareholders to effect service of process within Canada upon such persons.

***Past performance is not indicative of future results.***

The prior investment and operational performance of any of the Corporation's businesses is not indicative of the future operating results of Ayr. There can be no assurance that the historical operating results achieved by any of the Corporation's businesses or their affiliates will be achieved by Ayr, and Ayr's performance may be materially different.

***Financial projections may prove materially inaccurate or incorrect.***

Any Ayr financial estimates, projections and other forward-looking information or statements included in this AIF were prepared by Ayr without the benefit of reliable historical industry information or other information customarily used in preparing such estimates, projections and other forward-looking information or statements. Such forward-looking information or statements are based on assumptions of future events that may or may not occur, which assumptions may not be disclosed in this AIF. Ayr shareholders should inquire of Ayr and become familiar with the assumptions underlying any estimates, projections or other forward-looking information or statements. Projections are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the assumptions upon which these projections are based will be realized. Actual results may differ materially from projected results for a number of reasons including increases in operation expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, and unanticipated competition. Accordingly, Ayr shareholders should not rely on any projections to indicate the actual results Ayr might achieve.

***Ayr may not pay dividends.***

Ayr does not anticipate paying any dividends on the Subordinate Voting Shares or the Multiple Voting Shares in the foreseeable future. Dividends paid by Ayr would be subject to tax and, potentially, withholdings. See "Dividends".

**Market and Economy Risks**

***Ayr may be vulnerable to currency exchange fluctuations.***

Due to Ayr's present operations in the United States, and its intention to continue future operations outside Canada, Ayr is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Currently, all of Ayr's revenue is earned in US dollars. Fluctuations in the exchange rate between the US dollar and the Canadian dollar may have a material adverse effect on Ayr's business, financial position or results of operations or prospects.

***Ayr may be subject to market price volatility risks.***

The market price of the Subordinate Voting Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of Ayr, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for Ayr, general economic conditions, legislative changes, and other events and factors outside of Ayr's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Subordinate Voting Shares.

***There may be restrictions on the market for the Subordinate Voting Shares.***

Notwithstanding that the Subordinate Voting Shares are listed on the CSE (and excluding the Multiple Voting Shares which will not be listed securities), various regulatory regimes in the United States forbid the transfer of such Subordinate Voting Shares in quantities that exceed published thresholds without receiving advanced approval of the State regulators. Failure to obtain approval may result in Ayr's licenses in that State being revoked.

***There is a limited market for the Subordinate Voting Shares.***

Notwithstanding that the Subordinate Voting Shares are listed on the CSE (and excluding the Multiple Voting Shares which will not be listed securities), there can be no assurance that an active and liquid market for such Subordinate Voting Shares will develop or be maintained and an Ayr shareholder may find it difficult to resell any securities of Ayr.

***Ayr may be subject to the risks posed by sales by existing Ayr shareholders.***

Sales of a substantial number of Subordinate Voting Shares (and excluding the Multiple Voting Shares which will not be listed securities) in the public market could occur at any time by existing holders of such Subordinate Voting Shares. These sales, or the market perception that the holders of a large number of Subordinate Voting Shares intend to sell Subordinate Voting Shares, could reduce the market price of the Subordinate Voting Shares. If this occurs and continues, it could impair Ayr's ability to raise additional capital through the sale of securities.

***The cashless exercise feature of the Warrants could result in more volatile financial results.***

The cashless exercise feature of the Warrants could result in more volatile financial results because with the Cashless Exercise feature, the Warrants are classified as a liability and are therefore recorded at fair value. Any fluctuations in the fair value of a Warrant would be reflected in income. See "*Description of Share Capital – Warrants*".

***Global financial conditions and the future economic shocks may impair Ayr's financial condition.***

Following the onset of the credit crisis in 2007-2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability. Global financial conditions could suddenly and rapidly destabilize in response to future economic shocks, as government authorities may have limited resources to respond to future crises.

Future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact Ayr's ability to obtain equity or debt financing in the future on terms favourable to Ayr. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, Ayr's operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the cannabis industry, supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends will affect Ayr's operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on Ayr's business, financial condition, results of operations or prospects.

**Environmental Risks**

***Ayr may be subject to significant environmental regulations and risks.***

Ayr's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Ayr's operations.

Government approvals and permits are currently, and may in the future, be required in connection with Ayr's operations. To the extent such approvals are required and not obtained, Ayr may be curtailed or prohibited from its proposed production of medical marijuana or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Ayr may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical marijuana, or more stringent implementation thereof, could have a material adverse impact on Ayr and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

*Ayr may be subject to unknown environmental risks.*

There can be no assurance that Ayr will not encounter hazardous conditions at the facilities where it operates its businesses, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of Ayr may be suspended. The presence of other hazardous conditions may require significant expenditure of Ayr's resources to correct the condition. Such conditions could have a material impact on the investment returns of Ayr.

**Tax Risks**

*U.S. tax residence of Ayr.*

Ayr, which is and will continue to be a Canadian corporation as of the date of this AIF, generally would be classified as a non-U.S. corporation (and, therefore, as a non-U.S. tax resident) for U.S. federal income tax purposes. Section 7874 of the United States Internal Revenue Code of 1986, as amended (the "Code"), however, contains rules that can cause a non-U.S. corporation to be taxed as a U.S. corporation for U.S. federal income tax purposes.

Ayr expects to be treated as a U.S. corporation for U.S. federal income tax purposes under section 7874 of the Code and expects to be subject to U.S. federal income tax on its worldwide income.

Ayr also expects, for Canadian tax purposes, to be treated as a Canadian resident company (as defined in the *Income Tax Act* (Canada), as amended from time to time, including the regulations thereunder (the "Tax Act")) regardless of any application of section 7874 of the Code. As a result, Ayr will be subject to taxation both in Canada and the U.S., which could have a material adverse effect on its financial condition and results of operations.

Moreover, it is unlikely that Ayr will pay any dividends on the Subordinate Voting Shares in the foreseeable future, but any distributions paid by Ayr to a holder of Subordinate Voting Shares may be subject to U.S. withholding tax as well as any applicable Canadian withholding tax.

In particular, dividends received by shareholders who are residents of Canada for purpose of the Tax Act will be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-United States tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by U.S. shareholders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by Ayr will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Code. Accordingly, U.S. shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor U.S. shareholders will be subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to a shareholder of Ayr, subject to examination of the relevant treaty. These dividends may however qualify for a reduced rate of Canadian withholding tax under any income tax treaty otherwise applicable to a shareholder of Ayr, subject to examination of the relevant treaty.

**EACH SHAREHOLDER SHOULD SEEK TAX ADVICE, BASED ON SUCH SHAREHOLDER'S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.**

*Ayr will be subject to significant tax liabilities until the U.S. Internal Revenue Service ("IRS") or Congress changes its position that most expenses of cannabis businesses are not permitted tax deductions under section 280E of the Code.*

Section 280E of the Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (including cannabis) which are listed on Schedule I and II under the U.S. federal Substances Act. The IRS has invoked section 280E of the Code in tax audits against various cannabis businesses in the U.S. that are authorized under State laws, seeking substantial sums in tax liabilities, interest and penalties resulting from under payment of taxes due to the lack of deductibility of otherwise ordinary business expenses the deduction of which is prohibited by section 280E of the Code. Although the IRS issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various U.S. administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of section 280E of the Code favorable to cannabis businesses. Ayr's current financial plans include U.S. federal tax payable on gross revenue net only of the cost of seeds, plants and labor related to cultivation, rather than earnings before tax, which is typical in other jurisdictions.

***Tax risk related to controlled substances.***

Section 280E of the Code, as amended prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the Substances Act). The IRS has invoked section 280E of the Code in tax audits against various cannabis businesses in the U.S. that are permitted under applicable State laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various U.S. administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of section 280E of the Code favorable to cannabis businesses.

**DIVIDENDS**

The Corporation has not paid any cash dividends on its shares to date and does not anticipate paying any dividends in the foreseeable future. Subordinate Voting Shares and Multiple Voting Shares would be entitled to dividends on an equal per share basis, if, as and when declared by the board of directors of the Corporation (the “**Board**”).

**DESCRIPTION OF SHARE CAPITAL**

The Corporation is authorized to issue an unlimited number of Multiple Voting Shares and an unlimited number of Subordinate Voting Shares, each without nominal or par value. The Subordinate Voting Shares are “restricted securities” within the meaning of such term under applicable Canadian securities laws.

The following description summarizes the material terms of Ayr’s share capital. This summary is not exhaustive and is qualified in its entirety by reference to Ayr’s articles, the warrant agency agreement dated December 21, 2017, between the Corporation and Odyssey, as the warrant agent (the “**Warrant Agent**”), as amended (the “**Warrant Agreement**”), and the rights agreement dated December 21, 2017 between the Corporation and Odyssey, as the rights agent (the “**Rights Agent**”), as amended (the “**Rights Agreement**”), each of which are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

As of June 30, 2020, the Corporation had the following securities outstanding:

Subordinate Voting Shares	15,880,793
Multiple Voting Shares	3,696,486
Exchangeable Shares	8,080,568
Warrants	16,060,858
Rights	1,564,648

## Subordinate Voting Shares

As of June 30, 2020, there were an aggregate of 15,880,793 Subordinate Voting Shares outstanding. The holders of Subordinate Voting Shares will be entitled to receive notice of and to attend all meetings of the shareholders of the Corporation, except a meeting at which the holders of a specific class are entitled to vote separately as a class under the BCBCA. The Subordinate Voting Shares will carry one vote per share. The Subordinate Voting Shares are “restricted securities” within the meaning of such term under applicable Canadian securities laws.

In connection with any Change of Control Transaction (as defined below) requiring approval of the holders of Subordinate Voting Shares and Multiple Voting Shares under the BCBCA, the holders of Subordinate Voting Shares and Multiple Voting Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Subordinate Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

For purposes herein, a “**Change of Control Transaction**” means an amalgamation, arrangement, recapitalization, business combination or similar transaction of the Corporation, other than an amalgamation, arrangement, recapitalization, business combination or similar transaction that would result in (i) the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the continuing entity or its direct or indirect parent) more than fifty percent (50%) of the total voting power of the voting securities of the Corporation, the continuing entity or its direct or indirect parent, and more than fifty percent (50%) of the total number of outstanding shares of the Corporation, the continuing entity or its direct or indirect parent, in each case as outstanding immediately after such transaction, and (ii) the shareholders of the Corporation immediately prior to the transaction owning voting securities of the Corporation, the continuing entity or its direct or indirect parent immediately following the transaction in substantially the same proportions (vis-a-vis each other) as such shareholders owned the voting securities of the Corporation immediately prior to the transaction (provided that in neither event shall the exercise of any exchangeable shares of a subsidiary of the Corporation that are exchangeable into shares of the Corporation be taken into account in such determination).

Notwithstanding the foregoing, the holders of Subordinate Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Corporation’s articles which would: (i) adversely affect the rights or special rights of the holders of Subordinate Voting Shares (including an amendment to the terms of the Corporation’s articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in the Corporation’s articles) shall be automatically converted into Subordinate Voting Shares); or (ii) affect the holders of the Subordinate Voting Shares and Multiple Voting Shares differently, on a per share basis; or (iii) create any class or series of shares ranking equal to or senior to the Subordinate Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Subordinate Voting Shares.

As long as any Subordinate Voting Shares remain outstanding, the Corporation will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution alter or amend the Corporation’s articles if the result would (i) prejudice or interfere with any right or special right attached to the Subordinate Voting Shares, or (ii) affect the rights or special rights of holders of the Subordinate Voting Shares or Multiple Voting Shares on a per share basis, as provided in the Corporation’s articles.

Holders of Subordinate Voting Shares shall be entitled to receive, as and when declared by the Board, dividends in cash or property of the Corporation. No dividend will be declared or paid on the Multiple Voting Shares unless the Corporation simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Subordinate Voting Shares. In the event of the payment of a dividend in the form of shares, holders of Subordinate Voting Shares shall receive Subordinate Voting Shares, unless otherwise determined by the Board.

### Subdivision or Consolidation

No subdivision or consolidation of the Subordinate Voting Shares shall occur unless simultaneously, the Multiple Voting Shares are subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of each of the said classes.

In the case of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or a distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation, the holders of Subordinate Voting Shares are entitled to receive the Corporation's remaining property and are entitled to share equally, on a share for share basis, with all holders of Multiple Voting Shares and other holders of the Subordinate Voting Shares in all distributions of such assets.

The holders of Subordinate Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Corporation now or in the future.

If an offer is made to purchase the Multiple Voting Shares and such offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Multiple Shares that are subject to the offer are then listed, to be made to all or substantially all the holders of such Multiple Voting Shares in a given province of Canada to which these requirements apply (assuming that the offeree was a resident in Ontario), each Subordinate Voting Share shall become convertible, at the option of the holder, on a one-for-one basis, into Multiple Voting Shares that are subject to the offer, at any time while such offer is in effect until the date prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to such offer. The conversion right may only be exercised in respect of Subordinate Voting Shares for the purpose of depositing the resulting Multiple Voting Shares pursuant to the offer, and for no other reason, including with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Subordinate Voting Shares, notwithstanding their conversion. The transfer agent is required to deposit the resulting Multiple Voting Shares pursuant to such offer on behalf of such holder.

Should the applicable Multiple Voting Shares issued upon such conversion and tendered in response to such offer be withdrawn by the Corporation's shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, then each Multiple Voting Share resulting from such conversion shall be automatically reconverted, without any further act on the part of the Corporation or on the part of the holder, into one Subordinate Voting Share.

### **Multiple Voting Shares**

As of June 30, 2020, there were an aggregate of 3,696,486 Multiple Voting Shares outstanding. The holders of Multiple Voting Shares shall be entitled to receive notice of and to attend any meeting of shareholders of the Corporation, except a meeting of which only holders of another particular class or series of shares of the Corporation shall have the right to vote. The Multiple Voting Shares carry 25 votes per share (subject in the case of Mercer, to the terms of a voting agreement with the Corporation dated as of June 26, 2019, which may be found on Ayr's profile on SEDAR at [www.sedar.com](http://www.sedar.com)).

In connection with any Change of Control Transaction requiring approval of the holders of Subordinate Voting Shares and Multiple Voting Shares under the BCBCA, holders of the Subordinate Voting Shares and Multiple Voting Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Multiple Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

As long as any Multiple Voting Shares remain outstanding, the Corporation will not, without the consent of the holders of the Multiple Voting Shares by separate special resolution alter or amend the Corporation's articles if the result would (i) prejudice or interfere with any right or special right attached to the Multiple Voting Shares, or (ii) affect the rights or special rights of holders of the Subordinate Voting Shares or Multiple Voting Shares on a per share basis, as provided in the Corporation's articles.

Holders of Multiple Voting Shares shall be entitled to receive, as and when declared by the board of directors, dividends in cash or property of the Corporation. No dividend will be declared or paid on the Subordinate Voting Shares unless the Corporation simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Multiple Voting Shares. In the event of the payment of a dividend in the form of shares, holders of Multiple Voting Shares shall receive Multiple Voting Shares, unless otherwise determined by the Board.

No subdivision or consolidation of the Multiple Voting Shares shall occur unless, simultaneously, the Subordinate Voting Shares are subdivided or consolidated or otherwise adjusted so as to maintain and preserve the relative rights of the holders of each of the said classes.



In the case of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or a distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation, the holders of Multiple Voting Shares are entitled to receive the Corporation's remaining property and are entitled to share equally, on a share for share basis, with all holders of Subordinate Voting Shares and the other Multiple Voting Shares, in all distributions of such assets.

The holders of Multiple Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Corporation now or in the future.

At the holder's option, the Multiple Voting Shares will be convertible, on a one-for-one basis, into Subordinate Voting Shares. In addition, the Multiple Voting Shares will be automatically converted, without further act or formality, into Subordinate Voting Shares on the earliest of (i) the fifth anniversary of May 24, 2019, (ii) the date on which such Multiple Voting Shares are held or controlled by a person who is not a Permitted Holder (as defined in the Corporation's articles) under the Corporation's articles, and (iii) the date on which the aggregate number of Multiple Voting Shares issued and outstanding represents less than one-third of the number of Multiple Voting Shares issued and outstanding at the close of business on the first date of issuance, being May 24, 2019.

The Multiple Voting Shares are subject to coattail provisions, as set forth in the Corporation's articles.

## **Warrants**

As of June 30, 2020, there were an aggregate of 16,060,858 Warrants outstanding. Each Warrant is exercisable to purchase one Subordinate Voting Share at a price of C\$11.50 per share, subject to the following adjustments. The Warrant Agreement provides that the exercise price and number of Subordinate Voting Shares issuable on exercise of the Warrants may be adjusted in certain circumstances, including in the event of a stock dividend, extraordinary dividend or a recapitalization, reorganization, merger or consolidation. The Warrants will not, however, be adjusted for issuances of Subordinate Voting Share at a price below their exercise price. Once the Warrants become exercisable, Ayr may accelerate the expiry date of the outstanding Warrants (excluding the Founders' Warrants but only to the extent still held by Mercer at the date of public announcement of such acceleration and not transferred prior to the accelerated expiry date, due to the anticipated knowledge by Mercer of material undisclosed information which could limit their flexibility) by providing 30 days' notice if, and only if, the closing share price of the Subordinate Voting Shares equals or exceeds C\$18.00 per Subordinate Voting Share (as adjusted for stock splits or combinations, stock dividends, extraordinary dividends, reorganizations and recapitalizations and the like) for any 20 trading days within a 30-trading day period, in which case the expiry date shall be the date which is 30 days following the date on which such notice is provided.

The exercise of the Warrants by any holder in the United States, or that is a U.S. Person (as such term is defined in Regulation S of the United States Securities Act of 1933 (the "U.S. Securities Act")), may only be effected in compliance with an exemption from the registration requirements of the U.S. Securities Act and applicable State "blue sky" securities laws.

At the election of the holder, the Warrants may be exercised through cashless exercise. A cashless exercise permits the holder, in lieu of making a cash payment on exercise, to instead elect to surrender its Warrants and receive the number of Subordinate Voting Shares that is equal to the quotient obtained by multiplying (i) the number of Subordinate Voting Shares for which the Warrant is being exercised by (ii) the difference between (A) the volume weighted average price of the Subordinate Voting Shares on the Exchange for the 20 trading days immediately prior to (but not including) the date of exercise of the Warrant and (B) the exercise price in effect on the date immediately prior to (but not including) the date of exercise of the Warrant, and dividing such product by the volume weighted average price of the Subordinate Voting Shares on the Exchange for the 20 trading days immediately prior to (but not including) the date of exercise.

Pursuant to the "early" exercise rights granted to holders of the Warrants, each whole Warrant was exercisable from July 15, 2019 to July 26, 2019 (the "Early Exercise Period"), on a one-for-one basis, into Subordinate Voting Shares, at an exercise price of C\$11.50 per Subordinate Voting Share (subject to adjustment and penalties in certain circumstances), and for which the Corporation agreed to pay a commitment fee of C\$0.50, which was set off against payment of the applicable exercise price, resulting in a net payment of C\$11.00 required to exercise a Warrant during the Early Exercise Period. Cashless exercises were not available for exercises during the Early Exercise Period.

The right to exercise will be forfeited unless the Warrants are exercised prior to the date specified in the notice of acceleration of the expiry date. On and after the accelerated expiry date, a record holder of a Warrant will have no further rights. Warrants may be exercised only for a whole number of shares. No fractional shares will be issued upon exercise of the Warrants. If, upon exercise of the Warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round down to the nearest whole number of shares to be issued to the Warrant holder.

The Warrant holders do not have the rights or privileges of holders of shares and any voting rights until they exercise their Warrants and receive corresponding Subordinate Voting Shares. After the issuance of corresponding Subordinate Voting Shares upon exercise of the Warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by shareholders. On the exercise of any Warrant, the Warrant exercise price will be C\$11.50, subject to adjustments.

The Warrant Agent shall, on receipt of a written request of the Corporation or holders of not less than 25% of the aggregate number of Warrants then outstanding, convene a meeting of holders of Warrants upon at least 21 calendar days' written notice to holders of Warrants. Every such meeting shall be held in Toronto, Ontario or at such other place as may be approved or determined by the Warrant Agent. A quorum at meetings of holders of Warrants shall be two persons present in person or represented by proxy holding or representing more than 20% of the aggregate number of Warrants then outstanding.

From time to time, the Corporation and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Agreement for certain purposes including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Agreement that adversely affects the interests of the holders of Warrants may only be made by an "extraordinary resolution", which is defined in the Warrant Agreement as a resolution either (i) passed at a meeting of the holders of Warrants by the affirmative vote of holders of Warrants representing not less than two-thirds of the aggregate number of the then outstanding Warrants represented at the meeting and voted on such resolution, or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than two-thirds of the aggregate number of the then outstanding Warrants.

The Warrants will expire at 5:00 p.m. (Toronto time) 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 is accelerated, as described above.

## **Rights**

As of June 30, 2020, there were an aggregate of 1,564,648 Rights outstanding. Each Right entitles the holder to receive one-tenth (1/10) of a Subordinate Voting Share. In order to effect such a conversion, the holder of any Right must surrender to the Rights Agent certificates or electronic positions representing the Rights held by the holder, together with a duly completed conversion form in form and manner satisfactory to the Rights Agent pursuant to the terms of the Rights Agreement. Any Right that has not been converted within two years after the completion of the Qualifying Transaction (being May 24, 2021) shall be null and void.

Rights will only be converted for a whole number of shares. No fractional shares will be issued upon conversion of the Rights. If, upon conversion of the Rights, a holder would be entitled to receive a fractional interest in a share, the Corporation will, upon conversion, round down to the nearest whole number of shares to be issued to the Right holder. As a result, holders must hold Rights in multiples of 10 in order to receive Subordinate Voting Shares for all of his, her or its Rights. The Rights do not possess any redemption or distribution rights.

The Rights Agreement provide that the number of Subordinate Voting Shares issuable on conversion of the Rights may be adjusted in certain circumstances, including in the event of a stock dividend, extraordinary dividend, recapitalization, reorganization, merger or consolidation. The Rights Agreement also provides the mechanism pursuant to which holders of Rights, including beneficial holders of Rights held through CDS Clearing and Depositary Services Inc., or its nominee, may convert his, her or its Rights.

The Right holders do not have the rights or privileges of holders of shares or any voting rights until the Rights are converted in accordance with the terms of the Rights Agreement and such holders receive corresponding Subordinate Voting Shares. After the issuance of the corresponding Subordinate Voting Shares upon conversion of the Rights, each holder is expected to be entitled to one vote for each Subordinate Voting Share held of record on all matters to be voted on by shareholders.

The Rights Agent shall, on receipt of a written request of the Corporation or holders of not less than 25% of the aggregate number of Rights then outstanding, convene a meeting of holders of Rights upon at least 21 calendar days' written notice to holders of Rights. Every such meeting shall be held in Toronto, Ontario or at such other place as may be approved or determined by the Rights Agent. A quorum at meetings of holders of Rights shall be two persons present in person or represented by proxy holding or representing more than 20% of the aggregate number of Rights then outstanding.

From time to time, the Corporation and the Rights Agent, without the consent of the holders of Rights, may amend or supplement the Rights Agreement for certain purposes including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Rights. Any amendment or supplement to the Rights Agreement that adversely affects the interests of the holders of Rights may only be made by an “extraordinary resolution”, which is defined in the Rights Agreement as a resolution either (i) passed at a meeting of the holders of Rights by the affirmative vote of holders of Rights representing not less than two-thirds of the aggregate number of the then outstanding Rights represented at the meeting and voted on such resolution, or (ii) adopted by an instrument in writing signed by the holders of Rights representing not less than two-thirds of the aggregate number of the then outstanding Rights.

Rights may only be converted by U.S. Persons who are Qualified Institutional Buyers (as defined in Rule 144A of the U.S. Securities Act) or accredited investors or where the Corporation has otherwise availed itself of an exemption from registration under the U.S. Securities Act.

### **Coattail Agreement**

Under applicable Canadian law, an offer to purchase Multiple Voting Shares would not necessarily require that an offer be made to purchase Subordinate Voting Shares. In accordance with the rules applicable to most senior issuers in Canada, in the event of a take-over bid, the holders of Subordinate Voting Shares would be entitled to participate on an equal footing with holders of Multiple Voting Shares. In connection with the Qualifying Transaction, the owners of all the outstanding Multiple Voting Shares entered into a customary coattail agreement with Ayr and Odyssey, as trustee (the “**Coattail Agreement**”). The Coattail Agreement contains provisions customary for dual-class listed corporations designed to prevent transactions that otherwise would deprive the holders of Subordinate Voting Shares of rights under applicable provincial take-over bid legislation to which they would have been entitled if the Multiple Voting Shares had been Subordinate Voting Shares. The undertakings in the Coattail Agreement would not apply to prevent a sale by any holder of Multiple Voting Shares if concurrently an offer is made to purchase Subordinate Voting Shares that:

- (a) offers a price per Subordinate Voting Share in the same form of consideration and at least as high as the highest price per share paid pursuant to the take-over bid for the Multiple Voting Shares (on an as-converted basis to Subordinate Voting Shares);
- (b) provides that the percentage of outstanding Subordinate Voting Shares to be taken up (exclusive of shares owned immediately prior to the offer by the offeror or persons acting jointly or in concert with the offeror) is at least as high as the percentage of Multiple Voting Shares to be sold (exclusive of Multiple Voting Shares owned immediately prior to the offer by the offeror or persons acting jointly or in concert with the offeror);
- (c) as no condition attached other than the right not to take up and pay for Subordinate Voting Shares or Multiple Voting Shares tendered if no shares are purchased pursuant to the offer for Multiple Voting Shares; and
- (d) is in all other material respects identical to the offer for Multiple Voting Shares.

In addition, the terms of the Coattail Agreement do not prevent the transfer of Multiple Voting Shares by a holder to certain permitted holders, including without limitation, the Founders and persons controlled by them. The conversion of Multiple Voting Shares into Subordinate Voting Shares would not constitute a disposition of Multiple Voting Shares for the purposes of the Coattail Agreement.

Under the Coattail Agreement, any disposition of Multiple Voting shares (including a transfer to a pledgee as security) by a holder of Multiple Voting Shares party to the agreement would be conditional upon the transferee or pledgee abiding by the terms of the Coattail Agreement. The Coattail Agreement contains provisions for authorizing action by the trustee to enforce the rights under the Coattail Agreement on behalf of the holders of the Subordinate Voting Shares, which obligation is conditional on Ayr or holders of the Subordinate Voting Shares providing such funds and indemnity as the trustee may require. No holder of Subordinate Voting Shares would have the right, other than through the trustee, to institute any action or proceeding or to exercise any other remedy to enforce any rights arising under the Coattail Agreement unless the trustee fails to act on a request authorized by holders of not less than 10% of the outstanding Subordinate Voting Shares, and reasonable funds and indemnity have been provided to the trustee. Ayr agrees to pay the reasonable costs of any action that may be taken in good faith by holders of Subordinate Voting Shares, as the case may be, pursuant to the Coattail Agreement.

The Coattail Agreement may not be amended, and no provision thereof may be waived, unless, prior to giving effect to such amendment or waiver, the following have been obtained:

- (e) the consent of the applicable securities regulatory authority in Canada; and
- (f) the approval of at least 66<sup>2</sup>/<sub>3</sub>% of the votes cast by holders of Subordinate Voting Shares, excluding votes attached to Subordinate Voting Shares, if any, held by the holders of Multiple Voting Shares, their affiliates and any persons who have an agreement to purchase Multiple Voting Shares on terms which would constitute a sale or disposition for purposes of the Coattail Agreement other than as permitted thereby.

No provision of the Coattail Agreement would limit the rights of any holders of Subordinate Voting Shares under applicable law.

## MARKET FOR SECURITIES

### TRADING PRICE AND VOLUME

As of June 30, 2020, the closing price of the Subordinate Voting Shares on the CSE was C\$10.00, the closing price of the Warrants on the CSE was C\$2.22, and the closing price of the Rights on the CSE was C\$1.20. As of September 29, 2020, the closing price of the Subordinate Voting Shares on the CSE was C\$16.80, the closing price of the Warrants on the CSE was C\$5.49, and the closing price of the Rights on the CSE was C\$1.50.

Following the close of business on January 31, 2018 until the close of business of August 16, 2019, the Warrants and the Rights traded on the Neo Exchange Inc. (“**Neo Exchange**”) under the symbols “CSA.WT” and “CSA.RT”, respectively. As of May 24, 2019 until the close of business of August 16, 2019, the Subordinate Voting Shares traded on the Neo Exchange. Effective August 19, 2019, the Subordinate Voting Shares, Warrants and Rights commenced trading on the Exchange under the symbols “AYR.A”, “AYR.WT” and “AYR.RT”, respectively. The Multiple Voting Shares are not listed.

### Subordinate Voting Shares

The following table sets forth information relating to the price range and volume traded for the Subordinate Voting Shares (AYR.A) on a monthly basis for each month in the fiscal period ended December 31, 2019 in which the Subordinate Voting Shares were listed for trading (following the Qualifying Transaction), and for each completed month to date in the fiscal year 2020:

Month	High Price (C\$)	Low Price (C\$)	Traded Volume
Up to September 29, 2020	\$17.90	\$15.90	552,173
August 2020	\$17.58	\$12.10	770,662
July 2020	\$12.76	\$9.76	492,476
June 2020	\$11.70	\$9.10	831,652
May 2020	\$12.46	\$7.32	530,268
April 2020	\$9.00	\$6.75	749,550
March 2020	\$12.40	\$4.98	834,872

<b>Month</b>	<b>High Price (C\$)</b>	<b>Low Price (C\$)</b>	<b>Traded Volume</b>
February 2020	\$13.22	\$8.57	446,844
January 2020	\$14.45	\$10.93	456,618
December 2019	\$12.47	\$10.60	729,390
November 2019	\$12.99	\$10.10	645,037
October 2019	\$12.90	\$10.85	659,719
September 2019	\$14.75	\$10.00	1,008,509
August 2019	\$17.26	\$13.23	564,528
July 2019	\$19.68	\$11.82	1,216,803
June 2019	\$22.50	\$18.04	529,122
May 2019	\$27.00	\$17.00	2,597,241
April 2019	\$26.65	\$20.10	2,286,492
March 2019	\$21.48	\$18.50	1,768,113
February 2019	\$20.11	\$15.25	1,659,284
January 2019	\$16.28	\$14.09	785,339

#### **Warrants**

The following table sets forth information relating to the price range and volume traded for the Warrants (AYR.WT) on a monthly basis for each month in the fiscal period ended December 31, 2019 in which the Warrants were listed for trading, and for each completed month to date in the fiscal year 2020:

<b>Month</b>	<b>High Price (C\$)</b>	<b>Low Price (C\$)</b>	<b>Traded Volume</b>
Up to September 29, 2020	\$6.19	\$4.90	634,820
August 2020	\$6.00	\$3.75	1,182,821
July 2020	\$4.00	\$2.12	330,471
June 2020	\$2.69	\$2.00	199,557
May 2020	\$2.90	\$1.55	797,970
April 2020	\$2.00	\$1.35	184,819
March 2020	\$2.90	\$1.53	261,145
February 2020	\$3.15	\$2.43	147,646

<b>Month</b>	<b>High Price (C\$)</b>	<b>Low Price (C\$)</b>	<b>Traded Volume</b>
January 2020	\$4.00	\$2.52	214,215
December 2019	\$3.00	\$2.00	150,515
November 2019	\$3.50	\$2.70	54,662
October 2019	\$3.74	\$2.43	420,594
September 2019	\$4.25	\$2.40	118,496
August 2019	\$5.60	\$3.30	376,775
July 2019	\$7.42	\$2.50	441,587
June 2019	\$10.24	\$6.49	214,669
May 2019	\$14.50	\$7.50	805,675
April 2019	\$12.99	\$8.45	1,157,925
March 2019	\$9.25	\$6.53	620,308
February 2019	\$7.99	\$4.65	1,082,441
January 2019	\$5.00	\$3.25	834,560

### **Rights**

The following table sets forth information relating to the price range and volume traded for the Rights (AYR.WT) on a monthly basis for each month in the fiscal period ended December 31, 2019 in which the Warrants were listed for trading, and for each completed month to date in the fiscal year 2020:

<b>Month</b>	<b>High Price (C\$)</b>	<b>Low Price (C\$)</b>	<b>Traded Volume</b>
Up to September 29, 2020	\$1.60	\$1.00	2,900
August 2020	\$1.45	\$1.45	5,000
July 2020	\$1.20	\$0.90	39,817
June 2020	\$0.80	\$0.80	50
May 2020	\$1.20	\$0.70	125,118
April 2020	\$0.70	\$0.46	57,900
March 2020	\$1.19	\$0.69	111,103
February 2020	\$0.70	\$0.70	2,710
January 2020	\$0.70	\$0.12	2,500

Month	High Price (C\$)	Low Price (C\$)	Traded Volume
December 2019	N/A	N/A	N/A
November 2019	N/A	N/A	N/A
October 2019	N/A	N/A	10
September 2019	\$1.41	\$0.10	101,090
August 2019	\$1.29	\$1.29	100
July 2019	\$1.75	\$1.70	11,100
June 2019	\$2.25	\$1.46	268,440
May 2019	\$2.59	\$1.80	1,542,201
April 2019	\$2.40	\$1.81	2,017,194
March 2019	\$2.38	\$1.79	1,748,050
February 2019	\$2.00	\$1.31	2,159,832
January 2019	\$1.65	\$1.23	7,399,108

#### SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

None of the Multiple Voting Shares, Subordinate Voting Shares, Warrants or Rights are subject to a contractual restriction on transfer. Certain of the Exchangeable Shares are subject to contractual transfer restrictions.

#### DIRECTORS AND OFFICERS

##### Names, Occupations and Security Holdings

The names and municipality of residence of the directors of the Board, their position with the Corporation, their principal occupation, the date upon which they became a director of the Corporation and the number of voting or other securities beneficially owned by each of them, or over which control or direction is exercised by each of them as of June 30, 2020, are as follows:

Name and Place of Residence	Position Held in the Corporation	Principal Occupation <sup>(1)</sup>	Director Since	Holdings (Security, Number, Percentage of Class)		
Jonathan Sandelman  New York, NY	Chief Executive Officer, Chairman, Director and Corporate Secretary <sup>(2)(3)</sup>	Chief Executive Officer, Mercer Park, L.P.	September 25, 2017	Subordinate Voting Shares	Nil	N/A
				Multiple Voting Shares	3,677,626 <sup>(4)</sup>	99.49%
				Warrants	2,884,058 <sup>(4)</sup> 10,000 <sup>(5)</sup>	18.02%
				Rights	262,188 <sup>(4)</sup>	16.76%

Name and Place of Residence	Position Held in the Corporation	Principal Occupation <sup>(1)</sup>	Director Since	Holdings (Security, Number, Percentage of Class)		
Mark Smith <sup>(6)</sup> Edwards, Colorado	Director and Executive Vice Chairman	Chief Executive Officer, Green Cross Colorado, Green Cross Nevada and Tumbleweed Companies	September 25, 2017	Subordinate Voting Shares	449,369 <sup>(7)</sup>	2.83%
				Multiple Voting Shares	Nil	N/A
				Warrants	Nil	N/A
				Rights	Nil	N/A
Charles Miles Brooklyn, NY	Director <sup>(2)(3)</sup>	Consultant, Recapture Partners <sup>(8)</sup>	September 25, 2017	Subordinate Voting Shares	45,000 <sup>(9)</sup>	0.28%
				Multiple Voting Shares	9,430	0.26%
				Warrants	Nil	N/A
				Rights	Nil	N/A
Chris R. Burggraeve New York, NY	Director <sup>(2)(3)</sup>	Founder, Chief Executive Officer, Vicomte LLC	December 17, 2018	Subordinate Voting Shares	6,000 <sup>(10)</sup>	0.04%
				Multiple Voting Shares	Nil	N/A
				Warrants	Nil	N/A
				Rights	Nil	N/A
Steve Menzies Las Vegas, NV	Director	Manager, Focus Plumbing LLC	May 24, 2019	Subordinate Voting Shares	500 <sup>(11)</sup>	0.003%
				Multiple Voting Shares	Nil	N/A
				Warrants	Nil	N/A
				Rights	Nil	N/A
Louis F. Karger Needham MA	Director	Manager, Founder and owner of Panther Properties Management LLC and Panther Residential Management LLC	May 24, 2019	Subordinate Voting Shares	16,742 <sup>(12)</sup>	0.11%
				Multiple Voting Shares	Nil	N/A
				Warrants	Nil	N/A
				Rights	Nil	N/A



Name and Place of Residence	Position Held in the Corporation	Principal Occupation <sup>(1)</sup>	Director Since	Holdings (Security, Number, Percentage of Class)	
Glenn Isaacson  New York, NY	Director	Vice Chairman of Cushman & Wakefield (Manhattan)	August 25, 2020	Subordinate Voting Shares	101,539 0.64%
				Multiple Voting Shares	Nil N/A
				Warrants	Nil N/A
				Rights	Nil N/A

Notes:

- (1) Each director has been at their principal occupation for at least five years unless otherwise specified herein.  
(2) Member of the Compensation, Nominating and Corporate Governance Committee.  
(3) Member of the Audit Committee.  
(4) Jonathan Sandelman beneficially owns such securities of Ayr, as Mercer is a limited partnership of which Mercer Park CB GP, LLC is the general partner, and which is indirectly controlled by Jonathan Sandelman.  
(5) Owned directly by Jonathan Sandelman. Jonathan Sandelman also directly owns 850,250 Exchangeable Shares.  
(6) Mark Smith owns a minority interest in Mercer.  
(7) Mark Smith directly owns 65 limited partnership units.  
(8) Charles Miles previously worked at Bloomberg LLP as an equity option trader, and prior to his tenure at Bloomberg, Charles co-founded Claris Capital Management and served as Chief Information Officer.  
(9) Charles Miles directly owns 2,750 Exchangeable Shares.  
(10) Chris Burggraave directly owns 2,750 Exchangeable Shares.  
(11) Steve Menzies directly owns 2,238,807 Exchangeable Shares.  
(12) Louis Karger also indirectly owns 332,809 Exchangeable Shares held through Green Partners Investor LLC and Green Partners Sponsor I, LLC.

The following table sets forth the names, residency and office of the non-director officers of the Corporation.

Name and Place of Residence	Position Held in the Corporation	Principal Occupation <sup>(1)</sup>	Officer Since	Holdings	
Brad Asher New York, NY	Chief Financial Officer	Chief Financial Officer of Ayr	November 14, 2019	Subordinate Voting Shares	Nil <sup>(3)</sup> N/A
				Multiple Voting Shares	Nil N/A
				Warrants	Nil N/A
				Rights	Nil N/A
Jennifer Drake New York, NY	Chief Operating Officer <sup>(2)</sup>	Chief Operating Officer of Ayr	May 24, 2019	Subordinate Voting Shares	10,000 <sup>(4)</sup> 0.06%
				Multiple Voting Shares	Nil N/A
				Warrants	Nil N/A
				Rights	Nil N/A

Name and Place of Residence	Position Held in the Corporation	Principal Occupation <sup>(1)</sup>	Officer Since	Holdings	
Jamie Mendola San Francisco, CA	Head of Strategy and M&A	Director at Monaker Group from June 2019 to Present	May 24, 2019	Subordinate Voting Shares	28,850 <sup>(5)</sup> 0.18%
				Multiple Voting Shares	Nil N/A
				Warrants	Nil N/A
				Rights	Nil N/A
Jason Griffith New York, NY	Chief Integration Officer	Chief Integration Officer of Ayr	November 15, 2019	Subordinate Voting Shares	Nil <sup>(6)</sup> N/A
				Multiple Voting Shares	Nil N/A
				Warrants	Nil N/A
				Rights	Nil N/A

Notes:

- (1) Each officer has been at their principal occupation for at least five years unless otherwise specified herein.  
(2) Jennifer Drake acted as Chief Financial Officer, on an interim basis, from June 28, 2019 to November 14, 2019.  
(3) Brad Asher directly owns 125,000 Exchangeable Shares.  
(4) Jennifer Drake also directly owns 1,700,750 Exchangeable Shares.  
(5) Jamie Mendola also directly owns 637,800 Exchangeable Shares.  
(6) Jason Griffith directly owns 425,000 Exchangeable Shares.

#### Shareholdings of Directors and Executive Officers

As of June 30, 2020, as a group (including director appointments subsequent to June 30, 2020), the directors and executive officers beneficially own, or control or direct, directly or indirectly (i) 658,000 Subordinate Voting Shares, representing 4.14% of such class of securities (and 2.38% of the total number of Subordinate Voting Shares, Multiple Voting Shares and Exchangeable Shares), (ii) 3,687,056 Multiple Voting Shares, representing 99.74% of such class of securities (and 13.33% of the total number of Subordinate Voting Shares, Multiple Voting Shares and Exchangeable Shares), and (iii) 3,427,366 Exchangeable Shares, representing 42.41% of such class of securities (and 12.39% of the total number of Subordinate Voting Shares, Multiple Voting Shares and Exchangeable Shares).

Jonathan Sandelman holds the position of Chief Executive Officer of the parent company of Mercer and therefore may through such role have significant influence over the shares of the Corporation owned by Mercer.

#### Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Corporation and based upon information provided by the directors and executive officers, none of the Corporation's directors and executive officers is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including the Corporation) that (i) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of the Corporation and based upon information provided by the directors and executive officers, none of the Corporation's directors and executive officers is, or (i) within ten years prior to the date hereof has been, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (ii) has, within ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

To the knowledge of the Corporation and based upon information provided by the directors, except for the following, none of the Corporation's directors and executive officers has (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) been subject to any penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

On February 17, 2017, a purported shareholder of SITO Mobile Ltd. ("SITO") commenced a class action against SITO and certain former officers and directors, in the United States District Court for the District of New Jersey, alleging violations of the Securities Exchange Act of 1934 and SEC regulations promulgated thereunder. On June 22, 2017, after being appointed lead plaintiffs, Red Oak Fund, L.P. and certain affiliated funds filed an amended complaint adding defendant Jonathan Sandelman, along with the other directors and officers who signed the registration statement and supplement for the September 16, 2016 offering of SITO stock, alleging violations of the Securities Exchange Act of 1934 and SEC regulations promulgated thereunder, and the U.S. Securities Act, claiming that the registration statement and prospectus failed to contain certain material facts about SITO's business, and that other statements made between August 15, 2016 and January 2, 2017, were materially false or misleading. On September 1, 2017, defendants moved to dismiss the amended complaint. That motion is pending. Discovery has not commenced and no trial date is set in this action.

#### **Conflicts of Interest and Interests of Management and Others in Material Transactions**

To the best of the Corporation's knowledge, other than as disclosed below and elsewhere in this AIF, there are no known existing or potential material conflicts of interest among the Corporation or a subsidiary of the Corporation and a director or officer of the Corporation or a subsidiary of the Corporation as a result of their outside business interests except that: (i) certain of the Corporation's or its subsidiaries' directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Corporation and their duties as a director or officer of such other companies, and (ii) certain of the Corporation's or its subsidiaries' directors and officers have portfolio investments consisting of minority stakes in businesses that may compete directly or indirectly with the Corporation or act as a customer of, or supplier to, the Corporation. The BCBCA requires, among other things, that the directors and executive officers of Ayr act honestly and in good faith with a view to the best interest of Ayr, to disclose any personal interest which they may have in any material contract or transaction which is proposed to be entered into with Ayr and, in the case of directors, to abstain from voting as a director for the approval of any such contract or transaction. To the extent that conflicts of interest arise, such conflicts are required to be resolved in accordance with the provisions of the BCBCA.

Certain of the directors of the Corporation are formerly vendors of certain of the businesses comprising the Corporation's Qualifying Transaction, namely Louis Karger for Sira, Steve Menzies for LivFree and Mark Smith for Cannapunch, and so while it is possible that a dispute may arise pursuant to the respective Definitive Agreement, there are no current material disputes or claims.

Pursuant to the strategic opportunities agreement entered into among Ayr, Mercer Park Brand Acquisition Corp. (a special purpose acquisition corporation with a sponsor that is an affiliate of Mercer, for which Jonathan Sandelman is an officer and director and Louis Karger is an officer) and Mercer Park, L.P. (the parent of Mercer), regarding the allocation of corporate opportunities, the parties thereto granted rights of first refusal in an established order to the parties thereto for certain corporate opportunities involving businesses with a value, in the opinion of Mercer, of more than \$20 million, that are in alignment with either Mercer Park Brand Acquisition Corp.'s priority business focus (being cannabis-related brands, trade marks and/or service marks and ancillary businesses) or Ayr's priority business focus (being cultivation, manufacturing, wholesale, retail operations and/or licenses in respect of cannabis, not mainly attributable to brand value). For greater certainty, the rights of first refusal are not intended to apply to: (i) acquisition opportunities with respect to businesses with a value, in the opinion of Mercer, of less than \$20 million; or (ii) acquisition opportunities in respect of non-controlling interests.

## PROMOTER

Mercer was considered a promoter of Ayr within the meaning of applicable securities legislation at the time of the Offering and at the time of the Final QT Prospectus.

As of June 30, 2020, Mercer owns, of record and beneficially, (1) 3,677,626 Multiple Voting Shares (comprised of 1 Multiple Voting Share (formerly, a Class B Share) issued on September 25, 2017 in connection with Ayr's incorporation and initial organization, 3,415,437 Multiple Voting Shares (formerly, Class B Shares which were automatically exchanged into Multiple Voting Shares in connection with the Qualifying Transaction) and the 262,188 Multiple Voting Shares (formerly, Class B Shares) forming part of the 262,188 Class B Units), representing approximately 18.79% of Ayr's issued and outstanding shares, (2) 2,884,058 Warrants (comprised of 2,621,870 Warrants issued to Mercer (referred to previously as "Founders' Warrants") and the 262,188 Warrants forming part of the 262,188 Class B Units), representing approximately 17.96% of Ayr's issued and outstanding Warrants, and (3) 262,188 Rights (forming part of the 262,188 Class B Units), representing approximately 16.76% of Ayr's issued and outstanding Rights.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Ayr is not party to any material legal proceedings or regulatory actions nor, to its knowledge, are any such material proceedings or actions contemplated by or against us.

## AUDITORS, TRANSFER AGENT AND REGISTRAR

Ayr's auditors are MNP LLP, having an address at 111 Richmond Street West, Suite 300, Toronto, Ontario, Canada, M5H 2G4. Such firm is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario (registered name of The Institute of Chartered Accountants of Ontario).

Odyssey Trust Company ("Odyssey"), at its principal offices in Toronto, Ontario, is the transfer agent and registrar for the Corporation's Subordinate Voting Shares and the Multiple Voting Shares.

Odyssey, at its principal offices in Toronto, Ontario, is the Warrant Agent for the Corporation's Warrants under the Warrant Agreement and is the Rights Agent for the Corporation's Rights under the Rights Agreement.

## MATERIAL CONTRACTS

As of December 31, 2019, the following are the material contracts of Ayr, other than contracts entered into in the ordinary course of business:

- (a) the Warrant Agreement;
- (b) the Rights Agreement;
- (c) the Definitive Agreements;
- (d) the Exchange Rights Agreements;
- (e) the Management Services Agreements; and
- (f) the Operations Agreement.

To the extent that cannabis-related licenses could also be considered to be material contracts, see the licenses listed under *Description of the Business - Licenses*".

The Corporation has no leases representing over 10% of its revenues, to the extent that such contracts would be considered to be material contracts entered into outside of the ordinary course of business for the purposes of this AIF.

Copies of these agreements are available for inspection at our offices, during ordinary business hours and will be available on SEDAR at [www.sedar.com](http://www.sedar.com).

Copies of the above material are available on Ayr's SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### INTERESTS OF EXPERTS

The financial statements for the fiscal period ended December 31, 2019 have been audited by MNP LLP, the Corporation's auditors, who are independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario (registered name of The Institute of Chartered Accountants of Ontario).

As at the date hereof, none of the partners or associates of MNP LLP beneficially own, directly or indirectly, any of our securities.

#### AUDIT COMMITTEE

##### AUDIT COMMITTEE CHARTER

The Board has adopted a written charter (the "Charter of the Audit Committee") for the audit committee of the Corporation (the "Audit Committee"), which sets out the Audit Committee's responsibility in reviewing and approving the financial statements of the Corporation and public disclosure documents containing financial information and reporting on such review to the Board, ensuring that adequate procedures are in place for the reviewing of the Corporation's public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors. The text of the Charter of the Audit Committee that has been adopted is attached to this AIF as Appendix A.

##### COMPOSITION OF AUDIT COMMITTEE

The Audit Committee is composed of a minimum of three directors, each of whom is financially literate within the meaning of *National Instrument 52-110 – Audit Committees*. As at June 30, 2020, the Audit Committee was composed of:

Jonathan Sandelman (as Chair)

Charles Miles

Chris R. Burggraeve

##### EXTERNAL AUDITOR SERVICE FEES

During the fiscal periods ended December 31, 2019, and December 31, 2018, the Corporation paid the following fees to the Corporation's external auditors, MNP LLP, for the following fee categories:

Fee Category	Fiscal Period 2019 (\$)	Fiscal Period 2018 (\$)
Audit Fees	\$425,000	\$23,500
Audit-Related Fees	\$105,000	\$7,500
Tax Services Fees	N/A	\$1,750
Other Fees	N/A	N/A
<b>TOTAL</b>	<b>\$530,000</b>	<b>\$32,750</b>

##### Audit Fees

Audit fees include all fees paid to the Corporation's external auditors for the audit of the Corporation's financial statements.

**Audit-Related Fees**

Audit-related fees include all fees paid to the Corporation's external auditors for audit-related services including the review of the Corporation's interim financial statements, preparation and/or review of certain filings with Canadian securities regulators, including comfort and consent letters, and accounting consultations on matters addressed during the audit and interim reviews.

**Tax Services Fees**

Tax services fees include all fees paid to the Corporation's external auditors for tax-related advice including tax return preparation and/or review and tax planning advice.

**All Other Fees**

Other fees include fees for products and services provided by the Corporation's auditors other than the services included in "*Audit Fees*", "*Audit-Related Fees*" and "*Tax Services Fees*".

**ADDITIONAL INFORMATION**

Additional information with respect to the Corporation is provided in the Corporation's audited financial statements and notes to the audited financial statements and the Corporation's management's discussion & analysis for the fiscal period ended December 31, 2019 and for the three and six months ended June 30, 2020. Additional information with respect to the Corporation, including certain of its directors' and officers' remuneration, and securities authorized for issuance under the Corporation's equity incentive plan, is contained in the Corporation's Form 51-102F6 – Statement of Executive Compensation for the financial year ended December 31, 2019. These documents as well as additional information relating to the Corporation are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX A

### AUDIT COMMITTEE CHARTER

#### Section 1 PURPOSE

The audit committee (the “**Audit Committee**”) is a committee of the board of directors (the “**Board**”) of Ayr Strategies Inc. (the “**Corporation**”). The primary function of the Audit Committee is to assist the directors of the Corporation in fulfilling their applicable roles by:

- (a) recommending to the Board the appointment and compensation of the Corporation’s external auditor;
- (b) overseeing the work of the external auditor, including the resolution of disagreements between the external auditor and management;
- (c) pre-approving all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Corporation by the Corporation’s external auditor;
- (d) satisfying themselves that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information, other than those described in (g) below, extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures;
- (e) establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (f) reviewing and approving any proposed hiring of current or former partner or employee of the current and former auditor of the Corporation; and
- (g) reviewing and approving the annual and interim financial statements, related Management Discussion and Analysis (“**MD&A**”) and other financial information provided by the Corporation to any governmental body or the public.

The Audit Committee should primarily fulfill these roles by carrying out the activities enumerated in this Charter. However, it is not the duty of the Audit Committee to prepare financial statements, to plan or conduct internal or external audits, to determine that the financial statements are complete and accurate and are in accordance with Canadian generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Corporation’s internal policies, procedures and controls, as these are the responsibility of management, and in certain cases, the external auditor.

#### Section 2 LIMITATIONS ON AUDIT COMMITTEE’S DUTIES

In contributing to the Audit Committee’s discharge of its duties under this Charter, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended to be, or may be construed as, imposing on any members of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the directors are subject.

Members of the Audit Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor, (iv) financial statements of the Corporation represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles, and (v) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

### Section 3 COMPOSITION AND MEETINGS

The Audit Committee should be comprised of not less than three directors as determined by the Board, all of whom should be “financially literate” within the meaning of NI 52-110 – *Audit Committees* (“**52-110**”) of the Canadian Securities Administrators. The Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant. In the event the Corporation ceases to be a venture issuer, the Audit Committee should comply with the independence requirements set forth in NI 52-110.

The members of the Audit Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair of the Audit Committee (the “**Chair**”) is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

In addition, the Audit Committee members should meet all of the requirements for members of audit committees as defined from time to time under applicable legislation and the rules of any stock exchange on which the Corporation’s securities are listed or traded.

The Audit Committee should meet at least four times annually, or more frequently as circumstances require. The Audit Committee should meet within forty-five (45) days following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and should meet within 90 days following the end of the fiscal year end to review and discuss the audited financial results for the preceding quarter and year and the related MD&A.

The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Audit Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Corporation with senior employees, officers and the external auditor of the Corporation, and others as they consider appropriate.

For greater certainty, management is indirectly accountable to the Audit Committee and is responsible for the timeliness and integrity of the financial reporting and information presented to the Board.

In order to foster open communication, the Audit Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee or its Chair should meet with management quarterly in connection with the Corporation’s interim financial statements.

A quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee or such greater number as the Audit Committee shall by resolution determine.

Meetings of the Audit Committee shall be held from time to time and at such place as any member of the Audit Committee shall determine upon 48 hours’ notice to each of its members. The notice period may be waived by all members of the Audit Committee. Each of the Chair of the Board, the external auditor, the Chief Executive Officer, the Chief Financial Officer or the Secretary shall be entitled to request that any member of the Audit Committee call a meeting.

This Charter is subject in all respects to the Corporation’s articles of incorporation and by-laws from time to time.



#### **Section 4      ROLE**

As part of its function in assisting the Board in fulfilling its oversight role (and without limiting the generality of the Audit Committee's role), the Audit Committee should:

- (1) Determine any desired agenda items;
- (2) Review and recommend to the Board changes to this Charter, as considered appropriate from time to time;
- (3) Review the public disclosure regarding the Audit Committee required by 52-110;
- (4) Review and seek to ensure that disclosure controls and procedures and internal control over financial reporting frameworks are operational and functional;
- (5) Summarize in the Corporation's annual information form the Audit Committee's composition and activities, as required;
- (6) Submit the minutes of all meetings of the Audit Committee to the Board upon request;

#### **Documents / Reports Review**

- (7) Review and recommend to the Board for approval the Corporation's annual and interim financial statements, including any certification, report, opinion, undertaking or review rendered by the external auditor and the related MD&A, as well as such other financial information of the Corporation provided to the public or any governmental body as the Audit Committee or the Board require;
- (8) Review other financial information provided to any governmental body or the public as they see fit;
- (9) Review, recommend and approve any of the Corporation's press releases that contain financial information;
- (10) Seek to satisfy itself and ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and related MD&A and periodically assess the adequacy of those procedures;

#### **External Auditor**

- (11) Recommend to the Board the selection of the external auditor, considering independence and effectiveness, and review the fees and other compensation to be paid to the external auditor;
- (12) Review and seek to ensure that all financial information provided to the public or any governmental body, as required, provides for the fair presentation of the Corporation's financial condition, financial performance and cash flow;
- (13) Instruct the external auditor that its ultimate client is not management and that it is required to report directly to the Audit Committee, and not management;
- (14) Monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion between management and the external auditor;
- (15) Review and discuss, on an annual basis, with the external auditor all significant relationships it has with the Corporation to determine the external auditor's independence;
- (16) Pre-approve all non-audit services (or delegate such pre-approval, as the Audit Committee may determine and as permitted by applicable Canadian securities laws) to be provided by the external auditor;
- (17) Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant;

- (18) Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper;
- (19) Communicate directly with the external auditor and arrange for the external auditor to be available to the Audit Committee and the full Board as needed;
- (20) Review and approve any proposed hiring by the Corporation of current or former partners or employees of the current (and any former) external auditor of the Corporation;

#### **Audit Process**

- (21) Review the scope, plan and results of the external auditor's audit and reviews, including the auditor's engagement letter, the post-audit management letter, if any, and the form of the audit report. The Audit Committee may authorize the external auditor to perform supplemental reviews, audits or other work as deemed desirable;
- (22) Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews;
- (23) Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements;
- (24) Where there are significant unsettled issues between management and the external auditor that do not affect the audited financial statements, the Audit Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters;

#### **Financial Reporting Processes**

- (25) Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor as they see fit;
- (26) Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices;
- (27) Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions;
- (28) Review with management and the external auditor the Corporation's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and practices used, any alternative treatments of financial information that have been discussed with management, the ramification of their use and the external auditor's preferred treatment and any other material communications with management with respect thereto;
- (29) Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financial reporting;
- (30) If considered appropriate, establish separate systems of reporting to the Audit Committee by each of management and the external auditor;

- (31) Periodically consider the need for an internal audit function, if not present;

#### **Risk Management**

- (32) Review program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance;

#### **General**

- (33) With prior Board approval, the Audit Committee may at its discretion retain independent counsel, accountants and other professionals to assist it in the conduct of its activities and to set and pay (as an expense of the Corporation) the compensation for any such advisors;
- (34) Respond to requests by the Board with respect to the functions and activities that the Board requests the Audit Committee to perform.
- (35) Periodically review this Charter and, if the Audit Committee deems appropriate, recommend to the Board changes to this Charter;
- (36) Review the public disclosure regarding the Audit Committee required from time to time by applicable Canadian securities laws, including:
- (i) the Charter of the Audit Committee;
  - (ii) the composition of the Audit Committee;
  - (iii) the relevant education and experience of each member of the Audit Committee;
  - (iv) the external auditor services and fees; and
  - (v) such other matters as the Corporation is required to disclose concerning the Audit Committee;
- (37) Review in advance, and approve, the hiring and appointment of the Corporation's senior financial executives by the Corporation, if any; and
- (38) Perform any other activities as the Audit Committee deems necessary or appropriate including ensuring all regulatory documents are compiled to meet Committee reporting obligations under 52-110.

### **Section 5 AUDIT COMMITTEE COMPLAINT PROCEDURES**

#### **Submitting a Complaint**

- (39) Anyone may submit a complaint regarding conduct by the Corporation or its employees or agents (including its independent auditors) reasonably believed to involve questionable accounting, internal accounting controls or auditing matters. The Chair should oversee treatment of such complaints.

#### **Procedures**

- (40) The Chair will be responsible for the receipt and administration of employee complaints.
- (41) In order to preserve anonymity when submitting a complaint regarding questionable accounting or auditing matters, the employee may submit a complaint confidentially.

**Investigation**

- (42) The Chair should review and investigate the complaint. Corrective action will be taken when and as warranted in the Chair's discretion.

**Confidentiality**

- (43) The identity of the complainant and the details of the investigation should be kept confidential throughout the investigatory process.

**Records and Report**

- (44) The Chair should maintain a log of complaints, tracking their receipt, investigation, findings and resolution, and should prepare a summary report for the Audit Committee.

The Audit Committee is a committee of the Board and is not and shall not be deemed to be an agent of the Corporation's securityholders for any purpose whatsoever. The Board may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Corporation or other liability whatsoever.

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**Ayr Strategies Inc.**  
**(Formerly Cannabis Strategies Acquisition Corp.)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

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**Ayr Strategies Inc.**  
**(formerly, Cannabis Strategies Acquisition Corp.)**  
**Consolidated Financial Statements**

**December 31, 2019 and 2018**

<b>Management's Responsibility for Financial Reporting</b>	<b>1</b>
<b>Independent Auditor's Report</b>	
<b>Consolidated Financial Statements</b>	
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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Shareholders of Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.):

The accompanying consolidated financial statements and accompanying notes in this report were prepared by management of Ayr Strategies Inc., reviewed by the Audit Committee and approved by the Board of Directors.

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

March 20, 2020

“Jonathan Sandelman” (signed)

Director

“Charles Miles” (signed)

Director

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

	As at	
	December 31, 2019	December 31, 2018
	\$	Restated (Note 3.23) \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	8,403,196	109,952
Accounts receivable	2,621,239	-
Due from related parties [Note 13]	85,000	-
Inventory [Note 6]	13,718,840	-
Biological assets [Note 7]	2,935,144	-
Prepaid expenses and other assets	2,163,329	274,886
	29,926,748	384,838
Non-current		
Restricted cash and short-term investments held in escrow [Note 8]	-	99,684,243
Property, plant and equipment [Note 9]	37,152,861	-
Intangible assets [Note 10]	189,802,136	-
Right-of-use assets [Note 11]	12,315,417	-
Goodwill [Note 5]	84,837,304	-
Equity investments [Note 12]	427,399	-
Other assets	638,394	-
Total assets	355,100,259	100,069,081
<b>LIABILITIES</b>		
Current		
Trade payables	6,806,053	-
Accrued liabilities	5,123,865	2,489,096
Advances from related parties [Note 13]	-	536,382
Lease obligations - current portion [Note 11]	1,087,835	-
Purchase consideration payable [Note 5]	9,831,700	-
Income tax payable [Note 23]	5,202,943	-
Debts payable - current portion [Note 14]	6,628,843	-
	34,681,239	3,025,478
Non-current		
Deferred underwriters commission	-	3,457,154
Deferred tax liabilities [Note 23]	41,077,761	-
Class A Restricted Voting Shares subject to redemption	-	145,694,363
Warrant liability [Note 16]	36,874,124	23,983,372
Lease obligations - non-current portion [Note 11]	13,033,310	-
Contingent consideration [Notes 5 and 16]	22,656,980	-
Debts payable - non-current portion [Note 14]	37,366,818	-
Accrued interest payable	815,662	-
Total liabilities	186,505,894	176,160,367
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital [Note 15]	382,210,006	1,821,997
Treasury stock	(245,469)	-
Contributed surplus	28,879,225	-
Accumulated other comprehensive income	3,265,610	3,422,120
Deficit	(245,515,007)	(81,335,403)
Total shareholders' equity (deficiency)	168,594,365	(76,091,286)
Total liabilities and shareholders' equity	355,100,259	100,069,081

*Nature of operations [Note 1]*

*Commitments and Contingencies [Note 21]*

*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 consolidated financial statements.



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

	<b>Year Ended</b>	
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
	<b>\$</b>	<b>Restated (Note 3.23)</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues, net of discounts</b>	<b>75,195,556</b>	<b>-</b>
Cost of goods sold excluding fair value items	37,009,909	-
Incremental costs to acquire cannabis inventory in a business combination [Note 5]	3,764,678	-
<b>Cost of goods sold</b>	<b>40,774,587</b>	<b>-</b>
<b>Gross profit before fair value adjustments</b>	<b>34,420,969</b>	<b>-</b>
Fair value adjustment on sale of cultivated inventory	(18,272,212)	-
Unrealized gain on biological asset transformation [Note 7]	10,108,105	-
<b>Gross profit</b>	<b>26,256,862</b>	<b>-</b>
<b>Expenses</b>		
General and administrative [Note 18]	19,036,452	3,241,993
Sales and marketing	1,345,009	-
Depreciation [Notes 9 and 11]	1,392,994	-
Amortization [Note 10]	7,222,595	-
Stock-based compensation [Note 20]	28,879,225	-
Acquisition expense [Note 5]	5,847,800	-
<b>Total expenses</b>	<b>63,724,075</b>	<b>3,241,993</b>
<b>Loss from operations</b>	<b>(37,467,213)</b>	<b>(3,241,993)</b>
<b>Other (expense) income</b>		
Share of loss on equity investments [Note 12]	(72,600)	-
Transaction costs	-	(454,288)
Foreign exchange	(141,106)	-
Unrealized loss - changes to fair value of financial liabilities [Note 16]	(119,235,147)	(72,351,356)
Interest expense	(3,035,492)	-
Interest income	404,835	932,867
Other	202,610	-
<b>Total other expense</b>	<b>(121,876,900)</b>	<b>(71,872,777)</b>
<b>Loss before income tax</b>	<b>(159,344,113)</b>	<b>(75,114,770)</b>
Current tax [Note 23]	(8,728,061)	-
Deferred tax [Note 23]	3,892,570	-
<b>Net loss</b>	<b>(164,179,604)</b>	<b>(75,114,770)</b>
Foreign currency translation adjustment	(156,510)	3,504,595
<b>Net loss and comprehensive loss</b>	<b>(164,336,114)</b>	<b>(71,610,175)</b>
<b>Basic and diluted net loss per share [Note 19]</b>	<b>(9.43)</b>	<b>(20.26)</b>
<b>Weighted average number of shares outstanding (basic and diluted) [Note 19]</b>	<b>17,404,742</b>	<b>3,707,710</b>

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

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

	Share Capital								Treasury Stock		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
	Class B shares		Multiple Voting Shares		Subordinate Voting Shares		Exchangeable Shares							
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount				
	#	\$	#	\$	#	\$	#	\$	#	\$	\$	\$	\$	\$
Balance, December 31, 2018 - Restated (Note 3.23)	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 [Note 5]	-	-	-	-	-	-	7,983,887	125,421,479	-	-	-	-	-	125,421,479
Stock-based compensation [Note 20]	-	-	-	-	-	-	-	-	-	-	28,879,225	-	-	28,879,225
Exercise of Rights [Note 1]	-	-	-	-	1,059,685	-	-	-	-	-	-	-	-	-
Exercise of Warrants [Note 1]	-	-	-	-	298,200	3,376,539	-	-	-	-	-	-	-	3,376,539
Share issuance - make-whole [Note 16]	-	-	-	-	-	-	389,905	3,245,180	-	-	-	-	-	3,245,180
Repurchase of Subordinate Voting Shares [Note 1]	-	-	-	-	(7,400)	(66,205)	-	-	(29,500)	(245,469)	-	-	-	(311,674)
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(164,179,604)	(164,179,604)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	(156,510)	-	(156,510)
Balance, December 31, 2019	-	-	3,696,486	1,821,997	14,824,485	251,721,350	8,373,792	128,666,659	(29,500)	(245,469)	28,879,225	3,265,610	(245,515,007)	168,594,365
Balance, December 31, 2017 - Restated (Note 3.23)	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 year	-	-	-	-	-	-	-	-	-	-	-	-	(75,114,770)	(75,114,770)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	3,504,595	-	3,504,595
Balance, December 31, 2018 - Restated (Note 3.23)	3,696,486	1,821,997	-	-	-	-	-	-	-	-	-	3,422,120	(81,335,403)	(76,091,286)

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

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

	<b>Year Ended</b>	
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
	<b>\$</b>	<b>Restated (Note 3.23)</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net loss	(164,179,604)	(75,114,770)
<b>Adjustments for:</b>		
Acquisition costs associated with financing activities	129,235	454,288
Net unrealized loss on changes in the fair value of financial liabilities	119,235,147	72,351,356
Stock-based compensation	28,879,225	-
Depreciation	2,172,373	-
Amortization on intangible assets	8,137,864	-
Share of loss on equity investments	72,600	-
Incremental costs to acquire cannabis inventory in a business combination	3,764,678	-
Fair value adjustment on sale of cultivated inventory	18,272,212	-
Unrealized gain on biological asset transformation	(10,108,105)	-
Deferred tax benefit	(3,892,570)	-
Interest accretion	1,652,510	-
Interest income	-	(932,867)
<b>Changes in non-cash operations, net of business acquisition:</b>		
Accounts receivable	(1,308,328)	-
Inventory and biological assets	(5,809,848)	-
Prepaid expenses and other assets	(1,459,072)	(272,021)
Trade payables	2,992,073	-
Accrued liabilities	(179,574)	2,195,529
Income tax payable	5,202,943	-
Cash provided by (used in) operating activities	3,573,759	(1,318,485)
<b>Investing activities</b>		
Transfer of (Investment in) restricted cash and short term investments held in escrow and interest income	99,684,243	(7,526,058)
Purchase of property, plant and equipment	(14,417,635)	-
Deferred underwriters commission paid	(3,457,154)	263,415
Cash paid for business combinations, net of cash acquired	(74,714,171)	-
Cash paid for business combinations, working capital	(547,042)	-
Payments for interests in equity accounted investments	(500,000)	-
Advances (to) from related corporation	(809,191)	120,105
Cash provided by (used in) investing activities	5,239,050	(7,142,538)
<b>Financing activities</b>		
Proceeds from issuance of Class A Restricted Voting Shares and Class B shares	-	8,328,708
Proceeds from exercise of Warrants	2,460,150	-
Redemption of Class A Restricted Voting Shares	(7,519)	-
Repayments of debts payable	(2,879,329)	-
Repayments of lease obligations (principal portion)	(763,878)	-
Repurchase of Subordinate Voting Shares	(311,674)	-
Cash (used in) provided by financing activities	(1,502,250)	8,328,708
<b>Net increase (decrease) in cash</b>	<b>7,310,559</b>	<b>(132,315)</b>
<b>Effect of foreign currency translation</b>	<b>982,685</b>	<b>(1,180,907)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>109,952</b>	<b>1,423,174</b>
<b>Cash and cash equivalents, end of the year</b>	<b>8,403,196</b>	<b>109,952</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year	1,679,612	-
Taxes paid during the year	3,525,118	-

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

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS (EXPRESSED IN USD UNLESS OTHERWISE INDICATED)**

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 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 had only one operating segment, cannabis sales, during the year ended December 31, 2019. 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.

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 the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

---

**1. NATURE OF OPERATIONS (EXPRESSED IN USD UNLESS OTHERWISE INDICATED) (Continued)**

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 redeemable 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).

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.

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.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS (EXPRESSED IN USD UNLESS OTHERWISE INDICATED) (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").

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) 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).

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 CDN\$10.11 per share.

On October 1, 2019, the Corporation commenced a stock repurchase program for up to 5% of outstanding Subordinate Voting Shares. The program lasts for 12 months and the maximum number of Subordinate Voting Shares able to be repurchased are 725,892. As at December 31, 2019, the Corporation has repurchased 36,900 shares under this program, of which 7,400 have been cancelled and the balance are held by the Corporation as treasury shares. Additionally, as at December 31, 2019, the Corporation had 3,140,338 rights outstanding which can be redeemed one tenth (1/10) of one Subordinate Voting Share.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

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**2. BASIS OF PRESENTATION**

**2.1 Statement of compliance**

These consolidated financial statements for the year ended December 31, 2019 (and comparative results for the year ended December 31, 2018) have been 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”) and in effect as at December 31, 2019.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Corporation on March 20, 2020.

**2.2 Basis of presentation and measurement**

These consolidated financial statements have been prepared on the going concern basis under the historical cost basis except for certain financial instruments and biological assets, which are measured at fair value, as explained in the accounting policies set out in Note 3.

The consolidated financial statements are presented in United States dollars which, following the close of the qualifying transaction became the Corporation’s presentational currency. The Corporation’s previous presentational currency was CAD. See Note 3.23 for change in accounting policy related to the change in presentational 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 \$).

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of consolidation

The consolidated financial statements for the year ended December 31, 2019 include the accounts of the Corporation, its wholly-owned subsidiaries, and entities over which the Corporation has control as defined in IFRS 10, all of which also have a December 31 year end. 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. The Corporation's consolidated subsidiaries are listed below, and are owned 100% by the Corporation unless otherwise noted:

Subsidiaries	State of operation	Purpose
Ayr Strategies Inc.	Canada	Parent Company
CSAC Holdings Inc.	NV	Corporate - Holding Company
CSAC Acquisition Inc.	NV	Corporate - Holding Company
CSAC Acquisition MA Corp. <sup>(2)</sup>	MA	Corporate - Holding Company
Ayr NJ, LLC	NV	Corporate - Holding Company
CSAC LLC <sup>(2)</sup>	NV	Corporate - Holding Company
CSAC Ohio, LLC <sup>(2)</sup>	OH	Corporate - Holding Company
Sira Naturals, Inc.	MA	Cultivation, Production, and Retail
CSAC-LivFree Wellness LLC	NV	Management Company
CSAC-Washoe Wellness LLC	NV	Management Company
CSAC-The Canopy NV LLC	NV	Management Company
CannaPunch of Nevada LLC	NV	Production
LivFree Wellness, LLC <sup>(1)(3)</sup>	NV	Retail
Washoe Wellness, LLC <sup>(1)(4)</sup>	NV	Cultivation and Production
Kynd-Strainz, LLC <sup>(1)(5)</sup>	NV	Retail
Lemon Aide, LLC <sup>(1)(5)</sup>	NV	Retail

(1) Entered into an Equity Purchase Agreement with CSAC Acquisition, Inc. pending license transfers by the Nevada Department of Taxation Marijuana Enforcement Division. The Corporation has control through a management agreement. All intercompany balances and transactions are eliminated for consolidation.

(2) Entities that are inactive as at December 31, 2019.

(3) LivFree includes wholly-owned subsidiaries BP Solutions LLC; BillCo Holdings LLC; and DWC Investments, LLC.

(4) Washoe includes wholly-owned subsidiaries Tahoe-Reno Botanicals, LLC and Tahoe-Reno Extractions, LLC.

(5) Canopy is the parent company of Kynd-Strainz, LLC and Lemon Aide, LLC.

#### 3.2 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.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.2 Revenue (continued)**

In some cases, judgment is required in determining whether the customer is a business or the end consumer. This evaluation is 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.

Revenue is recognized based on the sale of cannabis for a fixed price when control is transferred. The amount recognized reflects the consideration that the Corporation expects to receive taking into account any variation that is expected to result from rights of return. Dispensary revenue is recognized at the point of sale while wholesale revenue is recognized once Ayr transfers the significant risks and rewards of ownership of the goods and does not retain material involvement associated with ownership or control over the goods sold.

**3.3 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.

**3.4 Restricted cash**

Restricted cash meets the definition of cash but is not available for use by the Corporation.

**3.5 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), the liabilities incurred by the Corporation on behalf of the acquiree, 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 consolidated statements of loss and comprehensive loss.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.6 Inventory**

Cannabis inventory at retail, work-in-process and raw materials are initially valued at the weighted average cost and subsequently measured 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 such as materials, labor, and depreciation expense on equipment 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.

**3.7 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 Corporations' biological assets are within the scope of IAS 41 – *Agriculture*, the direct and indirect costs of cultivating and producing 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, the building portion associated with the growing space, and the right-of-use asset associated with the cultivation and production facilities. All direct and indirect costs of cultivating and producing biological assets are capitalized as they are incurred, and they are subsequently recorded on the consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive loss. Biological assets are measured at their fair values less costs to sell up to the point of harvest in the consolidated statements of financial position, which becomes the initial cost of harvested cannabis.

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

**3.8 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.8 Property, plant and equipment (“PPE”) (continued)**

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 – 39 years
- 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 consolidated statements of loss and comprehensive 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.

#### **3.9 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 “CGUs”) which are expected to benefit from the synergies of the combination. CGUs have been grouped for purposes of impairment testing. Impairment losses recognized in respect of a CGU, being the excess over the CGUs carrying value allocated to the assets in the CGU, are first allocated to the carrying value of goodwill and indefinite life intangibles and any excess is allocated to the carrying amount of assets in the CGU. 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 amount, as defined in Note 3.10, of goodwill is determined by using discounted future cash flows, which incorporates assumptions regarding future events, growth rates and discount rates.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.9 Intangible assets (continued)**

##### **(b) Finite 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, right-to-use licenses, host community agreements, and trade name/brand have useful lives of 15, 15, 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.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized to the extent development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the product or asset. Other development expenditures will be expensed as incurred. No development costs have been capitalized to date.

#### **3.10 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 ("FVLCD"), 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, discounted cash flows, 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 at that time.

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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.10 Impairment of non-financial assets (continued)**

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 FVLCD. Where the recoverable amount is less than the carrying amount, an impairment loss is recognized in the consolidated statements of loss and comprehensive loss. Impairment losses recognized on goodwill are not reversed in subsequent periods.

Goodwill is allocated to the CGUs, which are the lowest level that generate cash flows independent of another. The Corporation determined its CGUs are separated by state and type of operation, including cultivation, production and retail. As the CGUs are expected to benefit from synergies of a related business combination at the state level, goodwill will be grouped and tested at the state level.

#### **3.11 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 consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive 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 or 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.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.12 Equity investments**

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 loss 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.

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. Joint ventures are also accounted for under the equity method.

**3.13 Non-controlling interests**

Equity interests owned by parties that are not shareholders of Ayr are considered non-controlling interests. The share of net assets attributable to non-controlling interests are presented as a component of equity while the share of net loss is recognized in equity. Changes in Ayr's ownership interest that do not result in a loss of control are accounted for as equity transactions. As at December 31, 2019, the Corporation does not have any non-controlling interests.

**3.14 Borrowing costs**

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

**3.15 Derivatives**

The Corporation evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then revalued at each reporting date, with changes in the fair value reported in the Corporation's consolidated financial statements. In calculating the fair value of derivative liabilities, the Corporation uses a valuation model when level 1 inputs are not available to estimate fair value at each reporting date (see Note 22). The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the consolidated financial statements date.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.16 Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of shares outstanding, including Subordinate Voting Shares and Multiple Voting Shares, during the period. The “treasury stock method” is used for the assumed proceeds upon the exercise of the restricted Exchangeable Share units and Warrants that are used to purchase Subordinate Voting Shares at the average market price during the period. During the year ended December 31, 2019 and December 31, 2018, all the outstanding Warrants were antidilutive. If the Corporation incurs a net loss during a reporting period, the calculation of fully diluted loss per share will not include potentially dilutive equity instruments such as restricted Exchangeable Share units and stock options therefore basic loss per share and diluted loss per share will be the same.

#### **3.17 Stock-based payments**

##### *(a) Stock-based payment transactions*

Certain 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”).

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued. 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 of the stock price at the date on which they are granted, using an appropriate valuation model. The value of the transaction is expensed through the vesting period.

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”).

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 income 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 consolidated statements of loss and comprehensive 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.17 Stock-based payments (continued)**

##### *(a) Stock-based payment transactions (continued)*

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 at that time through the consolidated statements of loss and comprehensive 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 quoted price as the Warrants are traded. As the number of 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.

#### **3.18 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.

#### **3.19 Financial instruments**

##### *Recognition and initial measurement*

The Corporation adopted IFRS 9 – Financial Instruments on January 1, 2018 resulting in no impact on the consolidated financial statements. 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 consolidated statements of loss and comprehensive loss.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.19 Financial instruments (continued)

##### *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").

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 consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive loss in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Refer to Note 22 for the classification and fair value ("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 receivable 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, but not limited to, any forecasts of future economic conditions, credit ratings, and macro-economic factors, are reviewed regularly.

All individually significant loans receivable 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.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.19 Financial instruments (continued)**

*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 consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive loss.

**3.20 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 consolidated statements of loss and comprehensive 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 loss.

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

**3.21 Taxation**

The income tax payable is based on taxable income for the period. Taxable income differs from "Loss before income tax" as reported in the consolidated statements of loss and comprehensive 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 factors in any adjustments arising from prior years.

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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.21 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 consolidated 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 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 net loss 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 no longer probable that future taxable profits will be available. A deferred tax expense or benefit is recognized in accumulated other comprehensive income (loss) or otherwise directly in equity to the extent that it relates to items that are recognized in accumulated other comprehensive income (loss) 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.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As at December 31, 2019, the Corporation assessed for circumstances in which there is uncertainty over income tax treatments and has not recorded any uncertain tax positions.

#### **3.22 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, loss, assets and liabilities recognized, and disclosures made in the consolidated financial statements.

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.22 Significant accounting judgments and estimates (continued)**

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

(a) 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 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 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.

(b) 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.22 Significant accounting judgments and estimates (continued)**

(c) 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.

(d) 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 CGUs for purposes of testing for impairment of goodwill and intangible assets. The Corporation's estimate of CGUs or a group of CGUs 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 are calculated by discounting the final year in perpetuity.

(e) Goodwill impairment

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.

(f) 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 discounted lease payments using its incremental borrowing rate at May 24, 2019. The weighted-average rate applied was in the range of 9.8% to 11.6% per annum.

(g) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.22 Significant accounting judgments and estimates (continued)**

(h) 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 loss and comprehensive loss.

(i) 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.

(j) Expected credit loss

Management determines expected credit loss 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.

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

#### **3.23 Change in accounting policy**

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

The Board of Directors believe that US\$ 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.*

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.23 Change in accounting policy (continued)**

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 3.20.

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 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 December 31, 2018 was \$0.7575.

**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.

As at December 31, 2018, the Corporation had one lease. The impact on the Corporation’s consolidated financial statements would have been to recognize a right-of-use asset and opening lease liability of \$741,930, of which \$408,691 would have been classified as a current liability. The following table provides a reconciliation of the lease obligations as at December 31, 2018 to the Corporation’s lease liabilities on initial application of IFRS 16 as at January 1, 2019:

Lease commitments as at December 31, 2018	809,025
Impact of discounting	(67,095)
<b>Lease liabilities as at January 1, 2019</b>	<b>741,930</b>

**4. CHANGES IN ACCOUNTING STANDARDS (Continued)**

Standards and interpretations issued in the current period but not yet effective

The Corporation has not yet applied the following new standard, interpretations and amendments to standards that have been issued as at December 2019 but are not yet effective. Unless otherwise stated, the Corporation does not plan to early adopt any of these new or amended standards and interpretations.

*IFRS 3 Business combinations*

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Under the new standard the Corporation expects a more likely probability that future transactions will be accounted for as asset acquisitions.

*IAS 1 Presentation of financial statements*

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across International Financial Reporting Standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Corporation does not expect these amendments to have a significant impact on its financial statements.

*IAS 8 Accounting policies, changes in accounting estimates and errors*

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across International Financial Reporting Standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Corporation does not expect these amendments to have a significant impact on its financial statements.



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**5. BUSINESS COMBINATION**

As explained in Note 1 to the 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](http://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 order to comply with certain contractual requirements of the acquisition, the Corporation and CSAC Acquisition Inc. 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 consolidated 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:

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

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 the Corporation 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 the Corporation’s consolidated financial statements. As at December 31, 2019, Washoe, Canopy, and LivFree are awaiting state approval to transfer licenses to the Corporation. See Note 3.1 for a breakout of the various management companies.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
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**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 \$
<b>ASSETS ACQUIRED</b>						
Cash and cash equivalents	1,258,928	270,280	7,233	21,458	147,930	<b>1,705,829</b>
Accounts receivable	-	600,151	625,143	87,617	-	<b>1,312,911</b>
Inventory	2,670,057	9,671,814	552,040	4,500,213	1,618,639	<b>19,012,763</b>
Biological assets	-	1,996,642	-	1,763,516	-	<b>3,760,158</b>
Prepaid expenses and other assets	96,157	340,428	-	129,477	160,748	<b>726,810</b>
Intangible assets	105,000,000	57,000,000	2,390,000	22,800,000	10,750,000	<b>197,940,000</b>
Property, plant and equipment	1,640,418	9,090,090	486,100	9,070,645	1,217,736	<b>21,504,989</b>
Right-of-use assets	2,894,076	5,239,201	1,119,826	-	2,057,681	<b>11,310,784</b>
Due from related parties	-	-	-	-	784,733	<b>784,733</b>
Deposits	90,147	149,251	-	91,574	9,983	<b>340,955</b>
<b>Total assets acquired at fair value</b>	<b>113,649,783</b>	<b>84,357,857</b>	<b>5,180,342</b>	<b>38,464,500</b>	<b>16,747,450</b>	<b>258,399,932</b>
<b>LIABILITIES ASSUMED</b>						
Trade payables	387,500	475,193	251,829	506,073	-	<b>1,620,595</b>
Accrued liabilities	1,176,088	970,418	46,972	100,412	520,453	<b>2,814,343</b>
Deferred tax liabilities	25,796,726	13,611,222	567,507	2,153,131	2,841,746	<b>44,970,332</b>
Advance from related parties	187,809	-	-	784,733	-	<b>972,542</b>
Lease obligations	2,520,437	6,514,038	1,083,189	-	2,553,502	<b>12,671,166</b>
Debts payable	120,000	13,054	-	9,180,808	421,128	<b>9,734,990</b>
<b>Total liabilities assumed at fair value</b>	<b>30,188,560</b>	<b>21,583,925</b>	<b>1,949,497</b>	<b>12,725,157</b>	<b>6,336,829</b>	<b>72,783,968</b>
<b>Goodwill</b>	<b>39,779,584</b>	<b>16,399,143</b>	<b>13,971,953</b>	<b>8,121,569</b>	<b>6,565,055</b>	<b>84,837,304</b>
<b>Calculated Purchase Price</b>	<b>123,240,807</b>	<b>79,173,075</b>	<b>17,202,798</b>	<b>33,860,912</b>	<b>16,975,676</b>	<b>270,453,268</b>

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 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. The Corporation tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired. For further analysis on goodwill relating to the business combination, see Note 10.

During the year ended December 31, 2019, the Corporation incurred acquisition costs of \$5,847,800, as reflected in the consolidated statements of loss and comprehensive loss.

For the year ended December 31, 2019, \$3,764,678 of expenses relating to the incremental costs to acquire cannabis inventory in a business combination is included on the consolidated statements of loss and comprehensive loss. This relates to the one-time adjustment of cannabis inventory from cost to fair value as part of the purchase price allocation.

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**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)
<b>Total</b>		<b>1,885,606</b>	<b>79,173,075</b>

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 consolidated statements of financial position.

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**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.

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)
<b>Total</b>		<b>265,360</b>	<b>16,975,676</b>

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.

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**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
<b>Total</b>		<b>270,000</b>	<b>33,860,912</b>

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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**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:

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

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.

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**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		331,812
<b>Total</b>		<b>898,739</b>	<b>17,202,798</b>

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 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.

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**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. 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 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.

**Pro Forma Disclosures**

The above acquisitions contributed revenues of \$75.2 million and net income of \$4.5 million, resulting in a decrease in the net loss per share of approximately \$0.26 as part of the Corporation's consolidated results from the date 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 \$12.6 million for the year ended December 31, 2019, which would have resulted in a decrease in the net loss per share of approximately \$3.40. 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:

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
Work in process	6,226,109	-
Finished goods	257,399	-
<b>Total cultivation and production inventory</b>	<b>6,483,508</b>	-
Cannabis inventory at retail	5,245,010	-
Supplies and others	1,990,322	-
<b>Total inventory</b>	<b>13,718,840</b>	-

Direct materials expensed as cost of goods sold during the year ended December 31, 2019 was \$36,136,990, and for the year ended December 31, 2018 was \$Nil. There was no inventory write down taken during the year ended December 31, 2019.



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**7. BIOLOGICAL ASSETS**

The continuity of biological assets is as follows:

	December 31, 2019	December 31, 2018
	\$	\$
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	3,760,158	-
Changes in fair value less costs to sell due to biological transformation	10,108,105	-
Transferred to inventory upon harvest	(10,933,119)	-
<b>Balance, at end</b>	<b>2,935,144</b>	<b>-</b>

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:

- The average number of weeks in the growing cycle is 18 weeks from propagation to harvest;
- The average harvest yield from each cannabis plant is 233 grams per plant;
- The average fair value less cost to complete and cost to sell is \$3.46 per gram; and
- The average cost to complete the cannabis production process post-harvest and the cost to sell is \$2.65 per gram.

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	Weighted average input	Sensitivity	Effect on fair value	
			December 31, 2019	December 31, 2018
			\$	\$
Wholesale selling price of dry cannabis	\$ 5.00	Increase or decrease of 5%	<b>209,858</b>	-
Average yield per plant	233 grams	Increase or decrease of 5%	<b>157,663</b>	-

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 December 31, 2019, the biological assets were on average 53% complete and the average number of weeks in the growing cycle was 18 weeks. During the year ended December 31, 2019, the Corporation's biological assets produced 3,360,263 grams of dried cannabis.

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

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

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

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**9. PROPERTY, PLANT AND EQUIPMENT**

	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Machinery and equipment</b>	<b>Auto and trucks</b>	<b>Buildings and leasehold improvements</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>						
<b>As at December 31, 2018</b>	-	-	-	-	-	-
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	722,346	255,127	1,472,366	64,137	18,991,013	21,504,989
Additions	201,045	57,359	398,829	66,161	15,887,626	16,611,020
<b>As at December 31, 2019</b>	<b>923,391</b>	<b>312,486</b>	<b>1,871,195</b>	<b>130,298</b>	<b>34,878,639</b>	<b>38,116,009</b>
<b>Depreciation</b>						
<b>As at December 31, 2018</b>	-	-	-	-	-	-
Depreciation	94,140	41,736	118,375	13,978	694,919	963,148
<b>As at December 31, 2019</b>	<b>94,140</b>	<b>41,736</b>	<b>118,375</b>	<b>13,978</b>	<b>694,919</b>	<b>963,148</b>
<b>Net book value</b>						
<b>As at December 31, 2018</b>	-	-	-	-	-	-
<b>As at December 31, 2019</b>	<b>829,251</b>	<b>270,750</b>	<b>1,752,820</b>	<b>116,320</b>	<b>34,183,720</b>	<b>37,152,861</b>

As at December 31, 2019, buildings and leasehold improvements include assets under construction of \$17,146,625. No depreciation has been charged on these assets.

Depreciation expense relating to PPE for the years ended December 31, 2019 and 2018 was \$963,148 (consisting of \$599,654 in cost of goods sold and \$363,494 in total expenses) and \$Nil, respectively.

**10. GOODWILL AND INTANGIBLE ASSETS**

**Goodwill**

As explained in Note 1 and Note 5, when the Corporation completed the Qualifying Transaction on the Acquisition Date, the Corporation recognized goodwill of \$84,837,304. This goodwill represents the excess purchase price paid by the Corporation over the fair value of net tangible and intangible assets identified in the calculated purchase price. The Corporation tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Goodwill recoverability is tested based on the higher of FVLCD and the value in use model. The FVLCD analysis is performed by using the income method which involves discounting expected future cash flows. Annual impairment testing involves determining the recoverable amount of the CGU group to which goodwill is allocated and comparing this to the carrying value of the CGU groups. The Corporation has grouped CGUs for testing at the state level based on the CGUs expected to benefit from synergies of the business combination.

Management performed its annual impairment tests on the goodwill acquired and calculated that the goodwill recoverable amounts were higher than the carrying amounts as at December 31, 2019, therefore, no impairment was recognized. The carrying amount of goodwill tested was \$16,399,143 and \$68,438,161 for Massachusetts and Nevada, respectively. The key assumptions include a three-year forecast period and a perpetual growth rate of 3% thereafter. These assumptions were based on historical data from internal sources as well as industry and market trends. The range of post-tax discount rates were from 10.5% to 34.9%. As the recoverable amount was higher than the carrying amount as at December 31, 2019, no impairment was recognized.

Ayr performed a sensitivity analysis and, based on that analysis, concluded that 5% changes in the discount rate should not cause the recoverable amount to decrease below the carrying value for any of the groups of CGUs.

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**10. GOODWILL AND INTANGIBLE ASSETS (Continued)**

**Intangible Assets**

Amortization expense in cost of goods sold for the years ended December 31, 2019 and 2018 were \$915,269 and \$Nil. The following table represents intangible assets:

	<b>Useful Life # (Years)</b>	<b>December 31, 2019 \$</b>	<b>December 31, 2018 \$</b>
<b>Acquired on completion of Qualifying Transaction [Notes 1 &amp; 5]</b>			
Licenses	15	22,000,000	-
Right-to-use licenses	15	138,550,000	-
Host community agreements	15	35,000,000	-
Trade name / brand	5	2,390,000	-
		197,940,000	-
<b>Amortization</b>			
Licenses	15	883,154	-
Right-to-use licenses	15	5,561,864	-
Host community agreements	15	1,405,018	-
Trade name / brand	5	287,828	-
		8,137,864	-
<b>Net book value</b>			
Licenses	15	21,116,846	-
Right-to-use licenses	15	132,988,136	-
Host community agreements	15	33,594,982	-
Trade name / brand	5	2,102,172	-
<b>Total net book value as at</b>		<b>189,802,136</b>	<b>-</b>

**11. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS**

	<b>Right-of-use assets \$</b>	<b>Lease obligations \$</b>
As at January 1, 2019 [Note 4]	741,930	741,930
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	11,310,784	12,671,166
New leases and re-valuation	1,471,927	1,471,927
Less: depreciation and repayment	(1,209,224)	(763,878)
<b>Net book value at December 31, 2019</b>	<b>12,315,417</b>	<b>14,121,145</b>

Right-of-use assets and liabilities were acquired on completion of the Qualifying Transaction as explained in Notes 1 and 5 with no net impact on deficit.

As at December 31, 2019, the current and long-term lease obligations were \$1,087,835 and \$13,033,310, respectively. Also refer to Note 4 (Adoption of IFRS 16 – “Leases”).

Interest expense relating to right-of-use assets for the years ended December 31, 2019 and 2018 were \$836,132 (consisting of \$258,698 in cost of goods sold and \$577,434 in other (expense) income) and \$Nil, respectively. Depreciation relating to right-of-use assets for the years ended December 31, 2019 and 2018 were \$1,209,224 (consisting of \$179,725 in cost of goods sold and \$1,029,500 in total expenses) and \$Nil, respectively.

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

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2019:

Undiscounted lease obligations (per year):	\$
2020	2,473,739
2021	2,276,925
2022	2,214,915
2023	2,261,501
2024	2,189,639
2025	1,908,867
2026 and beyond	14,111,173
<b>Total undiscounted lease obligations</b>	<b>27,436,759</b>
Impact of discounting	(13,315,614)
<b>Total lease obligations</b>	<b>14,121,145</b>

**12. EQUITY INVESTMENTS**

The Corporation has a 40% interest in Green Garden, LLC ("Green Garden") and a 49% interest in Land of Lincoln Dispensary LLC ("Lincoln"). Management has concluded that the current interests do not provide control to the Corporation. Accordingly, the Green Garden and Lincoln investments have been accounted for using the equity method. As the Lincoln acquisition occurred on December 29, 2019, Lincoln has no operating activity for the year ended December 31, 2019. The following table relates to the Corporation's investment in Green Garden for the year ended December 31, 2019.

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	-	-
Investment	500,000	-
Share of loss	(72,600)	-
<b>Net book value, as at</b>	<b>427,400</b>	<b>-</b>

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

	<b>December 31, 2019</b>	December 31, 2018
	\$	\$
Current assets	27,218	-
Non-current assets	-	-
Current liabilities	-	-
Revenue	-	-
Income	(181,501)	-

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**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 board member or senior officer is a principal owner or senior executive. Other than disclosed elsewhere in the consolidated financial statements, related party transactions and balances are as follows:

The 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 December 31, 2019, the Corporation satisfied \$125,464, in respect of these services and \$89,657 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 with the Corporation dated May 24, 2019, to provide consulting and management advisory services. As at December 31, 2019, \$48,008 was included in prepaid expenses as an advance for these services. Included in expenses for the year ended December 31, 2019, are management fees of \$1,368,855 that are included in general and administrative expenses and depreciation and interest expense for the embedded lease of \$477,570. 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 December 31, 2019 and December 31, 2018, the amount payable to the Corporation's Chief Executive Officer were \$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 were 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 years ended December 31, 2019 and 2018, the Corporation incurred professional fees of \$30,131 and \$30,096, 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 December 31, 2019 and December 31, 2018, Marrelli Support was owed \$Nil and \$4,370, respectively. These amounts are included in trade payables and accrued liabilities on the consolidated financial statements.

As at 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 on the consolidated financial statements.

As at December 31, 2019, the Corporation incurred fees from Panther Residential Management, LLC ("Panther"), a company partially owned by former owners of Sira. The total incurred fees are \$534,410 of facility construction fees, \$67,500 of office expenses, \$262,500 of rental fees, and \$3,508 of interest expense and \$12,441 of depreciation related to an office lease.

As at December 31, 2019, the Corporation incurred fees from JOCHCO Investments, LLC (JOCHCO), a company owned by certain former owners of Washoe. The total incurred fees are \$87,055 of interest expense and \$55,471 of depreciation related to a dispensary lease.

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**13. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

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:

	Year Ended	
	December 31, 2019	December 31, 2018
	\$	\$
Compensation and benefits, included in management fee	861,593	-
Stock-based compensation, non-cash	28,879,225	-
<b>Total compensation</b>	<b>29,740,818</b>	<b>-</b>

Refer to Note 20 for additional information around the non-cash stock-based compensation plan and calculation for the year ended December 31, 2019.

**14. DEBTS PAYABLE**

	Debts payable
	\$
As at December 31, 2018	-
Acquired and incurred on completion of Qualifying Transaction [Notes 1 & 5]	46,874,990
Less: repayment	(2,879,329)
<b>Total debts payable as at December 31, 2019</b>	<b>43,995,661</b>
<b>Total accrued interest payable related to debts payable as at December 31, 2019</b>	<b>815,662</b>

The details of debts payable were as follows:

	December 31, 2019		
	Related Party Debt	Non-Related Party Debt	Total Debt
	\$	\$	\$
Principal payments	41,084,256	2,911,405	43,995,661
Less: current portion	6,149,692	479,151	6,628,843
<b>Total non-current debt</b>	<b>34,934,564</b>	<b>2,432,254</b>	<b>37,366,818</b>

The following table presents the future debt obligation as at December 31, 2019:

Future debt obligations (per year)	\$
2020	6,628,843
2021	7,480,631
2022	5,762,108
2023	1,511,532
2024	22,612,547
<b>Total debt obligations</b>	<b>43,995,661</b>

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 that matures on November 10, 2020 with a 5.49% annual interest rate. Total balance assumed was \$13,053.

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**14. DEBTS PAYABLE (Continued)**

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 that 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 former 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 former 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 former 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.

Interest expense associated with related party debt payable for the year ended December 31, 2019, was \$1,548,359. There were no such expenses during the prior year.

**15. SHARE CAPITAL**

A summary of the outstanding share capital of the Corporation as at December 31, 2019 is comprised of the activity below. The Corporation is currently authorized to issue an unlimited number of Subordinate Voting Shares and Multiple Voting Shares. Refer to Note 1 and Note 5 for additional information regarding the total shares outstanding as at December 31, 2019. For additional shares reserved for issuance refer to Note 16 for disclosures on the Warrants and make-whole provision as well as Note 20 for stock-based compensation.

*Initial Public Offering*

On December 21, 2017, the Corporation completed its Offering and issued the following:

- 12,500,000 Class A Restricted Voting Units, along with 975,000 Class A Restricted Voting Units granted to the Underwriter, totaling 13,475,000 Class A Restricted Voting Units.
- 3,696,486 Class B shares to the Sponsor net of transaction costs and forfeitures.

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**15. SHARE CAPITAL (Continued)**

*Qualifying Transaction*

On May 24, 2019 the Corporation completed its Qualifying Transaction. As a result,

- 13,475,000 Class A Restricted Voting Shares, which were previously classified as liabilities, were converted into Subordinate Voting Shares unless redeemed. 1,000 of the Class A Restricted Voting shares were redeemed, reducing the outstanding amount from 13,475,000 to 13,474,000.
- 3,696,486 Class B Shares were converted into Multiple Voting Shares.
- 7,983,887 non-voting Exchangeable Shares of CSAC AcquisitionCo were issued as part of the purchase consideration of the Qualifying Transaction.

*Post Qualifying Transaction*

The following activity occurred subsequent to the Qualifying Transaction:

- 298,200 Warrants were exercised to purchase one Subordinate Voting Share during the Early Exercise Period commencing on July 15, 2019 until July 26, 2019.
- 389,905 non-voting Exchangeable Shares were issued as part of the make-whole provision liability as at November 20, 2019.
- 1,059,685 Subordinate Voting Shares were issued in connection with the conversion of 10,596,685 Rights, which were redeemed for one tenth (1/10) of one Subordinate Voting Share as at December 31, 2019.
- 36,900 Subordinate Voting Shares were repurchased under the stock repurchase program, of which 7,400 have been cancelled as at December 31, 2019 and the balance are held by the Corporation as treasury shares.

**16. DERIVATIVE LIABILITIES**

**Fair value of Warrants**

As at December 31, 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.



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**16. DERIVATIVE LIABILITIES (Continued)**

**Warrants - Issued and Outstanding**

	Number #	Amount \$
<b>Balance as at December 31, 2017</b>	<b>16,359,058</b>	<b>9,117,178</b>
Fair Value Adjustment		14,866,194
<b>Balance as at December 31, 2018</b>	<b>16,359,058</b>	<b>23,983,372</b>
Exercise of Warrants	(298,200)	(916,389)
Fair value adjustment		13,807,141
<b>Balance as at December 31, 2019</b>	<b>16,060,858</b>	<b>36,874,124</b>

The Corporation's Warrant liability increased from its original value to \$36,874,124 as the Warrant's bid price on December 31, 2019 decreased to \$2.30 (CDN\$3.00).

**Make-Whole Provision and Contingent Consideration**

As part of the purchase price of the Qualifying Transaction, the Corporation entered into make-whole provisions relating to the Exchangeable Shares issued. 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. On November 20, 2019, the Corporation issued a portion of the make-whole, a total of 389,905 Exchangeable Shares for a value of \$3,245,180. As at December 31, 2019, the Corporation revalued the make-whole provision for a value of \$3,540,803, which is included in purchase consideration payable on the consolidated statements of financial position.

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 fair value of the liability was recorded as \$21,821,132. As at December 31, 2019, the fair value of the contingent consideration increased to \$22,656,981.

The fair value adjustment relating to derivative liabilities has been reflected in the consolidated financial statements under "Unrealized loss - changes to fair value of financial liabilities" as detailed below:

	Year Ended	
	December 31, 2019	December 31, 2018
	\$	\$
Loss from FV adjustment on Warrants	(13,807,141)	(14,866,194)
Loss from FV adjustment on Class A Restricted Voting Shares	(101,455,740)	(57,485,162)
Loss from FV adjustment on make-whole provision	(3,972,266)	-
<b>Total</b>	<b>(119,235,147)</b>	<b>(72,351,356)</b>

Class A Restricted Voting Shares are measured at fair value and any fluctuation in the carrying value is recognized as an unrealized gain or loss. The shares were valued as a liability in the amount of \$145,694,363 as at December 31, 2018, and converted (1,000 were redeemed) on May 24, 2019, the date of the Qualifying Transaction, to equity as Subordinate Voting Shares in the amount of \$248,411,016.

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**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.

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 year ended December 31, 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.

**18. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	<b>Year Ended</b>	
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Public company filing and listing costs	59,438	69,248
Compensation and benefits	8,063,400	-
Rent and utilities	549,898	-
Taxes and licenses	1,681,599	-
Professional and consulting fees	2,759,669	3,015,115
Office expenses	601,775	157,630
Computer expenses	390,910	-
Bank charges and fees	228,384	-
Insurance	1,199,130	-
Security	729,922	-
Management fee	1,368,855	-
Travel, meals, and entertainment	455,204	-
Other	948,268	-
<b>Total</b>	<b>19,036,452</b>	<b>3,241,993</b>

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

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**19. NET LOSS PER SHARE**

**Basic and Diluted**

Basic and diluted net loss per share is calculated by dividing the 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 excluding treasury stock, during the applicable years. As all the classes of shares are subject to the same distribution rights, the Corporation performs the net loss per share calculations as if all shares are a single class. The calculation of diluted net loss for the years excludes exercised Warrants, restricted stock units (RSUs), and contingent shares because their effect is anti-dilutive.

	Year Ended	
	December 31, 2019	December 31, 2018
	\$	\$
Net loss attributable to shareholders of the Corporation	(164,179,604)	(75,114,770)
Weighted average number of shares outstanding during the year	17,404,742	3,707,710
<b>Basic and diluted net loss per share</b>	<b>(9.43)</b>	<b>(20.26)</b>

**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. There were no issuances of shares from the Plan as at December 31, 2019.

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 year ended December 31, 2019, the Corporation recognized stock-based compensation expense of \$28,879,225 from the issuance of 3,837,150 restricted Exchangeable Shares. The stock-based compensation expense is based on the Corporation's share price on the date of the grant. The restricted Exchangeable Shares vest over a one to three year period. During the period ended December 31, 2019, there were no forfeitures of Exchangeable Shares. There was no additional activity during the current year and there was no comparable activity in the prior year.

**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 December 31, 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.

## **21. COMMITMENTS AND CONTINGENCIES (Continued)**

### **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 December 31, 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.

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 with unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 December 31, 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

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

**22. FINANCIAL RISK FACTORS (Continued)**

**(a) Fair Value (continued)**

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
December 31, 2019	\$	\$	\$	\$	\$
Cash and cash equivalents	8,403,196	-	-	8,403,196	8,403,196
Deposit	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
<b>December 31, 2018</b>					
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
	100,069,081	-	-	100,069,081	100,069,081

Financial liabilities	Carrying values			Fair values	
	FVTPL	AC	Total	Total	
December 31, 2019	\$	\$	\$	\$	\$
Warrant liability	36,874,124	-	36,874,124	36,874,124	
Trade payables	-	6,806,053	6,806,053	6,806,053	
Accrued liabilities	-	5,123,865	5,123,865	5,123,865	
Accrued interest payable	-	815,662	815,662	815,662	
Debts payable	-	43,995,661	43,995,661	43,995,661	
	36,874,124	56,741,241	93,615,365	93,615,365	
<b>December 31, 2018</b>					
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 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.

The Corporation quantified the sensitivity of inputs in relation to the contingent consideration as at December 31, 2019 and 2018, 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 year end	
			December 31, 2019	December 31, 2018
			\$	\$
Discount rate	6.3%	Increase 5%	22,502,442	-
		Decrease 5%	22,813,159	-

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

**22. FINANCIAL RISK FACTORS (Continued)**

**(b) Credit Risk**

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the 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 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. No ECL has been recorded by the Corporation as all receivables are expected to be collected and are not significant. As at December 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was \$11,024,435 and \$109,952, respectively. The components of accounts receivable as at December 31, 2019 were:

	0-30 days	31-90 days	Over 90 days	Total
Balance, as at December 31, 2019 (in \$)	2,456,226	115,808	49,205	2,621,239

**(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 December 31, 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.

**(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 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.) CDN \$	Conversion rate	Sensitivity	Effect on fair value as at December 31, 2019 \$
Cash and cash equivalents	2,363,162	0.7653	Increase / Decrease 1%	18,085
Warrants	(36,874,124)	0.7653	Increase / Decrease 1%	(282,198)

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

**23. TAXATION**

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.

The Company is treated as a United States corporation under section 7874 of the Internal Revenue Code and is expected to be subject to United States federal income tax. However, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the United States. The Corporation is also subject to state income taxation in Massachusetts.

In relation to the acquisitions, explained in Notes 1 and 5, the Corporation has recognized deferred tax liabilities on the acquisition date of \$44,970,332 largely due to the recognition of acquired intangible assets, biological assets and PPE. The deferred tax recovery during the year ended December 31, 2019 and year ended December 31, 2018, were \$3,892,570 and \$Nil, respectively, resulting in a deferred tax liability of \$41,077,761 and \$Nil as at December 31, 2019 and December 31, 2018.

Provision for income taxes consists of the following for the years ended December 31, 2019 and 2018:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Current expense:</b>		
Federal	7,706,952	-
State	1,021,109	-
<b>Total current expense:</b>	<b>8,728,061</b>	<b>-</b>
<b>Deferred benefit:</b>		
Federal	(3,442,568)	-
State	(450,002)	-
<b>Total deferred benefit:</b>	<b>(3,892,570)</b>	<b>-</b>
<b>Total provision for income taxes</b>	<b>4,835,491</b>	<b>-</b>

As at December 31, 2019, and 2018, the components of deferred tax assets and liabilities were as follows:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Property, plant and equipment	(777,780)	-
Intangible assets	(41,992,664)	-
Partnerships	136,836	-
Biological assets	1,198,574	-
Inventory	79,869	-
Start-up expenses	277,404	-
<b>Net deferred tax liability</b>	<b>(41,077,761)</b>	<b>-</b>

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

**23. TAXATION (Continued)**

Deferred tax assets have not been recognized in respect of the following temporary differences:

	<b>As at December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Share issue costs	5,659,149	2,516,418
Non-capital losses carried forward - Canada	9,520,242	3,060,126
Deferred underwriters' commission	-	3,457,154
Other temporary differences	15,269	-
<b>Total</b>	<b>15,194,660</b>	<b>9,033,698</b>

As at December 31, 2019, and 2018, the reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss before taxes	(159,344,113)	(75,114,770)
Expected income tax (recovery) expense	(43,022,911)	(21,538,642)
Difference in foreign tax rates	569,917	-
Tax rate changes and other adjustments	36,969	-
Stock-based compensation	7,966,090	-
Unrealized change in fair value of financial liabilities	32,922,160	19,044,441
Non-deductible items	4,091,370	4,889
Benefit of tax loss not recognized	1,708,628	-
State Tax	563,268	-
Share issue costs booked through equity	-	(33,481)
Change in unrecognized temporary differences	-	2,522,793
Reported Income Tax Expense (Recovery)	4,835,491	-
Effective Tax Rate	-3.03%	0.00%

The Canadian 2019 statutory tax rate of 27% differs from the 2018 statutory tax rate of 26.5% as a result of the corporate continuance into British Columbia from Ontario in 2019.

At December 31, 2019, the Company has approximately \$9.5 million of unclaimed Canadian non-capital losses which expire in the tax years 2037 through 2039.



**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended December 31, 2019 and 2018**

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**24. SUBSEQUENT EVENTS**

The Corporation's management has evaluated subsequent events up to March 20, 2020, the date the consolidated financial statements were issued.

- A) On February 26, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in a Massachusetts LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to legally open and operate a recreational cannabis license in the state of Massachusetts. The Corporation has agreed to pay a purchase price consisting of cash and non-voting interest in the net profits of the Massachusetts LLC. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. The closing of the acquisition will be subject to, among other things, regulatory approval.
- B) Subsequent to year-end, in March 2020, global financial markets have experienced a disruption as a result of the novel coronavirus (COVID-19) pandemic. The impact on the Corporation is not currently determinable. Management is actively monitoring and responding to these developments in financial markets.

**CANNABIS STRATEGIES ACQUISITION CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PERIOD ENDED DECEMBER 31, 2018**

**AND FOR THE**

**YEAR ENDED SEPTEMBER 30, 2018**

**(EXPRESSED IN CANADIAN DOLLARS)**

**Independent Auditor's Report**

To the Shareholders of Cannabis Strategies Acquisition Corp.:

**Opinion**

We have audited the consolidated financial statements of Cannabis Strategies Acquisition Corp. and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2018 and September 30, 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the period and year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2018 and September 30, 2018, and its consolidated financial performance and its consolidated cash flows for the period and year then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

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

**Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.



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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Pierrette Dosanjh.

*MNP LLP*

Toronto, Ontario  
March 22, 2019

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**Cannabis Strategies Acquisition Corp.**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

	As at December 31, 2018	As at September 30, 2018
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 149,996	\$ 703,237
Prepaid expenses	-	4,375
Deposit	375,000	300,000
	<u>524,996</u>	<u>1,007,612</u>
Restricted cash and short-term investments held in escrow (note 5)	135,989,244	135,683,564
<b>Total assets</b>	<b>\$ 136,514,240</b>	<b>\$ 136,691,176</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 3,395,625	\$ 718,288
Due to related parties (note 11)	731,732	773,776
	<u>4,127,357</u>	<u>1,492,064</u>
Deferred underwriters' commission (note 9)	4,716,250	4,716,250
Class A Restricted Voting Shares subject to redemption (note 6)	198,756,250	159,005,000
Warrant liability (note 7)	32,718,116	16,359,058
<b>Total liabilities</b>	<b>240,317,973</b>	<b>181,572,372</b>
<b>Shareholders' deficiency</b>		
Share capital (note 8(a))	2,287,620	2,287,620
Deficit	(106,091,353)	(47,168,816)
<b>Total shareholders' deficiency</b>	<b>(103,803,733)</b>	<b>(44,881,196)</b>

<b>Total liabilities and shareholders' deficiency</b>	<b>\$ 136,514,240</b>	<b>\$ 136,691,176</b>
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The accompanying notes are an integral part of these consolidated financial statements.

Organization and nature of operations (note 1)

**Approved on behalf of the Board:**

"Jonathan Sandelman", Director

"Kamaldeep Thindal", Director

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**Cannabis Strategies Acquisition Corp.  
Consolidated Statements of Operations and Comprehensive loss  
(Expressed in Canadian Dollars)**

	<b>Period Ended December 31, 2018</b>	<b>Year Ended September 30, 2018</b>
<b>Revenue</b>		
Interest income	\$ 305,680	\$ 933,564
<b>Expenses</b>		
Transaction costs (note 9)	-	9,130,817
General and administrative (note 10)	3,091,226	1,176,016
Foreign exchange	26,683	-
Net unrealized loss on changes in the fair value of financial liabilities (notes 6 and 7)	56,110,308	37,795,547
	<u>59,228,217</u>	<u>48,102,380</u>
<b>Net loss and comprehensive loss for the period/year</b>	<b>\$ (58,922,537)</b>	<b>\$ (47,168,816)</b>
<b>Basic and diluted net loss per Class B share</b>	<b>\$ (15.94)</b>	<b>\$ (15.97)</b>
<b>Weighted average number of Class B Shares outstanding (basic and diluted)</b>	<b><u>3,696,486</u></b>	<b><u>2,953,407</u></b>

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

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**Cannabis Strategies Acquisition Corp.  
Consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars)**

	<b>Period Ended December 31, 2018</b>	<b>Year Ended September 30, 2018</b>
<b>Operating activities</b>		
Net loss and comprehensive loss for the year/period	\$ (58,922,537)	\$ (47,168,816)
Non-cash items included in net loss and other adjustments:		
Interest income	(305,680)	(933,564)
Transaction costs associated with financing activities (note 9)	-	9,130,817
Net unrealized loss on changes in the fair value of financial liabilities	56,110,308	37,795,547
Changes in working capital items:		
Prepaid expenses	4,375	(4,375)
Deposit	(75,000)	(300,000)
Accounts payable and accrued liabilities	2,677,337	718,288
Due to related parties	(42,044)	773,776
<b>Net cash (used in) provided by operating activities</b>	<b><u>(553,241)</u></b>	<b><u>11,673</u></b>
<b>Investing activities</b>		
Investment in restricted cash and short-term investments held in escrow (note 5)	-	(134,750,000)
<b>Net cash used in investing activities</b>	<b><u>-</u></b>	<b><u>(134,750,000)</u></b>
<b>Financing activities</b>		
Proceeds from issuance of Class B Shares to Founders (note 8)	-	25,000
Proceeds from issuance of Class B Units (note 8)	-	2,621,880
Proceeds from issuance of Warrants to Founders (note 7)	-	2,621,870
Proceeds from issuance of Class A Restricted Voting Units (notes 6 and 7)	-	134,750,000
Transaction costs (note 9)	-	(4,577,196)
<b>Net cash provided by financing activities</b>	<b><u>-</u></b>	<b><u>135,441,554</u></b>
<b>Net change in cash during the period/year</b>	<b>(553,241)</b>	<b>703,227</b>
<b>Cash, beginning of period/year</b>	<b><u>703,237</u></b>	<b><u>10</u></b>
<b>Cash, end of period/year</b>	<b>\$ <u>149,996</u></b>	<b>\$ <u>703,237</u></b>

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

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**Cannabis Strategies Acquisition Corp.**  
**Consolidated Statements of Changes in Shareholders' Deficiency**  
**(Expressed in Canadian Dollars)**

	Class B Shares		Deficit	Total
	Number	Amount		
<b>Balance, September 30, 2017</b>	<b>1</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 10</b>
Issuance of Class B Shares to Founders (note 1 and note 8(a))	3,662,109	25,000	-	25,000
Issuance of Class B Units to Sponsor (note 1 and note 8(a))	262,188	2,621,880	-	2,621,880
Allocation of proceeds received pursuant to the Offering, over-allotment option and attributed to Warrants (note 1 and note 8(a))	-	(196,641)	-	(196,641)
Transaction costs (note 9)	-	(162,629)	-	(162,629)
Forfeiture of Founders Class B Shares (note 1)	(227,812)	-	-	-
Net loss and comprehensive loss for the year	-	-	(47,168,816)	(47,168,816)
<b>Balance, September 30, 2018</b>	<b>3,696,486</b>	<b>2,287,620</b>	<b>(47,168,816)</b>	<b>(44,881,196)</b>
Net loss and comprehensive loss for the period	-	-	(58,922,537)	(58,922,537)
<b>Balance, December 31, 2018</b>	<b>3,696,486</b>	<b>\$ 2,287,620</b>	<b>\$ (106,091,353)</b>	<b>\$ (103,803,733)</b>

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

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**Cannabis Strategies Acquisition Corp.**  
**Notes to Consolidated Financial Statements December 31, 2018**  
**(Expressed in Canadian Dollars)**

**1. Organization and nature of operations**

Cannabis Strategies Acquisition Corp. ("Cannabis Strategies" or the "Corporation") is 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 (a "Qualifying Transaction"). The Corporation's business activities are carried out in a single business segment.

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.

The Corporation was incorporated on July 31, 2017 under the Business Corporations Act (Ontario) and is domiciled in Canada. The registered office of the Corporation is located at 199 Bay Street, Suite 5300, Commerce Court West, Toronto, Ontario, M5L 1B9. The head office of the Corporation is located at 590 Madison Avenue, 26 th Floor, New York, New York, 10022.

On September 12, 2018, the Corporation incorporated a wholly owned subsidiary in Nevada, USA, CSAC Holdings Inc., to facilitate the proposed Qualifying Transaction. On September 17, 2018, CSAC Holdings Inc. incorporated a wholly owned subsidiary in Nevada, USA, CSAC Acquisition Inc.

On December 21, 2017, the Corporation completed its initial public offering (the "Offering") of 12,500,000 Class A Restricted Voting Units at \$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") of the Corporation, one share purchase warrant (each, a "Warrant") and one right (each, a "Right"). Each Class A Restricted Voting Share, unless previously redeemed, will be automatically converted into one Class B Share following the closing of a Qualifying Transaction. All Warrants will become exercisable at a price of \$11.50 per share, commencing 65 days after the completion of a Qualifying Transaction and will expire on the day that is five years after the completion of a Qualifying Transaction or may expire earlier if a Qualifying Transaction does not occur within the permitted timeline of 18 months ("Permitted Timeline") (subject to extension, as further described herein) from the closing of the Offering or if the expiry date is accelerated. Each Warrant is exercisable to purchase one Class A Restricted Voting Share (which, following the closing of the Qualifying Transaction, will become one Class B Share of Cannabis Strategies and each Right would represent the entitlement to automatically receive, for no additional consideration, one-tenth (1/10) of one Class A Restricted Voting Share (following the closing of a Qualifying Transaction, which at such time will be one-tenth (1/10) of a Class B Share). At the option of the warrant holder, the Warrants may be exercised through cashless exercise.

In connection with the Offering, the Corporation granted the underwriter a 30-day non-transferable option to purchase up to an additional 1,875,000 Class A Restricted Voting Units, at a price of \$10.00 per Class A Restricted Voting Unit, to cover over-allotments, if any, and for market stabilization purposes.

Concurrent with the completion of the Offering, 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 3,662,109 Class B Shares ("Founders' Shares"), consisting of 3,642,109 Class B Shares purchased by the Sponsor, 10,000 Class B Shares purchased by Kamaldeep Thindal, and 10,000 Class B Shares purchased by Charles Miles, in each case assuming that the over-allotment option was exercised in full for total proceeds of \$25,000. In addition, the Sponsor purchased an aggregate of 250,000 Class B Units (the "Class B Units") at \$10.00 per Class B Unit and 2,500,000 Warrants ("Founders' Warrants") at \$1.00 per Founders' Warrant. Each Class B Unit consists of one Class B Share, one Warrant and one Right. The Founders' Warrants will be 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 will be subject to the same terms and conditions as the Rights underlying the Class A Restricted Voting Units.

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**1. Organization and nature of operations (continued)**

On January 19, 2018, the underwriter exercised its over-allotment option to purchase an additional 975,000 Class A Restricted Voting Units for aggregate proceeds of \$9,750,000 and the Sponsor subscribed for an additional 121,870 Founders' Warrants (for an aggregate purchase price of \$121,870) and 12,188 Class B Units (for an aggregate purchase price of \$121,880) for aggregate proceeds of \$243,750. As a result of the exercise of the over-allotment option, an aggregate of 13,475,000 Class A Restricted Voting Units of the Corporation were issued for aggregate proceeds of \$134,750,000. Due to the partial exercise of the over-allotment option, an aggregate of 227,812 Class B Shares (also known as Founders' Shares) were forfeited without compensation by the Founders on January 19, 2018. As a result, following the exercise of the over-allotment option and forfeiture of the 227,812 Founders' Shares, the Founders own an aggregate of 3,434,297 Class B Shares, 262,188 Class B Units and 2,621,870 Founders' Warrants.

Each Class A Restricted Voting Unit commenced trading on December 21, 2017 on the NEO Exchange Inc., formerly the Aequitas NEO Exchange Inc. (the "Exchange") under the symbol "CSA.UN", and were separated into Class A Restricted Voting Shares, Warrants and Rights following the close of business on January 30, 2018, being 40 days following the closing of the Offering, which trade under the symbols "CSA.A", "CSA.WT" and "CSA.RT", respectively. The Class B Shares issued to the Founders and the Class B Units issued to the Sponsor are not listed.

The proceeds of \$134,750,000 from the Offering and over-allotment are held by Odyssey Trust Company, 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 will be released to the Corporation prior to the closing of a Qualifying Transaction. The escrowed funds will be held to enable the Corporation to (i) satisfy redemptions made by holders of Class A Restricted Voting Shares (including in the event of a Qualifying Transaction or an extension to the Permitted Timeline of up to 36 months with shareholder approval from the holders of Class A Restricted Shares and the Corporation's board of directors, or in the event a Qualifying Transaction does not occur within the Permitted Timeline), (ii) fund a 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, will be assets of the Corporation. These escrowed funds will also be used to pay the deferred underwriting commissions in the amount of \$4,716,250, 50% of which will be payable to the Underwriter and the remaining 50% will be payable by the Corporation at its discretion.

In connection with consummating a Qualifying Transaction, the Corporation will require (i) approval by a majority of the directors unrelated to the Qualifying Transaction, and (ii) approval by 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, at a shareholders meeting held to consider the Qualifying Transaction, if required by the Exchange's rules at the time of the Qualifying Transaction. Irrespective of whether they vote for or against, or do not vote on, the proposed Qualifying Transaction, holders of Class A Restricted Voting Shares may 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 (if required by the rules of the Exchange at the time of the Qualifying Transaction, or if no such shareholders' meeting is required, at the time immediately prior to the redemption deposit timeline), 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, will be subject to a redemption limitation of an aggregate 15% of the number of Class A Restricted Voting Shares issued and outstanding. Class B Shares will not be redeemable in connection with a Qualifying Transaction or an extension to the Permitted Timeline and holders of Class B Shares shall not be entitled to access the Escrow Account should a Qualifying Transaction not occur within the Permitted Timeline.

**1. Organization and nature of operations (continued)**

If the Corporation is unable to complete its Qualifying Transaction within the Permitted Timeline (or an extension of the Permitted Timeline), all of the Class A Restricted Voting Shares will be automatically redeemed and each holder of a Class A Restricted Voting Share will receive an amount, payable in cash, equal to the pro-rata portion per Class A Restricted Voting Share of: (A) the Escrow Account, including any interest and other amounts earned; less (B) an amount equal to the total of (i) any applicable taxes payable by the Corporation on such interest and other amounts earned in the Escrow Account, (ii) any taxes of the Corporation arising in connection with the redemption of the Class A Restricted Voting Shares, and (iii) up to a maximum of \$50,000 of interest and other amounts earned to pay actual and expected expenses related to the dissolution and certain other related costs as reasonably determined by the Corporation. The underwriter will have no right to the deferred underwriting commissions held in the Escrow Account in such circumstances.

**2. Basis of presentation**

These financial statements of the Corporation as at December 31, 2018 and for the period ended December 31, 2018 (the "December 2018 Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and with interpretations of the International Financial Reporting Interpretations Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Chartered Professional Accountants of Canada Handbook – Accounting. The December 2018 Financial Statements were authorized for issuance by the Board of Directors on March 22, 2019.

The significant accounting policies and methods of application adopted by the Corporation in the preparation of the December 31, 2018 Financial Statements are provided in note 3.

**3. Summary of significant accounting policies**

The significant accounting policies adopted by the Corporation in the preparation of its financial statements are set out below.

**Basis of presentation**

These financial statements have been prepared under the historical cost convention, except for the carrying value of Class A Restricted Voting Shares subject to redemption and Warrant liability, which are measured at fair value as determined at each reporting date. The Corporation's functional and presentation currency is the Canadian dollar.

**Basis of consolidation**

These consolidated financial statements include the financial statements of the Corporation and its wholly owned subsidiaries. All significant intercompany balances and

transactions have been eliminated on consolidation.

## Financial instruments

### Recognition

The Corporation recognizes a financial asset or financial liability on the statements of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Corporation has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

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## Cannabis Strategies Acquisition Corp.

### Notes to Consolidated Financial Statements December 31, 2018

(Expressed in Canadian Dollars)

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### 3. Summary of significant accounting policies (continued) Financial instruments (continued)

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Corporation has no reasonable expectations of recovering the contractual cash flows on a financial asset.

#### Classification and Measurement

Effective October 1, 2018, the Corporation adopted IFRS 9, Financial Instruments. The adoption of IFRS 9 did not have a material impact on the Corporation's financial statements.

The Corporation determines the classification of its financial instruments at initial recognition as a result of adopting IFRS 9. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Corporation has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- FVTOCI, when the change in fair value is attributable to changes in the Corporation's credit risk.

The Corporation reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

The Corporation's financial asset consists of cash and restricted cash, which is classified and subsequently measured at FVTPL. The Corporation's financial liabilities consist of accounts payable and accrued liabilities, due to related parties and deferred underwriters' commission, which are classified and subsequently measured at amortized cost using the effective interest method. In addition, the Corporation's financial liabilities also include Class A Restricted Voting Shares subject to redemption and warrant liability which are classified and subsequently measured at FVTPL.

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## Cannabis Strategies Acquisition Corp.

### Notes to Consolidated Financial Statements

### December 31, 2018

(Expressed in Canadian Dollars)

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

#### Classification and Measurement (continued)

All financial instruments recognized at fair value in the statements of financial position are classified into one of three levels in the fair value hierarchy as follows:

- Level 1 – Valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – Valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means.

Level 3 – Valuation techniques with significant unobservable market inputs.

#### *Impairment*

The Corporation assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Corporation compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

#### **Income taxes**

The Corporation follows the balance sheet liability method to provide for income taxes on all transactions recorded in its financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in net income or loss in the period that includes the substantive enactment date. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing laws in each applicable jurisdiction. Future taxable income is also significantly dependent upon the Corporation completing a Qualifying Transaction, the underlying structure of a Qualifying Transaction, and the resulting nature of operations. To the extent that future cash flows and/or the probability, structure and timing, and the nature of operations of a future Qualifying Transaction differ significantly from estimates made, the ability of the Corporation to realize a deferred income tax asset could be materially impacted.

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## **Cannabis Strategies Acquisition Corp.**

### **Notes to Consolidated Financial Statements**

**December 31, 2018**

**(Expressed in Canadian Dollars)**

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#### **3. Summary of significant accounting policies (continued)**

##### **Earnings (loss) per share**

Basic earnings or loss per share is computed by dividing the net earnings or loss attributable to shareholders by the weighted average number of shares outstanding during the period, excluding Class A Restricted Voting Shares subject to redemption. Diluted earnings or loss per share, where applicable, is calculated by adjusting the weighted average number of shares outstanding for dilutive instruments by applying the treasury stock method.

##### **New accounting standards adopted**

###### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") was effective for the Corporation on October 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The adoption of IFRS 15 did not have a material impact on the Corporation's financial statements.

#### **4. Critical accounting judgments, estimates and assumptions**

The preparation of these financial statements requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, and items in net income or loss, and the related disclosure of contingent assets and liabilities, if any. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on various assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of items in net income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its December 31, 2018 Financial Statements.

##### **Fair Value of Financial Instruments**

Certain financial instruments are recorded in the Corporation's statements of financial position at values that are representative of or approximate their fair value. 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 an active market, the Corporation will use an option-pricing model to measure the fair value of the financial instrument. 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 instrument. Changes in the underlying trading value or estimates may significantly affect the amount of net income or loss for a particular period. Furthermore, the quoted market price or option price of a financial liability may not be equal to the amount that the Corporation may have to pay in settlement of the underlying obligation, should such obligation become immediately payable. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that the basis for determination of fair value is appropriate.

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## Cannabis Strategies Acquisition Corp.

### Notes to Consolidated Financial Statements

December 31, 2018

(Expressed in Canadian Dollars)

#### 4. Critical accounting judgments, estimates and assumptions (continued)

##### Warrant Valuations

Pursuant to the Corporation's Offering of Class A Restricted Voting Units, the Corporation issued Warrants. The Company also issued Warrants as part of the Class B Units issued to Founders and has also issued the Founders Warrants. Estimating the fair value of warrants requires determining the most appropriate valuation model that is dependent on the terms and conditions of the Warrant. To the extent that a quoted market value is not available, the Corporation applies an option-pricing model to measure the fair value of the Warrants 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 Warrant. These estimates may ultimately be different from amounts subsequently realized, resulting in an overstatement or understatement of net income or loss.

##### Income tax

The determination of the Corporation's income taxes and other tax assets and liabilities requires interpretation of complex laws and regulations. Judgment is required in determining whether deferred income tax assets should be recognized on the statements of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing laws in each applicable jurisdiction. Future taxable income is also significantly dependent upon the Corporation completing a Qualifying Transaction, the underlying structure of a Qualifying Transaction, and the resulting nature of operations. To the extent that future cash flows and/or the probability, structure and timing, and the nature of operations of a future Qualifying Transaction differ significantly from estimates made, the ability of the Corporation to realize a deferred tax asset could be materially impacted.

#### 5. Restricted cash and short-term investments held in escrow

##### December 31, 2018

Restricted cash	\$	126,155,821
Investments in Flexible Guaranteed Investment Certificate due January 21, 2019		9,750,000
Accrued interest		83,423
<b>Restricted cash and short-term investments held in escrow</b>	<b>\$</b>	<b>135,989,244</b>

##### September 30, 2018

Investments in Flexible Guaranteed Investment Certificate due December 21, 2018	\$	125,000,000
Investments in Flexible Guaranteed Investment Certificate due January 21, 2019		9,750,000
Accrued interest		933,564
<b>Restricted cash and short-term investments held in escrow</b>	<b>\$</b>	<b>135,683,564</b>

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## Cannabis Strategies Acquisition Corp.

### Notes to Consolidated Financial Statements

December 31, 2018

(Expressed in Canadian Dollars)

#### 6. Class A restricted voting shares subject to redemption

##### Authorized

The Corporation is authorized to issue an unlimited number of Class A Restricted Voting Shares. The holders of Class A Restricted Voting Shares have no pre-emptive rights or other subscription rights and there are no sinking fund provisions applicable to these shares.

##### Voting rights

Prior to the consummation of a Qualifying Transaction, holders of Class A Restricted Voting Shares are not entitled to vote at, or receive notice of or meeting materials in respect of customary annual general meeting matters, including the election and removal of directors and auditors. The holders of Class A Restricted Voting Shares would, however, be entitled to vote on and receive notice of meeting materials on all other matters requiring shareholder approval, including approval of an extension of the Permitted Timeline and of a proposed Qualifying Transaction and in the latter case, the holders of the Class A Restricted Voting Shares would vote together with the Class B Shares as if they were a single class of shares.

##### Redemption rights

The holders of Class A Restricted Voting Shares are entitled to redeem their shares, subject to certain conditions, and are entitled to receive the escrow proceeds, net of applicable taxes and other permitted deductions, from the Escrow Account: (i) in the event that the Corporation does not complete a Qualifying Transaction within the Permitted Timeline (in which case the redemption is automatic); (ii) in the event of a Qualifying Transaction; and (iii) in the event of an extension to the Permitted Timeline. Upon such redemption, the rights of holders of Class A Restricted Voting Shares as shareholders will be completely extinguished.

##### Fair value of Class A restricted voting shares subject to redemption

The redemption rights embedded in the terms of the Corporation's Class A Restricted Voting Shares are considered by the Corporation to be outside of the Corporation's control and subject to uncertain future events. Accordingly, the Corporation has classified its "Class A Restricted Voting Shares subject to redemption" as financial liabilities at FVTPL.

##### Fair value of Class A restricted voting shares subject to redemption-issued and outstanding

	Number	Amount
From incorporation on July 31, 2017	-	\$ -

Issuance of Class A Restricted Voting Shares pursuant to the Offering	12,500,000	115,625,000
Issuance of Class A Restricted Voting Shares pursuant to the over-allotment option	975,000	9,018,750
	13,475,000	124,643,750
Adjusted for:		
Fair value adjustment	-	74,112,500
<b>Balance, December 31, 2018</b>	<b>13,475,000</b>	<b>\$ 198,756,250</b>

The fair value of the Company's Class A restricted voting shares increased to \$198,756,250 as the Class A Restricted Voting Shares bid price on December 31, 2018 was \$14.75.

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## Cannabis Strategies Acquisition Corp.

### Notes to Consolidated Financial Statements

December 31, 2018

(Expressed in Canadian Dollars)

#### 6. Class A restricted voting shares subject to redemption (continued)

	Number	Amount
<b>From incorporation on July 31, 2017</b>	-	\$ -
Issuance of Class A Restricted Voting Shares pursuant to the Offering	12,500,000	115,625,000
Issuance of Class A Restricted Voting Shares pursuant to the over-allotment option	975,000	9,018,750
	13,475,000	124,643,750
Adjusted for:		
Fair value adjustment	-	34,361,250
<b>Balance, September 30, 2018</b>	<b>13,475,000</b>	<b>\$ 159,005,000</b>

#### 7. Warrant liability

As at December 31, 2018 and September 30, 2018, the Corporation had 16,359,058 Warrants issued and outstanding, comprised of 13,475,000 Warrants forming part of the Class A Restricted Voting Units, 2,621,870 Founders' Warrants, and 262,188 Warrants forming part of the Class B Units.

All Warrants will become exercisable only commencing 65 days after the completion of our Qualifying Transaction. Each Warrant is exercisable to purchase one Class A Restricted Voting Share (which, following the closing of the Qualifying Transaction, will become one Class B Share) at a price of \$11.50 per share, subject to the following adjustments. The Warrant Agreement will provide that the exercise price and number of Class B Shares issuable on exercise of the Warrants may be adjusted in certain circumstances, including in the event of a stock dividend, Extraordinary Dividend or a recapitalization, reorganization, merger or consolidation. The Warrants will not, however, be adjusted for issuances of Class B Shares at a price below their exercise price. Once the Warrants become exercisable, the Corporation may accelerate the expiry date of the outstanding Warrants (excluding the Founders' Warrants but only to the extent still held by the Sponsor at the date of public announcement of such acceleration and not transferred prior to the accelerated expiry date, due to the anticipated knowledge by the Sponsor of material undisclosed information which could limit their flexibility) by providing 30 days' notice if, and only if, the closing share price of the Class B Shares equals or exceeds \$18.00 per Class B Share (as adjusted for stock splits or combinations, stock dividends, Extraordinary Dividends, reorganizations and recapitalizations and the like) for any 20 trading days within a 30-trading day period, in which case the expiry date shall be the date which is 30 days following the date on which such notice is provided.

The Warrant holders will not be entitled to the proceeds from the Escrow Account. The Warrant holders do not have the rights or privileges of holders of shares and any voting rights until they exercise their Warrants and receive corresponding Class B Shares of the Corporation. After the issuance of corresponding Class B Shares upon exercise of the Warrants, each holder is expected to be entitled to one vote for each Class B Share held of record on all matters to be voted on by shareholders.

#### Restrictions on Transfer of Founders' Warrants

With certain exemptions, the Founders have agreed not to transfer any of their Founders' Warrants until after the closing of the Qualifying Transaction, except for transfers required due to the structuring of the Qualifying Transaction, in which case such restriction will apply to the securities received in connection with the Qualifying Transaction. Following completion of the Corporation's Qualifying Transaction, the Founders' Warrants, including Class B Shares issuable on exercise of the Founders' Warrants, may be subject to certain sale or transfer restrictions in accordance with applicable securities laws.

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## Cannabis Strategies Acquisition Corp.

### Notes to Consolidated Financial Statements

December 31, 2018

(Expressed in Canadian Dollars)

#### 7. Warrant liability (continued)

##### Fair value of Warrants

As the number of Class B 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 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 net income or loss.

##### Warrants - Issued and Outstanding

	Number	Amount
<b>From incorporation on July 31, 2017</b>	-	\$ -

Warrants issued in connection with:		
Issuance to Founders	2,621,870	2,621,870
Issuance of Class A Restricted Voting Units pursuant to the Offering	12,500,000	9,375,000
Issuance of Class A Restricted Voting Units pursuant to the over-allotment option	975,000	731,250
Issuance of Class B Units to Sponsor	262,188	196,641
	<u>16,359,058</u>	<u>12,924,761</u>
Adjusted for:		
Fair value adjustment	-	19,793,355
<b>Balance, December 31, 2018</b>	<b><u>16,359,058</u></b>	<b><u>\$ 32,718,116</u></b>

The fair value of the Company's Warrants increased to \$32,718,116 as the Warrant's bid price on December 31, 2018 was \$2.00.

	<b>Number</b>	<b>Amount</b>
<b>From incorporation on July 31, 2017</b>	<b>-</b>	<b>\$ -</b>
Warrants issued in connection with:		
Issuance to Founders	2,621,870	2,621,870
Issuance of Class A Restricted Voting Units pursuant to the Offering	12,500,000	9,375,000
Issuance of Class A Restricted Voting Units pursuant to the over-allotment option	975,000	731,250
Issuance of Class B Units to Sponsor	262,188	196,641
	<u>16,359,058</u>	<u>12,924,761</u>
Adjusted for:		
Fair value adjustment	-	3,434,297
<b>Balance, September 30, 2018</b>	<b><u>16,359,058</u></b>	<b><u>\$ 16,359,058</u></b>

## 8. Shareholders' deficiency

### a) Class B Shares

#### Authorized

The Corporation is authorized to issue an unlimited number of Class B Shares without nominal or par value. The holders of Class B Shares have no pre-emptive rights or other subscription rights and there are no sinking fund provisions applicable to these shares.

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## Cannabis Strategies Acquisition Corp. Notes to Consolidated Financial Statements December 31, 2018 (Expressed in Canadian Dollars)

## 8. Shareholders' deficiency (continued)

### a) Class B Shares (continued)

#### Voting rights

Holders of Class B Shares are entitled to vote at all meetings of shareholders and on all matters requiring a shareholder vote, with the exception of a vote to approve an extension of the Permitted Timeline within which the Corporation is required to complete its Qualifying Transaction, which will only be voted upon by holders of Class A Restricted Voting Shares.

#### Redemption rights

Holders of Class B Shares do not have any redemption rights with respect to its Class B Shares, or rights to distributions from the Escrow Account if the Corporation fails to complete a Qualifying Transaction within the Permitted Timeline.

#### Restrictions on transfer, assignment or sale of Founders' Shares

With certain exceptions, the holders of the Founders' Shares have agreed not to transfer, assign or sell any of their Founders' Shares prior to completion of the Corporation's Qualifying Transaction, and following completion of a Qualifying Transaction, they have agreed not to sell or transfer any of their Founders' Shares until the earlier of: (A) one year following completion of the Qualifying Transaction, and (B) the date on which the closing share price of the Class B Shares equals or exceeds \$12.00 per share (as adjusted for share splits, share capitalizations, reorganizations, Extraordinary Dividends, reorganizations and recapitalizations and the like) for any 20 trading days within a 30-trading day period at any time following the closing of the Qualifying Transaction.

In addition to the foregoing transfer restrictions, 25% of the Founders' Shares will be subject to forfeiture on the fifth anniversary of the Qualifying Transaction unless the closing share price of the Class B Shares exceeds \$13.00 (as adjusted for stock splits or combinations, stock dividends, Extraordinary Dividends, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period at any time following the closing of the Qualifying Transaction.

Following completion of the Corporation's Qualifying Transaction, the Founders' Shares, including the Class B Shares into which the Founders' Shares are convertible, may be subject to certain sale or transfer restrictions in accordance with applicable securities laws.

#### Class B Shares - Issued and Outstanding

	<b>Number</b>	<b>Amount</b>
<b>From incorporation on July 31, 2017</b>	<b>-</b>	<b>\$ -</b>
Issuance of Class B Shares in connection with organization of the Corporation	1	10
Issuance of Class B Shares to Founders	3,662,109	25,000
Issuance of Class B Shares to Sponsor pursuant to Class B Units	262,188	2,425,239
	<u>3,924,298</u>	<u>2,450,249</u>
Adjusted for:		
Transaction costs	-	(162,629)

Forfeiture of Founders Class B Shares (note 1)	(227,812)	-
<b>Balance, September 30, 2018 and December 31, 2018</b>	<b>3,696,486</b>	<b>\$ 2,287,620</b>

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**Cannabis Strategies Acquisition Corp.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018**  
**(Expressed in Canadian Dollars)**

**8. Shareholders' deficiency (continued)**

**b) Rights**

As at December 31, 2018 and September 30, 2018, the Corporation had 13,737,188 Rights issued and outstanding, comprised of 13,475,000 Rights forming part of the Class A Restricted Voting Units, and 262,188 Rights forming part of the Class B Units.

Each Right will entitle the holder to receive one-tenth (1/10) of a Class A Restricted Voting Share following the closing of the Qualifying Transaction (which at such time will represent one-tenth (1/10) of a Class B Share, subject to adjustment under the terms of the Qualifying Transaction).

The Rights will expire if a Qualifying Transaction does not occur within the Permitted Timeline. The Rights will not have any access to, or benefit from, the proceeds in the Escrow Account, and will not possess any redemption or distribution rights. The Rights will expire worthless if a Qualifying Transaction is not consummated within the Permitted Timeline. Any Right that has not been converted within two (2) years after the completion of our Qualifying Transaction shall be null and void.

**Restrictions on Transfer of Founders' Rights**

With certain exceptions, the Founders have agreed not to transfer any of their Rights until after the closing of the Qualifying Transaction, except for transfers required due to the structuring of the Qualifying Transaction, in which case such restriction will apply to the securities received in connection with the Qualifying Transaction. Following completion of the Corporation's Qualifying Transaction, the Founders' Rights, including Class B Shares issuable on exercise of the Founders' Rights, may be subject to certain sale or transfer restrictions in accordance with applicable securities laws.

**9. Transaction costs**

Transaction costs consist principally of legal, accounting and underwriting costs incurred through to the date of the statements of financial position that are directly related to the Offering.

Transaction costs incurred amounted to \$9,293,446 (including \$8,085,000 in underwriters' commission of which \$4,716,250 is deferred and payable only upon completion of a Qualifying Transaction). Transaction costs were expensed to the statements of operations as incurred, except for \$162,629 of transaction costs that were allocated to shareholders' deficiency as they were determined to be in respect of the issuance of Class B Shares.

Transaction costs incurred from commencement of operations on July 31, 2017 to September 30, 2018 were allocated as follows:

	<b>Class B Shares</b>	<b>Statement Shareholders' of Operations Deficiency</b>
Underwriter's commission	\$ 58,951	\$ 3,309,799
Deferred underwriter's commission	82,531	4,633,719
Professional fees (legal, accounting, etc.)	11,693	656,510
Underwriter's out-of-pocket expenditures	2,625	147,375
Management out-of-pocket expenses	6,829	383,414
	<u>\$ 162,629</u>	<u>\$ 9,130,817</u>
		<u>\$ 9,293,446</u>

There were \$nil transaction costs from October 1, 2018 to December 31, 2018.

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**Cannabis Strategies Acquisition Corp.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018**  
**(Expressed in Canadian Dollars)**

**9. Transaction costs (continued)**

**Underwriter's commission**

In consideration for its services in connection with the Offering, the Corporation has agreed to pay the underwriter a commission equal to 6.0% of the gross proceeds of the Class A Restricted Voting Units issued under the Offering. The Corporation paid \$3,368,750, representing \$0.25 per Class A Restricted Voting Unit to the underwriter upon closing of the Offering. Upon completion of a Qualifying Transaction, the remaining \$4,716,250 (representing \$0.35 per Class A Restricted Voting Unit), 50% of which will be payable to the Underwriter and the remaining 50% will be payable by the Corporation at its discretion.

**10. General and administrative expenses**

	<b>Period Ended December 31, 2018</b>	<b>Year Ended September 30, 2018</b>
Public company filing and listing costs	\$ 57,528	\$ 34,739
Professional fees	2,926,136	1,027,926

General office expenses	107,562	113,351
	<u>\$ 3,091,226</u>	<u>\$ 1,176,016</u>

## 11. Related party transactions

The Corporation has entered into an administrative services agreement with the Sponsor for an initial term of 18 months, subject to 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 has agreed to pay \$10,000 per month, plus applicable taxes for such services. As at December 31, 2018 and September 30, 2018, the Corporation accrued \$122,314 and \$92,314, respectively, in respect of these services.

As at December 31, 2018 and September 30, 2018, the amount due to the Sponsor was \$nil and \$185,896, respectively, for out-of-pocket expenses paid by the Sponsor on behalf of the Corporation and the terms of the administrative services agreement. As at December 31, 2018 and September 30, 2018, the amount payable to the Corporation's Chief Executive Officer was \$609,418 and \$495,564, 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 are unsecured, non-interest bearing and are payable no earlier than the date of the consummation of a 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 approximates their carrying amount.

The Sponsor has executed a make whole agreement and undertaking in favour of the Corporation, whereby the Sponsor has agreed to indemnify the Corporation in certain limited circumstances where the funds held in the Escrow Account are reduced to below \$10.00 per Class A Restricted Voting Share.

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## Cannabis Strategies Acquisition Corp.

Notes to Consolidated Financial Statements December 31, 2018  
(Expressed in Canadian Dollars)

## 11. Related party transactions (continued)

During the period ended December 31, 2018 and the year ended September 30, 2018, the Corporation paid professional fees of \$8,840 and \$29,968, respectively to Marrelli Support Services Inc. ("Marrelli Support"), an organization of which the Corporation's Chief Financial Officer, is President. These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at December 31, 2018 and September 30, 2018, Marrelli Support was owed \$5,836 and \$2,932, respectively, these amounts are included in accounts payable and accrued liabilities on the Corporation's consolidated statements of financial position.

## 12. Income taxes

The income tax recovery amount on pre-tax losses differs from the income tax recovery amount that would arise using the combined Canadian federal and provincial statutory income tax rate of 26.5%, as a result of the following items:

	Period Ended December 31, 2018	Year Ended September 30, 2018
Loss before tax at statutory rate of 26.5%	\$ (58,922,537)	\$ (47,168,816)
Effect on taxes of: Expected income tax recovery	(15,614,472)	(12,499,736)
Unrealized change in fair value of financial liabilities	14,869,232	10,015,820
Non-deductible expenses	6,454	-
Share issue costs booked through equity	-	(43,097)
Change in unrecognized temporary differences	738,786	2,527,013
<b>Income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

## Unrecognized deferred tax assets

Deferred income tax assets are only given recognition in the Corporation's financial statements if management has determined that is probable that such deferred income tax assets may be recovered. The recoverability of deferred income tax assets is partially dependent on the nature, terms and conditions of a Qualifying Transaction that is to be completed in the future, causing uncertainty in the ability of the Corporation to benefit from deferred income tax assets. As such, management believes that the following deductible temporary differences do not currently meet the criteria for recognition:

	As at December 31, 2018	As at September 30, 2018
Tax loss carry forwards	\$ 4,174,624	\$ 1,157,891
Deferred underwriters' commission	4,716,250	4,716,250
Share issue costs	3,432,897	3,661,757
	<u>\$ 12,323,771</u>	<u>\$ 9,535,898</u>

At December 31, 2018 and September 30, 2018, the Corporation has non-capital losses of \$4,174,624 and \$1,157,891, respectively, that may be carried forward to reduce taxable income derived in future years. These non-capital losses will expire in 2038.

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## Cannabis Strategies Acquisition Corp.

Notes to Consolidated Financial Statements December 31, 2018  
(Expressed in Canadian Dollars)

## 12. Income taxes (continued)

Transaction costs paid by the Corporation in respect of the issuance of shares, including the issuance of Class A Restricted Voting Shares, are deductible for income tax purposes on a straight line basis over a five-year period.

### 13. Financial instruments

#### Fair value measurements

The following table summarizes those assets and liabilities that are included at their fair values in the Corporation's statements of financial position as at December 31, 2018, or those assets and liabilities for which fair value is otherwise disclosed in the accompanying notes to the December 31, 2018 consolidated financial statements. These assets and liabilities have been categorized into hierarchical levels, according to the significance of the inputs used in determining fair value measurements.

	Carrying value as at December 31, 2018 (\$)	Fair value as at December 31, 2018		
		Level 1 (\$)	Level 2 (\$)	Level 3 (\$)
<b>Financial assets</b>				
Cash	149,996	149,996	-	-
Restricted cash and short-term investments held in escrow	135,989,244	135,989,244	-	-
<b>Financial liabilities</b>				
Class A Restricted Voting Shares subject to redemption	198,756,250	198,756,250	-	-
Warrant liability	32,718,116	32,718,116	-	-

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Corporation's overall risk management strategy seeks to minimize potential adverse effects of the Corporation's financial performance.

During the year ended September 30, 2018, the Class A Restricted Voting Shares subject to redemption and the warrant liability were transferred from Level 2 to Level 1. No activity occurred during the period ended December 31, 2018.

#### Market risk

Market risk is the risk that a material loss may arise from fluctuations in the fair value of a financial instrument. For purposes of this disclosure, the Corporation segregates market risk into three categories: fair value risk, interest rate risk and currency risk.

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## Cannabis Strategies Acquisition Corp.

Notes to Consolidated Financial Statements December 31, 2018  
(Expressed in Canadian Dollars)

### 13. Financial instruments (continued)

#### Fair value risk

Fair value risk is the potential for loss from an adverse movement, excluding movements relating to changes in interest rates and foreign exchange rates, because of changes in market prices. The Corporation is exposed to fair value risk in respect of its Class A Restricted Voting Shares subject to redemption and Warrant liability, which are carried in the Corporation's financial statements at their fair value. A 1% increase in the fair value of Class A Restricted Voting Shares and Warrant liability would result in an increase in net loss for the period ended December 31, 2018 of \$2,314,744. A 1% decrease in the fair value of Class A Restricted Voting Shares and Warrant liability would result in a decrease in net loss for the period ended December 31, 2018 of \$2,314,744.

#### Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Due to the fixed interest rate on the Corporation's restricted cash and short-term balance held in escrow, its exposure to interest rate risk is nominal.

#### Currency risk

Currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates relative to the Corporation's presentation currency of the Canadian dollar. The Corporation does not have any significant exposure to currency risk given the majority of transactions are in Canadian dollars.

### 14. Capital management

(a) The Corporation defines the capital that it manages as its shareholders' deficiency, net of its Class A Restricted Voting Shares subject to redemption and Warrant liability. The following table summarizes the carrying value of the Corporation's capital as at December 31, 2018 and September 30, 2018:

Shareholders' deficiency	\$ (103,803,733)
Class A Restricted Voting Shares subject to redemption	198,756,250
Warrant liability	32,718,116
<b>Balance, December 31, 2018</b>	<b>\$ 127,670,633</b>
Shareholders' deficiency	\$ (44,881,196)
Class A Restricted Voting Shares subject to redemption	159,005,000
Warrant liability	16,359,058
<b>Balance, September 30, 2018</b>	<b>\$ 130,482,862</b>

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## **Cannabis Strategies Acquisition Corp.**

**Notes to Consolidated Financial Statements December 31, 2018**

**(Expressed in Canadian Dollars)**

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### **14. Capital management (continued)**

#### **(b) Liquidity**

As at December 31, 2018, the Corporation had \$149,996 (September 30, 2018 - \$703,237) in cash. The Corporation expects to incur significant costs in pursuit of its acquisition plans.

To the extent that the Corporation may require additional funding for general ongoing expenses or in connection with sourcing a proposed Qualifying Transaction, the Corporation may obtain such funding by way of unsecured loans from the Sponsor and/or its affiliates, subject to consent of the Exchange, which loans would, unless approved otherwise by the Exchange, bear interest at no more than the prime rate plus 1%. The Sponsor would not have recourse under such loans against the Escrow Account, and thus the loans would not reduce the value of such Escrow Account. Such loans would collectively be subject to a maximum principal amount of \$1,000,000 in the aggregate, and may be repayable in cash following the closing of a Qualifying Transaction and may only be convertible into Class B Shares and/or Warrants in connection with the closing of a Qualifying Transaction, subject to Exchange consent.

Otherwise, and subject to any relief granted by the Exchange, the Corporation may seek to raise additional funds through a rights offering in respect of shares available to its shareholders, in accordance with the requirements of applicable securities legislation, and subject to placing the required funds raised in the Escrow Account in accordance with applicable Exchange rules.

### **15. Qualifying Transaction**

The shareholders of the Corporation have approved the concurrent acquisition of the target businesses of Washoe Wellness, LLC, The Canopy NV, LLC, Sira Naturals, Inc., LivFree Wellness, LLC and CannaPunch of Nevada LLC (the "Transaction") at the special meeting of the Corporation held on March 18, 2019. The Transaction is intended to constitute the Corporation's Qualifying Transaction. In connection with the Transaction, the Corporation intends to grant to the Founders the right, immediately prior to the closing of the Transaction, to have a one-time option to convert their existing Class B Shares on a one-for-one basis into new multiple voting shares of the Corporation (the "Multiple Voting Shares") carrying 25 votes per Multiple Voting Share, the Class B Shares would then have their terms amended and be re-named as subordinate voting shares of the Corporation (the "Subordinated Voting Shares"), and any non- redeemed Class A Restricted Voting Shares would be converted into Subordinate Voting Shares at the closing of the Transaction. The Qualifying Transaction is subject to regulatory approvals.

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 for further information on the Transaction, including risk factors associated thereto.

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**Ayr Strategies Inc.**  
**(Formerly Cannabis Strategies Acquisition Corp.)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2019 AND 2018**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

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**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Management's Discussion and Analysis**  
**For the Three Months and Year Ended December 31, 2019 and 2018**

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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 and year ended December 31, 2019. 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 audited consolidated financial statements for the year 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 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](http://www.sedar.com).

The effective date of this MD&A is March 20, 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 Corporation's anchor 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".

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Management's Discussion and Analysis**  
**For the Three Months and Year Ended December 31, 2019 and 2018**

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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:

- assumptions and expectations described in the Corporation's critical accounting policies and estimates;
- the adoption and impact of certain accounting pronouncements;
- the legislation, regulations and licensing related to the cultivation, production and sale of cannabis and hemp products by the Corporation's subsidiaries and other business interests, including but not limited to timing of sales from expansion of the Corporation's cultivation facilities in Massachusetts and Nevada (assumed to begin in May 2020 and June 2020, respectively) and the timing of the commencement of recreational sales in the Corporation's Massachusetts dispensaries (assumed to begin in May 2020 for one dispensary and in September 2020 for two further dispensaries);
- the expansion of the Corporation's cultivation facilities in Massachusetts and Nevada producing total annualized capacity of 12,000 pounds of flower and 1,200 pounds of oil in Massachusetts; total annualized capacity of 5,000 pounds of flower and 1,000 pounds of oil in Nevada;
- flower prices of \$7,000 per pound at retail, \$4,000 per pound at wholesale (on costs of \$1,200 per pound), oil prices of \$120 per gram at retail, \$60 per gram at wholesale (on costs of \$19 per gram) in Massachusetts; flower prices of \$3,500 per pound at retail (on costs of \$900 per pound), oil prices of \$50 per gram at retail (on costs of \$15 per gram) in Nevada;
- low double-digit revenue growth from assets in place as of December 31, 2019;
- higher margins in Nevada as substantial vertical integration is achieved from the completed cultivation expansion;
- 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;
- 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;

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Management's Discussion and Analysis**  
**For the Three Months and Year Ended December 31, 2019 and 2018**

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- 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;
- 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, 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" and "Adjusted Gross Profit".

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Management's Discussion and Analysis**  
**For the Three Months and Year Ended December 31, 2019 and 2018**

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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 income (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 the incremental costs to acquire cannabis inventory in a business combination, and further adjusted to remove acquisition related costs.

*Adjusted Gross Profit*

"Adjusted Gross Profit" represents gross profit, as reported, adjusted to exclude the accounting for the fair value of biological assets and the incremental costs to acquire cannabis inventory in a business combination.

Reconciliations are provided elsewhere in this MD&A.

**Description of Business**

Ayr is a vertically-integrated multi-state operator in the U.S. cannabis sector, with an initial anchor portfolio in Massachusetts and Nevada. Through its 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 Company had only one operating segment, cannabis sales, during the year ended December 31, 2019. 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.

On May 24, 2019, the Corporation completed its concurrent acquisitions of the Acquired Businesses. 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") and traded under the symbol "CBAQF". On July 5, 2019, the Corporation was approved to change its OTC symbol to "AYRSF".

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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 June 28, 2019, Ayr announced that its sponsor, Mercer Park CB, L.P. ("Mercer Park"), agreed to contractually limit the voting rights attached to its Multiple Voting Shares in respect of the election of directors while retaining the right to vote its Multiple Voting Shares on all other matters. Specifically, subject to certain terms and conditions, Mercer Park agreed not to exercise any voting rights attached to its Multiple Voting Shares in respect of the election of directors during a specified term. The term will expire on the second anniversary, but is subject to early termination in various circumstances.

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 Acquired 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.". Further, after completing the Qualifying Transaction, the Corporation decided to change the presentation currency of its consolidated financial statements from the Canadian dollar (CDN\$) to the United States dollar (US\$ or \$) with effect from the financial period ended June 30, 2019. 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 its cash flows.

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, 26<sup>th</sup> Floor, New York, New York, 10022.

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 redeemable 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).

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 are (except in certain circumstances in the event of early termination of the Warrants) 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.

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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, CSAC AcquisitionCo.

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, 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. 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).

On October 1, 2019, the Corporation commenced a stock repurchase program for up to 5% of outstanding Subordinate Voting Shares. The program lasts for 12 months and the maximum number of Subordinate Voting Shares able to be repurchased are 725,892. As at December 31, 2019, the Corporation has repurchased 36,900 shares under this program, of which 7,400 have been cancelled and the balance are held by the Corporation as treasury shares. Additionally, as at December 31, 2019, the Corporation had 3,140,338 rights outstanding which can be redeemed one tenth (1/10) of one Subordinate Voting Share.

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 and the Corporation's Annual Information Form for further for further information on the Qualifying Transaction, including risk factors associated therewith.

**Timing Issues Related to the December Financial Statements**

As noted above, the Qualifying Transaction closed on May 24, 2019. The accounting effect of the Qualifying Transaction was to give rise to the consolidation of the five acquired companies commencing on that date, the details of which can be found below. Accordingly, the Financial Statements include 221 days of operating results of the companies acquired, from May 24 to December 31, 2019.

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This gives rise to a number of abnormalities, including the following:

- Ayr was a special purpose acquisition corporation prior to consummation of the Qualifying Transaction and therefore, for the period between January 1, 2019 and May 24, 2019, there was no active operating business of Ayr and its subsidiaries, other than its operations in seeking to complete the Qualifying Transaction.
- Following the closing of the Qualifying Transaction, there are only 221 days of operating results in relation to the companies acquired in the Qualifying Transaction.

Readers of the Financial Statements and this MD&A are therefore cautioned about annualizing the results from the year ended December 31, 2019, both in terms of the abnormal impact to the financial statements of the Qualifying Transaction itself and the fact that there are only 221 days of operating results for the Acquired Businesses. Further details on these matters are contained below.

References herein to the year ended December 31, 2019 therefore include the results of the Acquired Businesses only for the 221 days ended December 31, 2019.

#### **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](http://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 order to comply with certain contractual requirements of the acquisition, the Corporation and CSAC Acquisition Inc. 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 consolidated 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:

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

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.

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Ayr obtained control of Washoe, Canopy, and LivFree through separate management service agreements. Each management service agreement provides the Corporation 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 the Corporation's consolidated financial statements. As at December 31, 2019, Washoe, Canopy, and LivFree are awaiting state approval to transfer licenses to the Corporation. 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:

US\$	LivFree \$	Sira \$	Cannapunch \$	Washoe \$	Canopy \$	Total \$
<b>ASSETS ACQUIRED</b>						
Cash and cash equivalents	1,258,928	270,280	7,233	21,458	147,930	<b>1,705,829</b>
Accounts receivable	-	600,151	625,143	87,617	-	<b>1,312,911</b>
Inventory	2,670,057	9,671,814	552,040	4,500,213	1,618,639	<b>19,012,763</b>
Biological assets	-	1,996,642	-	1,763,516	-	<b>3,760,158</b>
Prepaid expenses and other assets	96,157	340,428	-	129,477	160,748	<b>726,810</b>
Intangible assets	105,000,000	57,000,000	2,390,000	22,800,000	10,750,000	<b>197,940,000</b>
Property, plant and equipment	1,640,418	9,090,090	486,100	9,070,645	1,217,736	<b>21,504,989</b>
Right-of-use assets	2,894,076	5,239,201	1,119,826	-	2,057,681	<b>11,310,784</b>
Due from related parties	-	-	-	-	784,733	<b>784,733</b>
Deposits	90,147	149,251	-	91,574	9,983	<b>340,955</b>
<b>Total assets acquired at fair value</b>	<b>113,649,783</b>	<b>84,357,857</b>	<b>5,180,342</b>	<b>38,464,500</b>	<b>16,747,450</b>	<b>258,399,932</b>
<b>LIABILITIES ASSUMED</b>						
Trade payables	387,500	475,193	251,829	506,073	-	<b>1,620,595</b>
Accrued liabilities	1,176,088	970,418	46,972	100,412	520,453	<b>2,814,343</b>
Deferred tax liabilities	25,796,726	13,611,222	567,507	2,153,131	2,841,746	<b>44,970,332</b>
Advance from related parties	187,809	-	-	784,733	-	<b>972,542</b>
Lease obligations	2,520,437	6,514,038	1,083,189	-	2,553,502	<b>12,671,166</b>
Debts payable	120,000	13,054	-	9,180,808	421,128	<b>9,734,990</b>
<b>Total liabilities assumed at fair value</b>	<b>30,188,560</b>	<b>21,583,925</b>	<b>1,949,497</b>	<b>12,725,157</b>	<b>6,336,829</b>	<b>72,783,968</b>
Goodwill	39,779,584	16,399,143	13,971,953	8,121,569	6,565,055	<b>84,837,304</b>
<b>Calculated Purchase Price</b>	<b>123,240,807</b>	<b>79,173,075</b>	<b>17,202,798</b>	<b>33,860,912</b>	<b>16,975,676</b>	<b>270,453,268</b>

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 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.

During the year ended December 31, 2019, the Corporation incurred acquisition costs of \$5,847,800, as reflected in the Financial Statements.



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For the year ended December 31, 2019, \$3,764,678 of expenses relating to the incremental costs to acquire cannabis inventory in a business combination is included on the Financial Statements. This relates to the one-time adjustment of cannabis inventory from cost to fair value as part of the purchase price allocation.

**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)
<b>Total</b>		<b>1,885,606</b>	<b>79,173,075</b>

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 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.

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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)
<b>Total</b>		<b>265,360</b>	<b>16,975,676</b>

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.

**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
<b>Total</b>		<b>270,000</b>	<b>33,860,912</b>

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;

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- 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.

**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
<b>Total</b>		<b>4,664,182</b>	<b>123,240,807</b>

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

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- 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
<b>Total</b>		<b>898,739</b>	<b>17,202,798</b>

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.

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Final valuations of the assets acquired and liabilities assumed are not yet complete due to the inherent complexity associated with valuations. 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 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.

**Pro Forma Disclosures**

The above acquisitions contributed revenues of \$75.2 million and net income of \$4.5 million, resulting in a decrease in the net loss per share of approximately \$0.26 as part of the Corporation's consolidated results from the date 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 \$12.6 million for the year ended December 31, 2019, which would have resulted in a decrease in the net loss per share of approximately \$3.40. 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.

**Outlook**

The Corporation reaffirmed certain forward-looking financial projections or targets for the year ended December 31, 2020 in a new release issued by the Corporation on February 26, 2020 in connection with the Corporation's fourth quarter and year-end 2019 results.

That news release, which contains certain forward-looking financial projections or targets for the year ended December 31, 2020, is available at [www.sedar.com](http://www.sedar.com) under the Corporation's profile.

As described in the February 26, 2020, the targets of U.S. \$207-227 million in revenue and U.S. \$93-103 million in Adjusted EBITDA for the year ended December 31, 2020 were reaffirmed.

In developing the guidance set forth above, Ayr made the following assumptions and relied on the following factors and considerations:

- The targets are based on discussions with management teams and historical results;
- The targets assume the organic growth on the existing asset base will contribute approximately 20% of the total revenue growth and approximately 10% of the total Adjusted EBITDA growth, year over year from 2019 to 2020;
- The targets are subject to the timing of the first sales from the cultivation facility expansions in Massachusetts and Nevada, which are both growing plants as of the date of this MD&A. The targets assume the first sales from these expansions occur in the second quarter of 2020, contributing approximately 50% of total revenue growth and approximately 65% of total Adjusted EBITDA growth, year over year from 2019 to 2020;
- The targets are subject to the timing of Massachusetts recreational dispensary approval. The targets assume the sales from one recreational store will begin in May 2020 and sales from two further recreational stores will begin in September 2020. The Massachusetts recreational dispensary assumptions contribute approximately 30% of the total revenue growth and approximately 25% of the total Adjusted EBITDA growth, year over year from 2019 to 2020.

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- Revenue growth assumptions for dispensaries and wholesale activities in markets transitioning from medical status to recreational status are based on anticipated production capacity available from a vertically-integrated supply chain, with capacity not taken up in dispensary sales available for wholesale. These assumptions include current production levels at cultivation and production facilities, plus production capacity in process of construction and planning, starting from target completion dates and adjusted for regulatory delays. Prices are projected forward at recently realized medical and recreational wholesale and retail prices.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), have been projected based on estimated costs of production and capacity available from a vertically-integrated supply chain. Cost of goods sold relating to inventory purchased from third parties have been projected in line with historical levels.
- Selling, general and administrative expenses at the state level are assumed to increase in dollar terms year over year, but to decrease as a percentage of revenues due to inherent scalability of selling, general and administrative expenses. Additionally, total selling, general and administrative expenses include an allocation for corporate overhead and public company costs.

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*Adjusted EBITDA Reconciliation for the Three Months and Year Ended December 31, 2019 and 2018*

	<b>Three Months Ended December 31,</b>		<b>Year Ended December 31,</b>		<b>Annualized<sup>2</sup> year ended December 31,</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>
Loss from operations	(16,898,258)	(2,341,604)	(37,467,213)	(3,241,993)	
<b>Non-cash items accounting for adjustments of cannabis inventory</b>					
Incremental costs to acquire cannabis inventory in a business combination	3,764,678	-	3,764,678	-	
Fair value adjustment on sale of cultivated inventory	4,838,814	-	18,272,212	-	
Unrealized gain on biological asset transformation	(1,765,527)	-	(10,108,105)	-	
	6,837,965	-	11,928,785	-	
Interest	295,630	-	295,630	-	
Depreciation and amortization (from statement of cash flows)	4,511,734	-	10,310,237	-	
Acquisition costs	724,139	-	5,847,800	-	
Stock-based compensation expense, non-cash	13,296,643	-	28,879,225	-	
Other <sup>1</sup>	472,326	-	1,105,694	-	
	19,300,472	-	46,438,586	-	
<b>Adjusted EBITDA (non-IFRS)</b>	<b>9,240,179</b>	<b>(2,341,604)</b>	<b>20,900,158</b>	<b>(3,241,993)</b>	<b>34,518,360</b>

Notes:

<sup>1</sup> Other adjustments made to exclude the impact of non-recurring items.

<sup>2</sup> Due to the Qualifying Transaction completed on May 24, 2019, the annual results have been normalized by taking the 221-day period and annualized to produce a full year of results

*Adjusted Gross Profit Reconciliation for the Three Months and Year Ended December 31, 2019 and 2018*

	<b>Three Months Ended December 31,</b>		<b>Year Ended December 31,</b>		<b>Annualized<sup>1</sup> year ended December 31,</b>
(\$ in millions)	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>
Gross profit	8.3	-	26.3	-	
<b>Non-cash items accounting for adjustments of cannabis inventory</b>					
Incremental costs to acquire cannabis inventory in a business combination	3.8	-	3.8	-	
Fair value adjustment on sale of cultivated inventory	4.8	-	18.3	-	
Unrealized gain on biological asset transformation	(1.8)	-	(10.1)	-	
	6.8	-	11.9	-	
<b>Adjusted gross profit (non-IFRS)</b>	<b>15.1</b>	<b>-</b>	<b>38.2</b>	<b>-</b>	<b>63.1</b>

<sup>1</sup> Due to the Qualifying Transaction completed on May 24, 2019, the annual results have been normalized by taking the 221-day period and annualized to produce a full year of results

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**Review of the Financial Results for the Three Months and Year Ended December 31, 2019 and 2018**

*Selected Financial Information*

(\$ in millions)	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Revenues, net of discounts	32.3	-	75.2	-
Cost of goods sold excluding fair value items	(17.2)	-	(37.0)	-
Incremental costs to acquire cannabis inventory in a business combination	(3.8)	-	(3.8)	-
Gross profit before fair value adjustments	11.4	-	34.4	-
Fair value adjustment on sale of cultivated inventory	(4.8)	-	(18.3)	-
Unrealized gain on biological asset transformation	1.8	-	10.1	-
Gross profit	8.3	-	26.3	-
Total expenses	(25.2)	(2.3)	(63.7)	(3.2)
Loss from operations	(16.9)	(2.3)	(37.5)	(3.2)
Total other income (expenses)	2.0	(42.3)	(121.9)	(71.9)
Loss before income tax	(14.9)	(44.6)	(159.3)	(75.1)
Provision for income taxes	(2.6)	-	(4.8)	-
Net loss	(17.5)	(44.6)	(164.2)	(75.1)
Foreign currency translation adjustment	0.5	(0.1)	(0.2)	3.5
Net loss and comprehensive loss	(17.0)	(44.7)	(164.3)	(71.6)

*Revenue*

Revenue for the three months ended December 31, 2019 was \$32.3 million, an increase of \$32.1 million from the three months ended December 31, 2018, when there was no revenue generated. This increase was due to the operations of the businesses resulting from the closing of the Qualifying Transaction.

Revenue for the year ended December 31, 2019 was \$75.2 million, an increase of \$75.2 million from the year ended December 31, 2018, 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 Fair Value Adjustments*

Gross profit before the fair value adjustments for the three months ended December 31, 2019 was \$11.4 million, an increase of \$11.4 million from the three months ended December 31, 2018, a period when the Corporation had no meaningful operations. This change was driven by the operations of the businesses resulting from the Qualifying Transaction. Gross profit percentage before the fair value adjustments was 35.2% for the three months ended December 31, 2019 and the three months ended December 31, 2018 had no comparable operating result.

Gross profit before the fair value adjustments for the year ended December 31, 2019 was \$34.4 million, an increase of \$34.4 million from the year ended December 31, 2018, a period when the Corporation had no meaningful operations. This change was driven by the operations of the businesses resulting from the Qualifying Transaction. Gross profit percentage before the fair value adjustments was 45.8% for the year ended December 31, 2019 and the year ended December 31, 2018 had no comparable operating results.



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Gross profit before the fair value adjustments for the three months and year ended December 31, 2019, includes \$3.8 million of incremental costs to acquire cannabis inventory in a business combination. This relates to the one-time adjustment of inventory from cost to fair value as part of the purchase price allocation. The adjusted gross profit percentage of revenue for the three months and year ended December 31, 2019, was 46.8% and 50.8% respectively.

*Gross Profit*

Gross profit after net gains on biological asset transformation for the three months ended December 31, 2019 was \$8.3 million, an increase of \$8.3 million from three months ended December 31, 2018, a period when the Corporation had no meaningful operations. This change was driven by the operations of the businesses resulting from the Qualifying Transaction.

Gross profit after net gains on biological asset transformation for the year ended December 31, 2019 was \$26.3 million, an increase of \$26.3 million from year ended December 31, 2018, 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. In addition, for the three months ended December 31, 2019, Cost of Sales includes \$3.8 million of incremental costs to acquire cannabis inventory in a business combination. This relates to the one-time adjustment of inventory from cost to fair value as part of the purchase price allocation.

*Total Expenses*

Total expenses for the three months ended December 31, 2019 were \$25.2 million, an increase of \$22.8 million from \$2.3 million for the three months ended December 31, 2018. This change was driven by the operations of the businesses resulting from the Qualifying Transaction.

The increase in total expenses was primarily attributable to the inclusion of 92 days of operating expenses for the three months ended December 31, 2019 with the most significant contribution being non-cash stock-based compensation of \$13.3 million, general and administrative expenses of \$7.2 million, and amortization expenses of \$2.4 million, as compared to general and administrative expenses of \$2.3 million, with no other expenses comprising total expenses, for the three months ended December 31, 2018.

Total expenses for the year ended December 31, 2019 were \$63.7 million, an increase of \$60.5 million from \$3.2 million for the year ended December 31, 2018. This change was driven by the operations of the businesses resulting from the Qualifying Transaction.

The increase in total expenses was primarily attributable to the inclusion of 221 days of operating expenses for the year ended December 31, 2019 with the most significant contribution being non-cash stock-based compensation of \$28.9 million, amortization expense of \$7.2 million, and general and administrative expenses of \$19 million as compared to general and administrative expenses of \$3.2 million, with no other expenses comprising total expenses, for the year ended December 31, 2018.

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*Total Other Income (Expenses)*

Total other income for the three months ended December 31, 2019 was \$2 million, an increase of \$44.3 million from total other expenses of \$(42.3) million for the three months ended December 31, 2018. This change was primarily driven by the changes in fair value of financial liabilities.

Total other expenses for the year ended December 31, 2019 were \$(121.9) million, an increase in expenses of \$50 million from \$(71.9) million for the year ended December 31, 2018. 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 December 31, 2019, income tax expense was \$2.6 million as compared to \$0.0 million for the three months ended December 31, 2018.

Income tax expense for the year ended December 31, 2019 was \$4.8 million as compared to \$0.0 million for the year ended December 31, 2018.

*Net Loss*

Net loss for the three months ended December 31, 2019 was \$17.5 million as compared to \$44.6 million for the three months ended December 31, 2018. The increase was primarily driven by the factors described above.

Net loss for the year ended December 31, 2019 was \$164.2 million as compared to \$75.1 million for the year ended December 31, 2018. The increase in net loss 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)	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents	8.4	0.1
Total current assets	29.9	0.4
Total assets	355.1	100.1
Total current liabilities	34.7	3.0
Total long-term liabilities	151.8	173.1
Total shareholders' equity (deficiency)	168.6	(76.1)

As at December 31, 2019, the Corporation had cash and cash equivalents of \$8.4 million, other current assets of \$21.5 million, and current liabilities of \$34.7 million, and negative working capital of \$4.8 million compared to December 31, 2018 which had cash and cash equivalents of \$0.1 million, other current assets of \$0.3 million, current liabilities of \$3.0 million, and negative working capital of \$2.6 million to meet its current obligations.

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.

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*Selected Cash Flow Information*

(\$ in millions)	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net cash provided by (used in) operating activities	3.6	(1.3)
Net cash provided by (used in) investing activities	5.2	(7.1)
Net cash (used in) provided by financing activities	(1.5)	8.3
Net increase (decrease) in cash and cash equivalents	7.3	(0.1)
Effect of foreign currency translation	1.0	(1.2)
Cash and cash equivalents, beginning of period	0.1	1.4
Cash and cash equivalents, end of period	8.4	0.1

*Operating Activities*

Net cash provided by operating activities was \$3.6 million for the year ended December 31, 2019, compared to the \$(1.3) million net cash used in operating activities for the year ended December 31, 2018. 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 provided by investing activities was \$5.2 million for the year ended December 31, 2019, an increase of \$12.4 million compared to the \$(7.1) million net cash used in investing activities for the year ended December 31, 2018. The increase was due to the closing of the Qualifying Transaction and the resulting release of the restricted cash held in escrow netted against the cash consideration paid for the Acquired Businesses.

*Financing Activities*

Net cash used in financing activities was \$(1.5) million for the year ended December 31, 2019, a decrease of \$9.8 million compared to \$8.3 million for the year ended December 31, 2018. The decrease in net cash provided by financing activities was primarily due to the proceeds of \$8.3 million in the prior period from the issuance of shares.

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 year ended December 31, 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.

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Share Capital

As at December 31, 2019 and December 31, 2018 the Corporation had share capital of \$382.2 million and \$1.8 million, respectively. 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, while the share capital as at December 31, 2018 was comprised of \$1.8 million from Class B Shares. The Class A Restricted Voting Share shares were redeemable, and thus recorded as a liability, until the Qualifying Transaction when they were, unless they were redeemed, converted into Subordinate Voting Shares and thus became part of the share capital.

Outstanding Shares

	December 31, 2019	December 31, 2018
<b>Issued and outstanding</b>		
Class B Shares	-	3,696,486
Multiple Voting Shares	3,696,486	-
Subordinate Voting Shares	14,824,485	-
Exchangeable Shares	8,373,792	-
Treasury stock	(29,500)	-
<b>Total number of shares</b>	26,865,263	3,696,486

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. As at December 31, 2018, the Corporation had 16,359,058 Class A Restricted Voting Shares issuable upon the exercise of Warrants reserved for issuance.

Liquidity

As at December 31, 2019, the Corporation had negative working capital of \$4.8 million compared to December 31, 2018 when it had negative working capital of \$2.6 million.

*Summary of Future Commitments*

Year	Leases	Debt	Total
2020	2,473,739	6,628,842	9,102,581
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	22,612,548	24,802,187
Thereafter	16,020,041	-	16,020,041
<b>Total Commitments</b>	27,436,760	43,995,661	71,432,421

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Off-Balance Sheet Arrangements

As of the date of this filing, the Corporation does not have any off-balance sheet arrangements 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 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 \$10,000 per month, plus applicable taxes for such services. As at December 31, 2019, the Corporation satisfied \$125,464, in respect of these services and \$89,657 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 with the Corporation dated May 24, 2019, to provide consulting and management advisory services. As at December 31, 2019, \$48,008 was included in prepaid expenses as an advance for these services. Included in expenses for the year ended December 31, 2019, are management fees of \$1,368,855 and depreciation and interest expense for the embedded lease of \$477,570. 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 December 31, 2019 and December 31, 2018, the amount payable to the Corporation's Chief Executive Officer were \$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 were 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 years ended December 31, 2019 and 2018, the Corporation incurred professional fees of \$30,131 and \$30,096, 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 December 31, 2019 and December 31, 2018, Marrelli Support was owed \$Nil and \$4,370, respectively. These amounts are included in trade payables and accrued liabilities on the Financial Statements.

As at 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 on the Financial Statements.

As at December 31, 2019, the Corporation incurred fees from Panther Residential Management, LLC ("Panther"), a company partially owned by certain former owners of Sira. The total incurred fees are \$534,410 of facility construction fees, \$67,500 of office expenses, \$262,500 of rental fees, and \$3,508 of interest expense and \$12,441 of depreciation related to an office lease.

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As at December 31, 2019, the Corporation incurred fees from JOCHCO Investments, LLC (JOCHCO), a company owned by certain former owners of Washoe. The total incurred fees are \$87,055 of interest expense and \$55,471 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:

	Year Ended December 31, 2019	December 31, 2018
	\$	\$
Compensation and benefits, included in management fee	861,593	-
Stock-based compensation, non-cash	28,879,225	-
<b>Total compensation</b>	<b>29,740,818</b>	<b>-</b>

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 December 31, 2019 was \$41,084,256. Additional related party disclosures can be found in Note 14 to the 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 Share <sup>1</sup>
December 31, 2019	32,282,616	(17,464,233)	(0.65)
September 30, 2019	32,087,805	26,180,617 <sup>2</sup>	0.99
June 30, 2019	10,823,206	(38,511,790) <sup>2</sup>	(2.34)
March 31, 2019	-	(137,078,730) <sup>3</sup>	(37.08)
December 31, 2018	-	(44,613,609) <sup>3</sup>	(12.07)
September 30, 2018	-	(24,638,034) <sup>3</sup>	(6.64)
June 30, 2018	-	(5,567,083) <sup>3</sup>	(1.51)
March 31, 2018	-	135,1703	0.04

Notes:

<sup>1</sup> Per share amounts are rounded to the nearest cent, therefore, aggregating quarterly amounts may not reconcile to year-to-date per share amounts. Amounts are calculated using basic weighted average number of shares outstanding.

<sup>2</sup> 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.

<sup>3</sup> 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 significant effect on the revenues, expenses, loss, assets and liabilities recognized, and disclosures made in the consolidated financial statements.

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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 following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its December 31, 2019 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 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 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.

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*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*

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 discounted lease payments using its incremental borrowing rate at May 24, 2019. The weighted-average rate applied was in the range of 9.8% to 11.6% per annum.

*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.



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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 loss and comprehensive 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 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 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.

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*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 unaudited condensed interim consolidated 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 December 31, 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 is considered to approximate fair value due to their market terms.

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	Carrying values			Fair values	
	FVTPL	FVTOCI	AC	Total	Total
Financial assets	\$	\$	\$	\$	\$
<b>December 31, 2019</b>					
Cash and cash equivalents	8,403,196	-	-	8,403,196	8,403,196
Deposit	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
<b>December 31, 2018</b>					
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
	100,069,081	-	-	100,069,081	100,069,081
	Carrying values			Fair values	
	FVTPL	AC	Total	Total	
Financial liabilities	\$	\$	\$	\$	
<b>December 31, 2019</b>					
Warrant liability	36,874,124	-	36,874,124	36,874,124	
Trade payables	-	6,806,053	6,806,053	6,806,053	
Accrued liabilities	-	5,123,865	5,123,865	5,123,865	
Accrued interest payable	-	815,662	815,662	815,662	
Debts payable	-	43,995,661	43,995,661	43,995,661	
	36,874,124	56,741,241	93,615,365	93,615,365	
<b>December 31, 2018</b>					
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 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.

The Corporation quantified the sensitivity of inputs in relation to the contingent consideration as at December 31, 2019 and 2018, 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 year end	
			December 31, 2019	December 31, 2018
			\$	\$
Discount rate	6.3%	Increase 5%	22,502,442	-
		Decrease 5%	22,813,159	-

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*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 December 31, 2019 and December 31, 2018 the maximum amount exposed to credit risks was \$11,024,435 and \$109,952, respectively. The components of accounts receivable as at December 31, 2019 were:

	0-30 days	31-90 days	Over 90 days	Total
Balance, as at December 31, 2019 (in \$)	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 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, 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.

*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 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.) CDN \$	Conversion rate	Sensitivity	Effect on fair value as at December 31, 2019 \$
Cash and cash equivalents	2,363,162	0.7653	Increase / Decrease 1%	18,085
Warrants	(36,874,124)	0.7653	Increase / Decrease 1%	(282,198)

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**Licenses Overview**

The following table provides a list of the licenses granted to companies and facilities for which the Corporation provides management or consulting services.

Entity	Address Attached to License	License	Certificate/ License #	Expiration/Renewal Date	Summary
LivFree Wellness LLC	3900 Ponderosa Way, Las Vegas, NV 89118	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	7437872370 4914675084	June 30, 2020	Cultivation - Medical
		State of Nevada Marijuana Cultivation Facility License – Department of Taxation	6809636143 3916615303	October 31, 2020	Cultivation - Recreational
		State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	5286412731 2203226338	June 30, 2020	Production - Medical
		State of Nevada Marijuana Product Manufacturing License – Department of Taxation	5999865722 4967428496	October 31, 2020	Production - Recreational
The Dispensary	5347 S. Decatur, Las Vegas, NV 89118	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	6021571222 1216816750	June 30, 2020	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	7122432936 9156133247	June 30, 2020	Retail - Recreational
		State of Nevada Retail Marijuana Distributor License – Department of Taxation	1450479965 1148975256	June 30, 2020	Distribution - Recreational
	50 N. Gibson, Henderson, NV 89014	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	5440315991 9762505142	June 30, 2020	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	0879234311 0299625005	June 30, 2020	Retail - Recreational
	100 W. Plumb Lane, Reno, NV 89509	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	0418648144 0349513323	June 30, 2020	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	7170238961 1437559364	June 30, 2019	Retail - Recreational
	435 Eureka Avenue, Reno, NV 89512	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	9680469072 1657828547	June 30, 2020	Cultivation - Medical

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Entity	Address Attached to License	License	Certificate/ License #	Expiration/Renewal Date	Summary
		State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	1866888188 8004789228	June 30, 2019	Production - Medical
		State of Nevada Marijuana Cultivation Facility License – Department of Taxation	9410415425 4817748080	November 30, 2020	Cultivation - Recreational
		State of Nevada Marijuana Product Manufacturing License – Department of Taxation	5669362935 5290417097	November 30, 2020	Production - Recreational
Kynd Cannabis Company	1645 Crane Way, Sparks, NV 89431	State of Nevada Medical Marijuana Cultivation Registration Certificate – Department of Taxation	8284254296 4915513809	June 30, 2020	Cultivation - Medical
		State of Nevada Marijuana Cultivation Facility License – Department of Taxation	2085618856 3796491040	June 30, 2019	Cultivation - Recreational
		State of Nevada Medical Marijuana Production Registration Certificate – Department of Taxation	1207807263 7090304628	June 30, 2019	Production - Recreational
		State of Nevada Marijuana Product Manufacturing License – Department of Taxation	7616374874 6660781629	June 30, 2020	Manufacturing - Recreational
		The State of Nevada Marijuana Distributor License – Department of Taxation	7702771103 3924812731	June 30, 2020	Distribution - Medical/Rec
Tahoe-Reno Botanicals LLC		Marijuana Cultivation - Adult Use Quarterly License	S080844Q-LIC	March 31, 2019 (issued quarterly)	Cultivation - Medical/Rec
Tahoe-Reno Extractions LLC		Medical/Retail Marijuana Production Facility License (Issued to Tahoe-Reno Extractions LLC dba Kynd Cannabis Company)	S080842Q-LIC	March 31, 2019 (issued quarterly)	Production - Medical/Recreational
		Retail Marijuana Distributor License (Issued to Tahoe-Reno Extractions LLC dba Kynd Cannabis Company)	S080843Q-LIC	March 31, 2019 (issued quarterly)	Distribution - Retail
		Industrial Hemp Handler Certificate - Department of Agriculture	202042H	December 31, 2020	Cultivation - Hemp
Mynt Cannabis Dispensary	132 E. Second St., Reno, NV 89501	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	9751934830 3293892007	June 30, 2020	Retail - Medical
		State of Nevada Retail Marijuana Store License – Department of Taxation	4693433860 4709544132	June 30, 2020	Retail - Recreational

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Entity	Address Attached to License	License	Certificate/ License #	Expiration/Renewal Date	Summary
		City of Reno – Medical Marijuana Dispensary License	R101872Q	March 31, 2020 (issued quarterly)	Retail - Medical
		Marijuana Establishment – Retail Marijuana Store License	R145321Q	March 31, 2020 (issued quarterly)	Retail - Recreational
Lemon Aide, LLC	340 Lemmon Drive, Reno, NV 89506	State of Nevada Medical Marijuana Dispensary Registration Certificate – Department of Taxation	8099457823 9784321818	June 30, 2020	Retail - Medical
		State of Nevada Retail Marijuana Store License –Department of Taxation	1324430324 7046007918	July 31, 2020	Retail - Recreational
		Washoe County Marijuana License (Issued to Lemon Aide LLC dba MYNT Cannabis Dispensary)	W000013ME-LIC	April 1, 2020 (issued quarterly)	Retail - Medical/Recreational
Sira Naturals, Inc.	1001 Massachusetts Avenue, Cambridge, MA 02138	Registered Marijuana Dispensary Registration	RMD-325	June 29, 2020	Retail - Medical
	240 Elm Street, Somerville, MA 02114	Registered Marijuana Dispensary Registration	RMD-245	June 27, 2020	Retail - Medical
	29 Franklin Street, Needham, MA 02492	Registered Marijuana Dispensary Registration	RMD-625	July 12, 2020	Retail - Medical
	13 Commercial Way, Milford, MA 01757	Marijuana Establishment License (Cultivation/Tier 3 – Indoor)	MC281252	July 30, 2020	Cultivation
		Marijuana Establishment License (Product Manufacturer)	MP281303	July 30, 2020	Production
		Marijuana Establishment License (Transporter with Other Existing ME License)	MX281310	July 30, 2020	Transportation

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## **Federal Regulatory Environment**

The federal government of the United States regulates controlled substances through the Controlled Substances Act (CSA), which places controlled substances on one of five schedules. Currently, marijuana is classified as a Schedule I controlled substance. A Schedule I controlled substance means the Drug Enforcement Agency considers it to have a high potential for abuse, no accepted medical treatment, and a lack of accepted safety for the use of it even under medical supervision. Overall, the United States federal government has specifically reserved the right to enforce federal law regarding the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by state law. **Accordingly, there are a number of significant risks associated with the business of the Corporation and unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.**

The Corporation's operations, to the Corporation's knowledge, are in compliance with applicable state laws, regulations and licensing requirements in all material respects. Additionally, the Corporation uses the same proprietary, best-practices policies and procedures in its managed facilities as in its owned facilities in order to ensure systematic operations and, as such, to the Corporation's knowledge, the facilities that the Corporation manages are in compliance with applicable state laws, regulations and licensing requirements in all material respects.

Nonetheless, for the reasons described above and risks described under the "*Cautionary Note Regarding Forward-Looking Information*", but not limited to these reasons, there are significant risks associated with the business of the Corporation. Readers are strongly encouraged to carefully read all the risk factors contained herein and in the Corporation's Annual Information Form.

The following sections describe the legal and regulatory landscape in respect of the states in which the Corporation currently operates.

While the Corporation's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the Corporation's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Corporation and have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

## **Nevada**

### *Nevada Regulatory Landscape*

The use of medical marijuana use was legalized in Nevada by a ballot initiative in 2000. Nevada has legislatively enacted the licensing of medical marijuana business establishments since 2013. Adult-use was approved in November 2016, when voters in Nevada passed an adult-use marijuana measure to allow for the sale of recreational marijuana in the state. The first retail stores to sell adult-use marijuana began sales in July 2017. The Nevada Department of Taxation ("**DOT**") currently is the regulatory agency overseeing the medical and adult use cannabis programs. Cities and counties in Nevada are allowed to determine the number of local marijuana licenses they will issue up to the maximum number allocated by the statute. The Corporation only manages or provides consulting services for facilities that operate in Nevada cities or counties with clearly defined marijuana programs. Currently the Corporation manages or provides consulting services for facilities located in the City of Las Vegas, Clark County and Washoe County jurisdictions.

### *Licenses*

The Corporation has control over 3 cultivation facilities, 3 production facilities, 3 distribution licenses, and 5 dispensaries/retail stores in the state of Nevada through separate management services agreements. Under applicable laws, the licenses issued for these facilities permit the companies for which the Corporation provides management and consulting services to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses and Nevada regulations.



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Licenses are renewed annually and there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner along with the necessary supporting documents, including requisite background investigations, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

*Regulations*

In the state of Nevada, only marijuana that is grown/produced in the state by a licensed establishment may be sold in the state. The companies for which the Corporation provides management and consulting services are vertically-integrated and have the capabilities to cultivate, harvest, process and sell/dispense/deliver adult-use and medical cannabis and cannabis products.

*Reporting Requirements*

The state of Nevada uses METRC solution ("METRC") as the state's computerized seed-to-sale tracking system used to track commercial marijuana activity. Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet reporting requirements. The companies for which the Corporation provides management and consulting services each have a seed-to-sale system in the state which is designed to capture the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes sections 453A and 453D.

**Massachusetts**

*Massachusetts Regulatory Landscape*

The use of cannabis for medical use was legalized in Massachusetts by a voter approval of the Massachusetts Marijuana Initiative in 2012. The law took effect on January 1, 2013, eliminating criminal and civil penalties for the possession and use of up to a 60-day or ten (10) ounce supply of marijuana for medical use for patients possessing a state issued registration card.

On November 8, 2016, Massachusetts voters approved Question 4 or the Massachusetts Marijuana Legalization Initiative, which allowed for recreational or "adult use" cannabis in the Commonwealth. On September 12, 2017, the Cannabis Control Commission ("CCC") was established under Chapter 55 of the Acts of 2017 (the "**Massachusetts Act**") to implement and administer laws enabling access to medical and adult-use cannabis.

On November 16, 2018, the CCC issued the first notices for retail marijuana establishments to commence adult-use operations in Massachusetts.

Under the current program there are no state-wide limits on the total number of licenses permitted; however, no individual or entity shall be a controlling person over more than three licenses in a particular class of license. Similarly, no individual, corporation or other entity shall be in a position to control the decision making of more than three licenses in a particular class of license. In addition, all marijuana establishments are required to enter into host community agreements with the municipality in which they are located.

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*Licenses*

The Corporation maintains 1 cultivation license, 1 production license, 1 transportation license, and 3 dispensary licenses in the state of Massachusetts. Under applicable laws, the licenses permit the Corporation to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses.

Provisional marijuana establishment licenses are valid for one (1) year and licenses must be renewed annually thereafter in accordance with CCC guidelines. There is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, the applicable licensee provides an accounting of the financial benefits accruing to the municipality as the result of the host community agreement, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business.

*Regulations*

Under the terms of the marijuana cultivator license, the licensee may cultivate, process and package marijuana, to transfer and deliver marijuana products to marijuana establishments, but not to consumers. A marijuana product manufacturer is an entity authorized to obtain, manufacture, process and package marijuana and marijuana products, to deliver marijuana and marijuana products to marijuana establishments and to transfer marijuana and marijuana products to other marijuana establishments, but not to consumers. A marijuana retailer is an entity authorized to purchase and deliver marijuana and marijuana products from marijuana establishments and to sell or otherwise transfer marijuana and marijuana products to marijuana establishments and to consumers. A marijuana retailer provides a retail location which may be accessed by consumers 21 years of age or older or, if the retailer is co-located with a registered marijuana dispensary ("RMD") by individuals who are registered qualifying patients with the Medical Use of Marijuana Program with a registration card.

In order for a customer to be dispensed marijuana, they must present a valid government issued photo ID immediately upon entry of the retail facility. If the individual is younger than 21 years old but 18 years of age or older, he or she shall not be admitted unless they produce an active medical registration card issued by the DPH. If the individual is younger than 18 years old, he or she shall not be admitted unless they produce an active medical registration card and they are accompanied by a personal caregiver with an active medical registration card. In addition to the medical registration card, registered qualifying patients 18 years of age and older and personal caregivers must also produce proof of identification. Each recreational customer may be dispensed no more than one ounce of marijuana or five grams of marijuana concentrate per transaction as outlined in 935 CMR 500.140(4). Medical patients may be dispensed up to a 60-day supply of marijuana, or the equivalent amount of marijuana in marijuana infused products ("MIPs"), that a registered qualifying patient would reasonably be expected to need over a period of 60 calendar days for his or her personal medical use, which is ten ounces, subject to 105 CMR 725.010(I).

Allowable forms of marijuana in Massachusetts include smokable dried flower, dried flower for vaporizing, cannabis derivative products (i.e., vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products, including edibles.

In the state of Massachusetts, only cannabis that is grown and manufactured in the state can be sold in the state. Massachusetts is not a vertically-integrated system, as a result a marijuana retailer may purchase and transport marijuana products from marijuana establishments and transport, sell or otherwise transfer marijuana products to marijuana establishments and to consumers. Licensed cultivators and product manufacturers may cultivate, harvest, process, produce package and sell marijuana products to marijuana establishments.

*Reporting Requirements*

The state of Massachusetts has selected METRC as the state's track-and-trace ("T&T") system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). The system allows for other third-party system integration via API.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Management's Discussion and Analysis**  
**For the Three Months and Year Ended December 31, 2019 and 2018**

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For a more detailed analysis of the federal and state regulatory environment, view the Corporation's prospectus', filed on February 15, 2019, Cannabis Market Overview section.



**Ayr Strategies Inc.**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

**(EXPRESSED IN UNITED STATES DOLLARS)**

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**Notice to Reader**

The accompanying unaudited condensed interim consolidated financial statements ("interim financial statements") for Ayr Strategies Inc. ("Ayr" or "the Corporation") have been prepared by management. Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Requirements, the Corporation advises that the accompanying interim financial statements, which are the responsibility of management, are unaudited.

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**Ayr Strategies Inc.**  
**Interim Financial Statements**

**September 30, 2020 and 2019**

<b>Interim Financial Statements</b>	
Unaudited Condensed Interim Consolidated Statements of Financial Position ("Interim Statements of Financial Position")	1
Unaudited Condensed Interim Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income ("Interim Statements of (Loss) Income and Comprehensive (Loss) Income")	2
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency) ("Interim Statements of Changes in Shareholders' Equity (Deficiency)")	3
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**Ayr Strategies Inc.**  
**Interim Statements of Financial Position**  
**(Expressed in United States Dollars)**

	<b>As of</b>	
	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	23,180,198	8,403,196
Accounts receivable	2,929,522	2,621,239
Due from related parties [Note 11]	85,000	85,000
Inventory [Note 5]	32,989,013	13,718,840
Biological assets [Note 6]	12,690,663	2,935,144
Prepaid expenses and other current assets	3,809,485	2,163,329
	75,683,881	29,926,748
Non-current		
Property, plant and equipment [Note 7]	39,354,982	37,152,861
Intangible assets [Note 8]	180,066,136	189,802,136
Right-of-use assets [Note 9]	11,795,599	12,315,417
Goodwill [Note 4]	84,837,304	84,837,304
Equity investments [Note 10]	487,717	427,399
Notes Receivable [Note 18]	3,000,000	-
Other assets	685,545	638,394
Total assets	395,911,164	355,100,259
<b>LIABILITIES</b>		
Current		
Trade payables	7,512,946	6,806,053
Accrued liabilities	7,160,365	5,123,865
Lease obligations - current portion [Note 9]	1,117,605	1,087,835
Purchase consideration payable [Notes 4 and 14]	5,687,806	9,831,700
Income tax payable [Note 20]	19,140,631	5,202,943
Debts payable - current portion [Note 12]	8,908,820	6,628,843
	49,528,173	34,681,239
Non-current		
Deferred tax liabilities [Note 20]	45,471,419	41,077,761
Warrant liability [Note 14]	65,130,370	36,874,124
Lease obligations - non-current portion [Note 9]	12,977,535	13,033,310
Contingent consideration [Notes 4 and 14]	23,744,258	22,656,980
Debts payable - non-current portion [Note 12]	31,804,104	37,366,818
Accrued interest payable	1,894,747	815,662
Total liabilities	230,550,606	186,505,894
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital [Note 13]	386,509,334	382,210,006
Treasury stock	(556,899)	(245,469)
Contributed surplus	54,828,781	28,879,225
Accumulated other comprehensive income	2,845,964	3,265,610
Deficit	(278,266,622)	(245,515,007)
Total shareholders' equity	165,360,558	168,594,365
Total liabilities and shareholders' equity	395,911,164	355,100,259

*Nature of operations [Note 1]*

*Commitments and Contingencies [Note 18]*

*Subsequent events [Note 21]*

**Approved on behalf of the Board:**

"Jonathan Sandelman" (signed)

Director

"Charles Miles" (signed)

Director

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

Ayr Strategies Inc.  
Interim Statements of (Loss) Income and Comprehensive (Loss) Income  
(Expressed in United States Dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2020 \$	September 30, 2019 \$	September 30, 2020 \$	September 30, 2019 \$
<b>Revenues, net of discounts</b>	<b>45,486,365</b>	<b>32,087,805</b>	<b>107,349,679</b>	<b>42,912,940</b>
Cost of goods sold before biological asset adjustments	18,127,313	14,887,337	46,257,581	19,850,991
<b>Gross profit before fair value adjustments</b>	<b>27,359,052</b>	<b>17,200,468</b>	<b>61,092,098</b>	<b>23,061,949</b>
Fair value adjustment on sale of inventory	(4,844,505)	(8,736,926)	(21,176,075)	(13,433,398)
Unrealized gain on biological asset transformation [Note 6]	18,242,342	5,862,775	44,574,730	8,342,578
<b>Gross profit</b>	<b>40,756,889</b>	<b>14,326,317</b>	<b>84,490,753</b>	<b>17,971,129</b>
<b>Expenses</b>				
General and administrative [Note 16]	9,319,917	8,836,934	27,084,857	11,788,182
Sales and marketing	643,005	509,472	1,586,849	881,556
Depreciation [Notes 7 and 9]	523,311	283,007	1,649,293	375,795
Amortization [Note 8]	2,998,667	3,400,331	8,996,000	4,788,308
Stock-based compensation [Note 17]	4,700,795	11,062,444	25,949,556	15,582,582
Acquisition expense	557,457	968,580	1,054,766	5,123,661
<b>Total expenses</b>	<b>18,743,152</b>	<b>25,060,768</b>	<b>66,321,321</b>	<b>38,540,084</b>
<b>Income (Loss) from operations</b>	<b>22,013,737</b>	<b>(10,734,451)</b>	<b>18,169,432</b>	<b>(20,568,955)</b>
<b>Other (expense) income</b>				
Share of loss on equity investments [Note 10]	(8,244)	(420,626)	(31,383)	(313,714)
Foreign exchange	(6,421)	(104,834)	(9,038)	(123,202)
Unrealized (loss) gain - changes to fair value of financial liabilities [Note 14]	(38,210,209)	40,427,308	(29,321,360)	(122,006,820)
Interest expense	(729,469)	(1,272,421)	(2,249,046)	(1,859,213)
Interest income	5,034	31,834	5,034	396,352
Other	(141,079)	12,864	19,971	17,152
<b>Total other (expense) income</b>	<b>(39,090,388)</b>	<b>38,674,125</b>	<b>(31,585,822)</b>	<b>(123,889,445)</b>
<b>(Loss) Income before income tax</b>	<b>(17,076,651)</b>	<b>27,939,674</b>	<b>(13,416,390)</b>	<b>(144,458,400)</b>
Current tax [Note 20]	(6,674,153)	(3,502,178)	(14,941,568)	(4,932,991)
Deferred tax [Note 20]	(3,042,171)	1,743,121	(4,393,657)	2,676,022
<b>Net (loss) income</b>	<b>(26,792,975)</b>	<b>26,180,617</b>	<b>(32,751,615)</b>	<b>(146,715,369)</b>
Foreign currency translation adjustment	(1,371,781)	255,298	(419,646)	(624,738)
<b>Net (loss) income and comprehensive (loss) income</b>	<b>(28,164,756)</b>	<b>26,435,915</b>	<b>(33,171,261)</b>	<b>(147,340,107)</b>
<b>Basic (loss) earnings per share</b>	<b>(0.96)</b>	<b>0.99</b>	<b>(1.20)</b>	<b>(10.23)</b>
<b>Diluted (loss) earnings earnings per share</b>	<b>(0.96)</b>	<b>0.84</b>	<b>(1.20)</b>	<b>(10.23)</b>
<b>Weighted average number of shares outstanding (basic)</b>	<b>27,909,251</b>	<b>26,406,682</b>	<b>27,247,047</b>	<b>14,337,386</b>
<b>Weighted average number of shares outstanding (diluted)</b>	<b>27,909,251</b>	<b>31,179,896</b>	<b>27,247,047</b>	<b>14,337,386</b>

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

**Ayr Strategies Inc.**  
**Interim Statements of Changes in Shareholders' Equity (Deficiency)**  
**(Expressed in United States Dollars)**

	Share Capital								Treasury Stock		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	Class B shares		Multiple Voting Shares		Subordinate Voting Shares		Exchangeable Shares							
	Number #	Amount \$	Number #	Amount \$	Number #	Amount \$	Number #	Amount \$	Number #	Amount \$	\$	\$	\$	\$
Balance, December 31, 2019	-	-	3,696,486	1,821,997	14,824,485	251,721,350	8,373,792	128,666,659	(29,500)	(245,469)	28,879,225	3,265,610	(245,515,007)	168,594,365
Stock-based compensation [Note 17]	-	-	-	-	-	-	-	-	-	-	25,949,556	-	-	25,949,556
Exercise of Rights [Note 13]	-	-	-	-	162,379	-	-	-	-	-	-	-	-	-
Exercise of Warrants [Note 13]	-	-	-	-	42,000	533,401	-	-	-	-	-	-	-	533,401
Conversion of Exchangeable Shares [Note 13]	-	-	-	-	2,940,337	46,189,714	(2,940,337)	(46,189,714)	-	-	-	-	-	-
Share issuance - make-whole [Note 14]	-	-	-	-	-	-	614,515	3,765,927	-	-	-	-	-	3,765,927
Repurchase of Subordinate Voting Shares [Note 13]	-	-	-	-	-	-	-	-	(34,300)	(311,430)	-	-	-	(311,430)
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	(32,751,615)	(32,751,615)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	-	(419,646)	-	(419,646)
Balance, September 30, 2020	-	-	3,696,486	1,821,997	17,969,201	298,444,465	6,047,970	86,242,872	(63,800)	(556,899)	54,828,781	2,845,964	(278,266,622)	165,360,558
Balance, December 31, 2018 - Restated (Note 3.22)	3,696,486	1,821,997	-	-	-	-	-	-	-	-	-	3,422,120	(81,335,403)	(76,091,286)
Share exchange - Qualifying Transaction [Notes 1 and 4]	(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 [Note 4]	-	-	-	-	-	-	7,983,887	125,421,479	-	-	-	-	-	125,421,479
Stock-based compensation [Note 17]	-	-	-	-	-	-	-	-	-	-	15,582,582	-	-	15,582,582
Exercise of Rights [Note 13]	-	-	-	-	1,054,215	-	-	-	-	-	-	-	-	-
Exercise of Warrants [Note 13]	-	-	-	-	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	14,826,415	251,787,555	7,983,887	125,421,479	-	-	15,582,582	2,797,382	(228,050,772)	169,360,223

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



**Ayr Strategies Inc.**  
**Interim Statements of Cash Flows**  
**(Expressed in United States Dollars)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net loss	(32,751,615)	(146,715,369)
<b>Adjustments for:</b>		
Acquisition costs associated with financing activities	-	129,236
Net unrealized loss on changes in the fair value of financial liabilities	29,321,360	122,006,820
Stock-based compensation	25,949,556	15,582,582
Depreciation	3,283,383	1,010,195
Amortization on intangible assets	10,136,000	4,788,308
Share of loss on equity investments	31,383	313,714
Fair value adjustment on sale of inventory	21,176,075	13,433,398
Unrealized gain on biological asset transformation	(44,574,730)	(8,342,578)
Deferred tax expense (benefit)	4,393,657	(2,676,022)
Interest accrued	1,079,085	931,542
<b>Changes in non-cash operations, net of business acquisition:</b>		
Accounts receivable	(308,283)	445,793
Inventory and biological assets	(5,627,037)	(2,957,318)
Prepaid expenses and other assets	(1,693,307)	(1,127,045)
Trade payables	2,900,278	2,147,083
Accrued liabilities	2,036,500	(781,144)
Income tax payable	13,937,688	1,407,872
Cash provided by (used in) operating activities	29,289,993	(402,933)
<b>Investing activities</b>		
Transfer of restricted cash and short term investments held in escrow and interest income	-	99,684,243
Purchase of property, plant and equipment	(6,291,344)	(6,445,302)
Deferred underwriters commission paid	-	(3,457,154)
Cash paid for business combinations, net of cash acquired	-	(74,714,171)
Cash paid for business combinations, working capital	(603,092)	(490,435)
Payments for interests in equity accounted investments	(91,700)	(500,000)
Advances from related corporation	-	(724,191)
Bridge financing and deposits for business combinations	(3,000,000)	-
Purchases of intangible assets	(400,000)	-
Cash (used in) provided by investing activities	(10,386,136)	13,352,990
<b>Financing activities</b>		
Proceeds from exercise of Warrants	361,043	2,460,150
Redemption of Class A shares	-	(7,519)
Repayments of debts payable	(3,282,737)	(1,660,425)
Repayments of lease obligations (principal portion)	(893,731)	(166,414)
Repurchase of Subordinate Voting Shares	(311,430)	-
Cash (used in) provided by financing activities	(4,126,855)	625,792
<b>Net increase in cash</b>	<b>14,777,002</b>	<b>13,575,849</b>
<b>Effect of foreign currency translation</b>	<b>-</b>	<b>972,111</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>8,403,196</b>	<b>109,952</b>
<b>Cash and cash equivalents, end of the period</b>	<b>23,180,198</b>	<b>14,657,912</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the period	1,898,207	321,619
Taxes paid during the period	1,003,880	111,607

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

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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**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 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, including through operational and service agreements to licensed cannabis companies. The Corporation was previously a special purpose acquisition corporation (“SPAC”) 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 had only one operating segment, cannabis sales, during the period ended September 30, 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, 26<sup>th</sup> 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 Acquisition Inc. (“CSAC AcquisitionCo”). On May 24, 2019, the Corporation completed its concurrent acquisitions, including through operational and service agreements, 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”). For more information regarding the Qualifying Transaction, view the December 31, 2019 audited consolidated financial statements.

The Corporation’s subordinate voting shares (“Subordinate Voting Shares”), warrants (“Warrants”), and rights (“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 United States under the symbol “AYRSF”.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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**2. BASIS OF PRESENTATION**

**2.1 Statement of compliance**

These interim financial statements for the three and nine months ended September 30, 2020 and 2019 have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting*. Accordingly, they do not include all of the information required for full annual financial statements required by International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These interim financial statements should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2019, and the related notes thereto, and have been prepared using the same accounting policies described therein.

These interim financial statements were approved and authorized for issuance by the board of directors of the Corporation (the “Board of Directors”) on November 18, 2020.

**2.2 Basis of presentation and measurement**

These interim financial statements have been prepared on the going concern basis under the historical cost basis except for certain financial instruments, biological assets, and warrant liability, which are measured at fair value, as explained in the accounting policies set out in Note 3.

The interim financial statements are presented in United States dollars which, following the close of the Qualifying Transaction became the Corporation’s presentation currency. The Corporation’s previous presentation currency was Canadian Dollars (“CAD” or “CDN\$”). See Note 3.22 for change in accounting policy related to the change in 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 CDN\$ and for each of the United States subsidiaries is United States dollars (US\$ or \$).

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of consolidation

The interim financial statements for the three and nine months ended September 30, 2020 include the accounts of the Corporation, its wholly-owned subsidiaries, and entities over which the Corporation has control as defined in IFRS 10, all of which also have a December 31 year-end. Entities over which the Corporation has control are presented on a consolidated basis from the date control commences. Control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation 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 and rights in respect of the entity. All of the consolidated entities were under control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, 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 completion of the Qualifying Transaction). All intercompany balances and transactions are eliminated on consolidation. The Corporation's consolidated subsidiaries are listed below, and are owned 100% by the Corporation unless otherwise noted:

Subsidiaries	State of operation	Purpose
Ayr Strategies Inc.	Canada	Parent Company
CSAC Holdings Inc.	NV	Corporate - Holding Company
CSAC Acquisition Inc.	NV	Corporate - Holding Company
CSAC Acquisition MA Corp. <sup>(2)</sup>	MA	Corporate - Holding Company
Ayr NJ, LLC	NV	Corporate - Holding Company
CSAC LLC <sup>(2)</sup>	NV	Corporate - Holding Company
CSAC Ohio, LLC <sup>(2)</sup>	OH	Corporate - Holding Company
Sira Naturals, Inc.	MA	Cultivation, Production, and Retail
CSAC-LivFree Wellness LLC	NV	Management Company
CSAC-Washoe Wellness LLC <sup>(6)</sup>	NV	Management Company
CSAC-The Canopy NV LLC	NV	Management Company
CannaPunch of Nevada LLC	NV	Production
LivFree Wellness, LLC <sup>(1)(3)</sup>	NV	Managed Services - Retail
Washoe Wellness, LLC <sup>(1)(4)</sup>	NV	Managed Services - Cultivation and Production
Kynd-Strainz, LLC <sup>(1)(5)</sup>	NV	Managed Services - Retail
Lemon Aide, LLC <sup>(1)(5)</sup>	NV	Managed Services - Retail

- (1) Entered into an Equity Purchase Agreement with CSAC Acquisition, Inc. pending regulatory approval for the license transfers by the Nevada Cannabis Compliance Board. The Corporation has control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, through operational and service agreements. All intercompany balances and transactions are eliminated for consolidation.
- (2) Entities that are inactive as of September 30, 2020.
- (3) LivFree includes a wholly-owned subsidiary BP Solutions LLC.
- (4) Washoe includes wholly-owned subsidiaries Klymb Project Management, Inc, Tahoe-Reno Botanicals, LLC, Tahoe-Reno Extractions, LLC.
- (5) Canopy is the parent company of Kynd-Strainz, LLC and Lemon Aide, LLC.
- (6) CSAC-Washoe Wellness LLC includes a wholly-owned subsidiary DWC Investments, LLC.

#### 3.2 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. 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.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.2 Revenue (continued)**

In some cases, judgment is required in determining whether the customer is a business or the end consumer. This evaluation is 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) customer's legal title; c) transfer of physical possession of the goods; and d) timing of acceptance of goods.

Revenue is recognized based on the sale of cannabis for a fixed price when control is transferred. The amount recognized reflects the consideration that the Corporation expects to receive taking into account any variation that is expected to result from rights of return. Dispensary revenue is recognized at the point of sale while wholesale revenue is recognized once Ayr transfers the significant risks and rewards of ownership of the goods and does not retain material involvement associated with ownership or control over the goods sold.

**3.3 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.

**3.4 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 of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), the liabilities incurred by the Corporation on behalf of the acquiree, 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 interim statements of (loss) income and comprehensive (loss) income.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.5 Inventory

Cannabis inventory at retail, work-in-process and raw materials are initially valued at the weighted average cost and subsequently measured 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 such as materials, labor, and depreciation expense on equipment 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.

#### 3.6 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 Corporations' biological assets are within the scope of IAS 41 – *Agriculture*, the direct and indirect costs of cultivating and producing 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, the building portion associated with the growing space, and the right-of-use asset associated with the cultivation and production facilities. All direct and indirect costs of cultivating and producing biological assets are capitalized as they are incurred, and they are subsequently recorded on the interim statements of (loss) income and comprehensive (loss) income in the period that the related product is sold. Unrealized fair value gain on growth of biological assets are recorded in a separate line on the face of the interim statements of (loss) income and comprehensive (loss) income. Biological assets are measured at their fair values less costs to sell up to the point of harvest in the interim statements of financial position, which becomes the initial cost of harvested cannabis.

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

#### 3.7 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.7 Property, plant and equipment (“PPE”) (continued)**

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 – 39 years
- 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 interim statements of (loss) income and comprehensive (loss) income.

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.

#### **3.8 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 of the acquisition date. Goodwill is allocated to the Cash Generating Units (“CGU” or “CGUs”) which are expected to benefit from the synergies of the combination. CGUs have been grouped for purposes of impairment testing. Impairment losses recognized in respect of a CGU, being the excess over the CGUs carrying value allocated to the assets in the CGU, are first allocated to the carrying value of goodwill and indefinite life intangibles and any excess is allocated to the carrying amount of assets in the CGU. Impairment testing is performed annually by the Corporation or more frequently, if events or changes in circumstances indicate that they might be impaired. 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 amount, as defined in Note 3.9, of goodwill is determined by using discounted future cash flows, which incorporates assumptions regarding future events, growth rates and discount rates.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Intangible assets (continued)**

**(b) Finite 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, right-to-use licenses, host community agreements, and trade name/brand have useful lives of 15, 15, 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.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized to the extent development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the product or asset. Other development expenditures will be expensed as incurred. No development costs have been capitalized to date.

**3.9 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 ("FVLCD"), 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, discounted cash flows, 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 at that time.

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 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 FVLCD. Where the recoverable amount is less than the carrying amount, an impairment loss is recognized in the interim statements of (loss) income and comprehensive (loss) income. Impairment losses recognized on goodwill are not reversed in subsequent periods.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.9 Impairment of non-financial assets (continued)**

Goodwill is allocated to the CGUs, which are the lowest level that generate cash flows independent of another. The Corporation determined its CGUs are separated by state and type of operation, including cultivation, production and retail. As the CGUs are expected to benefit from synergies of a related business combination at the state level, goodwill will be grouped and tested at the state level.

#### **3.10 Leases**

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 interim statements of (loss) income and comprehensive (loss) income 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 interim statements of (loss) income and comprehensive (loss) income. 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 interim statements of (loss) income and comprehensive (loss) income.

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 or 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.

#### **3.11 Equity investments**

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 or loss 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.11 Equity investments (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. Joint ventures are also accounted for under the equity method.

#### **3.12 Non-controlling interests**

Equity interests owned by parties that are not shareholders of the Corporation are considered non-controlling interests. The share of net assets attributable to non-controlling interests are presented as a component of equity while the share of net income or loss is recognized in equity. Changes in Ayr's ownership interest that do not result in a loss of control are accounted for as equity transactions. As of September 30, 2020, the Corporation does not have any non-controlling interests.

#### **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 twelve months to prepare for their intended use.

#### **3.14 Derivatives**

The Corporation evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then revalued at each reporting date, with changes in the fair value reported in the Corporation's interim financial statements. In calculating the fair value of derivative liabilities, the Corporation uses a valuation model when level 1 inputs are not available to estimate fair value at each reporting date (see Note 19). The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the interim financial statements date.

#### **3.15 (Loss) earnings per share**

The basic (loss) earnings per share is computed by dividing the net (loss) income by the weighted average number of shares outstanding, including Subordinate Voting Shares, multiple voting shares of the Corporation ("Multiple Voting Shares"), and Exchangeable Shares (as defined below), during the period. The diluted (loss) earnings per share reflects the potential dilution of shares by adjusting the weighted average number of shares outstanding to assume conversion of potentially dilutive shares, such as Warrants, restricted stock units (RSUs), Rights, and contingent shares. The "treasury stock method" is used for the assumed proceeds upon the exercise of the Exchangeable Shares and Warrants that are used to purchase Subordinate Voting Shares at the average market price during the period. If the Corporation incurs a net loss during a reporting period, the calculation of fully diluted loss per share will not include potentially dilutive equity instruments such as restricted Warrants, RSUs, Rights and contingent shares, therefore, basic loss per share and diluted loss per share will be the same.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.16 Stock-based payments**

*(a) Stock-based payment transactions*

Certain 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").

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued. In situations where equity instruments are issued to non-employees and some or all of the fair value of the good or service 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 of the stock price at the date on which they are granted, using an appropriate valuation model. The value of the transaction is expensed through the vesting period.

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").

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 income or loss for a period represents the movement in cumulative expense recognized as of 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 interim statements of (loss) income and comprehensive (loss) income.

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 at that time through the interim statements of (loss) income and comprehensive (loss) income.

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 quoted price as the Warrants are publicly traded. As the number of 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.17 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.

#### **3.18 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 interim statements of (loss) income and comprehensive (loss) income.

##### *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").

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 interim statements of (loss) income and comprehensive (loss) income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The 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 interim statements of (loss) income and comprehensive (loss) income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Refer to Note 19 for the classification and fair value ("FV") level of financial instruments.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.18 Financial instruments (continued)

##### *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 receivable 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, but not limited to, any forecasts of future economic conditions, credit ratings, and macro-economic factors, are reviewed regularly.

All individually significant loans receivable 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 interim statements of (loss) income and comprehensive (loss) income.

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 interim statements of (loss) income and comprehensive (loss) income.

#### 3.19 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 interim statements of (loss) income and comprehensive (loss) income.

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; and
- 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 as the rate on the dates of the transactions).

**Ayr Strategies Inc.**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.19 Foreign currency transactions (continued)**

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

**3.20 Taxation**

The current income tax expense is based on taxable income for the period. Income tax payable is based on the income tax expense from the current and prior periods that has not been remitted. Taxable income differs from “(Loss) Income before income tax” as reported in the interim statements of (loss) income and comprehensive (loss) income 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 factors in any adjustments arising from prior years.

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 included as 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.

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 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 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 net (loss) income 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 no longer probable that future taxable profits will be available. A deferred tax expense or benefit is recognized in accumulated other comprehensive income or otherwise directly in equity to the extent that it relates to items that are recognized in accumulated other comprehensive income 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.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As of September 30, 2020, the Corporation assessed for circumstances in which there is uncertainty over income tax treatments and has not recorded any uncertain tax positions.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.21 Significant accounting judgments and 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 judgments 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 judgments and estimates.

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

#### **(a) 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 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 (loss) income.

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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.21 Significant accounting judgments and estimates (continued)**

(a) Business combination (continued)

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.

(b) 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.

(c) 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.

(d) 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 CGUs for purposes of testing for impairment of goodwill and intangible assets. The Corporation's estimate of CGUs or a group of CGUs 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 are calculated by discounting the final year in perpetuity.

(e) Goodwill impairment

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.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.21 Significant accounting judgments and estimates (continued)**

(f) 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 judgments and estimates.

(g) 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.

(h) 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 (loss) income and comprehensive (loss) income.

(i) Expected credit loss

Management determines 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 end.

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

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.22 Change in accounting policy**

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

The Board of Directors believe that US\$ 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 3.19.

The closing rate used in translating the historical financial information from CDN\$ to US\$ as of December 31, 2018 was \$0.7330.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.23 Change in accounting standards**

Adoption of IFRS 16 – Leases (applied in 2019)

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 or short-term leases.

Adoption of IFRS 3 - Business combinations

The Corporation adopted IFRS 3 on January 1, 2020. IFRS 3 provides clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. There was no impact on the interim financial statements.

Adoption of IAS 1 and 8 - Presentation of financial statements

The Corporation adopted IAS 1 and 8 on January 1, 2020. IAS 1 and 8 provide clarification on the definition of materiality and how it should be applied. The amendments also align the definition of material across International Financial Reporting Standards and other publications. There was no impact on the interim financial statements.

Standards and interpretations issued in the current period but not yet effective

There are no new standards issued but not yet effective as of January 1, 2020 that have a material impact to the Corporation’s interim financial statements.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
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**4. BUSINESS COMBINATION**

As explained in Note 1 to the interim 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, as amended, 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](http://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 considerations. 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 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 Subordinate 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 Subordinate 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 Subordinate Voting Shares (ii) the holders of the Exchangeable Shares are subject to restrictions on transfer under United States 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 (loss) earnings per share.

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

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

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, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, of Washoe, Canopy, and LivFree through separate operational and service agreements. Each operational and service agreement provides Ayr certain rights over the entities’ operations. Through these operational and service agreements, Ayr has the power to control relevant activities which affect the returns Ayr receives. As a result of the control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, obtained through the operational and service agreements, these entities are consolidated on Ayr’s interim financial statements. As of September 30, 2020, Washoe, Canopy, and LivFree are awaiting state regulatory approval to transfer licenses to Ayr. See Note 3.1 for a breakout of the various management companies.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
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**4. BUSINESS COMBINATION (Continued)**

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

US\$	Livfree \$	Sira \$	Cannapunch \$	Washoe \$	Canopy \$	Total \$
<b>ASSETS ACQUIRED</b>						
Cash and cash equivalents	1,258,928	270,280	7,233	21,458	147,930	<b>1,705,829</b>
Accounts receivable	-	600,151	625,143	87,617	-	<b>1,312,911</b>
Inventory	2,670,057	9,671,814	552,040	4,500,213	1,618,639	<b>19,012,763</b>
Biological assets	-	1,996,642	-	1,763,516	-	<b>3,760,158</b>
Prepaid expenses and other assets	96,157	340,428	-	129,477	160,748	<b>726,810</b>
Intangible assets	105,000,000	57,000,000	2,390,000	22,800,000	10,750,000	<b>197,940,000</b>
Property, plant and equipment	1,640,418	9,090,090	486,100	9,070,645	1,217,736	<b>21,504,989</b>
Right-of-use assets	2,894,076	5,239,201	1,119,826	-	2,057,681	<b>11,310,784</b>
Due from related parties	-	-	-	-	784,733	<b>784,733</b>
Deposits	90,147	149,251	-	91,574	9,983	<b>340,955</b>
<b>Total assets acquired at fair value</b>	<b>113,649,783</b>	<b>84,357,857</b>	<b>5,180,342</b>	<b>38,464,500</b>	<b>16,747,450</b>	<b>258,399,932</b>
<b>LIABILITIES ASSUMED</b>						
Trade payables	387,500	475,193	251,829	506,073	-	<b>1,620,595</b>
Accrued liabilities	1,176,088	970,418	46,972	100,412	520,453	<b>2,814,343</b>
Deferred tax liabilities	25,796,726	13,611,222	567,507	2,153,131	2,841,746	<b>44,970,332</b>
Advance from related parties	187,809	-	-	784,733	-	<b>972,542</b>
Lease obligations	2,520,437	6,514,038	1,083,189	-	2,553,502	<b>12,671,166</b>
Debts payable	120,000	13,054	-	9,180,808	421,128	<b>9,734,990</b>
<b>Total liabilities assumed at fair value</b>	<b>30,188,560</b>	<b>21,583,925</b>	<b>1,949,497</b>	<b>12,725,157</b>	<b>6,336,829</b>	<b>72,783,968</b>
Goodwill	39,779,584	16,399,143	13,971,953	8,121,569	6,565,055	<b>84,837,304</b>
<b>Calculated purchase price</b>	<b>123,240,807</b>	<b>79,173,075</b>	<b>17,202,798</b>	<b>33,860,912</b>	<b>16,975,676</b>	<b>270,453,268</b>

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 interim 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. The Corporation tests the recoverability of its goodwill annually, or more frequently, if events or changes in circumstances indicate that they might be impaired. For further analysis on goodwill relating to the business combination, see Note 8.

**Ayr Strategies Inc.**  
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**4. 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)
<b>Total</b>		<b>1,885,606</b>	<b>79,173,075</b>

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 in the form of cash consideration;
- ii. \$5.0 million of the Sira purchase price in the form of a promissory note payable;
- iii. \$29.2 million of the Sira purchase price 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 “Sira 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 facilities 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 statements of financial position. As of August 31, 2020, the outstanding balance of \$6,091,357 was further amended to adopt a monthly payment schedule ranging from 10-25 months based on certain milestones.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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**4. BUSINESS COMBINATION (Continued)**

**Canopy Acquisition**

Canopy is an owner and operator of cannabis dispensaries in Nevada, with an established footprint in Reno, Nevada. Canopy operates its dispensaries in both the medical and adult-use 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)
<b>Total</b>		<b>265,360</b>	<b>16,975,676</b>

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 in the form of cash consideration;
- ii. \$4.5 million of the Canopy purchase price in the form of a promissory note payable;
- iii. \$4.3 million of the Canopy purchase price 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 “Canopy Lock-Up Provision”);
- iv. An additional 15,360 Exchangeable Shares to Canopy pursuant to certain make-whole provisions (the “Canopy Make-Whole Provisions”);
- v. An additional 432,940 Exchangeable Shares 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 of the final working capital adjustment.

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**4. 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:

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

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 in the form of cash consideration;
- ii. \$5.6 million of the Washoe purchase price in the form of a promissory note payable;
- iii. \$4.3 million of the Washoe purchase price 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 “Washoe Lock-Up Provision”);
- iv. Pursuant to the terms of the Washoe Agreement, 13,636 Exchangeable Shares to a Washoe lender;
- v. An additional 571,479 Exchangeable Shares 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 of 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.



**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
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**4. 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 marijuana retail dispensary and production facilities.

Purchase consideration was comprised of the following:

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

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 in the form of cash consideration;
- ii. \$20.0 million of the LivFree purchase price in the form of a promissory note payable;
- iii. \$69.1 million of the LivFree purchase price 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 “LivFree Lock-Up Provision”);
- iv. \$4.4 million of the LivFree purchase price, 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.

**Ayr Strategies Inc.**  
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**4. BUSINESS COMBINATION (Continued)**

**CannaPunch Acquisition**

CannaPunch possesses trade name and brand value and extracts raw cannabis plant material through a license agreement to create processed cannabis oil for use in vaporizer cartridges and pens or as an input into other infused products, as well as 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
<b>Total</b>		<b>898,739</b>	<b>17,202,798</b>

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 in the form of cash consideration;
- ii. \$2.0 million of the CannaPunch purchase price in the form of a promissory note payable;
- iii. \$13.7 million of the CannaPunch purchase price 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 “CannaPunch Lock-Up Provision”, and collectively with the Sira Lock-Up Provision, Canopy Lock-Up Provision, Washoe Lock-Up Provision and LivFree Lock-Up Provision, the “Lock-Up Provisions”, and each, a “Lock-Up Provision”);
- iv. \$0.4 million of the CannaPunch purchase price, 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 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 14 for the make-whole provision and contingent consideration fair value treatment subsequent to the acquisition.

**Ayr Strategies Inc.**  
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**4. BUSINESS COMBINATION (Continued)**

**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. As of September 30, 2020, there are no such indicators that would necessitate a formal impairment assessment.

**5. INVENTORY**

The Corporation's inventory includes the following:

	September 30, 2020	December 31, 2019
	\$	\$
Work in process	22,820,985	6,226,109
Finished goods	3,057,009	257,399
<b>Total cultivation and production inventory</b>	<b>25,877,994</b>	<b>6,483,508</b>
Cannabis inventory at retail	4,865,071	5,245,010
Supplies and others	2,245,948	1,990,322
<b>Total inventory</b>	<b>32,989,013</b>	<b>13,718,840</b>

Amount of inventory included in cost of goods sold during the three and nine months ended September 30, 2020 and 2019 was \$16,742,622 and \$42,754,698, and \$11,495,177 and \$15,286,066, respectively. There were no inventory write-downs taken during the periods ended.

**6. BIOLOGICAL ASSETS**

The continuity of biological assets is as follows:

	September 30, 2020	December 31, 2019
	\$	\$
<b>Balance, at beginning of the period</b>	<b>2,935,144</b>	<b>-</b>
Acquired on completion of Qualifying Transaction [Notes 1 & 4]	-	3,760,158
Changes in fair value less costs to sell due to biological transformation	44,574,730	10,108,105
Transferred to inventory upon harvest	(34,819,211)	(10,933,119)
<b>Balance, at end of the period</b>	<b>12,690,663</b>	<b>2,935,144</b>

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 as of September 30, 2020 and December 31, 2019 include:

- The average number of weeks in the growing cycles were 18 weeks from propagation to harvest;
- The average harvest yields from each cannabis plant were 192 and 233, respectively, grams per plant;
- The biological assets were on average 57% and 53%, respectively, complete;
- The average selling price of dry cannabis was \$5.13 and \$5.00, respectively per gram; and
- The average costs to complete the cannabis process post-harvest and the costs to sell were \$0.59 and \$1.54, respectively, per gram.

**Ayr Strategies Inc.**  
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**6. BIOLOGICAL ASSETS (Continued)**

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	Weighted average input		Sensitivity	Effect on fair value	
	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
				\$	\$
Wholesale selling price of dry cannabis	\$5.13	\$5.00	Increase or decrease of 5%	774,547	209,858
Average yield per plant	192 Grams	233 Grams	Increase or decrease of 5%	678,687	157,663

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.

During the nine months ended September 30, 2020 and 2019, the Corporation's biological assets produced 9,344,006 and 2,097,708 grams of dried cannabis, respectively.

**7. PROPERTY, PLANT AND EQUIPMENT**

	Furniture and fixtures	Office equipment	Machinery and equipment	Auto and trucks	Buildings and leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
As of December 31, 2019	923,391	312,486	1,871,195	130,298	34,878,639	38,116,009
Additions	60,555	102,616	167,019	59,253	3,708,693	4,098,136
As of September 30, 2020	983,946	415,102	2,038,214	189,551	38,587,332	42,214,145
<b>Depreciation</b>						
As of December 31, 2019	94,140	41,736	118,375	13,978	694,919	963,148
Depreciation	135,951	73,192	178,309	29,201	1,479,362	1,896,015
As of September 30, 2020	230,091	114,928	296,684	43,179	2,174,281	2,859,163
<b>Net book value</b>						
As of December 31, 2019	829,251	270,750	1,752,820	116,320	34,183,720	37,152,861
As of September 30, 2020	753,855	300,174	1,741,530	146,372	36,413,051	39,354,982
<b>Cost</b>						
As of December 31, 2018	-	-	-	-	-	-
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	722,346	255,127	1,472,366	64,137	18,991,013	21,504,989
Additions	201,045	57,359	398,829	66,161	15,887,626	16,611,020
As of December 31, 2019	923,391	312,486	1,871,195	130,298	34,878,639	38,116,009
<b>Depreciation</b>						
As of December 31, 2018	-	-	-	-	-	-
Depreciation	94,140	41,736	118,375	13,978	694,919	963,148
As of December 31, 2019	94,140	41,736	118,375	13,978	694,919	963,148
<b>Net book value</b>						
As of December 31, 2018	-	-	-	-	-	-
As of December 31, 2019	829,251	270,750	1,752,820	116,320	34,183,720	37,152,861

As of September 30, 2020 and December 31, 2019, buildings and leasehold improvements include assets under construction of \$1,689,808, and \$17,146,625, respectively.

**Ayr Strategies Inc.**  
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**7. PROPERTY, PLANT AND EQUIPMENT (Continued)**

Depreciation expense relating to PPE for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Cost of goods sold	654,251	356,248	1,365,873	474,845
Expenses	139,464	98,381	530,143	136,066
<b>Total depreciation relating to PPE</b>	<b>793,715</b>	<b>454,629</b>	<b>1,896,016</b>	<b>610,911</b>

**8. GOODWILL AND INTANGIBLE ASSETS**

**Goodwill**

As explained in Note 1 and Note 4, the Corporation recognized goodwill of \$84,837,304 when the Corporation completed the Qualifying Transaction on the Acquisition Date. This goodwill represents the excess purchase price paid by the Corporation over the fair value of net tangible and intangible assets identified in the calculated purchase price. The Corporation tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Goodwill recoverability is tested based on the higher of FVLCD and the value in use model. The FVLCD analysis is performed by using the income method which involves discounting expected future cash flows. Impairment testing involves determining the recoverable amount of the CGU group to which goodwill is allocated and comparing this to the carrying value of the CGU groups. The Corporation grouped CGUs for testing at the state level based on the CGUs expected to benefit from synergies of the business combination.

**Intangible Assets**

Amortization expense is in cost of goods sold and total expenses. The amount in cost of goods sold for the three and nine months ended September 30, 2020 and 2019 was \$380,000 and \$1,140,000 and \$Nil and \$Nil, respectively. The following table represents intangible assets:

	Useful Life # (Years)	September 30, 2020 \$	December 31, 2019 \$
<b>Cost</b>			
Licenses	15	22,000,000	22,000,000
Right-to-use licenses	15	138,950,000	138,550,000
Host community agreements	15	35,000,000	35,000,000
Trade name / brand	5	2,390,000	2,390,000
		198,340,000	197,940,000
<b>Accumulated amortization</b>			
Licenses	15	1,983,154	883,154
Right-to-use licenses	15	12,489,364	5,561,864
Host community agreements	15	3,155,018	1,405,018
Trade name / brand	5	646,328	287,828
		18,273,864	8,137,864
<b>Net book value</b>			
Licenses	15	20,016,846	21,116,846
Right-to-use licenses	15	126,460,636	132,988,136
Host community agreements	15	31,844,982	33,594,982
Trade name / brand	5	1,743,672	2,102,172
<b>Total net book value as of</b>		<b>180,066,136</b>	<b>189,802,136</b>

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9. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets \$	Lease obligations \$
As of December 31, 2019	12,315,417	14,121,145
New leases and re-valuation	867,549	867,726
Less: depreciation and repayment	(1,387,367)	(893,731)
<b>Net book value as of September 30, 2020</b>	<b>11,795,599</b>	<b>14,095,140</b>

Interest expense relating to lease obligations for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Cost of goods sold	146,667	-	372,622	-
Other income (expense)	210,889	323,991	663,959	424,571
<b>Total interest expense relating to lease obligations</b>	<b>357,556</b>	<b>323,991</b>	<b>1,036,581</b>	<b>424,571</b>

Depreciation relating to right-of-use assets for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Cost of goods sold	87,838	119,666	268,217	159,555
Expenses	383,847	184,626	1,119,150	239,729
<b>Total depreciation relating to right-of-use assets</b>	<b>471,685</b>	<b>304,292</b>	<b>1,387,367</b>	<b>399,284</b>

As of September 30, 2020 and December 31, 2019, the current and long-term lease obligations were \$1,117,605 and \$12,977,535, and \$1,087,835 and \$13,033,310, respectively. Also refer to Note 3.23 (Adoption of IFRS 16 – “Leases”).

The following table presents the contractual undiscounted cash flows for lease obligations as of September 30, 2020:

	\$
2020	695,372
2021	2,435,091
2022	2,337,060
2023	2,386,671
2024	2,379,337
2025	2,091,594
2026 and beyond	14,111,173
<b>Total undiscounted lease obligations</b>	<b>26,436,298</b>
Impact of discounting	(12,341,158)
<b>Total lease obligations</b>	<b>14,095,140</b>

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**10. EQUITY INVESTMENTS**

The Corporation has a 40% interest in Green Garden, LLC ("Green Garden") and a 49% interest in Land of Lincoln Dispensary LLC ("Lincoln"). Management has concluded that the current interests do not provide control to the Corporation. Accordingly, the Green Garden and Lincoln investments have been accounted for using the equity method. The Lincoln acquisition occurred on December 29, 2019 and has had no operating activity for the three and nine months ended September 30, 2020. The following table relates to the Corporation's investment in Green Garden as of September 30, 2020 and December 31, 2019:

	September 30, 2020 \$	December 31, 2019 \$
Balance at the beginning of the period	427,399	-
Investment	91,700	500,000
Share of loss	(31,382)	(72,601)
<b>Net book value, as of</b>	<b>487,717</b>	<b>427,399</b>

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

	September 30, 2020 \$	December 31, 2019 \$
Current assets	2,763	27,218
Non-current assets	-	-
Current liabilities	-	-
Revenue	-	-
Loss	(78,456)	(181,501)

**11. 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 board 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:

Mercer Park, L.P. entered into a management agreement with the Corporation dated May 24, 2019. As of September 30, 2020 and December 31, 2019, \$58,083 and \$48,008 was included in prepaid expenses as an advance for these services. Included in expenses for the three and nine months ended September 30, 2020, are management fees of \$1,157,679 and \$3,479,939 that are included in general and administrative expenses and embedded lease fees of \$111,009 and \$304,504 that are included in depreciation and interest expense, respectively. The management fee is paid monthly and varies based on actual costs incurred by the related entity when providing the Corporation administrative support, management services, office space, and utilities. In addition, the management fees pay other corporate or centralized expenses based on actual cost, including but not limited to legal and professional fees, software, and insurance. The agreement is a month-to-month arrangement.

As of September 30, 2020 and December 31, 2019, Mercer Park Brand Acquisition Corp. ("Brand"), a SPAC that has limited services shared with the Corporation, owed to Ayr \$85,000. This amount is included in due from related parties.

During the three and nine months ended September 30, 2020, the Corporation incurred fees from Panther Residential Management, LLC ("Panther"), a company partially owned by a board member of Ayr. The total incurred fees were \$25,500 and \$76,500 of office expenses, \$112,500 and \$337,500 of rental fees, and \$1,062 and \$3,557 of interest expense and \$5,332 and \$15,996 of depreciation related to an office lease, respectively.

During the three and nine months ended September 30, 2020, the Corporation incurred fees from JOCHCO Investments, LLC (JOCHCO), a company owned by certain former owners of Washoe. The total incurred fees are \$34,719 and \$106,399 of interest expense and \$23,773 and \$71,319 of depreciation related to a dispensary lease, respectively.

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**11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Compensation and benefits, included in management fee	656,250	369,148	1,655,000	471,504
Stock-based compensation, non-cash	4,700,795	11,062,444	25,949,556	15,582,582
<b>Total compensation</b>	<b>5,357,045</b>	<b>11,431,592</b>	<b>27,604,556</b>	<b>16,054,086</b>

Refer to Note 12 and 17 for additional information around the debts payable and non-cash stock-based compensation plan and calculation, respectively, for the three and nine months ended September 30, 2020 and 2019.

**12. DEBTS PAYABLE**

	Debts payable \$
As of December 31, 2019	43,995,661
Incurred	-
Less: repayment	(3,282,737)
<b>Total debts payable as of September 30, 2020</b>	<b>40,712,924</b>
<b>Total accrued interest payable related to debts payable as of September 30, 2020</b>	<b>1,894,747</b>

The details of debts payable were as follows:

	September 30, 2020		
	Related party debt \$	Non-related party debt \$	Total debt \$
Principal payments	37,929,745	2,783,179	40,712,924
Less: current portion	8,465,496	443,324	8,908,820
<b>Total non-current debt</b>	<b>29,464,249</b>	<b>2,339,855</b>	<b>31,804,104</b>

The following table presents the future debt obligation as of September 30, 2020:

Future debt obligations (per year)	\$
2020	2,589,809
2021	8,387,312
2022	5,611,722
2023	1,511,532
2024	22,612,549
<b>Total debt obligations</b>	<b>40,712,924</b>

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 that matures on November 10, 2020 with a 5.49% annual interest rate. Total balance assumed was \$13,053.



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**12. DEBTS PAYABLE (Continued)**

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 that matures on October 1, 2020 with a 7% annual interest rate. The assumed loan was amended in June 2020 to mature on February 1, 2021 with a 10% 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 former 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 note was amended in March 2020 to increase the interest rate to 7% in exchange for a three month deferral of principal. 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 former 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 former 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.

Interest expense associated with related party debt payable for the three and nine months ended September 30, 2020 and 2019, was \$594,387 and \$1,816,778, and \$649,792 and \$915,594, respectively.

**13. SHARE CAPITAL**

The authorized share capital of the Corporation is comprised of the following:

*Unlimited number of Subordinate Voting Shares*

- 1 vote per share.
- Class A Restricted Voting Shares were automatically converted into Subordinate Voting Shares on the date of the Qualifying Transaction.
- Trading on the CSE under the symbol "AYR.A" and the OTC under the symbol "AYRSF".

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**13. SHARE CAPITAL (Continued)**

*Unlimited Number of Multiple Voting Shares*

- 25 votes per share.
- Convertible into Subordinate Voting Shares on a one-for-one basis. The shares are mandatorily converted into Subordinate Voting Shares at 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.
- Class B Shares were automatically converted into Multiple Voting Shares on the date of the Qualifying Transaction.
- Not traded on the CSE.

A summary of the outstanding share capital of the Corporation as of September 30, 2020 is comprised of the activity below. Refer to Note 4 for additional information regarding the total shares outstanding as of September 30, 2020. For additional shares reserved for issuance refer to Note 14 for disclosures on the Warrants and make-whole provision as well as Note 17 for stock-based compensation.

*Initial Public Offering*

On December 21, 2017, the Corporation completed its Offering and issued the following:

- 12,500,000 Class A Restricted Voting Units, along with 975,000 Class A Restricted Voting Units granted to the Underwriter, totaling 13,475,000 Class A Restricted Voting Units.
- 3,696,486 Class B Shares to the Sponsor net of transaction costs and forfeitures.

*Qualifying Transaction*

On May 24, 2019, the Corporation completed its Qualifying Transaction. As a result,

- 13,475,000 Class A Restricted Voting Shares, which were previously classified as liabilities, were converted into Subordinate Voting Shares unless redeemed. 1,000 of the Class A Restricted Voting shares were redeemed, reducing the unredeemed Class A Restricted Voting Shares from 13,475,000 to 13,474,000.
- 3,696,486 Class B Shares were converted into Multiple Voting Shares.
- 7,983,887 non-voting Exchangeable Shares of CSAC AcquisitionCo were issued as part of the purchase consideration of the Qualifying Transaction.

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**13. SHARE CAPITAL (Continued)**

*Post Qualifying Transaction*

The following activity occurred subsequent to the Qualifying Transaction:

- 340,200 Subordinate Voting Shares were issued in connection with the exercise of Warrants.
- 389,905 non-voting Exchangeable Shares were issued as part of the make-whole provision liability as of November 20, 2019 and 614,515 non-voting Exchangeable Shares were issued as part of the make-whole provision liability on May 18, 2020.
- 1,222,064 Subordinate Voting Shares were issued in connection with the conversion of 12,220,640 Rights, which were each redeemed for one tenth (1/10) of one Subordinate Voting Share as of September 30, 2020.
- On October 1, 2019, the Corporation commenced a stock repurchase program to purchase up to 5% of the total issued and outstanding Subordinate Voting Shares during each twelve-month period through the facilities of the CSE and other marketplaces. 7,400 Subordinate Voting Shares were repurchased and cancelled, and 63,800 Subordinate Voting Shares were repurchased and are held by the Corporation as treasury shares, under the stock repurchase program as of September 30, 2020.
- 2,940,337 Exchangeable Shares were converted into Subordinate Voting Shares as of September 30, 2020.

As of September 30, 2020, the Corporation had 1,516,548 Rights outstanding which can each be redeemed for one tenth (1/10) of one Subordinate Voting Share, for no additional consideration. During the nine months ended September 30, 2020, the Corporation had 1,623,790 Rights redeemed.

**14. DERIVATIVE LIABILITIES**

**Fair value of Warrants**

As of September 30, 2020 and December 31, 2019, the Corporation had 16,018,858 and 16,060,858, respectively, Warrants issued and outstanding, which are each exercisable, on a one-for-one basis, into Subordinate Voting Shares.

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.

**Warrants - Issued and Outstanding**

	Number #	Amount \$
<b>Balance as of December 31, 2018</b>	<b>16,359,058</b>	<b>23,983,372</b>
Exercise of Warrants	(298,200)	(916,389)
Fair value and foreign currency adjustments		13,807,141
<b>Balance as of December 31, 2019</b>	<b>16,060,858</b>	<b>36,874,124</b>
Exercise of Warrants	(42,000)	(68,224)
Fair value and foreign currency adjustments		28,324,470
<b>Balance as of September 30, 2020</b>	<b>16,018,858</b>	<b>65,130,370</b>

The Warrants' bid price as of September 30, 2020 and December 31, 2019 was \$4.07 (CDN\$5.44) and \$2.30 (CDN\$3.00), respectively.

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**14. DERIVATIVE LIABILITIES (Continued)**

**Make-Whole Provision and Contingent Consideration**

As part of the purchase price of the Qualifying Transaction, the Corporation entered into make-whole provisions relating to the Exchangeable Shares issued. 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. On November 20, 2019, the Corporation issued a total of 389,905 Exchangeable Shares with a value of \$3,245,180 as a partial settlement of the make-whole liability. On May 18, 2020, the Corporation issued the remaining shares related to the make-whole liability, a total of 614,515 Exchangeable Shares with a value of \$3,765,927. As of September 30, 2020 and December 31, 2019, the Corporation revalued the make-whole provision for a value of \$nil and \$3,540,803, respectively, which is included in purchase consideration payable on the interim statements of financial position.

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 fair value of the liability was recorded as \$21,821,132. As of September 30, 2020 and December 31, 2019, the fair value of the contingent consideration was \$23,744,258 and \$22,656,980, respectively.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
(Loss) Gain from FV adjustment on Warrants	(37,842,107)	43,886,295	(28,008,959)	(17,092,093)
Loss from FV adjustment on Class A Restricted Voting Shares	-	(3,458,987)	-	(101,455,740)
Loss from FV adjustment on make-whole provision	-	-	(225,125)	(3,458,987)
Loss from FV adjustment on contingent consideration	(368,102)	-	(1,087,276)	-
<b>Total</b>	<b>(38,210,209)</b>	<b>40,427,308</b>	<b>(29,321,360)</b>	<b>(122,006,820)</b>

**15. 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 periods ended September 30, 2020 and December 31, 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.

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**16. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Public company filing and listing costs	105,058	27,272	196,191	26,112
Compensation and benefits	3,945,958	3,553,444	11,771,087	4,855,012
Rent and utilities	165,876	292,516	726,749	354,027
Taxes and licenses	1,048,704	683,251	2,714,958	887,045
Professional and consulting fees	899,899	1,515,436	2,627,306	1,835,176
Office expenses	435,471	420,481	1,045,870	675,808
Computer, software, and internet expenses	177,709	113,792	568,847	139,198
Bank charges and fees	144,416	76,418	393,608	106,395
Insurance	637,812	528,229	1,565,882	681,810
Security	414,764	281,019	1,108,355	394,093
Management fee	1,157,679	905,334	3,479,939	996,697
Travel, meals, and entertainment	87,577	-	220,483	-
Other	98,994	439,742	665,582	836,809
<b>Total</b>	<b>9,319,917</b>	<b>8,836,934</b>	<b>27,084,857</b>	<b>11,788,182</b>

**17. 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. There were no issuances of vested shares from the Plan as of September 30, 2020 and December 31, 2019.

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, 2020, the Corporation recognized stock-based compensation expense of \$4,700,795 and \$25,949,556 relating to the 2019 issuance of 3,837,150 and 2020 issuance of 400,000 restricted Exchangeable Shares. During the three and nine months ended September 30, 2019, the Corporation recognized a stock-based compensation expense of \$11,062,444 and \$15,582,582 relating to the 2019 issuance of restricted Exchangeable Shares. The stock-based compensation expense is based on the Corporation’s share price on the date of the grant. The restricted Exchangeable Shares vest over a two to three year period. During the three and nine months ended September 30, 2020, there were no forfeitures of Exchangeable Shares.

**18. 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 as of September 30, 2020, 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.

## 18. COMMITMENTS AND CONTINGENCIES (Continued)

### 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. As of September 30, 2020, 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.

### Acquisitions – Definitive Agreements and Term Sheets

#### Massachusetts

On February 26, 2020, the Corporation entered a binding term sheet with Eskar Holdings, LLC, to acquire 100% of the membership interests in Eskar Holdings LLC. Subsequent to the signing of the term sheet, the Corporation entered both a definitive membership interest purchase agreement and purchase and sale agreement. Pursuant to the agreements, the Corporation will be acquiring rights to legally open and operate a adult-use cannabis licensed retail store along with the purchase of the property located in the Town of Watertown, Massachusetts. The Corporation has agreed to pay a purchase price consisting of \$1 million cash and 4% non-voting interest in the net profits of Eskar Holdings, LLC. In addition, for the purchase of the property the Corporation has agreed to pay a purchase price of \$5 million cash. The closing of the acquisition is subject to, among other things, issuance of the Host Community Agreement and regulatory approval.

#### Pennsylvania

On August 25, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in CannTech PA, LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to legally operate six retail dispensaries along with a 143,000 square foot cultivation and production facility. CannTech PA, LLC operates in the medical cannabis market in Pennsylvania. The Corporation has agreed to pay a purchase price consisting of cash, debt, Exchangeable Shares, and other consideration totaling an aggregate value of approximately \$57 million. The purchase price is inclusive of \$2.4 million of bridge financing and a \$600,000 deposit the Corporation has provided to the target company during the three months ended September 30, 2020. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. In addition, the Corporation will on closing receive an option to acquire certain real estate at its fair market value.

On September 30, 2020, the Corporation entered a definitive purchase agreement to acquire 100% of the membership interests in DocHouse LLC. Pursuant to the membership interest purchase agreement, the Corporation will be acquiring rights to operate a grower and processor permit in the medical cannabis market in Pennsylvania. In addition, the real property where the partially completed 38,400 square foot licensed facility is to be operated will be assigned to DocHouse LLC immediately after closing by a related party of DocHouse LLC. The Corporation has agreed to pay a purchase price of cash, deferred cash, debt and Subordinate Voting Shares totaling an aggregate value of approximately \$21 million, which includes the transfer of real property. The purchase price is inclusive of bridge financing up to \$3 million that the Corporation will provide to the target company.

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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**18. COMMITMENTS AND CONTINGENCIES (Continued)**

**Acquisitions – Definitive Agreements and Term Sheets (continued)**

Ohio

On September 20, 2020, the Corporation entered a non-binding term sheet with Copperstate Farms, LLC to acquire 100% of the membership interests in Greenlight Management, LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to exclusively manage the operations of Parma Wellness Center LLC, a recipient of a Tier 1 Cultivator Provisional License in the medical cannabis market in Ohio.

In addition, the Corporation will be acquiring 100% of the membership interests in Greenlight Holdings, LLC which owns the land and building where the 58,000 square foot facility in which the licensed entity operates. The Corporation has agreed to pay a purchase price consisting of cash, an escrow deposit and convertible secured promissory note totaling an aggregate value of \$17 million. The escrow deposit of \$500,000 was paid subsequent to the signing of the term sheet.

On September 30, 2020, the Corporation entered an asset purchase agreement with Vireo Health International, Inc. and its affiliated company, Ohio Medical Solutions, LLC, to acquire a 9,000 square foot medical marijuana processor facility that is licensed as part of the Ohio medical cannabis program. The aggregate purchase price for the assets is approximately \$1.2 million of cash.

The closing for all acquisitions is subject to, among other things, regulatory approval and due diligence. As of September 30, 2020, the acquisitions have not closed.

**19. 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.

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 with unobservable inputs.

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**19. FINANCIAL RISK FACTORS (Continued)**

**(a) Fair Value (continued)**

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.
- 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 of September 30, 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.

	<b>Carrying values</b>		
<b>Financial assets</b>	<b>FVTPL</b>	<b>AC</b>	<b>Total</b>
<b>September 30, 2020</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	23,180,198	-	23,180,198
Deposits	1,158,367	-	1,158,367
Accounts receivable	-	2,929,522	2,929,522
Notes receivable	-	3,000,000	3,000,000
	24,338,565	5,929,522	30,268,087
<b>December 31, 2019</b>			
Cash and cash equivalents	8,403,196	-	8,403,196
Deposits	740,666	-	740,666
Accounts receivable	-	2,621,239	2,621,239
	9,143,862	2,621,239	11,765,101



**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
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**19. FINANCIAL RISK FACTORS (Continued)**

**(a) Fair Value (continued)**

Financial liabilities September 30, 2020	Carrying values		
	FVTPL \$	AC \$	Total \$
Warrant liability	65,130,370	-	65,130,370
Contingent consideration	23,744,258	-	23,744,258
Trade payables	-	7,512,946	7,512,946
Accrued liabilities	-	7,160,365	7,160,365
Accrued interest payable	-	1,894,747	1,894,747
Debts payable	-	40,712,924	40,712,924
	88,874,628	57,280,982	146,155,610
<b>December 31, 2019</b>			
Warrant liability	36,874,124	-	36,874,124
Contingent consideration	22,656,980	-	22,656,980
Make-whole provision	3,540,803	-	3,540,803
Trade payables	-	6,806,053	6,806,053
Accrued liabilities	-	5,123,865	5,123,865
Accrued interest payable	-	815,662	815,662
Debts payable	-	43,995,661	43,995,661
	63,071,907	56,741,241	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 members of the Board of Directors 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.

The Corporation quantified the sensitivity of inputs in relation to the contingent consideration as of September 30, 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	Inputs	Sensitivity	Value at period end	
			September 30, 2020 \$	December 31, 2019 \$
Discount rate	6.3%	Increase 1%	23,407,146	22,169,349
		Decrease 1%	24,092,304	23,161,325

**(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 reputable financial institutions. 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. No ECL has been recorded by the Corporation as all receivables are expected to be collected and are not significant. As of September 30, 2020 and December 31, 2019, the maximum amount exposed to credit risks was \$29,109,720 and \$11,024,435, respectively. The components of accounts receivable as of September 30, 2020 and December 31, 2019 were:

(In \$)	0-30 days	31-90 days	Over 90 days	Total
Balance, as at September 30, 2020	2,775,181	127,391	26,950	2,929,522
Balance, as at December 31, 2019	2,456,226	115,808	49,205	2,621,239

**Ayr Strategies Inc.**  
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**19. FINANCIAL RISK FACTORS (Continued)**

**(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 of September 30, 2020 and December 31, 2019, all trade payables and accrued liabilities are due within a year. Refer to Notes 9 and 12 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 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.

**(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.

As of September 30, 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.) CDN \$	Conversion rate	Sensitivity	Effect on fair value, as at September 30, 2020 \$
Cash and cash equivalents	1,283,828	0.7474	Increase / Decrease 1%	9,595
Warrants	(87,142,588)	0.7474	Increase / Decrease 1%	(651,304)

**Ayr Strategies Inc.**  
**Notes to the Interim Financial Statements**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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## **20. TAXATION**

The Corporation is treated as a United States corporation under section 7874 of the Internal Revenue Code and is expected to be subject to United States federal income tax. However, the Corporation is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the United States. The Corporation is also subject to state income taxation in Massachusetts.

The Corporation's deferred tax liability as of September 30, 2020 and December 31, 2019 was \$45,471,419 and \$41,077,761, respectively. The Corporation has recognized deferred tax liabilities on the acquisition date of \$44,970,332 largely due to the recognition of acquired intangible assets, biological assets and PPE. The deferred tax (expense) recovery during the nine months ended September 30, 2020 and 2019 was (\$4,393,657) and \$2,676,022, respectively.

The Corporation incurred current income tax of \$14,941,568 and \$4,932,991, respectively, for the nine months ended September 30, 2020 and 2019.

## **21. SUBSEQUENT EVENTS**

The Corporation's management has evaluated subsequent events up to November 18, 2020, the date the interim financial statements were issued:

- A)** Subsequent to September 30, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in Blue Camo, LLC, a vertically integrated cannabis business in the state of Arizona (operating under the trade name "Oasis"). Pursuant to the term sheet, the Corporation will be acquiring rights to legally operate three retail dispensaries along with a 10,000 square foot licensed cultivation and processing facility as well as an 80,000 square foot cultivation facility currently under development. The Corporation has agreed to pay upfront consideration of \$81 million consisting of cash, debt and Exchangeable Shares. An additional 2 million Exchangeable Shares may be payable upon the achievement of established cultivation targets. Furthermore, additional earn-out consideration in 2021 and 2022 may be paid in Exchangeable Shares, and is contingent on exceeding financial hurdles in each year, calculated based on a set discount of market multiples (including non-IFRS measures) at the time of the earn out. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. The closing of the acquisition will be subject to, among other things, regulatory approval, customary closing conditions including definitive documentation and the Corporation being satisfied with its due diligence investigations.
- B)** Subsequent to September 30, 2020, 1,140,315 Warrants were exercised on a one-for-one basis for Subordinate Voting Shares, at a price of CDN\$11.50 per share, for total cash proceeds of CDN\$13.1 million.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND NINE MONTHS SEPTEMBER 30, 2020 AND 2019**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

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**Ayr Strategies Inc.**  
**Management's Discussion and Analysis**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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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 and nine months ended September 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 of September 30, 2020 and for the three and nine months ended September 30, 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 nine months ended September 30, 2019 will not be indicative of the results that may be expected for any future period. 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](http://www.sedar.com).

The effective date of this MD&A is November 18, 2020.

## **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 Corporation 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, 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. 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".

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;

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**Management's Discussion and Analysis**  
**For the Three and Nine Months Ended September 30, 2020 and 2019**

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- 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 adult-use 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;
- 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 ability to gain appropriate regulatory approvals for announced acquisitions in the timeframe anticipated;
- 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

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- 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 Corporation 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 income (loss) from operations, as reported, before interest, and tax, and is adjusted to exclude 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.

#### **Description of Business**

Ayr 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, including through operational and service agreements to licensed cannabis companies. The Corporation was previously a SPAC 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 had only one operating segment, cannabis sales, during the period ended September 30, 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.

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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, 26<sup>th</sup> 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 Acquisition Inc. ("CSAC AcquisitionCo"). On May 24, 2019, the Corporation completed its concurrent acquisitions, including through operational and service agreements, 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"). For more information regarding the Qualifying Transaction, view the December 31, 2019 audited consolidated financial statements.

The Corporation's subordinate voting shares ("Subordinate Voting Shares"), warrants ("Warrants"), and rights ("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 United States under the symbol "AYRSF".

#### **Acquisition of Businesses**

On May 24, 2019 (the "acquisition date"), the Corporation completed 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](http://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 considerations. 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 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 Subordinate 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 Subordinate 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 Subordinate Voting Shares (ii) the holders of the Exchangeable Shares are subject to restrictions on transfer under United States 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 (loss) earnings per share.



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

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

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, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, of Washoe, Canopy, and LivFree through separate operational and service agreements. Each operational and service agreement provides Ayr certain rights over the entities' operations. Through these operational and service agreements, Ayr has the power to control relevant activities which affect the returns Ayr receives. As a result of the control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, obtained through the operational and service agreements, these entities are consolidated on Ayr's interim financial statements. As of September 30, 2020, Washoe, Canopy, and LivFree are awaiting state regulatory approval to transfer licenses to Ayr. See Note 3.1 for a breakout of the various management companies.

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

US\$	Livfree \$	Sira \$	Cannapunch \$	Washoe \$	Canopy \$	Total \$
<b>ASSETS ACQUIRED</b>						
Cash and cash equivalents	1,258,928	270,280	7,233	21,458	147,930	<b>1,705,829</b>
Accounts receivable	—	600,151	625,143	87,617	—	<b>1,312,911</b>
Inventory	2,670,057	9,671,814	552,040	4,500,213	1,618,639	<b>19,012,763</b>
Biological assets	—	1,996,642	—	1,763,516	—	<b>3,760,158</b>
Prepaid expenses and other assets	96,157	340,428	—	129,477	160,748	<b>726,810</b>
Intangible assets	105,000,000	57,000,000	2,390,000	22,800,000	10,750,000	<b>197,940,000</b>
Property, plant and equipment	1,640,418	9,090,090	486,100	9,070,645	1,217,736	<b>21,504,989</b>
Right-of-use assets	2,894,076	5,239,201	1,119,826	—	2,057,681	<b>11,310,784</b>
Due from related parties	—	—	—	—	784,733	<b>784,733</b>
Deposits	90,147	149,251	—	91,574	9,983	<b>340,955</b>
<b>Total assets acquired at fair value</b>	<b>113,649,783</b>	<b>84,357,857</b>	<b>5,180,342</b>	<b>38,464,500</b>	<b>16,747,450</b>	<b>258,399,932</b>
<b>LIABILITIES ASSUMED</b>						
Trade payables	387,500	475,193	251,829	506,073	—	<b>1,620,595</b>
Accrued liabilities	1,176,088	970,418	46,972	100,412	520,453	<b>2,814,343</b>
Deferred tax liabilities	25,796,726	13,611,222	567,507	2,153,131	2,841,746	<b>44,970,332</b>
Advance from related parties	187,809	—	—	784,733	—	<b>972,542</b>
Lease obligations	2,520,437	6,514,038	1,083,189	—	2,553,502	<b>12,671,166</b>
Debts payable	120,000	13,054	—	9,180,808	421,128	<b>9,734,990</b>
<b>Total liabilities assumed at fair value</b>	<b>30,188,560</b>	<b>21,583,925</b>	<b>1,949,497</b>	<b>12,725,157</b>	<b>6,336,829</b>	<b>72,783,968</b>
Goodwill	39,779,584	16,399,143	13,971,953	8,121,569	6,565,055	<b>84,837,304</b>
<b>Calculated purchase price</b>	<b>123,240,807</b>	<b>79,173,075</b>	<b>17,202,798</b>	<b>33,860,912</b>	<b>16,975,676</b>	<b>270,453,268</b>

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 "CGUs") 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.

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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)
<b>Total</b>		<b>1,885,606</b>	<b>79,173,075</b>

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 in the form of cash consideration;
- ii. \$5.0 million of the Sira purchase price in the form of a promissory note payable;
- iii. \$29.2 million of the Sira purchase price 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 "Sira 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 facilities 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. On August 31, 2020, the outstanding balance of \$6,091,357 was further amended to adopt a monthly payment schedule ranging from 10-25 months based on certain milestones.

**Canopy Acquisition**

Canopy is an owner and operator of cannabis dispensaries in Nevada, with an established footprint in Reno, Nevada. Canopy operates its dispensaries in both the medical and adult-use 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)
<b>Total</b>		<b>265,360</b>	<b>16,975,676</b>

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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 in the form of cash consideration;
- ii. \$4.5 million of the Canopy purchase price in the form of a promissory note payable;
- iii. \$4.3 million of the Canopy purchase price 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 "Canopy Lock-Up Provision");
- iv. An additional 15,360 Exchangeable Shares to Canopy pursuant to certain make-whole provisions (the "Canopy Make-Whole Provisions");
- v. An additional 432,940 Exchangeable Shares 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 of 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
<b>Total</b>		<b>270,000</b>	<b>33,860,912</b>

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 in the form of cash consideration;
- ii. \$5.6 million of the Washoe purchase price in the form of a promissory note payable;
- iii. \$4.3 million of the Washoe purchase price 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 "Washoe Lock-Up Provision");
- iv. Pursuant to the terms of the Washoe Agreement, 13,636 Exchangeable Shares to a Washoe lender;

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- v. An additional 571,479 Exchangeable Shares 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 of 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.

**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 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
<b>Total</b>		<b>4,664,182</b>	<b>123,240,807</b>

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 in the form of cash consideration;
- ii. \$20.0 million of the LivFree purchase price in the form of a promissory note payable;
- iii. \$69.1 million of the LivFree purchase price 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 "LivFree Lock-Up Provision");
- iv. \$4.4 million of the LivFree purchase price, 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 possesses trade name and brand value and extracts raw cannabis plant material through a license agreement to create processed cannabis oil for use in vaporizer cartridges and pens or as an input into other infused products, as well as manufactures a variety of cannabis-infused products, including beverages, gummies, chocolates, CBD cream, and vaporizer pens.

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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
<b>Total</b>		<b>898,739</b>	<b>17,202,798</b>

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 in the form of cash consideration;
- ii. \$2.0 million of the CannaPunch purchase price in the form of a promissory note payable;
- iii. \$13.7 million of the CannaPunch purchase price 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 "CannaPunch Lock-Up Provision", and collectively with the Sira Lock-Up Provision, Canopy Lock-Up Provision, Washoe Lock-Up Provision and LivFree Lock-Up Provision, the "Lock-Up Provisions", and each, a "Lock-Up Provision");
- iv. \$0.4 million of the CannaPunch purchase price, 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. As of September 30, 2020, there are no such indicators that would necessitate a formal impairment assessment.

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## **Outlook**

### **Current Markets**

#### *Massachusetts*

In Massachusetts, Sira is vertically integrated with cultivation, extraction, production, manufacturing, distribution, and medical retail dispensary operations. Sira's retail and wholesale products include premium cannabis flower and cannabis products, including concentrates, edibles, and vaporizer products. Its top branded products include Entourage vape pens, Wicked Sour gummies, Jimmy's Choice flower, Nantucket Nuggets flower, and Root 90 flower. The Corporation sells cannabis products at its medical dispensaries and is actively seeking licenses to operate adult-use cannabis retail establishments. For the latest updates on the adult-use retail market refer to the "Recent Developments" section.

Sira currently operates two state of the art facilities encompassing approximately 50,000 square feet of cultivation and production space. Sira is currently selling to 60 of the state's 81 adult-use dispensary locations, representing a 74% market penetration. According to BDS Analytics, from January to August 2020, the Sira Naturals brand was the top selling product brand represented in the state.

#### *Nevada*

In Nevada, Ayr provides operational services to licensed Nevada establishments engaging in retail, cultivation, production, and distribution operations in Nevada, under Services and Operations Agreements. Ayr provides operational services to some of the most productive dispensaries in Nevada, with five dispensaries licensed to sell in both the medical and adult-use markets in Nevada. Three of the dispensaries operate under the name "The Dispensary" with retail operations in the Greater Las Vegas markets (Clark County and Henderson, Nevada) as well as Reno, Nevada, with annualized sales averaging over \$5,000 per square foot. The two remaining dispensaries are operating under the MYNT brand, with retail operations in Unincorporated Washoe County and Reno, Nevada, with annualized sales averaging over \$3,000 per square foot.

The licensed cultivation and production facilities to which Ayr provides operational services produce premium cannabis products over 70,000 square feet of cultivation and production space. The top branded products in Nevada include Kynd flower, Tumbleweed vape pens, Sun Valley extracts, CannaPunch beverages, Highly Edible and Kanji gummies, Dutch Girl edibles, and Nordic Goddess balm. In Nevada, the licensed establishments to which Ayr provides operational support, sell their branded products through the wholesale channel as well as the five dispensaries referenced above.

#### *Brand Strategy*

The level of products and brands across Ayr's portfolio allows customers and patients the ability to select from a wide-ranging selection of high-quality products. By sharing brands across Nevada and Massachusetts, Ayr has expanded the variety offered to customers and patients while expanding brand visibility. The Corporation maintains strict brand and quality assurance standards and implements standard operating procedures across its cultivation and production facilities to ensure product continuity and customer experiences across operating markets. This includes the centrally managed procurement of equipment and supplies.

### **Future Markets**

Ayr leverages its human capital to drive improvements across all portfolios and divisions of the company. These synergies have driven Ayr's operational success. Building on the operational excellence, Ayr plans on bringing its winning strategy to capitalize on expansion opportunities.

The Corporation's business strategy is to evaluate each market opportunity pursuant to the relevant local competitive and regulatory landscape, supply/demand dynamics, and growth potential. The Corporation evaluates the economic viability of each opportunity before making capital allocation decisions and may decide to participate in one or more facets of the supply chain based on the dynamics mentioned above. The Corporation targets best-in-class assets in relevant markets with large addressable populations in limited license states that are either currently or soon expected to be approved for adult-use. By establishing a substantial presence in markets that have the greatest growth potential, the Corporation expects to be well-positioned to have a first-mover advantage for future growth in adult-use cannabis as the market continues to expand.

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The Corporation plans to implement its growth strategy by targeting acquisition opportunities in limited license jurisdictions, applying for de novo licenses and expanding its presence in current markets.

#### **COVID-19 Strategy**

During the pandemic, the Corporation was able to maintain operations and expand delivery options and curbside pick-up in both Massachusetts and Nevada to provide additional fulfillment models that are safe and efficient for employees and customers. Although cannabis has generally been deemed an 'essential business' throughout the pandemic in the United States, the regulators in Massachusetts and Nevada, were among the few nationwide to place material restrictions on cannabis sales. In Nevada, cannabis sales were limited to delivery only beginning March 21, 2020, with curbside pick-up approved on May 1, 2020 and in-store sales returning on May 9, 2020. In Massachusetts, adult-use cannabis sales were restricted from March 24, 2020 through May 25, 2020. The Corporation continues to generate operating cash flows to meet its short-term liquidity needs. While an impairment test has not been performed, management has not observed any indicators of impairment to assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

The Corporation evaluated risk of supply chain disruption as well as staffing disruption. While Ayr has not experienced any failure to secure critical supplies or services, future disruptions in the supply chain are possible and may significantly increase cost or delay production time. To mitigate this risk, bulk orders are being placed in advance with key vendors. To remediate the risk of staffing disruption, the Corporation implemented new safety procedures in accordance with the guidance of the CDC, at all locations to better protect the health and safety of both employees and customers. These changes include but are not limited to required face masks for employees and customers, installed plexi-shields in customer facing areas, frequent cleaning and sanitizing of surfaces and workstations and adequate spacing of staff and customers. The Corporation is re-assessing its response to the COVID-19 pandemic on an ongoing basis. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact of these developments on all aspects of the business.

#### **Recent Developments**

##### *Massachusetts*

Sira has received Host Community Agreement ("HCA") approvals for all three of our Greater Boston locations in October, which include Somerville and new locations in Watertown and the Back Bay in Boston. This development is a critical step required to open adult-use retail stores in 2021.

Following unanimous approval of the Town Council, on October 20, 2020, Sira successfully executed an HCA with the Town of Watertown approving the Company to operate co-located medical and adult-use sales.

On October 9, 2020, the City of Somerville Marijuana Advisory Committee recommended Sira be offered an HCA with the city of Somerville to co-locate an adult-use dispensary with Sira's existing medical-use dispensary in Davis Square, a popular neighborhood in the city of Somerville.

On November 16, 2020, Sira fully executed an HCA with the City of Boston's Cannabis Board to operate an adult-use dispensary at 829 Boylston Street in Boston.



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*Nevada*

At a meeting of the Nevada Cannabis Compliance Board on August 25, 2020, LivFree Wellness, LLC ("LivFree"), and entity to whom Ayr provides administrative, consulting and operations services, was awarded two (2) additional dispensary licenses in the greater Las Vegas market, one (1) in Clark County and one (1) in Henderson, and aims to open the additional Clark County dispensary this year. The City of Henderson currently has a moratorium on new dispensaries.

**Acquisitions – Definitive Agreements and Term Sheets**

Massachusetts

On February 26, 2020, the Corporation entered a binding term sheet with Eskar Holdings, LLC, to acquire 100% of the membership interests in Eskar Holdings LLC. Subsequent to the signing of the term sheet, the Corporation entered both a definitive membership interest purchase agreement and purchase and sale agreement. Pursuant to the agreements, the Corporation will be acquiring rights to legally open and operate a adult-use cannabis licensed retail store along with the purchase of the property located in the Town of Watertown, Massachusetts. The Corporation has agreed to pay a purchase price consisting of \$1 million cash and 4% non-voting interest in the net profits of Eskar Holdings, LLC. In addition, for the purchase of the property, the Corporation has agreed to pay a purchase price of \$5 million cash. The closing of the acquisition is subject to, among other things, issuance of the Host Community Agreement and regulatory approval.

Pennsylvania

On August 25, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in CannTech PA, LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to legally operate six retail dispensaries along with a 143,000 square foot cultivation and production facility. CannTech PA, LLC operates in the medical cannabis market in Pennsylvania. The Corporation has agreed to pay a purchase price consisting of cash, debt, Exchangeable Shares, and other consideration totaling an aggregate value of approximately \$57 million. The purchase price is inclusive of \$2.4 million of bridge financing and a \$600,000 deposit the Corporation has provided to the target company during the three months ended September 30, 2020. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. In addition, the Corporation will on closing receive an option to acquire certain real estate at its fair market value.

On September 30, 2020, the Corporation entered a definitive purchase agreement to acquire 100% of the membership interests in DocHouse LLC. Pursuant to the membership interest purchase agreement, the Corporation will be acquiring rights to operate a grower and processor permit in the medical cannabis market in Pennsylvania. In addition, the real property where the partially completed 38,400 square foot licensed facility is to be operated will be assigned to DocHouse LLC immediately after closing by a related party of DocHouse LLC. The Corporation has agreed to pay a purchase price of cash, deferred cash, debt and Subordinate Voting Shares totaling an aggregate value of approximately \$21 million, which includes the transfer of real property. The purchase price is inclusive of bridge financing up to \$3 million that the Corporation will provide to the target company.

Ohio

On September 20, 2020, the Corporation entered a non-binding term sheet with Copperstate Farms, LLC to acquire 100% of the membership interests in Greenlight Management, LLC. Pursuant to the term sheet, the Corporation will be acquiring rights to exclusively manage the operations of Parma Wellness Center LLC, a recipient of a Tier 1 Cultivator Provisional License in the medical cannabis market in Ohio.

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In addition, the Corporation will be acquiring 100% of the membership interests in Greenlight Holdings, LLC which owns the land and building where the 58,000 square foot facility in which the licensed entity operates. The Corporation has agreed to pay a purchase price consisting of cash, an escrow deposit and convertible secured promissory note totaling an aggregate value of \$17 million. The escrow deposit of \$500,000 was paid subsequent to the signing of the term sheet.

On September 30, 2020, the Corporation entered an asset purchase agreement with Vireo Health International, Inc. and its affiliated company, Ohio Medical Solutions, LLC, to acquire a 9,000 square foot medical marijuana processor facility that is licensed as part of the Ohio medical cannabis program. The aggregate purchase price for the assets is approximately \$1.2 million of cash.

*Arizona*

Subsequent to September 30, 2020, the Corporation entered a binding term sheet to acquire 100% of the membership interests in Blue Camo, LLC, a vertically integrated cannabis business in the state of Arizona (operating under the trade name "Oasis"). Pursuant to the term sheet, the Corporation will be acquiring rights to legally operate three retail dispensaries along with a 10,000 square foot licensed cultivation and processing facility as well as an 80,000 square foot cultivation facility currently under development. The Corporation has agreed to pay upfront consideration of \$81 million consisting of cash, debt and Exchangeable Shares. An additional 2 million Exchangeable Shares may be payable upon the achievement of established cultivation targets. Furthermore, additional earn-out consideration in 2021 and 2022 may be paid in Exchangeable Shares, and is contingent on exceeding financial hurdles in each year, calculated based on a set discount of market multiples (including non-IFRS measures) at the time of the earn out. The term sheet is a binding agreement with respect to the terms and conditions and intended to serve as an outline of the proposed principal terms and conditions to be included in the final membership interest purchase agreement documents. The closing of the acquisition will be subject to, among other things, regulatory approval, customary closing conditions including definitive documentation and the Corporation being satisfied with its due diligence investigations.

The closing for all acquisitions is subject to, among other things, regulatory approval and due diligence. As of September 30, 2020, the acquisitions have not closed.

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*Adjusted EBITDA Reconciliation for the Three and Nine Months Ended September 30, 2020 and 2019*

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Income (Loss) from operations	22,013,737	(10,734,451)	18,169,432	(20,568,955)
<b>Non-cash items accounting for biological assets and inventory</b>				
Fair value adjustment on sale of inventory	4,844,505	8,736,926	21,176,075	13,433,398
Unrealized gain on biological asset transformation	(18,242,342)	(5,862,775)	(44,574,730)	(8,342,578)
	(13,397,837)	2,874,151	(23,398,655)	5,090,820
Interest	262,602	—	728,793	—
Depreciation and amortization (from statement of cash flows)	4,644,067	4,159,252	13,419,383	5,798,503
Acquisition costs	557,457	968,580	1,054,766	5,123,661
Stock-based compensation expense, non-cash	4,700,795	11,062,444	25,949,556	15,582,582
Other non-operating <sup>1</sup>	487,105	320,567	907,569	633,368
	10,652,026	16,510,843	42,060,067	27,138,114
<b>Adjusted EBITDA (non-IFRS)</b>	<b>19,267,926</b>	<b>8,650,543</b>	<b>36,830,844</b>	<b>11,659,979</b>

Notes:

<sup>1</sup> Other non-operating adjustments made to exclude the impact of non-recurring items.

**Review of the Financial Results for the Three and Nine Months Ended September 30, 2020 and 2019**

*Selected Financial Information*

(\$ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Revenues, net of discounts	45.5	32.1	107.4	42.9
Cost of goods sold before biological asset adjustments	(18.1)	(14.9)	(46.3)	(19.9)
Gross profit before fair value adjustments	27.4	17.2	61.1	23.1
Fair value adjustment on sale of inventory	(4.8)	(8.7)	(21.2)	(13.4)
Unrealized gain on biological asset transformation	18.2	5.9	44.6	8.3
Gross profit	40.8	14.3	84.5	18.0
Total expenses	(18.7)	(25.1)	(66.3)	(38.5)
Income (Loss) from operations	22.0	(10.7)	18.2	(20.6)
Total other (expense) income	(39.1)	38.7	(31.6)	(123.9)
(Loss) Income before income tax	(17.1)	27.9	(13.4)	(144.5)
Provision for income taxes	(9.7)	(1.8)	(19.3)	(2.3)
Net (loss) income	(26.8)	26.2	(32.8)	(146.7)
Foreign currency translation adjustment	(1.4)	0.3	(0.4)	(0.6)
Net (loss) income and comprehensive (loss) income	(28.2)	26.4	(33.2)	(147.3)

*Revenue*

Revenue was \$45.5 million and \$32.1 million, respectively, increasing \$13.4 million or 42%, for the three months ended September 30, 2020 and 2019. The increase in revenue was driven by organic growth and completed cultivation expansions in each of the two existing markets. Revenue increases were a result of operational excellence in both states, with a focus on data driven key performance indicators (KPI's) and sharpening standard operating procedures (SOP's), resulting in substantial improvements to the business.

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In Massachusetts, the wholesale market experienced gains as revenue increased \$4 million over the comparable quarters due to the strong sales pipeline as well as the successful cultivation expansion completed in the second quarter of 2020, resulting in more sellable inventory. Massachusetts retail revenue increased \$2.2 million over the prior year quarter. This significant increase was driven by an improvement in the quantity and quality of flower demonstrated by consistent yields with THC averages of 25%+ along with the launch of new product brands such as "Entourage" and "Wicked Sour". In Nevada, substantial retail gains of \$7.4 million were driven by a more efficient and modern ordering platform as well as additional fulfillment options including delivery and curbside pickup. In addition, Nevada continued to source the highest quality products for their shelves from both internal and externally procured products.

Revenue was \$107.4 million and \$42.9 million, respectively, increasing \$64.4 million or 150%, for the nine months ended September 30, 2020 and 2019. This increase was due to the comments above and a full period of operations in 2020 as compared to only eighteen weeks of operations in 2019 as the Qualifying Transaction occurred in May 2019.

*Gross Profit Before Fair Value Adjustments*

Gross profit before the fair value adjustments was \$27.4 million and \$17.2 million, respectively, increasing \$10.2 million or 59%, for the three months ended September 30, 2020 and 2019. Gross profit percentage before the biological asset adjustment for the three months ended September 30, 2020 and 2019 was 60.1% and 53.6%, respectively. The improvement was due to the increase of internally sourced product sold through the Corporation's retail channels in Nevada. In addition, the cultivation expansions also led to operating leverage driving cultivation costs down.

Gross profit before the fair value adjustments was \$61.1 million and \$23.1 million, respectively, increasing \$38.0 million or 165%, for the nine months ended September 30, 2020 and 2019. This increase was due to a full period of operations in 2020 as compared to only eighteen weeks of operations in 2019 as the Qualifying Transaction occurred in May 2019.

*Gross Profit*

Gross profit for the three months ended September 30, 2020 and 2019 was \$40.8 million and \$14.3 million, respectively, an increase of \$26.4 million. Fluctuations are due to the change in fair value adjustments in inventory including biological asset transformation.

Gross profit for the nine months ended September 30, 2020 and 2019 was \$84.5 million and \$18.0 million, respectively, an increase of \$66.5 million. This increase was due to a full period of operations in 2020 as compared to only eighteen weeks of operations in 2019 as the Qualifying Transaction occurred in May 2019.

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.

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*Total Expenses*

Total expenses were \$18.7 million and \$25.1 million, respectively, decreasing \$6.3 million or 25%, for the three months ended September 30, 2020 and 2019. \$6.4 million of the decrease in expense is due to a reduction in non-cash stock-based compensation of \$6.4 million. Non-cash stock-based compensation is based on the Corporation's share price on the date of the grant and are expensed straight-line over the vesting period. Total expenses as a percent of revenue during the three months ended September 30, 2020 and 2019, were 41% and 78%, respectively. During the three months ended September 30, 2020 and 2019, total expenses excluding non-cash stock-based compensation were flat period over period and were 31% and 44%, respectively, of revenue.

Total expenses were \$66.3 million and \$38.5 million, respectively, increasing \$27.8 million or 72%, for the nine months ended September 30, 2020 and 2019. This change was due to a full period of operations in 2020 as compared to only eighteen weeks of operations in 2019 as the Qualifying Transaction occurred in May 2019.

*Total Other (Expense) Income*

Total other (expense) income for the three months ended September 30, 2020 and 2019 was (\$39.1) million and \$38.7 million, respectively. This change was primarily driven by the changes in fair value of financial liabilities due to the fluctuation in share price of Ayr's publicly traded warrants.

Total other (expense) income for the nine months ended September 30, 2020 was (\$31.6) million and (\$123.9) million, respectively. This change was primarily driven by the changes in fair value of financial liabilities due to the fluctuation in share price of Ayr's publicly traded shares and warrants.

*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 period-end. The deferred tax is mainly driven by changes in the amortization of intangibles and fair value adjustments to inventory including biological assets.

Total income tax expense for the three months ended September 30, 2020 and 2019 was \$9.7 million and \$1.8 million, respectively. The current tax expense was \$6.7 million and \$3.5 million, respectively, for the three months ended September 30, 2020 and 2019. The increase in current tax expense was driven by operational improvements resulting in an increase in taxable income. The deferred tax (expense) recovery was (\$3.0) million and \$1.7 million, respectively, for the three months ended September 30, 2020 and 2019.

Total income tax expense for the nine months ended September 30, 2020 and 2019 was \$19.3 million and \$2.3 million, respectively. The current tax expense was \$14.9 million and \$4.9 million, respectively, for the nine months ended September 30, 2020 and 2019. The deferred tax (expense) recovery was (\$4.4) million and \$2.7 million, respectively, for the nine months ended September 30, 2020 and 2019. This change was due to a full period of operations in 2020 as compared to only eighteen weeks of operations in 2019 as the Qualifying Transaction occurred in May 2019.

*Net (Loss) Income*

Net (loss) income for the three months ended September 30, 2020 and 2019 was (\$26.8) million and \$26.2 million, respectively. The decrease was primarily driven by the factors described above.

Net (loss) income for the nine months ended September 30, 2020 and 2019 was (\$32.8) million and (\$146.7) million. The decrease was primarily driven by the factors described above, specifically total other expense (income).

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**Liquidity and Capital Resources as of September 30, 2020**

*Selected Liquidity and Capital Resource Information*

(\$ in millions)	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Cash and cash equivalents	23.2	8.4
Total current assets	75.7	29.9
Total assets	395.9	355.1
Total current liabilities	49.5	34.7
Total long-term liabilities	181.0	151.8
Total liabilities	230.6	186.5
Total shareholders' equity (deficiency)	165.4	168.6

As of September 30, 2020, the Corporation had cash and cash equivalents of \$23.2 million, other current assets of \$52.5 million, current liabilities of \$49.5 million, and working capital of \$26.2 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 overall increase in net working capital is due to the company generating positive cash flow from operations as well as the increase in inventory due to the cultivation expansions in Massachusetts and Nevada.

The Corporation, post 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 acquisitions.

*Selected Cash Flow Information*

(\$ in millions)	Nine Months Ended September 30,	
	2020	2019
Net cash provided by (used in) operating activities	29.3	(0.4)
Net cash (used in) provided by investing activities	(10.4)	13.4
Net cash (used in) provided by financing activities	(4.1)	0.6
Net increase in cash and cash equivalents	14.8	13.6
Effect of foreign currency translation	0.0	1.0
Cash and cash equivalents, beginning of period	8.4	0.1
Cash and cash equivalents, end of period	23.2	14.7

*Operating Activities*

Net cash provided by (used in) operating activities during the periods ended September 30, 2020 and 2019 was \$29.3 million and (\$0.4) million, respectively, an increase of \$29.7 million. The increase in net cash provided by operating activities was driven by a full period of operations in 2020 as compared to only eighteen weeks of operations in 2019 as the Qualifying Transaction occurred in May 2019. Furthermore, improved operational performance led to an increase in net cash provided by operating activities. This was driven by the increase in gross profit before fair value adjustments percentage as well as the decrease in total expenses as a percentage of revenue.

*Investing Activities*

Net cash (used in) provided by investing activities during the periods ended September 30, 2020 and 2019 was (\$10.4) million and \$13.4 million, respectively, a decrease of \$23.7 million. The cash used during the current period was due primarily to the purchase of property, plant, and equipment while the increase in the previous period is due to the transfer of restricted cash in escrow due to the close of the Qualifying Transaction.

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*Financing Activities*

Net cash (used in) provided by financing activities during the periods ended September 30, 2020 and 2019 was (\$4.1) million and \$0.6 million, respectively, a decrease of \$4.7 million. 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 September 30, 2020 and December 31, 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.

Share Capital

As of September 30, 2020 and December 31, 2019, the Corporation had share capital of \$386.5 million and \$382.2 million, respectively. The share capital as of September 30, 2020 was comprised of \$1.8 million from Multiple Voting Shares, \$298.4 million from Subordinate Voting Shares, and \$86.2 million from Exchangeable Shares, while the share capital as of 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

	September 30, 2020	December 31, 2019
<u>Issued and outstanding</u>		
Multiple Voting Shares	3,696,486	3,696,486
Subordinate Voting Shares	17,969,201	14,824,485
Exchangeable Shares	6,047,970	8,373,792
Treasury stock	(63,800)	(29,500)
<b>Total number of shares</b>	<b>27,649,857</b>	<b>26,865,263</b>

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As of September 30, 2020, the Corporation had 16,018,858 Subordinate Voting Shares issuable upon the exercise of Warrants, 4,237,150 restricted Exchangeable Share units, and 151,655 Subordinate Voting Shares issuable upon the exercise of rights reserved for issuance. As of 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 of September 30, 2020, the Corporation had working capital of \$26.2 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	695,372	2,589,809	3,285,181
2021	2,435,091	8,387,312	10,822,403
2022	2,337,060	5,611,722	7,948,782
2023	2,386,671	1,511,532	3,898,203
2024	2,379,337	22,612,549	24,991,886
Thereafter	16,202,767	—	16,202,767
<b>Total Commitments</b>	<b>26,436,298</b>	<b>40,712,924</b>	<b>67,149,222</b>

#### 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 definitive agreements and term sheets referenced in Note 18 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 board 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:

Mercer Park, L.P. entered into a management agreement with the Corporation dated May 24, 2019. As of September 30, 2020 and December 31, 2019, \$58,083 and \$48,008 was included in prepaid expenses as an advance for these services. Included in expenses for the three and nine months ended September 30, 2020, are management fees of \$1,157,679 and \$3,479,939 that are included in general and administrative expenses and embedded lease fees of \$111,009 and \$304,504 that are included in depreciation and interest expense, respectively. The management fee is paid monthly and varies based on actual costs incurred by the related entity when providing the Corporation administrative support, management services, office space, and utilities. In addition, the management fees pay other corporate or centralized expenses based on actual cost, including but not limited to legal and professional fees, software, and insurance. The agreement is a month-to-month arrangement.

As of September 30, 2020 and December 31, 2019, Mercer Park Brand Acquisition Corp. ("Brand"), a SPAC that has limited services shared with the Corporation, owed to Ayr \$85,000. This amount is included in due from related parties.

During the three and nine months ended September 30, 2020, the Corporation incurred fees from Panther Residential Management, LLC ("Panther"), a company partially owned by a board member of Ayr. The total incurred fees were \$25,500 and \$76,500 of office expenses, \$112,500 and \$337,500 of rental fees, and \$1,062 and \$3,557 of interest expense and \$5,332 and \$15,996 of depreciation related to an office lease, respectively.



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During the three and nine months ended September 30, 2020, the Corporation incurred fees from JOCHCO Investments, LLC (JOCHCO), a company owned by certain former owners of Washoe. The total incurred fees are \$34,719 and \$106,399 of interest expense and \$23,773 and \$71,319 of depreciation related to a dispensary lease, respectively.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	\$	\$	\$	\$
Compensation and benefits, included in management fee	656,250	369,148	1,655,000	471,504
Stock-based compensation, non-cash	4,700,795	11,062,444	25,949,556	15,582,582
<b>Total compensation</b>	<b>5,357,045</b>	<b>11,431,592</b>	<b>27,604,556</b>	<b>16,054,086</b>

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 of September 30, 2020 was \$37,929,745. 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:

<b>Three Months Ended</b>	<b>Net Revenues</b>	<b>Net (Loss) Income</b>	<b>(Loss) Earnings per Share<sup>1</sup></b>
September 30, 2020	45,486,365	(26,792,975)	(0.96)
June 30, 2020	28,310,633 <sup>2</sup>	(7,513,708)	(0.28)
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	0.99
June 30, 2019	10,823,206	(35,785,825) <sup>4</sup>	(2.18) <sup>4</sup>
March 31, 2019	—	(137,110,163) <sup>3,4</sup>	(37.09) <sup>4</sup>
December 31, 2018	—	(44,613,609) <sup>3</sup>	(12.07)

Notes:

<sup>1</sup> Per share amounts are rounded to the nearest cent, therefore, aggregating quarterly amounts may not reconcile to year-to-date per share amounts. Amounts are calculated using basic weighted average number of shares outstanding.

<sup>2</sup> Revenue for the three months ended June 30, 2020 decreased from the prior quarter due to COVID-related closures in April and May.

<sup>3</sup> 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 June 30, 2019, variations in the quarterly net (loss) income were caused by fluctuations in the net unrealized (loss) gain on changes in the fair value of financial liabilities, transaction costs and general and administrative expense. Fluctuations in the net unrealized (loss) gain 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.

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<sup>4</sup> Due to the reclassification disclosed on Note 3.22 on the interim financial statements for the periods ended June 30, 2020 and 2019, net loss and loss per share were affected by a reclassification between foreign exchange and foreign currency.

**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 judgments 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 judgments 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 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 (loss) income.

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.

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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 CGUs for purposes of testing for impairment of goodwill and intangible assets. The Corporation's estimate of CGUs or a group of CGUs 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*

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 judgments and estimates.

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*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 (loss) income and comprehensive (loss) income.

*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 end.

*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 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.

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**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, 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 19 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.
- 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 of September 30, 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

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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.

Carrying values			
Financial assets	FVTPL	AC	Total
September 30, 2020	\$	\$	\$
Cash and cash equivalents	23,180,198	–	23,180,198
Deposits	1,158,367	–	1,158,367
Accounts receivable	–	2,929,522	2,929,522
Notes receivable	–	3,000,000	3,000,000
	24,338,565	5,929,522	30,268,087
<b>December 31, 2019</b>			
Cash and cash equivalents	8,403,196	–	8,403,196
Deposits	740,666	–	740,666
Accounts receivable	–	2,621,239	2,621,239
	9,143,862	2,621,239	11,765,101
<b>Financial liabilities</b>			
	FVTPL	AC	Total
September 30, 2020	\$	\$	\$
Warrant liability	65,130,370	–	65,130,370
Contingent consideration	23,744,258	–	23,744,258
Trade payables	–	7,512,946	7,512,946
Accrued liabilities	–	7,160,365	7,160,365
Accrued interest payable	–	1,894,747	1,894,747
Debts payable	–	40,712,924	40,712,924
	88,874,628	57,280,982	146,155,610
<b>December 31, 2019</b>			
Warrant liability	36,874,124	–	36,874,124
Contingent consideration	22,656,980	–	22,656,980
Make-whole provision	3,540,803	–	3,540,803
Trade payables	–	6,806,053	6,806,053
Accrued liabilities	–	5,123,865	5,123,865
Accrued interest payable	–	815,662	815,662
Debts payable	–	43,995,661	43,995,661
	63,071,907	56,741,241	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 members of the Board of Directors 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.

The Corporation quantified the sensitivity of inputs in relation to the contingent consideration as of September 30, 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	Inputs	Sensitivity	Value at period end	
			September 30, 2020	December 31, 2019
			\$	\$
		Increase 1%	23,407,146	22,169,349
Discount rate	6.3%	Decrease 1%	24,092,304	23,161,325

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*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 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. No ECL has been recorded by the Corporation as all receivables are expected to be collected and are not significant. As of September 30, 2020 and December 31, 2019, the maximum amount exposed to credit risks was \$29,109,720 and \$11,024,435, respectively. The components of accounts receivable as of September 30, 2020 and December 31, 2019 were:

	(In \$)	0-30 days	31-90 days	Over 90 days	Total
Balance, as at September 30, 2020		2,775,181	127,391	26,950	2,929,522
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 of September 30, 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.

As of September 30, 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.) CDN \$	Conversion rate	Sensitivity	Effect on fair value, as at September 30, 2020 \$
Cash and cash equivalents	1,283,828	0,7474	Increase / Decrease 1%	9,595
Warrants	(87,142,588)	0,7474	Increase / Decrease 1%	(651,304)

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**Federal Regulatory Environment**

The federal government of the United States regulates controlled substances through the Controlled Substances Act (CSA), which places controlled substances on one of five schedules. Currently, marijuana is classified as a Schedule I controlled substance. A Schedule I controlled substance means the Drug Enforcement Agency considers it to have a high potential for abuse, no accepted medical treatment, and a lack of accepted safety for the use of it even under medical supervision. Overall, the United States federal government has specifically reserved the right to enforce federal law regarding the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by State law. Accordingly, there are a number of significant risks associated with the business of the Corporation and unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.

The Corporation's operations, to the Corporation's knowledge, are in compliance with applicable State laws, regulations and licensing requirements. Additionally, the Corporation uses the same proprietary, best-practices policies and procedures in its managed facilities as in its owned facilities in order to ensure systematic operations and, as such, to the Corporation's knowledge, the facilities that the Corporation operates are in compliance with applicable State laws, regulations and licensing requirements. Nonetheless, for the reasons described above and risks described under the "Cautionary Note Regarding Forward-Looking Information", but not limited to these reasons, there are significant risks associated with the business of the Corporation. Readers are strongly encouraged to carefully read all the risk factors contained in this Prospectus and the documents incorporated herein by reference.

On December 20, 2018, the U.S. Agriculture Improvement Act of 2018 (the "2018 Farm Bill") became law. The law legalizes hemp as an agricultural commodity by removing hemp, its derivatives, cannabinoids, and extracts (including CBD and any part of the cannabis plant which contains 0.3% THC or less on a dry weight basis) from the list of controlled substances in the U.S. Controlled Substances Act.<sup>1</sup> Each State can now develop a plan for the regulation of hemp production, which will be administered subject to the approval and oversight of the United States Department of Agriculture ("USDA"). The USDA will also develop its own regulatory scheme, which will govern in any State that does not develop its own approved regulatory plan. With the passage of the 2018 Farm Bill, hemp and its derivatives cultivated and produced in compliance with federal and state laws and regulations are now legal. However, cultivation is still subject to serious restrictions that, ultimately, may vary greatly between different jurisdictions.

The following sections entitled "– Nevada" and "– Massachusetts" and "– Pennsylvania" describe the legal and regulatory landscape in respect of the States in which the Corporation currently operates, in the cases of Nevada and Massachusetts, and where it intends to operate, in the case of Pennsylvania.

While the Corporation's compliance controls have been developed to mitigate the risk of any violations of a license arising, there is no assurance that the Corporation's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Corporation and have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

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<sup>1</sup> Specifically, the law defines "hemp" as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis".



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Depending upon the results of the upcoming November 2020 U.S. federal election, it is possible that additional changes could occur. There can be no assurance as to the position any new administration may take on marijuana and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Corporation and its shareholders. Further, future presidential administrations may treat marijuana differently and potentially enforce the federal laws more aggressively.

#### U.S. Federal Enforcement Priorities

Due to the current federal regulatory environment in the United States, as further described herein, Ayr may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the U.S. As a result, Ayr may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Ayr's ability to invest in the U.S. or any other jurisdiction. See "Risk Factors – While legal under applicable U.S. State law, Ayr's business activities are illegal under U.S. federal law" and "Risk Factors – The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined" in the Annual Information Form ("AIF"), which can be found on SEDAR, incorporated herein by reference.

Changes in government policy or public opinion can significantly influence the regulation of the cannabis industry in Canada, the United States and elsewhere. A negative shift in the public's perception of cannabis in the U.S. or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause State jurisdictions to abandon initiatives or proposals to legalize cannabis, thereby limiting the number of new State jurisdictions into which Ayr could expand. Any inability to fully implement Ayr's expansion strategy may have a material adverse effect on Ayr's business, financial condition and results of operations. See "Risk Factors" in the AIF, incorporated herein by reference.

Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from criminal charges or civil proceedings conducted by either the U.S. federal government or private citizens (who have the right to seek private relief for Ayr's "aiding and abetting" activities that violate U.S. federal law), including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Ayr, including on its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity, or the market price of its publicly-traded shares. In addition, it is difficult for Ayr to estimate the time or resources that would be needed for the investigation or final resolution of any such matters because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors – Risks Related to Legality of Cannabis" in the AIF, incorporated herein by reference.

#### State Regulatory Environment

##### Nevada

##### *Regulatory Landscape*

The use of medical marijuana was legalized in Nevada by a ballot initiative in 2000. Nevada has legislatively enacted the licensing of medical marijuana business establishments since 2013. Adult-use cannabis was approved in November 2016, when voters in Nevada passed an adult-use cannabis measure to allow for the licensing of business establishments to engage in the sale of adult-use cannabis in the State. The first retail stores to sell adult-use marijuana began sales in July 2017. As of July 1, 2020, the Nevada Cannabis Compliance Board (the successor to the Nevada Department of Taxation as the applicable regulatory agency) governs and administers regulatory oversight for the medical and adult-use cannabis programs. Cities and counties in Nevada are allowed to determine the number of local marijuana licenses they will issue up to the maximum number allocated by the statute. The Corporation provides operational support for facilities in Nevada cities or counties with clearly defined marijuana programs. Currently, the Corporation provides operational support to facilities located in the Clark County, Henderson, Reno and Washoe County jurisdictions.

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*Licenses*

The Corporation provides administrative, consulting and operations services to one (1) cultivation facility, two (2) production facilities, and five (5) dispensaries in the State of Nevada. Under applicable laws, the licenses issued for these facilities permit the businesses to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses and Nevada regulations.

State issued licenses are renewed annually, and local business licenses are renewed quarterly or annually, and there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner along with the necessary supporting documents, including requisite background investigations, and regulatory requirements are met, the licensee would expect to receive the applicable renewed license in the ordinary course of business. One of the entities to whom Ayr provides administrative, consulting and operations services, LivFree, was recently awarded two (2) additional dispensary licenses in the greater Las Vegas market, one (1) in Clark County and one (1) in Henderson, and aims to open the additional Clark County dispensary this year. The City of Henderson currently has a moratorium on new dispensaries.

*Regulations*

In the State of Nevada, only marijuana that is grown/produced in the State by a licensed establishment may be sold in the State. The companies to which the Corporation provides operational support are vertically-integrated and have the capabilities to cultivate, harvest, process and sell/dispense/deliver adult-use and medical cannabis and cannabis products.

*Reporting Requirements*

The State of Nevada uses METRC solution ("METRC") as the State's computerized seed-to-sale tracking system used to track commercial marijuana activity. Individual licensees whether directly or through third-party integration systems are required to push data to the State to meet reporting requirements. The companies to which the Corporation provides operational support each have a seed-to-sale system in the State which is designed to capture the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes sections 453A and 453D.

*Storage and Security*

To ensure the safety and security of cannabis business premises and to maintain adequate controls against diversion, theft, and loss of cannabis and cannabis products, Nevada licensed cannabis establishments are required to do the following:

1. Maintain an enclosed, locked facility;
2. Have a single secure entrance;
3. Train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;
4. Implement and install, at a minimum, the following security equipment and practices to deter and prevent unauthorized entrances:
  - a. devices that detect unauthorized intrusion (which may include a signal system);

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- b. exterior lighting designed to facilitate surveillance;
- c. electronic monitoring devices, further including (without limitation);
  - i. at least one call-up monitor that is at least 19 inches in size;
  - ii. a video printer that can immediately produce a clear still photo from any video camera image;
  - iii. video cameras with a recording resolution of at least 704 x 480 that full capture all of the building's points of ingress and egress as well as all interior limited access areas such that such cameras capture and can identify any activity occurring in or adjacent to the building;
  - iv. a video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;
  - v. a video camera in each grow room that can identify any activity occurring within the grow room in low light conditions;
  - vi. a method for storing video recordings from the video cameras for at least 30 calendar days;
  - vii. a failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system;
  - viii. sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage; and
  - ix. a security alarm to alert local law enforcement of unauthorized breach of security; and
- 5. Implement security procedures that:
  - a. restrict access of the establishment to only those persons/employees authorized to be there;
  - b. deter and prevent theft;
  - c. provide identification (badge) for those persons/employees authorized to be in the establishment;
  - d. prevent loitering;
  - e. require and explain electronic monitoring; and
  - f. require and explain the use of automatic or electronic notifications to alert local law enforcement of any security breaches.

Massachusetts

*Regulatory Landscape*

The use of cannabis for medical use was legalized in Massachusetts by a voter approval of the Massachusetts Marijuana Initiative in 2012. The law took effect on January 1, 2013, eliminating criminal and civil penalties for the possession and use of up to a 60-day or ten (10) ounce supply of marijuana for medical use for patients possessing a State issued registration card.

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On November 8, 2016, Massachusetts voters approved Question 4 or the Massachusetts Marijuana Legalization Initiative, which allowed for adult-use cannabis in the Commonwealth. On September 12, 2017, the Cannabis Control Commission ("CCC") was established under Chapter 55 of the Acts of 2017 (the "Massachusetts Act") to implement and administer laws enabling access to medical and adult-use cannabis.

On November 16, 2018, the CCC issued the first notices for retail marijuana establishments to commence adult-use operations in Massachusetts.

Under the current program there are no State-wide limits on the total number of licenses permitted; however, no individual or entity shall be a controlling person over more than three licenses in a particular class of license. Similarly, no individual, corporation or other entity shall be in a position to control the decision making of more than three licenses in a particular class of license. In addition, all marijuana establishments are required to enter into host community agreements with the municipality in which they are located.

#### *Licenses*

The Corporation maintains two (2) adult-use cultivation licenses, one (1) adult-use product manufacturer license and one (1) adult-use transportation license in the Commonwealth of Massachusetts. In addition, the Corporation owns medical licenses that allow it to maintain three (3) medical marijuana dispensaries in the Commonwealth. These licenses permit the Corporation to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses.

#### *Regulations*

Under the terms of the marijuana cultivator license, the licensee may cultivate, process and package marijuana, to transfer and deliver marijuana products to marijuana establishments, but not to consumers. A marijuana product manufacturer is an entity authorized to obtain, manufacture, process and package marijuana and marijuana products, to deliver marijuana and marijuana products to marijuana establishments and to transfer marijuana and marijuana products to other marijuana establishments, but not to consumers. A marijuana retailer is an entity authorized to purchase and deliver marijuana and marijuana products from marijuana establishments and to sell or otherwise transfer marijuana and marijuana products to marijuana establishments and to consumers. A marijuana retailer provides a retail location which may be accessed by consumers 21 years of age or older or, if the retailer is co-located with a registered marijuana dispensary ("RMD") by individuals who are registered qualifying patients with the Medical Use of Marijuana Program with a registration card.

In order for a customer to be dispensed marijuana, they must present a valid government issued photo ID immediately upon entry of the retail facility. If the individual is younger than 21 years old but 18 years of age or older, he or she shall not be admitted unless he or she produces an active medical registration card issued by the CCC. If the individual is younger than 18 years old, he or she shall not be admitted unless he or she produces an active medical registration card and is accompanied by a personal caregiver with an active medical registration card. In addition to the medical registration card, registered qualifying patients 18 years of age and older and personal caregivers must also produce proof of identification.

Each adult-use customer may be dispensed no more than one ounce of marijuana or five grams of marijuana concentrate per transaction as outlined in 935 CMR 500.140(4). Medical patients may be dispensed up to a 60-day supply of marijuana, or the equivalent amount of marijuana in marijuana infused products ("MIPs"), that a registered qualifying patient would reasonably be expected to need over a period of 60 calendar days for his or her personal medical use, which is ten ounces, subject to 105 CMR 725.010(I).

Allowable forms of marijuana in Massachusetts include smokable dried flower, dried flower for vaporizing, cannabis derivative products (i.e., vape pens, gel caps, tinctures, etc.) and medical cannabis-infused products, including edibles.

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In the Commonwealth of Massachusetts, only cannabis that is grown and manufactured in the Commonwealth can be sold in the State. For adult-use, Massachusetts is not a vertically-integrated system. As a result, a marijuana retailer may purchase and transport marijuana products from marijuana establishments and transport, sell or otherwise transfer marijuana products to marijuana establishments and to consumers. Licensed cultivators and product manufacturers may cultivate, harvest, process, produce package and sell marijuana products to marijuana establishments.

#### *Reporting Requirements*

The CCC has selected METRC as the State's track-and-trace ("T&T") system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). The system allows for other third-party system integration via application program interface ("API").

#### Pennsylvania

##### *Regulatory Landscape*

The Pennsylvania Medical Marijuana Act (the "PAMMA") was signed into law on April 17, 2016 and originally provided access to Pennsylvania residents with one of 17 qualifying conditions, including epilepsy, chronic pain, and post-traumatic stress disorder ("PTSD"). Retail sales began in February 2018. The Commonwealth of Pennsylvania, which consists of nearly 13 million residents and qualifies as the fifth largest population in the U.S., operates as a high-barrier market with very limited market participation. The PAMMA authorizes only a maximum of 25 grower/processor permits and 50 dispensary permits. As part of "Phase 1" of the Commonwealth's permitting process in 2017, the Pennsylvania Department of Health (the "PA DOH") which administers the Commonwealth's Medical Marijuana Program, originally awarded only 12 grower/processor permits and 27 dispensary permits. Subsequently, in 2018, PA DOH conducted "Phase 2" of the permitting process, during which it awarded the remaining 13 grower/processor permits and 23 dispensary permits authorized under the PAMMA. In July of 2019, the PA DOH expanded the list of qualifying medical conditions to include anxiety disorders and Tourette syndrome, increasing the number of qualifying conditions to 23. As of May 2020, there were 297,317 patients registered in the Program.

Chapter 20 of the PAMMA established a marijuana research program whereby clinical registrants collaborate with medical schools and hospitals to design and implement a research plan. Chapter 20 authorizes PA DOH to issue grower/processor and dispensary permits to up to eight (8) clinical registrants. Under these permits, which are in addition to the 25 grower/processor and 50 dispensaries mentioned above, clinical registrants effectively operate as vertically integrated entities. Furthermore, the dispensary permits authorize clinical registrants to operate dispensaries at up to six (6) locations in any region of the Commonwealth. The dispensaries must dispense marijuana for the purpose of conducting research. As of August 2020, PA DOH selected the eight and final clinical registrants. PA DOH selected the first three clinical registrants in June 2019, and for more in February 2020.

##### *Licenses*

All dispensaries must register with the PA DOH. Registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email and include a renewal form.

##### *License and Regulations*

Each retail dispensary license permits the holder to purchase marijuana and marijuana products from grower/processor facilities and allows the sale of marijuana and marijuana products to registered patients.

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*Site-Visits & Inspections*

All licensed dispensary locations must be inspected and approved by the PA DOH before commencing live operations. Thereafter, dispensaries are subject to PA DOH inspection, whether with or without notice.

*Reporting Requirements*

The Commonwealth of Pennsylvania uses MJ Freeway as a T&T system for seed-to-sale reporting. Individual permittees are required to use MJ Freeway to push data to the Commonwealth to meet all reporting requirements. The Corporation intends to use MJ Freeway as its in-house computerized seed-to-sale software, which integrates with the Commonwealth's MJ Freeway program and captures the required data points for cultivation, manufacturing and retail as required in the Pennsylvania medical marijuana laws and regulations.

*Storage and Security*

All dispensaries are required to have a locked limited access area for the storage of medical marijuana that is expired, damaged, deteriorated, mislabeled, contaminated, recalled or whose containers or packages have been opened or breached until such product is returned to the grower/processor.

Ohio

*Regulatory Landscape*

House Bill 523, effective on September 8, 2016, legalized medical marijuana in Ohio. The Ohio Medical Marijuana Control Program ("MMCP") allows people with certain medical conditions, upon the recommendation of an Ohio-licensed physician certified by the State Medical Board, to purchase and use medical marijuana. House Bill 523 required that the framework for the MMCP would be in place no later than September 2018. This timeframe allowed for a deliberate process to ensure the safety of the public and to promote access to a safe product. Sales of medical marijuana in Ohio began in January 2019.

The following three state government agencies are responsible for the operation of the MMCP: (i) the Ohio Department of Commerce is responsible for overseeing medical marijuana cultivators, processors and testing laboratories; (ii) the State of Ohio Board of Pharmacy is responsible for overseeing medical marijuana retail dispensaries, the registration of medical marijuana patients and caregivers, the approval of new forms of medical marijuana and coordinating the Medical Marijuana Advisory Committee; and (iii) the State Medical Board of Ohio is responsible for certifying physicians to recommend medical marijuana and may add to the list of qualifying conditions for which medical marijuana can be recommended. Qualifying medical conditions for medical marijuana include: acquired immune deficiency syndrome, Amyotrophic lateral sclerosis ("ALS" also known as Lou Gehrig's disease), Alzheimer's disease, cancer, chronic traumatic encephalopathy, Crohn's disease, epilepsy or other seizure disorder, fibromyalgia, glaucoma, hepatitis C, inflammatory bowel disease, multiple sclerosis (MS), pain (either chronic and severe, or intractable), Parkinson's disease, positive status for Human Immunodeficiency Virus ("HIV"), PTSD, sickle cell anemia, spinal cord disease or injury, Tourette's syndrome, traumatic brain injury, ulcerative colitis or any other disease or condition added by the state medical board under section 4731.302 of the Ohio Revised Code. In order for a patient to be eligible to obtain medical marijuana, a physician must make the diagnosis of one of these conditions. The State of Ohio Board of Pharmacy is in the process of revising its regulations for dispensaries, for the forms and methods for administering medical marijuana, and for patients and caregivers.

Several forms of medical marijuana are legal in Ohio, these include: inhalation of marijuana through a vaporizer (not direct smoking), oils, tinctures, plant material, edibles, patches and any other forms approved by the State Board of Pharmacy (other than smoking or combustion).

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*Licenses*

Neither the Corporation nor its subsidiaries currently hold any cannabis licenses in Ohio.

*License and Regulations*

To be considered for approval of a processing license, the applicant must complete all mandated requirements. To obtain a Certificate of Operation for a processing facility, the prospective licensee must be capable of operating in accordance with Chapter 3796 of the Ohio Revised Code, the Medical Marijuana Control Program. Certificates of Operation for a processing license must be renewed annually. A certificate of operation will expire on the date identified on the certificate. Following issuance of a Certificate of Operation, the Corporation will be authorized to manufacture and produce medical cannabis products. A processor licensee must submit its renewal application at least 30 days prior to the expiration date of the certificate of operation. If a licensee's renewal application is not filed prior to the expiration date of the certificate of operation, the certificate of operation will be suspended for a maximum of 30 days. After 30 days, if the licensee has not successfully renewed the certificate of operation, including the payment of all applicable fees, the certificate of operations will be deemed expired.

*Reporting*

Ohio uses the METRC system as its seed-to-sale tracking system. Licensees are required to use METRC to push data to the State to meet all of the reporting requirements. The Corporation intends to implement its seed-to-sale tracking system to comply with the State's tracking and reporting requirements.

*Storage and Security*

All licensees must have a security system that remains operational at all times and that uses commercial grade equipment to prevent and detect diversion, theft or loss of medical cannabis, including:

- Fencing and gates;
- A perimeter alarm;
- Approved safes, vaults, or any other approved equipment or areas used for processing or storing of plant material, medical marijuana extract, and medical marijuana products;
- Back-up alarm systems;
- Motion detectors; and
- Duress and panic alarms.

Video cameras must be installed at the processing facility and directed at all approved safes, approved vaults, cannabis sales areas, and any other area where plant material, medical cannabis extract, or medical cannabis products are being processed, stored or handled. Live feed video surveillance with motion active recording capabilities must be in place 24 hours a day, seven days a week. Recordings from all video cameras must be readily available for immediate review by regulating and law enforcement with jurisdiction upon request and must be retained for at least six months.

The Corporation is not aware of any specific risks associated with operating in Ohio.

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Arizona

*Regulatory Landscape*

In 2010, Arizona passed Ballot Proposition 203, which amended Title 36 to the Arizona Revised Statutes. This amendment added Chapter 28.1, titled the Arizona Medical Marijuana Act (the "AMMA"). The AMMA is codified in Arizona Revised Statutes ("ARS") § 36-2801 et. seq. The AMMA also appointed the Arizona Department of Health Services ("ADHS") as the regulator for the program and authorized ADHS to promulgate, adopt and enforce regulations for the AMMA. These ADHS regulations are embodied in the Arizona Administrative Code Title 9 Chapter 17 (the "Rules"). ARS § 36-2801(12) defines a "nonprofit medical marijuana dispensary" as "a not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses marijuana or related supplies and educational materials to cardholders."

The ADHS established the medical marijuana program. To operate within the medical marijuana program, an entity must apply for, and receive from ADHS, a Medical Marijuana Dispensary Registration Certificate ("Certificate"). Each Certificate is vertically integrated and authorizes the entity that holds the Certificate to dispense and cultivate medical cannabis. Each Certificate allows the holding entity to operate one retail dispensary, one on-site cultivation facility located at the same location as the retail dispensary, and one off-site cultivation facility located anywhere within the State of Arizona. Prior to opening its dispensary and cultivation operations, the entity must apply for, and receive from ADHS, an Approval to Operate. The entity must then file an application with ADHS to renew its Certificate every two years and must also submit audited annual financial statements. The Rules prohibit an entity from transferring or assigning the Certificate; however, entities that hold a Certificate may contract with third parties to provide various services related to the ongoing operation, maintenance, and governance of its dispensary and/or cultivation facility, so long as such contracts do not violate the requirements of the AMMA or the medical marijuana program.

The ADHS had until April 2012 to establish a registration application system for patients and nonprofit marijuana dispensaries, as well as a web-based verification platform for use by officials and dispensaries to verify a patient's status. It also specified patients' rights, qualifying medical conditions, and allowed out-of-state medical marijuana patients to maintain their patient status (though not to purchase marijuana). To purchase medical marijuana, a patient must apply for, and receive from ADHS, a medical marijuana patient card. On December 6, 2012, Arizona's first licensed medical marijuana dispensary opened in Glendale, Arizona.

To qualify to use medical marijuana under the AMMA, a patient must have a qualifying medical condition. Qualifying medical conditions include HIV, cancer, glaucoma, Acquired Immune Deficiency Syndrome ("AIDS"), Hepatitis C, Crohn's disease, agitation of Alzheimer's disease, ALS, PTSD, and a chronic or debilitating disease or medical condition, or the treatment for a chronic or debilitating disease or medical condition, that causes cachexia or wasting syndrome, severe and chronic pain, severe nausea, seizures, or severe or persistent muscle spasms.

In 2019, Arizona Governor Doug Ducey signed into law Senate Bill 1494, which, among other items, requires testing of medical marijuana and establishes biannual renewal of patient cards. Senate Bill 1494 also authorizes the ADHS to adopt rules for inspecting medical marijuana dispensaries and creates an independent testing regime for marijuana cultivated by a medical marijuana dispensary. Beginning in November 2020, before marijuana is sold, the entity holding a Certificate must test the marijuana for unsafe levels of microbial contamination, heavy metals, pesticides, herbicides, fungicides, growth regulators, and residual solvents. Senate Bill 1494 also authorizes civil penalties of up to \$1,000 per violation (not to exceed \$5,000 in a 30-day period) on medical marijuana dispensaries. Regulations implementing Senate Bill 1494 went into effect on August 27, 2019. In February 2020, the ADHS began an additional round of rulemaking designed to improve the regulations regarding independent testing, which remains an ongoing process.

On November 3, 2020, Arizona voters passed Proposition 207, known as the "Smart and Safe Arizona Act," which permits the lawful sale of marijuana to adults over 21 years old for adult-use use. Proposition 207 directs ADHS to establish additional rules and regulations regarding the adult-use sale of marijuana. Entities that hold a Certificate to sell medical marijuana have the right under Proposition 207 to obtain a Marijuana Establishment License to sell adult-use marijuana. If ADHS does not issue Marijuana Establishment Licenses by April 5, 2021, entities that hold a Certificate may cultivate, produce, process, manufacture, transport, and test marijuana and marijuana products, and may sell marijuana and marijuana products to adult consumers, until ADHS issues Marijuana Establishment Licenses.



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*Licensing Requirements*

In order for an applicant entity to receive a Certificate, it must: (i) fill out an application on the form proscribed by ADHS, (ii) submit the applicant's articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer and board member of the applicant for a background check to exclude certain felonies, (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the dispensary will operate in compliance, and (v) designate an Arizona licensed physician as the Medical Director for the dispensary. Certificates are renewed every two years so long as the dispensary is in good standing with ADHS, pays the renewal fee, and submits an independent third party financial audit.

Once an applicant entity is issued a Certificate, it may establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary's retail site (if allowed by local zoning), and one additional off-site cultivation location. None of these sites can be operational, however, until the dispensary receives an Approval to Operate from ADHS for the applicable site. This Approval to Operate requires: (i) an application on the ADHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by ADHS of the applicable location to ensure compliance with the Rules and consistency with the dispensary's applicable policies and procedures.

With the passage of Senate Bill 1494, Certificates are renewed biennially. Before expiry, an entity holding a Certificate must submit a renewal application. While renewals are granted biennially, there is no ultimate expiry after which no renewals are permitted.

*Security Requirements for Dispensary Facilities*

Any dispensary facility (both retail and cultivation) must abide by the following security requirements: (i) ensure that access to the facilities is limited to authorized agents of the dispensary who are in possession of a dispensary agent identification card, and (ii) equip the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days' video storage, (f) failure notifications and battery backups for the security system, and (g) panic buttons inside each building.

*Storage Requirements*

Any dispensary facility (both retail and cultivation) must abide by the following requirements for the storage of product: (i) product must be stored in an area that is separate from areas used to store toxic and flammable materials, (ii) product must be stored in a manner that is clean and sanitary, (iii) product must be protected from flies, dust, dirt, and any other contamination, and (iv) surfaces and objects used in the handling and storage of product must be cleaned daily. Additionally, the Rules establish strict inventory protocols for tracking product from "seed to sale," which requires product to be traceable to the original plants used to grow the cannabis used in the product.

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*Transportation Requirements*

Dispensaries may transport medical cannabis between their own sites, or between their sites and another dispensary's site, and must comply with the following Rules: (i) prior to transportation, the dispensary agent must complete a trip plan showing: (a) the name of the dispensary agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported, and (d) the anticipated route of transportation; (ii) during transport the dispensary agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible; and (iii) dispensaries must maintain trip plan records.

*ADHS Inspections and Enforcement*

ADHS may inspect a facility at any time upon five (5) days' notice to the dispensary. However, if ADHS receives a complaint that a dispensary is not in compliance with the AMMA or the Rules, ADHS may conduct an unannounced inspection. ADHS will provide written notice to the dispensary via a Statement of Deficiencies of any violations found during any inspection, after which the dispensary has 20 working days to take corrective action and to provide ADHS with a written Plan of Correction.

ADHS shall revoke a Certificate if a dispensary: (i) operates before obtaining Approval to Operate a dispensary from ADHS, (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another licensed dispensary, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (iii) acquires usable cannabis or mature cannabis plants from any entity other than another licensed dispensary, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (iv) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, ADHS may revoke a Certificate if a dispensary does not: (i) comply with the requirements of the AMMA or the Rules, or (ii) implement the policies and procedures or comply with the statements provided to ADHS with the dispensary's application.

The Corporation is not aware of any specific risks associated with operating in Arizona.

**Compliance with State Regulatory Frameworks**

**Nevada Regulatory Compliance**

Each of the Nevada-based cannabis establishments for which the Corporation provides administrative, consulting and operations services possesses licenses and operates cannabis facilities in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Nevada in all material respects, and maintains the appropriate licenses for the cultivation, production, distribution and operation of dispensaries, as applicable.

None of the Nevada-based cannabis businesses for which the Corporation provides operational support has experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor are any of the Corporation's Nevada-based cannabis businesses subject to any outstanding notices of violation by the State of Nevada which may have an impact on its licenses, business activities or operations. As noted under "Non-Compliance with State and Local Cannabis Laws" below, on behalf of businesses for which it provides operational support, Ayr intends to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations and, on behalf of businesses for which it provides operational support, Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations.

Each of the Nevada-based cannabis businesses for which the Corporation provides operational support uses a seed-to-sale capable control system for tracking and tracing cannabis plants and products. Each of Leaflogix and Metrc are in use among the Corporation's Nevada-based businesses for which it provides operational support. These solutions have been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

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In addition to these software-based control systems, each of the Nevada licensed cannabis establishments to which the Corporation provides operational support has designated a set of operating procedures, including employee training in respect of such procedures, to secure compliance.

Standard operating procedures in respect of regulatory compliance were developed by each of the Nevada licensed cannabis establishments to which the Corporation provides operational support and reviewed with the applicable regulators during each of the establishment's initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at each of the Nevada licensed cannabis establishments to which the Corporation provides operational support are empowered to identify key business processes that should be formally documented to seek to assure safety and regulatory compliance.

Each of the Nevada licensed cannabis establishments to which the Corporation provides operational support has detailed standard operating procedures in respect of building security, cash management, security of financial instruments, security monitoring systems, security of information, and general security and safety.

Each of the Nevada licensed cannabis establishments to which the Corporation provides operational support utilizes a security system around the perimeter of each dispensary designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with State regulatory requirements.

Additionally, each of the Nevada licensed cannabis establishments to which the Corporation provides operational support also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

Inventory Management Requirements: Each of the Nevada licensed cannabis establishments to which the Corporation provides operational support maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management;
- retail transactions; and
- sales data tracking and reporting.

Procedures exist to ensure each of the applicable Nevada licensed cannabis establishments to which the Corporation provides operational support facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch or lot number;
- the strain of the marijuana seeds or marijuana cuttings planted;

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- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including:
  - the date of harvest;
  - the final yield weight of processed usable marijuana; and
  - the name and agent registration card number of the agents responsible for the harvest;
- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

Retail dispensaries maintain current and complete books and records and sales reports, including invoices that reflect all purchases and sales of marijuana made to and by the applicable dispensary, that are available from an electronic verification systems, point of sale systems, and/or inventory control systems (which may be separate systems or functionalities combined into a single system) and are stored in secure safe rooms. Such records include:

- in respect of dispensary inventory:
  - the date and time of delivery of each purchase or transfer from a cultivation or production facility;
  - the quantity, type and form and price of marijuana and infused or edible products purchased from a cultivation or production facility in each purchase as well as related products;
  - invoices and delivery documents, showing entry into the inventory control system; and
  - the quantity of marijuana still available for sale at the dispensary; and
- in respect of dispensary retail sales:
  - the date and time of each retail sale;
  - the quantity, type, form, and price of marijuana distributed or dispensed;
  - the price paid or consideration given for the marijuana;
  - identifying information of the purchaser (i.e., name and address, and card number in the case of medical marijuana transactions); and
  - identifying information of the employee conducting the transaction (i.e., the name, initials, or employee identification number of the person who dispensed or sold the marijuana).

All invoices and delivery documents must be systematically filed and maintained for a period of five years from date of delivery and must show a legible and complete statement of terms and conditions for each purchase.

Sales records must be compliant with all of the applicable policies and procedures according to applicable documented plans of the Nevada licensed cannabis establishments to which the Corporation provides operational support, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution (on-site or delivery);
- the quantity, form, and price marijuana and any other products dispensed;
- the consideration given;
- the name, address, and identification number of the marijuana as recorded on the electronic verification system; and
- the names, initials, or employee identification numbers of the individuals who packaged, dispensed, delivered, and sold the marijuana.

Disposal of Inventory: All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed by the applicable Nevada licensed cannabis establishments to which the Corporation provides operational support is recorded in the relevant inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal;
- the method of disposal; and
- the name and card number of the agents responsible for the disposal.

Only specifically authorized employees can destroy product. A list of authorized employees that may destroy product is required to be maintained at each such Nevada-based business facility. Permissions are defined by agent and password protected. The destroyed weight and the reason for destruction is required and recorded. The inventory control systems of the Nevada licensed cannabis establishments to which the Corporation provides operational support can generate reports on destroyed material at any point in the destruction process.

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

General Security Guidelines: The applicable Nevada-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

Cash Management: As noted above, the Nevada licensed cannabis establishments to which the Corporation provides operational support have detailed standard operating procedures and protocols for cash management, including internal controls and cash security procedures. Examples of such standard operating procedures and protocols used by certain of the dispensaries of the Nevada licensed cannabis establishments to which the Corporation provides operational support include, without limitation:

- random review of cash register drawers by dispensary supervisors;
- random removal of cash from cash register drawers by dispensary supervisors and placement of such cash into a secure vault;
- insertion of all cash from cash registers drawers into a secure vault at the end of each day;
- recording of daily cash intake by supervisors on a "Register Close" sheet and daily reconciliation of such values against daily sales reports and the prior day's recording of total cash on-hand;
- recording of all disbursements on a disbursement form; and

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- daily audits of total cash on hand and investigations in respect of any noted variances.

The Nevada licensed cannabis establishments to which the Corporation provides operational support have worked with internal personnel and advisors to help prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and
- appropriate employee training for all standard operating procedures.

The Nevada licensed cannabis establishments to which the Corporation provides operational support enlist their internal compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

While the Nevada licensed cannabis establishments to which the Corporation provides operational support are compliant with State and local cannabis laws, their cannabis-related activities remain illegal under United States federal law. See "Risk Factors" below and in the AIF, incorporated herein by reference.

#### Massachusetts Regulatory Compliance

The Corporation's Massachusetts-based business is in compliance with applicable licensing requirements and the regulatory framework enacted by the Commonwealth of Massachusetts, and maintains the appropriate licenses for the cultivation, production, distribution and operation of dispensaries, as applicable.

The Corporation's Massachusetts-based business has not experienced any non-compliance which may have an impact on its licenses, business activities or operations which has not been remedied, nor is such business subject to any outstanding notices of violation by the Commonwealth of Massachusetts which may have an impact on its licenses, business activities or operations. As noted under "Non-Compliance with State and Local Cannabis Laws" below, Ayr intends to cause its businesses to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations and Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities or operations. Given the stage of business of the Corporation's Massachusetts-based business, such business has, on an on-going basis, internally reviewed applicable Massachusetts laws and regulations relating to the cultivation, manufacture, distribution and sale of cannabis and cannabis products and has internally analyzed its exposure to U.S. federal law. The Corporation's Massachusetts-based business has enlisted internal compliance personnel to provide on-going advice on applicable U.S. federal and Massachusetts laws.

The Corporation's Massachusetts-based business currently possesses three registered marijuana dispensary registrations which allow the business to sell medical marijuana in Massachusetts directly to consumers, and which allow for the right to open three adult-use dispensaries subject to local municipality and other marijuana regulatory approvals. The Massachusetts-based business currently possesses licenses to cultivate, manufacture and transport to other marijuana establishments in Massachusetts. No assurance can be given that the applicable regulatory approvals allowing for the opening of adult-use dispensaries will be received.

In order to secure compliance with applicable regulatory frameworks, the Corporation's Massachusetts-based business employs a combination of software-based metric tracking and operational processes and procedures designed to comply with in-place regulatory requirements.

The Corporation's Massachusetts-based business uses Leaflogix, a seed-to-sale capable control system, for tracking and tracing cannabis plants and products. This solution has been specifically designed to satisfy the applicable reporting requirements associated with regulated cannabis activities.

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In addition to the software-based control systems, the Corporation's Massachusetts-based business has designated a set of operating procedures, including employee training with respect to such procedures, to secure compliance.

Standard operating procedures for regulatory compliance were developed by the Massachusetts-based business and reviewed with the applicable regulators during such business' initial licensing processes and are reviewed on a continuous basis by virtue of ongoing inspections and reviews by the applicable regulatory authorities. Managers and employees at the Corporation's Massachusetts-based business are empowered to identify key business processes that should be formally documented to assure safety and regulatory compliance.

The Corporation's Massachusetts-based business has detailed standard operating procedures for building security, cash management, security of financial instruments, security monitoring systems, security of information, and general security and safety.

The Corporation's Massachusetts-based business utilizes a security system around the perimeter of each dispensary designed to prevent and detect diversion, theft or loss of marijuana, utilizing commercial grade security and surveillance equipment in compliance with the Commonwealth's regulatory requirements.

Additionally, the Corporation's Massachusetts-based business also has detailed standard operating procedures and protocols for inventory and storage processes, including responsibility for management, inventory limits, inventory counts and reviews, facility reporting, cannabis inventory receipts, a waste disposal plan, salvage and solid waste disposal.

Inventory Management Requirements: The Corporation's Massachusetts-based business maintains policies and procedures and employs industry-specific software to track inventory and to seek to ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management;
- retail transactions; and
- sales data tracking and reporting.

Procedures exist to ensure each applicable Massachusetts-based facility tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;

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- the number of marijuana plants grown to maturity;
- harvest information, including:
  - the date of harvest; and
  - the final yield weight of processed usable marijuana;
- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

Retail dispensaries maintain current and complete books and records and sales reports, including invoices that reflect all purchases and sales of marijuana made to and by the applicable dispensary, that are available from the Massachusetts-based business' electronic verification systems, point of sale systems, and/or inventory control systems (which may be separate systems or functionalities combined into a single system) and are stored in secure safe rooms. Such records include:

- in respect of dispensary inventory:
  - the date and time of delivery of each purchase or transfer from a cultivation or production facility;
  - the quantity, type and form of marijuana and infused or edible products purchased from a cultivation or production facility in each purchase as well as related products;
  - invoices and delivery documents, showing entry into the inventory control system; and
  - the quantity of marijuana still available for sale at the dispensary; and
- in respect of dispensary retail sales:
  - the date and time of each retail sale;
  - the quantity, type, form, and price of marijuana distributed or dispensed;
  - the price paid or consideration given for the marijuana;
  - identifying information of the purchaser (i.e., name and address, and card number in the case of medical marijuana transactions); and
  - identifying information of the employee conducting the transaction (i.e., the name, initials, or employee identification number of the person who dispensed or sold the marijuana).

All invoices and delivery documents must be systematically filed and must show a legible and complete statement of terms and conditions for each purchase.

Sales records must be compliant with all applicable Ayr policies and procedures according to applicable documented plans, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution (on-site or delivery);
- the quantity, form, and price marijuana and any other products dispensed;
- the consideration given;
- the name, address, and identification number of the marijuana as recorded on the electronic verification system; and
- the names, initials, or employee identification numbers of the individuals who packaged, dispensed, delivered, and sold the marijuana.



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Disposal of Inventory: All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable State and local statutes, ordinances, and regulations. All waste disposed of by the Massachusetts-based business is recorded in such business' inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal; and
- the method of disposal.

In addition to controls over inventory, State regulatory frameworks specify guidelines in respect of general security.

General Security Guidelines: The Massachusetts-based business' general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;
- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

Cash Management: As noted above, the Corporation's Massachusetts-based business has detailed standard operating procedures and protocols for cash management, including internal controls and cash security procedures. Examples of such standard operating procedures and protocols used by such business' dispensaries include, without limitation:

- random review of cash register drawers by dispensary supervisors;
- random removal of cash from cash register drawers by dispensary supervisors and placement of such cash into a secure vault;
- insertion of all cash from cash registers drawers into a secure vault at the end of each day;
- recording of daily cash intake by supervisors on a "Register Close" sheet and daily reconciliation of such values against daily sales reports and the prior day's recording of total cash on-hand;
- recording of all disbursements on a disbursement form; and
- daily audits of total cash on hand and investigations in respect of any noted variances.

The Corporation's Massachusetts-based business has worked with an internal advisor to help prescribe and/or implement measures designed to seek to ensure compliance with applicable State laws on an ongoing basis, including:

- correspondence and updates with regulators;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management; and
- appropriate employee training for all standard operating procedures.

In Massachusetts, Ayr enlists its management and compliance personnel, whose responsibilities include monitoring the day-to-day activities, ensuring that the established standard operating procedures are being adhered to, identifying any non-compliance matters and putting into place the necessary modifications to seek to ensure compliance.

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While the Corporation's Massachusetts-based business is compliant with State and local cannabis laws, its cannabis-related activities remain illegal under United States federal law. See "Risk Factors" below and in the AIF, incorporated herein by reference.

**Non-Compliance with State and Local Cannabis Laws**

From time to time, as with all businesses and all rules, it is anticipated that the Corporation, through its subsidiaries and establishments to which the Corporation provides operational support, may experience incidences of non-compliance with applicable rules and regulations, which may include minor matters such as:

- staying open slightly too late due to an excess of customers at stated closing time;
- minor inventory discrepancies with regulatory reporting software;
- missing fields in regulatory reports;
- cleaning schedules not available on display;
- educational materials and/or interpreter services not available in a sufficient number of languages;
- updated staffing plan not immediately available on site;
- improper illumination of external signage;
- marijuana infused product utensils improperly stored;
- labels out of compliance with most recent regulatory guidelines;
- partial obstruction of camera views; and
- onsite surveillance room used for any other function (i.e., storage).

In addition, either on an inspection basis or in response to complaints, such as from neighbours, customers or former employees, State or local regulators may among other things issue "show cause" letters, give warnings to or cite businesses which Ayr operates or for which Ayr provides operational support for violations, including those listed above. Such regulatory actions could lead to the requirement to remedy the situation, or, in more serious cases, lead to penalties and/or amendments, suspensions or revocations of licenses or otherwise have an impact on Ayr's licenses, business activities, operational support activities or operations.

Ayr has implemented regular compliance reviews to seek to ensure compliance with applicable State and local cannabis rules and regulations. Ayr intends to promptly remedy any known occurrences of non-compliance with applicable State and local cannabis rules and regulations and Ayr intends to publicly disclose any non-compliance, citations or notices of violation which may have an impact on its licenses, business activities, operational support activities or operations.

## AYR STRATEGIES INC. (THE “CORPORATION”)

## FORM 51-102F6V

## STATEMENT OF EXECUTIVE COMPENSATION

*For the Financial Year Ended December 31, 2019*

An issuer’s “named executive officers” are comprised of its Chief Executive Officer and Chief Financial Officer (or individuals who serve in similar capacities), and up to its three most highly compensated executive officers (other than the Chief Executive Officer and Chief Financial Officer), whose total compensation for the financial year ended December 31, 2019 was, individually, more than C\$150,000, as determined in accordance with applicable securities regulations (collectively, the “**Named Executive Officers**” or “**NEOs**”). The Named Executive Officers of the Corporation for the financial year ended December 31, 2019 were Jonathan Sandelman as Chairman, Chief Executive Officer and Corporate Secretary, Brad Asher as Chief Financial Officer, Jennifer Drake as Chief Operating Officer, Jamie Mendola, as Head of Strategy and M&A and Jason Griffith as Chief Integration Officer.

The primary objectives of the Corporation’s compensation strategy are (i) to provide fair compensation to the Corporation’s executive officers, in light of their qualifications, experience and duties with the Corporation and compensation received by their industry peers, (ii) to provide incentive to executive officers to sustain and improve corporate performance, and (iii) generally to align the interests of the executive officers and senior employees with those of the Corporation’s securityholders. The strategy is also intended to ensure that the Corporation has in place programs to attract, retain and develop management of a high caliber and provide a process for the orderly succession of management.

The process for determining executive compensation is as follows. Compensation is discussed and awarded by the Corporation’s executive committee (the “**Executive Committee**”) without reference to any specific pre-determined goals, benchmarks, peer groups or other criteria. As the Corporation’s Chief Executive Officer is a member of the Corporation’s Executive Committee, executive officers have a degree of input into compensation issues considered by the Executive Committee. The primary goal in making specific compensation awards is to reward performance, both individually and at the corporate level, and to provide incentive for future performance.

The Corporation’s executive compensation has two primary components: (i) cash compensation; and (ii) equity-based incentive awards. Each of the Corporation’s Named Executive Officers receive cash compensation, which is determined by the Executive Committee. The primary goal in setting cash compensation is to provide sufficient compensation to motivate the recipient to continue with the Corporation. Otherwise, cash compensation is determined primarily on an *ad hoc* basis for both incumbent executive officers and new hires. The amounts paid to Named Executive Officers for the year ended December 31, 2019 as disclosed in the Summary Compensation Table below, were considered appropriate in meeting the Corporation’s compensation objectives for the year. It is anticipated that the Corporation’s future compensation awards will continue to be influenced by the objectives of the Corporation to reward performance and provide incentive, as set forth in the foregoing. Perquisites and personal benefits are not a significant element of compensation of the Corporation’s NEOs.

Equity-based incentive awards are granted by the Executive Committee on an *ad hoc* basis and are weighted more towards the incentive element of the Corporation’s compensation strategy. The Corporation considers the use of equity-based incentive awards to be significant in attracting, motivating and retaining employees at all levels. The Corporation has adopted a formal equity incentive plan (the “**Equity Incentive Plan**”) under which specific grants of awards are made. In making specific grants to individuals, a number of factors are considered including, but not limited to (i) the number of awards already held by the individual, (ii) a fair balance between the number of awards held by the individual and the other executives and employees of the Corporation, in light of their respective duties and responsibilities, and (iii) the value of the awards as a component of the individual’s overall compensation package. Total grants are also limited by the number of awards available from time to time under the Equity Incentive Plan and any other security-based compensation arrangements of the Corporation or any of its subsidiaries. Equity-based incentive awards granted to a specific director are not voted on by that director.

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## Named Executive Officer and Director Compensation

### Summary Compensation Table

The following table and notes thereto provide a summary of the compensation paid to the NEOs and directors of the Corporation for the financial year ended December 31, 2019. As the Corporation was a special purpose acquisition corporation as defined under Part X of the NEO Exchange Inc. Manual prior to completion of the qualifying transaction of the Corporation (the “**Qualifying Transaction**”) (as the Corporation was previously listed on the NEO Exchange Inc.), there is no compensation information to report with respect to years prior to the financial year ended December 31, 2019.

Table of Compensation Excluding Equity-Based Incentive Awards							
Name and position	Year	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of perquisites (\$)	Value of all other compensation (\$)	Total compensation (\$)
Jonathan Sandelman <sup>(1)</sup> <i>Chairman, Chief Executive Officer and Corporate Secretary</i>	2019	\$257,328	Nil	Nil	Nil	Nil	\$257,328
Brad Asher <i>Chief Financial Officer</i>	2019	\$131,113	Nil	Nil	Nil	Nil	\$131,113
Jennifer Drake <i>Chief Operating Officer</i>	2019	\$227,055	Nil	Nil	Nil	Nil	\$227,055
Jamie Mendola <i>Head of Strategy and M&amp;A</i>	2019	\$211,917	Nil	Nil	Nil	Nil	\$211,917
Jason Griffith <i>Chief Integration Officer</i>	2019	\$48,287	Nil	Nil	Nil	Nil	\$48,287
Carmello Marrelli <sup>(2)</sup> <i>Former Chief Financial Officer</i>	2019	\$30,131	Nil	Nil	Nil	Nil	\$30,131
Mark Smith <i>Director</i>	2019	Nil	Nil	Nil	Nil	Nil	Nil
Charles Miles <i>Director</i>	2019	Nil	Nil	\$35,118	Nil	Nil	\$35,118
Chris R. Burggraeve <i>Director</i>	2019	Nil	Nil	\$30,274	Nil	Nil	\$30,274
Louis F. Karger <i>Director</i>	2019	Nil	Nil	Nil	Nil	Nil	Nil
Steve Menzies <i>Director</i>	2019	Nil	Nil	Nil	Nil	Nil	Nil

### Notes:

- (1) Mr. Sandelman did not receive any additional compensation for his role as a director of the Corporation.  
(2) Mr. Marrelli resigned as Chief Financial Officer on June 28, 2019

### Equity-Based Incentive Awards

The following table and notes thereto provide a summary of the equity-based incentive awards outstanding for the NEOs and directors of the Corporation for the financial year ended December 31, 2019.

Equity-Based Incentive Awards							
Name and position	Type of compensation security	Number of compensation securities, number of underlying securities, and percentage of class	Date of issue or grant	Issue, conversion or exercise price (\$)	Closing price of security or underlying security on date of grant (\$)	Closing price of security or underlying security at year end (\$)	Expiry date
Jonathan Sandelman <sup>(1)</sup> <i>Chairman, Chief Executive Officer and Corporate Secretary</i>	RSU	850,250	5/24/2019	Nil	C\$24.79	C\$11.72	Nil
Brad Asher <i>Chief Financial Officer</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jennifer Drake <i>Chief Operating Officer</i>	RSU	1,700,750	5/24/19	Nil	C\$24.79	C\$11.72	Nil
Jamie Mendola <i>Head of Strategy and M&amp;A</i>	RSU	637,800	5/24/19	Nil	C\$24.79	C\$11.72	Nil
Jason Griffith <i>Chief Integration Officer</i>	RSU	212,600	5/24/19	Nil	C\$24.79	C\$11.72	Nil
Carmello Marrelli <sup>(2)</sup> <i>Former Chief Financial Officer</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mark Smith <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Charles Miles <i>Director</i>	RSU	2,750	5/24/19	Nil	C\$24.79	C\$11.72	Nil
Chris R. Burggraeve <i>Director</i>	RSU	2,750	5/24/19	Nil	C\$24.79	C\$11.72	Nil
Louis F. Karger <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Steve Menzies <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Notes:**

(1) Mr. Sandelman did not receive any additional compensation for his role as a director of the Corporation.

(2) Mr. Marrelli resigned as Chief Financial Officer on June 28, 2019.

Exercise of Equity-Based Incentive Awards

The following table and notes thereto provides a summary of each exercise by a NEO or director of equity-based incentive awards during the financial year ended December 31, 2019.

**Exercise of Equity-Based Incentive Awards by NEOs and Directors**

<b>Name and position</b>	<b>Type of compensation security</b>	<b>Number of underlying securities exercised</b>	<b>Exercise price per security (\$)</b>	<b>Date of exercise</b>	<b>Closing price per security on date of exercise (\$)</b>	<b>Difference between exercise price and closing price on date of exercise (\$)</b>	<b>Total value on exercise date (\$)</b>
Jonathan Sandelman <sup>(1)</sup> <i>Chairman, Chief Executive Officer and Corporate Secretary</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Brad Asher <i>Chief Financial Officer</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jennifer Drake <i>Chief Operating Officer</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jamie Mendola <i>Head of Strategy and M&amp;A</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jason Griffith <i>Chief Integration Officer</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Carmello Marrelli <sup>(2)</sup> <i>Former Chief Financial Officer</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mark Smith <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Charles Miles <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Chris R. Burggraeve <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Louis F. Karger <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Steve Menzies <i>Director</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Notes:**

- (1) Mr. Sandelman did not receive any additional compensation for his role as a director of the Corporation.
- (2) Mr. Marrelli resigned as Chief Financial Officer on June 28, 2019.

**Director Compensation**

Independent directors may be compensated by director's fees in cash if approved by the Executive Committee and management of the Corporation. The granting of equity-based incentive awards provides a link between director compensation and the price of the subordinate voting shares of the Corporation (the "**Subordinate Voting Shares**"). Equity-based incentive awards may be awarded to independent directors when they are first elected by shareholders or appointed by the Executive Committee and periodically thereafter. Mr. Sandelman is not compensated for his membership on the Corporation's board of directors (the "**Board**") or the Executive Committee.

In making a determination as to whether a grant of equity-based incentive awards is appropriate, and if so, the number of awards that should be granted, the Executive Committee as a whole gives consideration to: (i) the number and terms of outstanding equity-based incentive awards held by the director; (ii) current and expected future contributions of the director; (iii) the potential dilution to shareholders and the cost to the Corporation; (iv) general industry standards; and (v) the limits imposed by the terms of the Equity Incentive Plan. The Corporation currently considers the granting of equity-based incentive awards to be the best method of compensating independent directors as it allows the Corporation to reward each director's efforts to increase value for shareholders without requiring the Corporation to use cash from its treasury (subject to any required withholding tax payments). Directors are reimbursed for any out-of-pocket travel expenses incurred in order to attend meetings of the Board, committees of the Board or meetings of the Corporation's securityholders. The Corporation has obtained customary director and officer insurance and has entered into indemnification agreements with its directors pursuant to which the Corporation has agreed to indemnify its directors to the extent permitted by applicable law.

### **Equity Incentive Plan**

The Equity Incentive Plan received approval from the Corporation's directors on December 10, 2018, and was ratified by the Corporation's shareholders on March 18, 2019. All capitalized terms used in this section that are not otherwise defined have the meanings ascribed to them in the Equity Incentive Plan, which is available under the Corporation's profile at [www.sedar.com](http://www.sedar.com).

#### *Purpose*

The purpose of the Equity Incentive Plan is to enable the Corporation and its affiliated companies to: (i) attract and retain employees, officers, consultants, advisors and non-employee directors capable of assuring the future success of the Corporation, (ii) offer such persons incentives to put forth maximum efforts for the success of the Corporation's business, (iii) compensate such persons through various stock-based arrangements and provide them with opportunities for stock ownership, thereby aligning the interests of such persons and the Corporation's securityholders.

The Equity Incentive Plan permits the grant of (i) nonqualified stock options ("**NQSOs**") and incentive stock options ("**ISOs**") (collectively, "**Options**"), (ii) restricted stock units ("**RSUs**"), (iii) performance compensation awards, and (iv) unrestricted stock bonuses or purchases, which are referred to herein collectively as "**Awards**", all as more fully described below.

The Executive Committee has the power to manage the Equity Incentive Plan and may delegate such power at its discretion to any other committee of the Board, including the compensation, nominating and corporation governance committee (the "**C&CG Committee**").

#### *Eligibility*

Any non-employee director of the Corporation or any employee, officer, consultant, independent contractor or advisor providing services to the Corporation or any affiliate of the Corporation, or any such person to whom an offer of employment or engagement with the Corporation or any affiliate is extended, are eligible to participate in the Equity Incentive Plan if selected by the Executive Committee (the "**Participants**"). The basis of participation of an individual under the Equity Incentive Plan, and the type and amount of any Award that an individual is entitled to receive under the Equity Incentive Plan, is determined by the Executive Committee based on its judgment as to the best interests of the Corporation and its securityholders.

The maximum number of Subordinate Voting Shares that may be issued under the Equity Incentive Plan has been fixed by the Board to be 12% of the Subordinate Voting Shares outstanding, on a Diluted Basis (excluding grants made pursuant to the Equity Incentive Plan and any grants of non-voting exchangeable common stock (the "**Exchangeable Shares**") made under any equity plan of CSAC Acquisition Inc., a wholly-owned subsidiary of the Corporation ("**CSAC AcquisitionCo**"), as described below), from time to time, subject to adjustment in the Equity Incentive Plan. For the purposes hereunder, "**Diluted Basis**" shall mean the aggregate Subordinate Voting Shares and Multiple Voting shares of the Corporation issued and outstanding, including: (i) the Subordinate Voting Shares issuable on exchange of the Exchangeable Shares; (ii) the Subordinate Voting Shares issuable on exchange of the warrants of the Corporation (the "**Warrants**") (excluding in respect of the cashless exercise feature thereof and provided such Warrants are not determined to be "out of the money" by the Board as at the date of grant of the applicable Award(s)); and (iii) the Subordinate Voting Shares issuable on conversion of the rights of the Corporation (the "**Rights**"); but shall exclude the Subordinate Voting Shares issuable pursuant to Awards granted hereunder and pursuant to any restricted Exchangeable Shares (or Shares issuable upon the exchange thereof) awarded by CSAC AcquisitionCo. 10% of such Subordinate Voting Shares, subject to adjustment in accordance with the Equity Incentive Plan, are available for time-based vested Awards. In addition to the foregoing, 2% of such Subordinate Voting Shares, subject to adjustment in accordance with the Equity Incentive Plan, are available for performance-based Awards (with the performance target being set as the market capitalization of the Subordinate Voting Shares outstanding, on a Diluted Basis (excluding grants made pursuant to the Equity Incentive Plan and any grants of restricted Exchangeable Shares made under any equity plan of CSAC AcquisitionCo), having reached or exceeded C\$1.0 billion for 20 out of 30 consecutive trading days in order for vesting of such Awards to occur). Notwithstanding the foregoing, a maximum of 5,100,000 Subordinate Voting Shares may be issued as ISOs, subject to adjustment in the Equity Incentive Plan.

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The maximum number of Subordinate Voting Shares that may be issued under the Equity Incentive Plan to any one Related Person (as such term, or the equivalent, is defined in the applicable securities exchange policies), or the number of securities that may be issuable on exercise of the Options granted to any one Related Person, as compensation within any one-year period, excluding performance-based Awards (with the performance target being set as the market capitalization of the Subordinate Voting Shares outstanding), shall not exceed 5% of the outstanding Subordinate Voting Shares, on a Diluted Basis (excluding grants made under the Equity Incentive Plan and any equity plan of CSAC AcquisitionCo), at the time of grant, subject to adjustment in the Equity Incentive Plan. The maximum number of Subordinate Voting Shares that may be issued under the Equity Incentive Plan to the Corporation's non-executive directors, as a whole, or the number of securities that may be issuable on exercise of the Awards granted to the Corporation's non-executive directors, as a whole, as compensation within any one-year period, may not exceed 1% of the outstanding Subordinate Voting Shares, on a Diluted Basis (excluding grants made under the Equity Incentive Plan and any equity plan of CSAC AcquisitionCo), at the time of grant, subject to adjustment in the Equity Incentive Plan. The Executive Committee will not grant Options to any one non-executive director in which the aggregate fair market value (determined as of the time the Options are granted) of such Options during any calendar year (under the Equity Incentive Plan and all other plans of the Corporation and its affiliates) shall exceed \$100,000, or will not grant Awards in which the aggregate fair market value (determined as of the time the Awards are granted) of the Subordinate Voting Shares in respect to which the Awards are exercisable by such non-executive director during any calendar year (under the Equity Incentive Plan and all other plans of the Corporation and its affiliates) shall exceed C\$150,000.

Any shares subject to an Award under the Equity Incentive Plan that are not purchased or are forfeited, cancelled, expire unexercised, are settled in cash, or are used or withheld to satisfy tax withholding obligations of a Participant shall again be available for Awards under the Equity Incentive Plan. Financial assistance or support agreements may be provided by the Corporation or any related entity to Participants in connection with grants under the Equity Incentive Plan, including full, partial or non-recourse loans if approved by the Executive Committee (with interested persons abstaining, if applicable).

In the event of any dividend (other than a regular cash dividend) or other distribution (whether in the form of cash, Subordinate Voting Shares, other securities or other property), recapitalization, forward stock split, reverse stock split, reorganization, plan of arrangement, merger, amalgamation, consolidation, split-up, spin-off, combination, repurchase or exchange of Subordinate Voting Shares or other securities of the Corporation, issuance of Warrants, Rights or other rights to acquire Subordinate Voting Shares or other securities of the Corporation, or other similar corporate transaction or event which affects the Subordinate Voting Shares or unusual or nonrecurring events affecting the Corporation or the financial statements of the Corporation, or changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange or inter-dealer quotation system, accounting principles or law, the Executive Committee may, subject to any required regulatory or Canadian Securities Exchange ("CSE") approvals, make such adjustment which it deems appropriate in its discretion in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Equity Incentive Plan, to (i) the number and kind of Subordinate Voting Shares (or other securities or other property) that may thereafter be issued in connection with Awards, (ii) the number and kind of Subordinate Voting Shares (or other securities or other property) subject to outstanding Awards, (iii) the purchase price or exercise price relating to any Award or, if deemed appropriate, make provision for a cash payment with respect to any outstanding Award, and/or (iv) any share limit set forth in the Equity Incentive Plan.

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CSAC AcquisitionCo has also established an equity plan through which awards of restricted Exchangeable Shares may be granted to service providers to CSAC AcquisitionCo and their affiliates (the “**CSAC AcquisitionCo Plan**”). To the extent any awards of restricted Exchangeable Shares are granted by CSAC AcquisitionCo under the CSAC AcquisitionCo Plan or any other such equity plan(s), the number of restricted Exchangeable Shares granted by CSAC AcquisitionCo will reduce the number of Subordinate Voting Shares that may be awarded under the Equity Incentive Plan on a one-for-one basis. If any restricted Exchangeable Shares awarded under a CSAC AcquisitionCo equity plan are forfeited, cancelled, or are used or withheld to satisfy tax withholding obligations of an award recipient, any such Exchangeable Shares that are forfeited, cancelled, used or withheld will not be treated as reducing the number of Subordinate Voting Shares that are available for Awards under the Equity Incentive Plan.

#### *Awards*

#### Options

The Executive Committee is authorized to grant Options to purchase Subordinate Voting Shares that are either ISOs (meaning they are intended to satisfy the requirements of Section 422 of the *United States Internal Revenue Code of 1986* as amended (the “**Code**”)), or NQSOs (meaning they are not intended to satisfy the requirements of Section 422 of the Code). Options granted under the Equity Incentive Plan are subject to the terms and conditions established by the Executive Committee. Options granted under the Equity Incentive Plan are subject to such terms, including the exercise price and the conditions and timing of exercise, as may be determined by the Executive Committee and specified in the applicable award agreement. The maximum term of an Option granted under the Equity Incentive is ten years from the date of grant (or five years in the case of an ISO granted to a 10% shareholder). Payment in respect of the exercise of an Option may be made in cash or by cheque, by surrender of unrestricted shares (at their fair market value on the date of exercise) or by such other method as the Executive Committee may determine to be appropriate.

#### RSUs

RSUs are granted in reference to a specified number of Subordinate Voting Shares and entitle the holder to receive, on achievement of specific performance goals established by the Executive Committee or after a period of continued service with the Corporation or its affiliates or any combination of the above as set forth in the applicable award agreement, one Subordinate Voting Share for each such Subordinate Voting Share covered by the RSU; provided, that the Executive Committee may elect to pay cash, or part cash and part Subordinate Voting Shares in lieu of delivering only Subordinate Voting Shares. The Executive Committee may, in its discretion, accelerate the vesting of RSUs. Unless otherwise provided in the applicable award agreement or as may be determined by the Executive Committee upon a Participant’s termination of employment or service with the Corporation, the unvested portion of the RSUs will be forfeited and re-acquired by the Corporation for cancellation at no cost.

#### Unrestricted Stock Bonuses or Purchases

The Executive Committee is authorized to grant unrestricted Subordinate Voting Shares as consideration for services rendered to the Corporation or an affiliate in the prior calendar year, or may offer a Participant the opportunity to purchase unrestricted Subordinate Voting Shares for cash consideration equal to the fair market value of the unrestricted Subordinate Voting Shares.

#### Dividend Equivalents

The Executive Committee is authorized to grant dividend equivalents, under which the holder shall be entitled to receive payments (in cash, Subordinate Voting Shares, other securities or other property, as determined by the Executive Committee) equivalent to the amount of cash dividends paid by the Corporation to holders of Subordinate Voting Shares with respect to a number of Subordinate Voting Shares determined by the Executive Committee. Subject to the terms of the Equity Incentive Plan and any applicable award agreement, such dividend equivalents may have such terms and conditions as the Executive Committee shall determine. Notwithstanding the foregoing, (i) the Executive Committee may not grant dividend equivalents to Participants in connection with grants of Options or other Awards, the value of which is based solely on an increase in the value of the Subordinate Voting Shares after the date of grant of such Award, and (ii) dividend and dividend equivalent amounts may be accrued but shall not be paid unless and until the date on which all conditions or restrictions relating to such Award have been satisfied, waived or lapsed.

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### Restricted Exchangeable Shares

Any restricted Exchangeable Shares awarded under the CSAC AcquisitionCo Plan or any other such equity plan(s) will reduce the number of Subordinate Voting Shares that may be awarded under the Equity Incentive Plan on a one-for-one basis. If any restricted Exchangeable Shares so awarded are forfeited, cancelled, or are used or withheld to satisfy tax withholding obligations of an award recipient thereunder, any such restricted Exchangeable Shares that are forfeited, cancelled, used or withheld will thereafter not be treated as reducing the number of Subordinate Voting Shares that are available for Awards under the Equity Incentive Plan.

### *General*

The maximum term of the Awards to be granted under the Equity Incentive Plan is 10 years.

The Executive Committee may impose restrictions on the vesting, exercise or payment of an Award as it determines appropriate. Generally, no Awards (other than fully vested and unrestricted Subordinate Voting Shares issued pursuant to any Award) granted under the Equity Incentive Plan shall be transferable except by will or by the laws of descent and distribution. No Participant shall have any rights as a shareholder with respect to Subordinate Voting Shares covered by Options or RSUs, unless and until such Awards are settled in Subordinate Voting Shares.

No Option is exercisable, no Subordinate Voting Shares may be issued, no certificates, registration statements or electronic positions for Subordinate Voting Shares may be delivered and no payment may be made under the Equity Incentive Plan except in compliance with all applicable laws and CSE and any other regulatory requirements.

The Executive Committee may amend, alter, suspend, discontinue or terminate the Equity Incentive Plan and the Executive Committee may amend any outstanding Award at any time; provided that (i) such amendment, alteration, suspension, discontinuation, or termination shall be subject to any applicable laws, rules, regulations and policies of any applicable governmental entity or stock exchange, including receipt of any required approval from the governmental entity or stock exchange, including the CSE, and (ii) subject to the following paragraph, no such amendment or termination may materially and adversely alter or impair the Awards then outstanding without the Award holder's written consent. The Executive Committee may, without prior approval of shareholders, correct any defect, supply any omission or reconcile any inconsistency in the Equity Incentive Plan or in any Award or award agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Equity Incentive Plan. The Equity Incentive Plan also provides for the issuance of Subordinate Voting Shares in lieu of bonuses.

In the event of any reorganization, merger, amalgamation, consolidation, split-up, spin-off, combination, plan of arrangement, take-over bid or tender offer, repurchase or exchange of Subordinate Voting Shares or other securities of the Corporation or any other similar corporate transaction or event involving the change of control of the Corporation (or if the Corporation shall enter into a written agreement to undergo such a transaction or event), the Executive Committee may, in its sole discretion, take such measures or make such adjustments in regards to any securities granted pursuant to the Equity Incentive Plan, as it deems appropriate, as further described in the Equity Incentive Plan. Notwithstanding the foregoing, upon a corporate transaction or event involving the change of control of the Corporation, all securities granted pursuant to the Equity Incentive Plan shall immediately vest.

Awards granted to U.S. persons under the Equity Incentive Plan will not be registered under the U.S. *Securities Act of 1933*, as amended, and will be issued under an exemption from registration therefrom. Such securities may be subject to transfer restrictions and a holding period imposed by applicable U.S. securities laws.

### *Tax Withholding*

The Corporation may take such action as it deems appropriate to ensure that all applicable federal, state, provincial, local and/or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant.

### **Employment, Consulting and Management Agreements**

The Corporation had (i) no employment agreements with any of its NEOs, and (ii) no consulting agreements with any of its directors or NEOs, other than as set out below for the financial year ended December 31, 2019.

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Mercer Park, L.P. (“**Mercer**”), an affiliate of Mr. Sandelman, entered into a management agreement with the Corporation on May 24, 2019 (the “**Management Agreement**”) to provide consulting and management advisory services to the Corporation. The management fee is paid monthly and varied based on actual costs incurred by Mercer when providing the Corporation administrative support, management services, office space and utilities. The Management Agreement is a month-to-month arrangement. Each of Jonathan Sandelman, Brad Asher, Jennifer Drake, Jamie Mendola and Jason Griffith are employed and compensated directly by Mercer pursuant to the Management Agreement, which compensation is reimbursed by the Corporation.

#### **Termination and Change of Control Benefits**

Other than as set out below, there are no contracts, agreements, plans or arrangements whereby any current NEO or director is entitled to receive payments from the Corporation in the event of (i) the resignation, retirement or other termination of the NEO’s or director’s services with the Corporation, (ii) a change of control of the Corporation, or (iii) a change in the NEO’s responsibilities.

Under the terms of the Management Agreement and Mercer’s change in control severance plan (the “**Plan**”), which was approved by the Board on August 13, 2019, employees of Mercer, which includes Mr. Sandelman, Brad Asher, Jennifer Drake, Jamie Mendola and Jason Griffith, are eligible to receive a lump sum cash payment payable by the Corporation equal to 150% of the sum of (i) the employee’s annual base salary, plus (ii) the annual cash bonus paid or payable to the employee for the prior calendar year in the event that such employees are subject to a “Qualifying Termination” (as such term is defined in the Plan) by Mercer in connection with a change of control of the Corporation.

#### **Compensation Governance**

The Corporation has established the C&CG Committee, the members of which are Jonathan Sandelman, Charles Miles and Chris R. Burggraevae. The members of the C&CG Committee are appointed annually by the Executive Committee, and each member of the C&CG Committee serves at the pleasure of the Executive Committee until the member resigns, is removed, or ceases to be a member of the Executive Committee.

To fulfil its role in overseeing the Corporation’s approach to compensation issues, the C&CG Committee should:

- (i) review and approve corporate goals and objectives relevant to the compensation of the Corporation’s Chief Executive Officer;
  - (ii) evaluate the performance of the Corporation’s Chief Executive Officer in light of those corporate goals and objectives, and make recommendations to the Executive Committee with respect to the compensation level of the Corporation’s Chief Executive Officer based on its evaluation;
  - (iii) review the recommendations to the C&CG Committee of the Corporation’s Chief Executive Officer respecting the appointment, compensation and other terms of employment of the Corporation’s Chief Financial Officer, all senior management reporting directly to the Corporation’s Chief Executive Officer and all other officers appointed by the Executive Committee and, if advisable, approve and recommend for Executive Committee approval, with or without modifications, any such appointment, compensation and other terms of employment;
  - (iv) administer and interpret the Corporation’s Award agreements and its policies respecting the grant of Awards or the sale of securities thereunder, and review and recommend for approval of the Executive Committee the grant of Awards thereunder and the terms thereof;
  - (v) review the Corporation’s pension and retirement transactions, if any, in light of the overall compensation policies and objectives of the Corporation;
  - (vi) review employment agreements, if any, between the Corporation and the Corporation’s Chief Executive Officer, and between the Corporation and executive officers, and amendments to the terms of such agreements shall be subject to review and recommendation by the C&CG Committee and approval by the Executive Committee;
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- (vii) review management's policies and practices respecting the Corporation's compliance with applicable legal prohibitions, disclosure requirements or other requirements on making or arranging for personal loans to senior officers or directors or amending or extending any such existing personal loans or transactions;
- (viii) recommend to the Executive Committee for its approval the terms upon which directors shall be compensated, including the Chairman (if applicable) and those acting as committee chairs and committee members;
- (ix) review on a periodic basis the terms of and experience with the Corporation's executive compensation programs for the purpose of determining if they are properly coordinated and achieving the purpose for which they were designed and administered;
- (x) review executive compensation disclosure before the Corporation publicly discloses such information;
- (xi) submit a report to the Executive Committee on human resources matters at least annually; and
- (xii) prepare an annual report for inclusion in the Corporation's annual management information circular to shareholders respecting the process undertaken by the committee in its review of compensation issues and prepare a recommendation in respect of the compensation of the Corporation's Chief Executive Officer.

#### **Report of C&CG Committee**

##### *Determination of Compensation of Executive Directors*

The C&CG Committee believes that much of the Corporation's success to date and future potential is directly attributable to the efforts, unique skills and experience of Mr. Jonathan Sandelman, the Corporation's Chairman, Chief Executive Officer and Corporate Secretary. The C&CG Committee believes it is essential to the continued success of the Corporation, both over the long and short-term, to retain and appropriately motivate valued executives and has designed their compensation packages accordingly.

As part of its mandate, the C&CG Committee reviewed trends in executive compensation and oversaw compliance with applicable laws. The C&CG Committee reviewed and approved the Chief Executive Officer's annual corporate goals and individual objectives, assessed his performance in light of his goals and objectives, and recommended his compensation to the independent members of the Executive Committee for approval. It also reviewed and approved the compensation structure and evaluation process for other executive officers, assessed their performance and recommended their compensation to the Executive Committee for approval.

The C&CG Committee also believes that it is essential to the continued success of the Corporation to retain and properly motivate the other executive officers of the Corporation: Jennifer Drake as Chief Operating Officer, Brad Asher as Chief Financial Officer, Jamie Mendola as Head of Strategy and M&A and Jason Griffith as Chief Integration Officer.

The C&CG Committee believes that such salaries are comparable to the annual base salaries paid to executives of similar abilities having similar duties in companies comparable in industry, size, complexity and revenues to the Corporation and, accordingly, will be sufficient to retain the Corporation's executive officers over the short-term.

##### *Compensation of the Chief Executive Director*

Mr. Sandelman's compensation is summarized in the Summary Compensation table set out above. Compensation matters relating to the Chief Executive Officer are approved by the Executive Committee on the recommendation of the C&CG Committee.

Mr. Sandelman's base salary for fiscal 2019 was \$425,000, of which \$257,328 was paid from May 24, 2019, being the closing date of the Qualifying Transaction, through the fiscal year-end of December 31, 2019. This salary was set at a level necessary to enable the Corporation to retain an executive with the appropriate experience and qualifications to lead the Corporation.

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In 2019, 850,250 Exchangeable Shares were granted to Mr. Sandelman in conjunction with the Qualifying Transaction in accordance with the Corporation's Equity Incentive Plan and applicable regulatory requirements. The stock-based compensation expense is based on the Corporation's share price of C\$24.79 on May 24, 2019, being the date of the grant. The Exchangeable Shares granted to Mr. Sandelman and other key executives are consistent with the Corporation's commitment to align the interests of executives with the Corporation's shareholders.

*Submitted by the C&CG Committee of the Board*

**Pension Plan Benefits**

The Corporation does not have a pension plan or provide any benefits following or in connection with retirement. In addition, the Corporation does not have a deferred compensation plan.

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

**Form 51-102F4**  
***Business Acquisition Report***

**Item 1 Identity of Company**

**1.1 Name and Address of Company**

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

**1.2 Executive Officer**

Jonathan Sandelman  
Chief Executive Officer, Chairman, Director and Corporate Secretary  
Ayr Strategies Inc.

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

**Item 2 Details of Acquisition**

**2.1 Nature of Businesses Acquired**

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

**2.2 Acquisition Date**

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

**2.3 Consideration**

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

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#### Sira Acquisition

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

- i. \$15.0 million of the Sira Purchase Price was paid in the form of cash consideration;
- ii. \$5.0 million of the Sira Purchase Price was paid in the form of a promissory note payable;
- iii. \$30.0 million of the Sira Purchase Price was paid in the form of 1,885,606 non-voting exchangeable common shares of CSAC AcquisitionCo (**"Exchangeable Shares"**) that are exchangeable on a one-for-one basis into an equal number of subordinate voting shares of the Corporation (**"Subordinate Voting Shares"**); and
- iv. the definitive agreement in respect of the Sira acquisition (the **"Sira Agreement"**) contained an earn-out provision that may entitle the sellers thereof to earn additional consideration in the amount of up to \$27,500,000 if certain milestones are achieved in respect of Sira's planned cultivation facility in Milford, MA.

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

#### Canopy Acquisition

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

- i. \$7.0 million of the Canopy Purchase Price was paid in the form of cash consideration;
- ii. \$4.50 million of the Canopy purchase price was paid in the form of a promissory note payable;
- iii. \$5.50 million of the Canopy Purchase Price was paid in the form of 250,000 Exchangeable Shares;
- iv. an additional 15,360 Exchangeable Shares were issued to Canopy pursuant to certain make-whole provisions (the **"Canopy Make-Whole Provisions"**) in the definitive agreement in respect of the Canopy acquisition (the **"Canopy Agreement"**); and
- v. pursuant to the terms of the Canopy Agreement, CSAC AcquisitionCo assumed Canopy loans outstanding with total principal value of approximately \$400,000.

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

#### Washoe Acquisition

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

- i. \$16.670 million of the Washoe Purchase Price was paid in the form of cash consideration;
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- ii. \$5.640 million of the Washoe Purchase Price was paid in the form of a promissory note payable;
- iii. \$5.640 million of the Washoe Purchase Price was paid in the form of 256,364 Exchangeable Shares; and
- iv. pursuant to the terms of the definitive agreement in respect of the Washoe acquisition (the “**Washoe Agreement**”), CSAC AcquisitionCo assumed Washoe loans outstanding with total principal value of approximately \$9,100,000 and issued 13,636 Exchangeable Shares to a Washoe lender.

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

#### LivFree Acquisition

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

- i. \$29.50 million of the LivFree Purchase Price was paid in the form of cash consideration;
- ii. \$20.0 million of the LivFree Purchase Price was paid in the form of a promissory note payable;
- iii. \$70 million of the LivFree Purchase Price was paid in the form of 4,342,432 Exchangeable Shares; and
- iv. pursuant to an amendment to the definitive agreement in respect of the LivFree Acquisition, such amendment dated as of the Closing Date, CSAC AcquisitionCo issued an additional 321,750 Exchange Shares to the LivFree sellers.

#### CannaPunch Acquisition

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

- i. \$0.750 million of the CannaPunch Purchase Price was paid in the form of cash consideration;
  - ii. \$2.0 million of the CannaPunch Purchase Price was paid in the form of a promissory note payable;
  - iii. \$14.0 million of the CannaPunch Purchase Price was paid in the form of 866,668 Exchangeable Shares; and
  - iv. pursuant to an amendment to the definitive agreement in respect of the CannaPunch acquisition, such amendment dated June 7, 2019, CSAC AcquisitionCo issued an additional 32,071 Exchangeable Shares to the CannaPunch sellers.
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## 2.4 Effect on Financial Position

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

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

## 2.5 Prior Valuations

Not applicable.

## 2.6 Parties to Transaction

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

## 2.7 Date of Report

August 7, 2019.

## Item 3 Financial Statements and Other Information

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

- Audited consolidated annual financial statements of Sira and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**Sira Annual Financial Statements**”);
  - Audited consolidated annual financial statements of Canopy and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**Canopy Annual Financial Statements**”);
  - Audited consolidated annual financial statements of Washoe and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**Washoe Annual Financial Statements**”);
  - Audited consolidated annual financial statements of LivFree and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**LivFree Annual Financial Statements**”);
  - Audited consolidated annual financial statements of CannaPunch and related notes thereto as of and for the year ended December 31, 2018 and for the period from March 30, 2017 (inception date) to December 31, 2017 (the “**CannaPunch Annual Financial Statements**”);
  - Unaudited condensed consolidated interim financial statements of Sira and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**Sira Interim Financial Statements**”);
  - Unaudited condensed consolidated interim financial statements of Canopy and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**Canopy Interim Financial Statements**”);
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- Unaudited condensed consolidated interim financial statements of Washoe and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**Washoe Interim Financial Statements**”);
  - Unaudited condensed consolidated interim financial statements of LivFree and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**LivFree Interim Financial Statements**”);
  - Unaudited condensed consolidated interim financial statements of CannaPunch and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**CannaPunch Interim Financial Statements**”); and
  - A (i) pro forma statement of financial position of Ayr as at March 31, 2019 and related notes thereto, (ii) pro forma income statement of Ayr as of and for the 12 months ended December 31, 2018 and related notes thereto, and (iii) pro forma income statement of Ayr as of and for the three months ended March 31, 2019 and related notes thereto (together, the “**Pro Forma Financial Statements**”).
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**SCHEDULE "A"**  
**SIRA ANNUAL FINANCIAL STATEMENTS**

(see attached)

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**SIRA NATURALS, INC.**

**Financial Statements**

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

(EXPRESSED IN UNITED STATES DOLLARS)



Certified  
Public  
Accountants

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

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of Sira Naturals, Inc.

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

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

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

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

August 2, 2019

“Lou Karger” (‘Signed’)  
Treasurer

“Neil Sullivan” (Signed)  
Controller

## Independent Auditor's Report

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

### Opinion

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

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

### Basis for Opinion

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

### Emphasis of Matter

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

### Responsibilities of Management for the Financial Statements

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

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

Macias Gini & O'Connell LLP  
12264 El Camino Real, Suite 402  
San Diego, CA 92130

[www.mgocpa.com](http://www.mgocpa.com)

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Macias Gini & O'Connell LLP*

San Diego, California  
August 2, 2019



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

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

*Nature of operations [Note 1]*

*Commitments and contingencies [Note 13]*

*Subsequent events [Note 16]*

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

“Lou Karger” (Signed)

Treasurer

“Neil Sullivan” (Signed)

Controller

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

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

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

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

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

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

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

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

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

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

## **1. NATURE OF OPERATIONS**

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

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

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

### **Going Concern**

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

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

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

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

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

## **2. BASIS OF PRESENTATION**

### **2.1 Statement of Compliance**

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

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

### **2.2 Basis of Presentation**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Revenues**

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

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.2 Property, Plant and Equipment (“PPE”)**

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

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

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

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

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

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

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

#### **3.3 Taxation**

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.3 Taxation (Continued)**

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

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

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

#### **3.4 Financial Instruments**

##### **Recognition and Initial Measurement**

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

##### **Classification and Subsequent Measurement**

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

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

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



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.4 Financial Instruments (Continued)**

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

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

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

##### **Impairment of Financial Instruments**

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

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

##### **Derecognition**

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

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

#### **3.5 Impairment of Non-Financial Assets**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.5 Impairment of Non-Financial Assets (Continued)**

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

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

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

#### **3.6 Biological Assets**

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

#### **3.7 Inventory**

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

#### **3.8 Cash and Cash Equivalents**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.9 Provisions**

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

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

#### **3.10 Significant Accounting Judgments and Estimates**

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

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

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

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

(a) Biological assets and inventory

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.10 Significant Accounting Judgments and Estimates (Continued)**

##### **(c) Deferred taxes and income tax expense**

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

#### **3.11 Leases**

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

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

#### **3.12 Borrowing Costs**

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

### **4. CHANGES IN ACCOUNTING STANDARDS**

#### **Adoption of New Accounting Pronouncements**

##### **IFRS 9 - Financial Instruments**

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

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

#### **4. CHANGES IN ACCOUNTING STANDARDS (Continued)**

##### **Adoption of New Accounting Pronouncements (Continued)**

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

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

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

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

##### IFRS 15: Revenue from Contracts with Customers:

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

##### IFRS 7. Financial Instruments: Disclosure

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

##### IAS 16 and IAS 41. Bearer Plants

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

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

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

#### 4. CHANGES IN ACCOUNTING STANDARDS (Continued)

##### Changes in Accounting Standards not yet Effective

##### IFRS 16 – Leases

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

#### 5. INVENTORY

The Company’s inventory includes the following:

	2018			2017		
	Capitalized cost	Fair value adjustment	Carrying value	Capitalized cost	Fair value adjustment	Carrying value
	\$	\$	\$	\$	\$	\$
<b>Raw Material</b>						
Accessories	152,976	-	152,976	-	-	-
<b>Harvested cannabis</b>						
Work in process	602,966	3,230,842	3,833,808	2,914,481	3,386,673	6301,154
Finished goods	10,760	60,507	71,267	14,590	16,954	31,544
	613,726	3,291,349	3,905,075	2,929,071	3,403,627	6332,698
<b>Cannabis Oils</b>						
Work in process	252,963	1,773,790	2,026,753	2,274,051	2,642,482	4,916,533
Finished goods	14,078	98,716	112,794	152,561	177,278	329,839
	267,041	1,872,506	2,139,547	2,426,612	2,819,760	5346372
	<b>1,033,743</b>	<b>5,163,855</b>	<b>6,197,598</b>	<b>5355,683</b>	<b>6323387</b>	<b>11,579,070</b>

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

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**6. BIOLOGICAL ASSETS**

The continuity of biological assets was as follows:

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

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

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

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

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

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

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

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

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

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**7. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings &amp; leasehold improvements</b>	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Machinery &amp; equipment</b>	<b>Auto &amp; trucks</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>						
As at December 31, 2016	6,637,105	477,026	57,337	386,186	29,393	7,587,347
Additions	1,463,396	144,014	-	106,786	-	1,714,196
<b>As at December 31, 2017</b>	<b>8,100,501</b>	<b>621,040</b>	<b>57,537</b>	<b>492,972</b>	<b>29,393</b>	<b>9,301,443</b>
Additions	189,747	118,750	9,154	54,558	20,300	392,709
<b>As at December 31, 2018</b>	<b>8,290,248</b>	<b>739,790</b>	<b>66,691</b>	<b>547,530</b>	<b>49,393</b>	<b>9,694,152</b>
<b>Depreciation</b>						
As at December 31, 2016	249,792	-	233	5,151	-	255,176
Depreciation	793,729	19,511	700	23,830	5,389	843,159
<b>As at December 31, 2017</b>	<b>1,043,521</b>	<b>19,511</b>	<b>933</b>	<b>28,981</b>	<b>5,389</b>	<b>1,098,335</b>
Depreciation	701,387	162,378	16,358	79,393	6,220	965,936
<b>As at December 31, 2018</b>	<b>1,744,908</b>	<b>181,889</b>	<b>17,291</b>	<b>108,574</b>	<b>11,609</b>	<b>2,064,271</b>
<b>Net book value</b>						
As at December 31, 2017	7,056,980	601,529	56,604	463,991	24,004	8,303,108
<b>As at December 31, 2018</b>	<b>6,545,340</b>	<b>557,901</b>	<b>49,400</b>	<b>438,956</b>	<b>38,384</b>	<b>7,629,881</b>

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

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

**8. INCOME TAXES**

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

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



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**8. INCOME TAXES (Continued)**

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

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

Net deferred tax assets are as follows:

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

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

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

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

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**8. INCOME TAXES (Continued)**

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

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

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

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

**9. DEBTS PAYABLE**

The details of debts payable were as follows:

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

**SIRA NATURALS, INC.**  
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**9. DEBTS PAYABLE (Continued)**

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

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

**(a) Promissory Notes Payable to a Related Party**

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

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

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

**(b) Loan Payable to a Third Party**

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

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

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

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

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

**SIRA NATURALS, INC.**  
Notes to the Financial Statements  
For the Years Ended December 31, 2018 and 2017

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**11. CAPITAL MANAGEMENT**

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

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

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

**12. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

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

**SIRA NATURALS, INC.**  
Notes to the Financial Statements  
For the Years Ended December 31, 2018 and 2017

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**13. COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

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

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

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

**Contingencies**

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

**Claims and Litigation**

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

#### 14. FINANCIAL RISK FACTORS

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

##### *(a) Fair Value*

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

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

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

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

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

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

**SIRA NATURALS, INC.**  
Notes to the Financial Statements  
For the Years Ended December 31, 2018 and 2017

**14. FINANCIAL RISK FACTORS (Continued)**

**(a) Fair Value (Continued)**

<b>Financial liabilities</b>	<b>Carrying values FVTPL</b>	<b>AC</b>	<b>Total</b>	<b>Fair values Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>December 31, 2018</b>				
Trade payables	-	1,557,153	1,557,153	1,557,153
Accrued liabilities	-	1,192,208	1,192,208	1,192,208
Debts payable	-	14,972,617	14,972,617	14,972,617
	-	17,721,978	17,721,978	17,721,978
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>December 31, 2017</b>				
Trade payables	-	1,117,295	1,117,295	1,117,395
Accrued liabilities	-	811,300	811,300	811,300
Debts payable	-	15,380,398	15,380,398	15,380,398
	-	17,308,993	17,308,993	17,308,993

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

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

**(b) Credit Risk**

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

**(c) Liquidity Risk**

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

**14. FINANCIAL RISK FACTORS (Continued)**

***(d) Interest Rate Risk***

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

**15. SEGMENTED INFORMATION**

***Operating and Geographical Segments***

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

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

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

**16. SUBSEQUENT EVENTS**

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

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



**SCHEDULE "B"**  
**CANOPY ANNUAL FINANCIAL STATEMENTS**

(see attached)

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**THE CANOPY NV, LLC**

Consolidated Financial Statements

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

(EXPRESSED IN UNITED STATES DOLLARS)



Certified  
Public  
Accountants

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

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of The Canopy NV, LLC:

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

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

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

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

August 2, 2019

“Mark Pitchford” (Signed)  
Chief Executive Officer

“Lilian Yohn” (Signed)  
Chief Financial Officer

## **Independent Auditor's Report**

To the Members of the Canopy NV, LLC:

### **Opinion**

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

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

### **Basis for Opinion**

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

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

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

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

### **Auditor's Responsibilities for the Consolidated Financial Statements**

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

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

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

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

*Macias Gini & O'Connell LLP*

San Diego, California  
August 2, 2019

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

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

*Nature of operations [Note 1]*

*Commitments and contingencies [Note 13]*

*Subsequent events [Note 16]*

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

“Mark Pitchford” (Signed)  
Chief Executive Officer

“Lilian Yohn” (Signed)  
Chief Financial Officer

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

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

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

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



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

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

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

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

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

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

## **1. NATURE OF OPERATIONS**

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

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

## **2. BASIS OF PRESENTATION**

### **2.1 Statement of Compliance**

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

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

### **2.2 Basis of Presentation**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Basis of Consolidation**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.2 Revenues**

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

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

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

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

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

#### **3.3 Property, Plant and Equipment ("PPE")**

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

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.3 Property, Plant and Equipment (“PPE”) (Continued)**

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

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

#### **3.4 Taxation**

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

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

#### **3.5 Intangible Assets**

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

#### **3.6 Financial Instruments**

##### **Recognition and Initial Measurement**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.6 Financial Instruments (Continued)**

##### **Classification and Subsequent Measurement**

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

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

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

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

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

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

##### **Impairment of Financial Instruments**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.6 Financial Instruments (Continued)**

##### **Derecognition**

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

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

#### **3.7 Impairment of Non-Financial Assets**

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.8 Inventory**

Inventories of purchased finished goods are initially at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the specific identification basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value. The company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to the net realizable value. At December 31, 2018 and 2017, there were no reserves for inventories required.

#### **3.9 Cash and Cash Equivalents**

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

#### **3.10 Provisions**

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

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

#### **3.11 Significant Accounting Judgments and Estimates**

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

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

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



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.11 Significant Accounting Judgments and Estimates (Continued)**

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

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

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

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

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

#### **3.12 Leases**

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

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

### **4. CHANGES IN ACCOUNTING STANDARDS**

#### **Adoption of New Accounting Pronouncements**

##### IFRS 9 - Financial Instruments

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

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

#### **4. CHANGES IN ACCOUNTING STANDARDS (Continued)**

##### **Adoption of New Accounting Pronouncements (Continued)**

###### IFRS 9 - Financial Instruments (Continued)

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

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

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

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

###### IFRS 15: Revenue from Contracts with Customers:

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

###### IFRS 7. Financial Instruments: Disclosure

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

##### **Changes in Accounting Standards not yet Effective**

###### IFRS 16 – Leases

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

**THE CANOPY NV, LLC**  
Notes to the Consolidated Financial Statements  
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**5. INVENTORY**

Inventory is comprised of finished goods.

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

**6. INTANGIBLE ASSETS**

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

**7. PROPERTY, PLANT AND EQUIPMENT**

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

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

**8. MEMBERS' EQUITY**

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

## **9. RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

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

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

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

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

## **10. CAPITAL MANAGEMENT**

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

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

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

**THE CANOPY NV, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**11. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

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

**12. DEBTS PAYABLE**

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

**13. COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

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

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

### **13. COMMITMENTS AND CONTINGENCIES (Continued)**

#### **Contingencies**

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

#### **Claims and Litigation**

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

### **14. FINANCIAL RISK FACTORS**

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

#### **(a) Fair Value**

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

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

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

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

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

**THE CANOPY NV, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**14. FINANCIAL RISK FACTORS (Continued)**

*(a) Fair Value (Continued)*

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

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

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

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

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

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

#### **14. FINANCIAL RISK FACTORS (Continued)**

##### ***(b) Credit Risk***

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

##### ***(c) Liquidity Risk***

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

#### **15. SEGMENTED INFORMATION**

##### ***Operating and Geographical Segments***

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

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

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

#### **16. SUBSEQUENT EVENTS**

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

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



**SCHEDULE "C"**  
**WASHOE ANNUAL FINANCIAL STATEMENTS**

(see attached)

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**WASHOE WELLNESS, LLC**

Consolidated Financial Statements

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

(EXPRESSED IN UNITED STATES DOLLARS)



Certified  
Public  
Accountants

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

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of Washoe Wellness, LLC:

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

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

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

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

August 2, 2019

“Mark Pitchford” (Signed)  
Chief Executive Officer

“Lilian Yohn” (Signed)  
Chief Financial Officer

## **Independent Auditor's Report**

To the Members of the Washoe Wellness, LLC:

### **Opinion**

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

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

### **Basis for Opinion**

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

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

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

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

### **Auditor's Responsibilities for the Consolidated Financial Statements**

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

Macias Gini & O'Connell LLP  
12264 El Camino Real, Suite 402  
San Diego, CA 92130

[www.mgocpa.com](http://www.mgocpa.com)

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

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

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

*Macias Gini & O'Connell LLP*

San Diego, California  
August 2, 2019

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

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

*Nature of operations [Note 1]*

*Commitments and contingencies [Note 16]*

*Subsequent events [Note 19]*

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

“Mark Pitchford” (Signed)  
Chief Executive Officer

“Lilian Yohn” (Signed)  
Chief Financial Officer

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

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

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

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



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

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

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

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

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

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

## **1. NATURE OF OPERATIONS**

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

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

## **2. BASIS OF PRESENTATION**

### **2.1 Statement of Compliance**

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

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

### **2.2 Basis of Presentation**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Basis of Consolidation**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.2 Property, Plant and Equipment ("PPE")**

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

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

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

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

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

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

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

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

#### **3.3 Taxation**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.4 Revenues**

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

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

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

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

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

#### **3.5 Intangible Assets**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.6 Financial Instruments**

##### **Recognition and Initial Measurement**

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

##### **Classification and Subsequent Measurement**

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

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

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

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

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

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

##### **Impairment of Financial Instruments**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.6 Financial Instruments (Continued)**

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

##### **Derecognition**

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

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

#### **3.7 Impairment of Non-Financial Assets**

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.8 Biological Assets**

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

#### **3.9 Inventory**

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

#### **3.10 Cash**

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

#### **3.11 Provisions**

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

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

#### **3.12 Significant Accounting Judgments and Estimates**

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

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



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.12 Significant Accounting Judgments and Estimates (Continued)**

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

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

(a) Biological assets and inventory

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

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

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

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

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

#### **3.13 Leases**

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

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

#### **3.14 Borrowing Costs**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.15 Investment in Associate**

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

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

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

### **4. CHANGES IN ACCOUNTING STANDARDS**

#### **Adoption of New Accounting Pronouncements**

##### IFRS 9 - Financial Instruments

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

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

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

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

#### **4. CHANGES IN ACCOUNTING STANDARDS (Continued)**

##### **Adoption of New Accounting Pronouncements (Continued)**

###### IFRS 9 - Financial Instruments (Continued)

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

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

###### IFRS 15: Revenue from Contracts with Customers:

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

###### IFRS 7. Financial Instruments: Disclosure

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

###### IAS 16 and IAS 41, Bearer Plants

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

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

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

#### 4. CHANGES IN ACCOUNTING STANDARDS (Continued)

##### Changes in Accounting Standards not yet Effective

##### IFRS 16 — Leases

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

#### 5. INVENTORY

The Company’s inventory includes the following:

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

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

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

**WASHOE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**6. BIOLOGICAL ASSETS**

The continuity of biological assets was as follows:

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

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

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

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

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

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

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

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

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

**WASHOE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**7. LOANS RECEIVABLE**

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

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

**8. INTANGIBLE ASSETS**

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

	2018 \$	2017 \$
Product rights	59,894	25,018
Domain name	16,000	16,000
Trademarks	5,000	5,000
	<b>80,894</b>	<b>46,018</b>

**9. PROPERTY, PLANT AND EQUIPMENT**

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

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

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

**WASHOE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**10. INVESTMENT IN ASSOCIATE**

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

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

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

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

**11. DEBTS PAYABLE**

The details of debts payable were as follows:

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

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

**WASHOE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

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**11. DEBTS PAYABLE (Continued)**

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

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

**(a) Revolving Line of Credit Promissory Note**

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

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

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

**(b) Loan Payable to a Third Party**

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

**(c) Loan Payable to a Third Party**

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

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



## 12. MEMBERS' EQUITY

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

## 13. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

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

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

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

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

	2018	2017
	\$	\$
<b>Salaries and benefits to key management personnel</b>	<b>127,124</b>	<b>179,754</b>

## 14. CAPITAL MANAGEMENT

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

**WASHOE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

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**14. CAPITAL MANAGEMENT (Continued)**

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

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

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

**15. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

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

## 16. COMMITMENTS AND CONTINGENCIES

### Operating Leases

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

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

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

### Contingencies

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

### Claims and Litigation

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

## 17. FINANCIAL RISK FACTORS

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

### (a) Fair Value

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

**17. FINANCIAL RISK FACTORS (Continued)**

***(a) Fair Value (Continued)***

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

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

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

**WASHOE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**17. FINANCIAL RISK FACTORS (Continued)**

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

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

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

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

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

## **17. FINANCIAL RISK FACTORS (Continued)**

### ***(b) Credit Risk***

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

During the years ended December 31, 2018 and 2017, revenue from one customer is approximately 69% and 43%, respectively, of total revenues and purchases of raw materials from two suppliers were approximately 51% and 40%, respectively, of total purchases.

### ***(c) Liquidity Risk***

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

### ***(d) Interest Rate Risk***

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

## **18. SEGMENTED INFORMATION**

### ***Operating and Geographical Segments***

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

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

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

## **19. SUBSEQUENT EVENTS**

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

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

**SCHEDULE "D"**  
**LIVFREE ANNUAL FINANCIAL STATEMENTS**

(see attached)

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**LIVFREE WELLNESS, LLC**

Consolidated Financial Statements

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

(EXPRESSED IN UNITED STATES DOLLARS)



Certified  
Public  
Accountants



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

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of LivFree Wellness, LLC:

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

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

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

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

August 2, 2019

“Steve Menzies” (Signed)  
Managing Member

“Timothy Harris” (Signed)  
Chief Financial Officer

## **Independent Auditor's Report**

To the Members of LivFree Wellness, LLC:

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Consolidated Financial Statements**

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

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

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

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

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

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

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

Macias Gini & O'Connell LLP

San Diego, California  
August 2, 2019

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

	2018 \$	2017 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	2,196,398	898,658
Inventory [Note 5]	2,344,459	1,396,981
Due from a related corporation	-	590,495
Prepaid expenses and other assets	248,769	148,224
	4,789,626	3,034,358
Property, plant and equipment [Note 6]	1,625,978	1,390,530
Investment in associate [Note 7]	3,354,501	1,586,966
Total assets	9,770,105	6,011,854
<b>LIABILITIES</b>		
Current		
Trade payables	1,150,649	133,849
Accrued liabilities	984,367	558,305
Distributions payables	280,000	1,980,000
Debt payable - current portion [Note 8]	220,000	220,000
	2,635,016	2,892,154
Debt payable - Non-current portion [Note 81]	-	240,000
Total liabilities	2,635,016	3,132,154
<b>MEMBERS' EQUITY</b> [Note 9]	7,135,089	2,879,700
Total liabilities and members' equity	9,770,105	6,011,854

*Nature of operations [Note 1]*

*Commitments and contingencies [Note 13]*

*Subsequent events [Note 16]*

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

“Steve Menzies” (Signed)

Managing Member

“Timothy Harris” (Signed)

Chief Financial Officer

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

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

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

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

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

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

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

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

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

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



## **1. NATURE OF OPERATIONS**

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

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

## **2. BASIS OF PRESENTATION**

### **2.1 Statement of Compliance**

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

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

### **2.2 Basis of Presentation**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Basis of Consolidation**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.2 Revenues**

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

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

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

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

The pattern and timing of revenue recognition under the new standard is consistent with prior year practice.

There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018.

#### **3.3 Property, Plant and Equipment ("PPE")**

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

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.3 Property, plant and equipment (“PPE”) (Continued)**

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

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

#### **3.4 Taxation**

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

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

#### **3.5 Financial Instruments**

##### **Recognition and Initial Measurement**

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

##### **Classification and Subsequent Measurement**

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.5 Financial Instruments (Continued)**

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

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

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

#### **Impairment of Financial Instruments**

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

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

#### **Derecognition**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.6 Impairment of Non-Financial Assets**

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

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

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

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

#### **3.7 Inventory**

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

#### **3.8 Cash and Cash Equivalents**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.9 Provisions**

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

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

#### **3.10 Significant Accounting Judgments and Estimates**

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

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

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

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

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

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

#### **3.11 Leases**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.12 Investment in Associates**

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

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

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

### **4. CHANGES IN ACCOUNTING STANDARDS**

#### **Adoption of New Accounting Pronouncements**

##### IFRS 9 - Financial Instruments

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

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

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

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

#### **4. CHANGES IN ACCOUNTING STANDARDS (Continued)**

##### IFRS 9 - Financial Instruments (Continued)

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

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

##### IFRS 15: Revenue from Contracts with Customers:

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

##### IFRS 7. Financial Instruments: Disclosure

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

##### **Changes in Accounting Standards not yet Effective**

##### IFRS 16 – Leases

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

#### **5. INVENTORY**

Inventory is comprised of finished goods.

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



**LIVFREE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**6. PROPERTY, PLANT AND EQUIPMENT**

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

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

**7. INVESTMENT IN ASSOCIATE**

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

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

**LIVFREE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**7. INVESTMENT IN ASSOCIATE (Continued)**

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

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

**8. DEBT PAYABLE**

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

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

The details of debt payable were as follows:

	2018	2017
	\$	\$
Debt payable to a third party	220,000	460,000
Less: Current portion	(220,000)	(220,000)
<b>Debt payable - Non-current portion</b>	<b>-</b>	240,000

**9. MEMBERS' EQUITY**

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

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

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

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

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

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

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

**11. CAPITAL MANAGEMENT**

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

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

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

**LIVFREE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**12. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

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

**13. COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

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

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

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

**Contingencies**

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

**13. COMMITMENTS AND CONTINGENCIES (Continued)**

**Claims and Litigation**

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

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

**14. FINANCIAL RISK FACTORS**

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

**(a) Fair Value**

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

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

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

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

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

**LIVFREE WELLNESS, LLC**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

**14. FINANCIAL RISK FACTORS (Continued)**

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

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

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

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

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

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

**14. FINANCIAL RISK FACTORS (Continued)**

***(b) Credit Risk***

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

***(c) Liquidity Risk***

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

**15. SEGMENTED INFORMATION**

***Operating and Geographical Segments***

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

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

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

**16. SUBSEQUENT EVENTS**

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

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

**SCHEDULE "E"**  
**CANNAPUNCH ANNUAL FINANCIAL STATEMENTS**

(see attached)

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**CANNAPUNCH OF NEVADA, LLC**

Financial Statements

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

(EXPRESSED IN UNITED STATES DOLLARS)



Certified  
Public  
Accountants

**CANNAPUNCH OF NEVADA, LLC**

Financial Statements  
December 31, 2018 and 2017

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**MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management's Responsibility

To the Members of CannaPunch of Nevada, LLC:

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

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

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

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

August 2, 2019

"Mark Smith" (Signed)

Chief Executive Officer

## **Independent Auditor's Report**

To the Members of CannaPunch of Nevada, LLC:

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

Macias Gini & O'Connell LLP  
12264 El Camino Real, Suite 402  
San Diego, CA 92130

[www.mgocpa.com](http://www.mgocpa.com)

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

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

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

*Macias Gini & O'Connell LLP*

San Diego, California  
August 2, 2019

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

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

*Nature of operations [Note 1]*

*Commitments and contingencies [Note 12]*

*Subsequent events [Note 15]*

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

“Mark Smith” (Signed)

Chief Executive Officer

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

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

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

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

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

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

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



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

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

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

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

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**1. NATURE OF OPERATIONS**

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

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

**2. BASIS OF PRESENTATION**

**2.1 Statement of Compliance**

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

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

**2.2 Basis of Presentation**

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Revenue**

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Revenue (Continued)**

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

**3.2 Machinery and Equipment ("M&E")**

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

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

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

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

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

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

**3.3 Taxation**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.3 Taxation (Continued)**

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

#### **3.4 Financial Instruments**

##### Recognition and Initial Measurement

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

##### Classification and Subsequent Measurement

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

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

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.4 Financial Instruments (Continued)**

##### **Impairment of Financial Instruments**

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

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

##### **Derecognition**

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

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

#### **3.5 Impairment of Non-Financial Assets**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.5 Impairment of Non-Financial Assets (Continued)**

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

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

#### **3.6 Inventory**

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

#### **3.7 Cash and Cash Equivalents**

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

#### **3.8 Provisions**

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

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

#### **3.9 Significant Accounting Judgments and Estimates**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.9 Significant Accounting Judgments and Estimates (Continued)**

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

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

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

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

Depreciation of machinery and equipment are dependent upon estimates of useful lives, which are determined through the exercise of 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.

### **4. CHANGES IN ACCOUNTING STANDARDS**

#### **Adoption of New Accounting Pronouncements**

##### IFRS 9 - Financial Instruments

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

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

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

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

#### **4. CHANGES IN ACCOUNTING STANDARDS (Continued)**

##### **Adoption of New Accounting Pronouncements (Continued)**

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

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

##### IFRS 15: Revenue from Contracts with Customers:

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

##### IFRS 7. Financial Instruments: Disclosure

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

##### **Changes in Accounting Standards not yet Effective**

##### IFRS 16–Leases

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



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

**5. INVENTORY**

The Company's inventory includes the following:

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

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

**6. MACHINERY AND EQUIPMENT**

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

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

**7. MEMBERS' EQUITY**

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

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

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**8. RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

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

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

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

**9. CAPITAL MANAGEMENT**

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

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

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

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

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**10. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

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

**11. LICENSOR PROFIT SHARE**

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

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

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

**12. COMMITMENTS AND CONTINGENCIES**

**Contingencies**

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

## **12. COMMITMENTS AND CONTINGENCIES (Continued)**

### **Claims and Litigation**

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

## **13. FINANCIAL RISK FACTORS**

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

### **(a) Fair Value**

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

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

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

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

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

**13. FINANCIAL RISK FACTORS (Continued)**

**(a) Fair Value (Continued)**

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

<b>Financial assets</b>	<b>Carrying values</b>			<b>Fair values</b>
	<b>FVTPL</b>	<b>AC</b>	<b>Total</b>	<b>Total</b>
<b>December 31, 2018</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	122,367	—	122,367	122,367
Accounts receivable	—	374,649	374,649	374,649
	122,367	374,649	497,016	497,016
<b>December 31, 2017</b>				
Cash	146,817	—	146,817	146,817
Accounts receivable	—	81,483	81,483	81,483
	146,817	81,483	228,300	228,300

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

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

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

### **13. FINANCIAL RISK FACTORS (Continued)**

#### ***(b) Credit Risk***

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

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

#### ***(c) Liquidity Risk***

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

### **14. SEGMENTED INFORMATION**

#### ***Operating and Geographical Segments***

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

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

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

### **15. SUBSEQUENT EVENTS**

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

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

**SCHEDULE “F”  
SIRA INTERIM FINANCIAL STATEMENTS**

(see attached)

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**SIRA NATURALS, INC.**  
**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

**Notice to reader**

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

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SIRA NATURALS, INC.  
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of Sira Naturals, Inc.:

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

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

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

August 5, 2019

“Lou Karger” (Signed)  
Treasurer

“Neil Sullivan” (Signed)  
Controller

**SIRA NATURALS, INC.**  
**Unaudited Condensed Interim Statements of Financial Position**  
**At March 31, 2019 and December 31, 2018**

	March 31, 2019 \$	December 31, 2018 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	3,315,782	2,607,676
Accounts receivable, no allowance	1,026,229	-
Inventory [Note 5]	8,868,104	6,197,598
Biological assets [Note 6]	2,417,379	1,733,316
Prepaid expenses and other assets	132,789	120,163
	15,760,283	10,658,753
Property, plant and equipment [Note 7]	7,521,303	7,629,881
Right-of-use assets [Note 8]	5,434,999	-
Other long term assets	140,401	480,401
Total assets	28,856,986	18,769,035
<b>LIABILITIES</b>		
Current		
Trade payables	605,217	1,557,153
Accrued liabilities	2,025,356	1,192,208
Income tax payable	3,715,371	3,997,954
Lease obligations - current portion [Note 8]	142,220	-
Debts payable - current portion [Note 9]	7,695	7,572
	6,495,859	6,754,887
Deferred tax liabilities	2,402,770	1,242,460
Accrued interest payable	7,627,157	6,963,253
Lease obligations - Non-current portion [Note 8]	5,485,755	-
Debts payable - Non-current portion [Note 9]	14,963,691	14,965,045
Total liabilities	36,975,232	29,925,645
<b>SHAREHOLDERS' DEFICIT</b>		
Accumulated deficit	(8,118,246)	(11,156,610)
Total shareholders' deficit	(8,118,246)	(11,156,610)
Total liabilities and shareholders' deficit	28,856,986	18,769,035

*Nature of operations [Note 1]*

*Contingencies [Note 13]*

*Subsequent events [Note 16]*

*Approved and authorized by the Board of Directors on August 5, 2019*

“Lou Karger” (Signed)

Treasurer

“Neil Sullivan” (Signed)

Controller

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

**SIRA NATURALS, INC.**  
**Unaudited Condensed Interim Statements of Operations**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Revenues, net of discounts</b>	<b>6,670,180</b>	<b>2,976,969</b>
Cost of goods sold before biological asset adjustment	(1,470,860)	(1,025,728)
Gross profit before biological asset adjustment	5,199,320	1,951,241
Fair value changes in biological assets included in cost of sales	(4,253,737)	(8,337,585)
Unrealized gain on biological asset transformation [Note 6]	7,282,658	2,070,210
<b>Gross profit (loss)</b>	<b>8,228,241</b>	<b>(4,316,134)</b>
<b>Expenses</b>		
General and administrative [Note 12]	1,450,206	1,893,325
Sales and marketing	62,315	123,889
Depreciation [Note 7 & 8]	352,954	33,959
Management Fee [Note 10]	49,500	49,500
<b>Total expenses</b>	<b>1,914,975</b>	<b>2,100,673</b>
<b>Income (loss) from operations</b>	<b>6,313,266</b>	<b>(6,416,807)</b>
<b>Other expense (income)</b>		
Interest expense	824,668	684,493
Rental income and others	(3,000)	(82,716)
<b>Other expense</b>	<b>821,668</b>	<b>601,777</b>
<b>Income (loss) before income tax</b>	<b>5,491,598</b>	<b>(7,018,584)</b>
Income tax expense	2,453,234	1,492,438
<b>Net income (loss)</b>	<b>3,038,364</b>	<b>(8,511,022)</b>

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

**SIRA NATURALS, INC.**  
**Unaudited Condensed Interim Statements of Changes in Shareholder's deficit**  
**For the Three Months Ended March 31, 2019 and 2018**

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	Accumulated deficit \$
<b>Balance as at December 31, 2017</b>	<b>(887,367)</b>
Net loss	(8,511,022)
<b>Balance as at March 31, 2018</b>	<b>(9,398,389)</b>
<b>Balance as at December 31, 2018</b>	<b>(11,156,610)</b>
Net income	3,038,364
<b>Balance as at March 31, 2019</b>	<b>(8,118,246)</b>

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

**SIRA NATURALS, INC.**  
**Unaudited Condensed Interim Statements of Cash Flows**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Operating activities</b>		
Net income (loss)	3,038,364	(8,511,022)
<i>Adjustments for items not affecting cash:</i>		
Depreciation of property, plant and equipment and right-of-use assets	352,954	236,443
Fair value changes in biological assets included in cost of sales	(4,253,737)	(8,337,585)
Unrealized gain on biological asset transformation	7,282,658	2,070,210
<i>Changes in working capital items:</i>		
Accounts Receivable	(1,026,229)	(8,990)
Inventory	(2,670,506)	6,622,734
Biological assets	(3,712,984)	5,892,693
Prepaid expenses and other assets	327,374	(269,552)
Deferred tax assets	-	420,205
Deferred Tax Liability	1,160,310	1,065,460
Trade payables	(951,936)	535,497
Accrued liabilities	1,619,032	591,735
Income tax payable	(282,583)	7,582
Cash provided by operating activities	882,717	315,410
<b>Investing activities</b>		
Net purchase of property, plant and equipment	(140,699)	(187,894)
Cash used in investing activities	(140,699)	(187,894)
<b>Financing activities</b>		
Repayment of lease obligations	(32,681)	-
Repayment of debts	(1,231)	(7,574)
Cash used in financing activities	(33,912)	(7,574)
<b>Net increase in cash</b>	<b>708,106</b>	<b>119,942</b>
<b>Cash, beginning of period</b>	<b>2,607,676</b>	<b>201,697</b>
<b>Cash, end of period</b>	<b>3,315,782</b>	<b>321,639</b>
<i>Supplemental cash flow information</i>		
Interest paid	160,764	59,743

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

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS**

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

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

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

**2. BASIS OF PRESENTATION**

**2.1 Statement of compliance**

These unaudited condensed interim financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim financial statements should be read in conjunction with the Company's 2018 financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

**2.2 Basis of presentation**

These unaudited condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The unaudited condensed interim financial statements are presented in US dollars which is the presentation and functional currency of the Company.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Leases**

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.1 Leases (continued)**

The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company. Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the statements of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in selling, general and administrative expenses in the statements of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**4. CHANGES IN ACCOUNTING STANDARDS**

**Adoption of New Accounting Pronouncement**

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

**Changes in Accounting Standards not yet Effective**

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.



**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**5. INVENTORY**

The Company's inventory includes the following:

	March 31, 2019			December 31, 2018		
	Capitalized cost	Fair value adjustment	Carrying value	Capitalized cost	Fair value adjustment	Carrying value
	\$	\$	\$	\$	\$	\$
<b>Raw Material</b>						
Accessories	-	-	-	152,976	-	152,976
<b>Harvested cannabis</b>						
Work in process	274,789	5,485,619	5,760,408	602,966	3,230,842	3,833,808
Finished goods	9,499	100,343	109,842	10,760	60,507	71,267
	284,288	5,585,962	5,870,250	613,726	3,291,349	3,905,075
<b>Cannabis Oils</b>						
Work in process	198,587	2,737,245	2,935,832	252,963	1,773,790	2,026,753
Finished goods	4,642	57,380	62,022	14,078	98,716	112,794
	203,229	2,794,625	2,997,854	267,041	1,872,506	2,139,547
	487,517	8,380,587	8,868,104	1,033,743	5,163,855	6,197,598

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 are \$548,541 and \$115,235, respectively.

**6. BIOLOGICAL ASSETS**

The continuity of biological assets was as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Balance, beginning of year	1,733,316	1,081,141
Changes in fair value less costs to sell due to biological transformation	7,282,658	11,287,162
Transferred to inventory upon harvest	(6,598,595)	(10,634,987)
<b>Balance, at end</b>	<b>2,417,379</b>	<b>1,733,316</b>

As of March 31, 2019, and December 31, 2018, the weighted average fair value less cost to complete and cost to sell was \$5.97 and \$5.24 per gram, respectively.

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

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

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**6. BIOLOGICAL ASSETS (continued)**

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

Significant inputs or as Range of inputs			Sensitivity		Effect on fair value	
					March 31, 2019	December 31, 2018
					\$	\$
Selling price per gram*	\$6.61 to \$7.62	Increase or decrease of \$1 per gram			456,382	378,621
Average yield per plant	150 to 162 grams	Increase or decrease by 5 grams per plant			90,430	9,771

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

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

As of March 31, 2019, and year ended December 31, 2018, the biological assets were on average 53% and 60% complete, respectively. During the three months ended March 31, 2019 and year ended December 31, 2018, the Company's biological assets produced 980,002 grams and 2,323,076 grams of dried cannabis, respectively.

**7. PROPERTY, PLANT AND EQUIPMENT**

	Buildings & leasehold improvements	Furniture and fixtures	Office equipment	Machinery & equipment	Auto & trucks	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
As at December 31, 2018	8,290,248	739,790	66,691	547,530	49,893	9,694,152
Additions	144,349	-	-	-	-	144,349
Disposals	-	(3,650)	-	-	-	(3,650)
As at March 31, 2019	8,434,597	736,140	66,691	547,530	49,893	9,834,851
<b>Depreciation</b>						
As at December 31, 2018	1,744,908	181,889	17,291	108,574	11,609	2,064,271
Depreciation	200,068	30,695	1,621	14,398	2,495	249,277
As at March 31, 2019	1,944,976	212,584	18,912	122,972	14,104	2,313,548
<b>Net book value</b>						
As at December 31, 2018	6,545,340	557,901	49,400	438,956	38,284	7,629,881
As at March 31, 2019	6,489,621	523,556	47,779	424,558	35,789	7,521,303

As at March 31, 2019 and December 31, 2018, buildings and leasehold improvements include borrowing costs of \$505,799, capitalized in connection with loan used for the construction of buildings.

Depreciation expense for the three months ended March 31, 2019 and 2018 of \$Nil and \$202,484, respectively, is included in cost of goods sold.

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS**

	Right-of-use assets	Lease obligations
Net book value at January 1, 2019	5,538,676	5,660,656
Depreciation and repayment	103,677	32,681
<b>Net book value at March 31, 2019</b>	<b>5,434,999</b>	<b>5,627,975</b>

Right-of-use assets and lease obligations of \$5,538,676 and \$5,660,656, respectively were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rates applied were in the range of 10.06% to 11.62%.

As at March 31, 2019, the current and non-current portion of the lease obligations were \$142,220 and \$5,485,755, respectively.

**9. DEBTS PAYABLE**

The details of debts payable were as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Promissory notes (a)	14,958,333	14,958,333
Loan payable to a third party (b)	13,053	14,284
<b>Total debts payable</b>	<b>14,971,386</b>	<b>14,972,617</b>
Less: Current portion	(7,695)	(7,572)
<b>Debts Payable - Non-current portion</b>	<b>14,963,691</b>	<b>14,965,045</b>

As at March 31, 2019, the maturity profile of the debts are as follows:

<b>Year ending December 31</b>	<b>\$</b>
2019 (9 months)	7,695
2020	2,455,996
2021	-
2022	-
2023	-
2024 and thereafter	12,500,000
	<b>14,963,691</b>

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**9. DEBTS PAYABLE (continued)**

**(a) Promissory notes**

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

Promissory notes amounting to \$12,500,000 (December 31, 2018: \$12,500,000) are to be repaid along with any unpaid accrued interest by April 2025. As of March 31, 2019, and December 31, 2018, there was unpaid accrued interest of \$6,832,294 and \$6,277,500, respectively.

Promissory notes amounting to \$2,458,333 (December 31, 2018: \$2,458,333) are to be repaid on maturity date of June 2020. As of March 31, 2019, and December 31, 2018, there was unpaid accrued interest of \$257,014 and \$147,900, respectively.

**(b) Loan payable to a third party**

Effective November 10, 2016, the Company obtained a loan of \$29,393 for a term of four years from a third party for purchase of a vehicle. This loan carries interest at 5.49% per annum. The principal and interest are payable monthly until November 10, 2020.

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Included in expenses for the three months ended March 31, 2019 is a management fee of \$49,500 charged by a related Corporation (March 31, 2018 - \$49,500) under a management agreement. The management fee was paid monthly and varied based on actual costs incurred by the related corporation when providing the Company administrative, support, and management services. The management agreement was a month-to-month arrangement. As of March 31, 2019, and December 31, 2018, there was unpaid services of \$16,500 and \$193,600, respectively included in trade payables.

The Company paid \$nil to related party for unpaid accrued interest from prior periods during the three months March 31, 2019.

The Company owes \$7,083,308 in accrued interest to a related party as of March 31, 2019.

No compensation was paid to the key management for the three months ended March 31, 2019 and 2018.

**11. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements.

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**11. CAPITAL MANAGEMENT (continued)**

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through loans from third parties and promissory notes. There can be no assurance that the Company will be able to continue raising capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

**12. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	March 31, 2019	March 31, 2018
	\$	\$
Salaries and benefits	598,833	672,660
Rent	26,112	573,171
Taxes and licenses	4,626	15,959
Bank Service charges	39,225	55,073
Professional and consulting fees	260,310	121,628
Insurance	65,648	49,669
Office expenses	65,504	72,101
Community agreements	133,674	163,247
Security	121,540	66,830
Computer expenses	76,260	31,971
Utilities	(1,483)	14,975
Others	59,957	56,041
	1,450,206	1,893,325

**13. CONTINGENCIES**

**Contingencies**

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**13. CONTINGENCIES (continued)**

**Claims and litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

**14. FINANCIAL RISK FACTORS**

The Company's financial instruments mainly comprise of cash and cash equivalents, accounts receivable, trade payables, accrued liabilities, debts payable and lease obligations.

**(a) Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**14. FINANCIAL RISK FACTORS (continued)**

**(a) Fair Value (continued)**

The classification of financial instruments at their carrying and fair values is as follows:

Financial assets	Carrying values			Total	Fair values
	FVTPL	FVTOCI	AC		Total
<b>March 31, 2019</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	3,315,782	-	-	3,315,782	3,315,782
Account receivables	-	-	1,026,229	1,026,229	1,026,229
	3,315,782	-	1,026,229	4,342,011	4,342,011
<b>December 31, 2018</b>					
Cash and cash equivalents	2,607,676	-	-	2,607,676	2,607,676

Financial liabilities	Carrying values			Total	Fair values
	FVTPL		AC		Total
<b>March 31, 2019</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade payables	-		605,217	605,217	605,217
Accrued liabilities	-		2,025,356	2,025,356	2,025,356
Debts payable	-		14,971,386	14,971,386	14,971,386
Lease obligations	-		5,627,975	5,627,975	5,627,975
	-		23,229,934	23,229,934	23,229,934
<b>December 31, 2018</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade payables	-		1,557,153	1,557,153	1,557,153
Accrued liabilities	-		1,192,208	1,192,208	1,192,208
Debts payable	-		14,972,617	14,972,617	14,972,617
	-		17,721,978	17,721,978	17,721,978

The Company's financial instruments as at March 31, 2019 and December 31, 2018 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company's management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with company policies and company risk appetite.

**(b) Credit Risk**

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, and accounts receivable.

**SIRA NATURALS, INC.**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**14. FINANCIAL RISK FACTORS (continued)**

**(b) Credit Risk (continued)**

The cash and cash equivalents consist mainly of checking and operating accounts, cash and security deposits. The Company has deposited the cash equivalents with a major highly reputable US bank. For its accounts receivable, the Company ensures to deal with creditworthy customers. As at March 31, 2019 and December 31, 2018 the maximum amount exposed to credit risks was \$4,342,011 and \$2,607,676, respectively.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019, all trade payables and accrued liabilities are due within a year, whereas, long term debts over a period of five years.

**(d) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its long-term debts.

**15. SEGMENTED INFORMATION**

***Operating and geographical segments***

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operating and geographical segment engaged in the growing, processing and distribution of cannabis.

**16. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.



**SCHEDULE "G"**  
**CANOPY INTERIM FINANCIAL STATEMENTS**

(see attached)

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**THE CANOPY NV, LLC**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL**  
**STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

**Notice to reader**

The accompanying unaudited condensed interim consolidated financial statements of Canopy NV, LLC (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

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**THE CANOPY NV, LLC**

**Unaudited Condensed Interim Consolidated Financial Statements**

**March 31, 2019 and 2018**

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of The Canopy NV, LLC:

The accompanying unaudited condensed interim consolidated financial statements and other financial information in this report were prepared by management of The Canopy NV, LLC (“the Company”), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company’s financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company’s unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of unaudited condensed interim consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

“Mark Pitchford” (Signed)  
Chief Executive Officer

“Lilian Yohn” (Signed)  
Chief Financial Officer

**THE CANOPY NV, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
**At March 31, 2019 and December 31, 2018**

	March 31, 2019 \$	December 31, 2018 \$
<b>ASSETS</b>		
Current		
Cash	222,626	172,576
Inventory [Note 5]	1,163,196	1,310,676
Advance to a related corporation [Note 10]	1,217,830	690,461
Prepaid expenses and other assets	153,353	122,167
	2,757,005	2,295,880
Intangible assets [Note 6]	1,623,114	1,623,114
Property plant and equipment [Note 7]	1,220,641	1,235,993
Right-of-use assets [Note 8]	2,427,320	-
<b>Total assets</b>	<b>8,028,080</b>	<b>5,154,987</b>
<b>LIABILITIES</b>		
Current		
Accrued liabilities	349,301	268,156
Lease obligations - current portion [Note 8]	62,841	-
	412,142	268,156
Debt payable [Note 13]	421,128	421,128
Lease obligations - non-current portion [Note 8]	2,397,955	-
<b>Total liabilities</b>	<b>3,231,225</b>	<b>689,284</b>
<b>MEMBERS' EQUITY</b> [Note 9]	<b>4,796,855</b>	<b>4,465,703</b>
<b>Total liabilities and members' equity</b>	<b>8,028,080</b>	<b>5,154,987</b>

*Nature of operations [Note 1]*

*Contingencies [Note 14]*

*Subsequent events [Note 17]*

*Approved and authorized by the Board of Directors on August 5, 2019*

\_\_\_\_\_  
 "Mark Pitchford" (Signed)  
 Chief Executive Officer

\_\_\_\_\_  
 "Lilian Yohn" (Signed)  
 Chief Financial Officer

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**THE CANOPY NV, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Operations**  
**For the Three Months Ended March 31, 2019 and 2018**

	For the Three months ended March 31, 2019 \$	For the Three months ended March 31, 2018 \$
<b>Revenues, net of discounts</b>	<b>3,627,129</b>	2,589,630
Cost of goods sold [Note 5]	<b>(2,113,680)</b>	(1,320,141)
<b>Gross profit</b>	<b>1,513,449</b>	1,269,489
<b>Expenses</b>		
General and administrative [Note 12]	<b>590,157</b>	396,004
Sales and marketing	<b>95,198</b>	62,643
Depreciation [Note 7 & 8]	<b>77,596</b>	7,158
Management fee [Note 10]	<b>180,000</b>	60,000
<b>Total expenses</b>	<b>942,951</b>	525,805
<b>Income from operations</b>	<b>570,498</b>	743,684
<b>Other expense</b>		
Net finance costs	<b>78,446</b>	-
<b>Net income</b>	<b>492,052</b>	743,684

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

THE CANOPY NV, LLC  
**Unaudited Condensed Interim Consolidated Statements of Changes in Members' Equity**  
**For the Three Months Ended March 31, 2019 and 2018**

	Members' Equity \$
<b>Balance as of December 31, 2017</b>	<b>3,280,127</b>
Distributions	(444,000)
Net income for the period	743,684
<b>Balance as at March 31, 2018</b>	<b>3,579,811</b>
<b>Balance as of December 31, 2018</b>	<b>4,465,703</b>
Distributions	(160,900)
Net income for the period	492,052
<b>Balance as at March 31, 2019</b>	<b>4,796,855</b>

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**THE CANOPY NV, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Operating activities</b>		
Net income	492,052	743,684
<i>Adjustments for items not affecting cash:</i>		
Depreciation of property plant and equipment and right-of-use assets	77,596	7,158
<i>Changes in working capital items:</i>		
Inventory	147,480	(27,170)
Prepaid expenses and other assets	(31,186)	157,977
Advance to a related corporation	(527,369)	97,251
Trade payables	-	67,435
Accrued liabilities	81,145	(35,991)
Cash provided by operating activities	239,718	1,010,344
<b>Investing activities</b>		
Purchase of property, plant and equipment	(8,491)	(665,795)
Cash used in investing activities	(8,491)	(665,795)
<b>Financing activities</b>		
Distributions	(160,900)	(444,000)
Repayment of lease obligations	(20,277)	-
Cash used in financing activities	(181,177)	(444,000)
<b>Net increase (decrease) in cash</b>	<b>50,050</b>	<b>(99,451)</b>
<b>Cash, beginning of period</b>	<b>172,576</b>	<b>821,928</b>
<b>Cash, end of period</b>	<b>222,626</b>	<b>722,477</b>

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.



**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS**

The CANOPY NV, LLC (“Canopy” or the “Company”) was incorporated as Domestic Limited Liability Company on April 1, 2016 in the State of Nevada, United States of America (“USA”). The Company’s head office is located at 1645 Crane Way, Sparks, Nevada 89431.

The Company’s management, operations, structure and other matters are governed through an Operating Agreement entered between the members and Managers of the Company on April 20, 2016. The Company’s principal activities, through its subsidiaries, are the distribution and sale of cannabis as regulated under the laws applicable in the USA.

**2. BASIS OF PRESENTATION 2.1 Statement of compliance**

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards (“IFRS”). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s 2018 consolidated financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases (“IFRS 16”) effective from January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

**2.2 Basis of presentation**

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The unaudited condensed interim consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Basis of consolidation**

The unaudited condensed interim consolidated financial statements include the unaudited condensed interim financial statements of the Company and its wholly owned subsidiaries – Kynd Strainz LLC (“Kynd”) and Lemon Aide LLC (“Lemon”), Limited Liabilities Companies, incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the period are included in the unaudited condensed interim consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation. Lemon started operations in 2018.

The unaudited condensed interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2 Leases**

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim consolidated statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the unaudited condensed interim consolidated statements of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the unaudited condensed interim consolidated statements of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**4. CHANGES IN ACCOUNTING STANDARDS**

**Adoption of New Accounting Pronouncement**

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**4. CHANGES IN ACCOUNTING STANDARDS (continued)**

**Adoption of New Accounting Pronouncement (continued)**

Adoption of IFRS 16 – Leases (continued)

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

**Changes in Accounting Standards not yet Effective**

Insurance Contracts

In May 2017, the International Accounting Standards Board (“IASB”) issued IFRS 17 - Insurance Contracts (“IFRS 17”), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

**5. INVENTORY**

Inventory comprised of finished goods.

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 is \$2,113,680 and \$1,320,141, respectively.

**6. INTANGIBLE ASSETS**

Intangible assets represent dispensary licenses obtained by the two subsidiaries. Intangible assets of \$1,623,114 include \$1,500,000 contribution from a member.

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**7. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost</b>	<b>Leasehold improvements \$</b>	<b>Furniture &amp; Fixtures \$</b>	<b>Office Equipment \$</b>	<b>Vehicle</b>	<b>Total \$</b>
<b>As at December 31, 2018</b>	<b>1,051,853</b>	<b>167,640</b>	<b>77,444</b>	<b>6,305</b>	<b>1,303,242</b>
Additions	-	7,788	703	-	8,491
<b>As at March 31, 2019</b>	<b>1,051,853</b>	<b>175,428</b>	<b>78,147</b>	<b>6,305</b>	<b>1,311,733</b>
<b>Depreciation</b>					
<b>As at December 31, 2018</b>	<b>22,988</b>	<b>33,479</b>	<b>10,106</b>	<b>676</b>	<b>67,249</b>
Depreciation	13,149	6,597	3,872	225	23,843
<b>As at March 31, 2019</b>	<b>36,137</b>	<b>40,076</b>	<b>13,978</b>	<b>901</b>	<b>91,092</b>
<b>Net book value</b>					
<b>As at December 31, 2018</b>	<b>1,028,865</b>	<b>134,161</b>	<b>67,338</b>	<b>5,629</b>	<b>1,235,993</b>
<b>As at March 31, 2019</b>	<b>1,015,716</b>	<b>135,352</b>	<b>64,169</b>	<b>5,404</b>	<b>1,220,641</b>

Depreciation expense for the three months ended March 31, 2019 and 2018 of \$Nil, is included in cost of goods sold.

**8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS**

	<b>Right-of- use assets \$</b>	<b>Lease obligations \$</b>
Net book value at January 1, 2019	2,481,073	2,481,073
Depreciation and repayment	53,753	20,277
<b>Net book value at March 31, 2019</b>	<b>2,427,320</b>	<b>2,460,796</b>

Right-of-use assets and lease obligations of \$2,481,073 were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rates applied were in the range of 9.84% to 11.62%.

As at March 31, 2019, the current and non-current portion of the lease obligations were \$62,841 and \$2,397,955, respectively.

**9. MEMBERS' EQUITY**

During the three months ended March 31, 2019 and 2018, members made cash contributions of \$nil to the Company.

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**10. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim consolidated financial statements, related party transactions and balances are as follows:

The Company purchases a substantial portion of its inventory from a related corporation. These purchases are made at arms-length rates, in line with rates charged to third party customers of the related corporation.

Included in expenses for the three months ended March 31, 2019 and 2018 is management fees of \$180,000 and \$60,000, respectively. The management fee started on January 1, 2017 and was paid monthly. The monthly fee varied based on an allocation of the related corporation's expenses and was a month-to-month arrangement.

Advance to a related corporation of \$1,217,830 and \$690,461 were outstanding as at March 31, 2019 and December 31, 2018, respectively. These advances are unsecured, interest free and repayable on demand.

No compensation was paid to key management for the three months ended March 31, 2019 and 2018.

**11. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three ended March 31, 2019. The Company is not subject to externally imposed capital requirements. As at March 31, 2019 and December 31, 2018, the capital of the Company was \$4,796,855 and \$4,465,703, respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**12. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	March 31, 2019	March 31, 2018
	\$	\$
Salaries and benefits	292,372	268,412
Rent	58,120	55,981
Taxes and licenses	129,102	23,718
Professional and consulting fees	24,840	2,350
Insurance	27,354	14,713
Office expenses	15,550	5,793
Computer expenses	13,663	6,043
Repair and maintenance	4,850	3,551
Utilities	4,838	3,419
Others	19,468	12,024
	590,157	396,004

**13. DEBTS PAYABLE**

On October 1, 2018, the Company borrowed \$421,128 in connection with the construction of a dispensary. The loan bears interest at a rate of 5% per annum and is due in 2020.

**14. CONTINGENCIES**

**Contingencies**

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**Claims and litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**15. FINANCIAL RISK FACTORS**

The Company's financial instruments mainly comprise of cash, advance to a related corporation, trade payables, accrued liabilities, due to related corporation and lease obligations.

**(a) Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

Financial assets	Carrying values			Fair values	
	FVTPL	FVTOCI	AC	Total	Total
<b>March 31, 2019</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	222,626	-	-	222,626	222,626
Advance to a related corporation	-	-	1,217,830	1,217,830	1,217,830
	222,626	-	1,217,830	1,440,456	1,440,456
<b>December 31, 2018</b>					
Cash	172,576	-	-	172,576	172,576
Advance to a related corporation		-	690,461	690,461	690,461
	172,576	-	690,461	863,037	863,037

**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**15. FINANCIAL RISK FACTORS (continued)**

*(a) Fair Value (continued)*

Financial liabilities	Carrying values		Total	Fair values
	FVTPL	AC		Total
<b>March 31, 2019</b>	\$	\$	\$	\$
Accrued liabilities	-	349,301	349,301	349,301
Lease obligations	-	2,460,796	2,460,796	2,460,796
Debt payable	-	421,128	421,128	421,128
	-	3,231,225	3,231,225	3,231,225
<b>December 31, 2018</b>				
Accrued liabilities	-	268,156	268,156	268,156
Debt payable	-	421,128	421,128	421,128
	-	689,284	689,284	689,284

The Company's financial instruments as at March 31, 2019 and December 31, 2018 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's management is supported by the members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

*(b) Credit Risk*

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and advance to a related corporation. As at March 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was \$1,440,456 and \$863,037, respectively.

*(c) Liquidity Risk*

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members. As at March 31, 2019, all trade payables and accrued liabilities are due within a year.



**THE CANOPY NV, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**16. SEGMENTED INFORMATION**

*Operating and geographical segments*

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operating and geographical segment engaged in the distribution and sale of cannabis.

**17. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

**SCHEDULE “H”  
WASHOE INTERIM FINANCIAL STATEMENTS**

(see attached)

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**WASHOE WELLNESS, LLC**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

**Notice to reader**

The accompanying unaudited condensed interim consolidated financial statements of Washoe Wellness, LLC (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

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**WASHOE WELLNESS, LLC**

**Unaudited Condensed Interim Consolidated Financial Statements**

**March 31, 2019 and 2018**

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**MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management's Responsibility

To the Members of Washoe Wellness, LLC:

The accompanying unaudited condensed interim consolidated financial statements and other financial information in this report were prepared by management of Washoe Wellness, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of unaudited condensed interim consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

"Mark Pitchford" (Signed)  
Chief Executive Officer

"Lilian Yohn" (Signed)  
Chief Financial Officer

**WASHOE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
**At March 31, 2019 and December 31, 2018**

	March 31, 2019 \$	December 31, 2018 \$
<b>ASSETS</b>		
Current		
Cash	722,273	345,987
Accounts receivable, no allowance	133,075	350,974
Inventory [Note 5]	2,519,505	2,035,578
Biological assets [Note 6]	1,646,000	1,244,313
Other receivables	-	11,532
Prepaid expenses and other assets	197,933	211,923
	5,218,786	4,200,307
Intangible assets [Note 7]	80,894	80,894
Property, plant and equipment [Note 8]	8,961,601	8,846,196
Investment in associate [Note 9]	1,939,517	1,664,347
<b>Total assets</b>	<b>16,200,798</b>	<b>14,791,744</b>
<b>LIABILITIES</b>		
Current		
Trade payables	577,458	861,240
Accrued liabilities	162,209	107,472
Advance from a related corporation [Note 12]	1,217,830	690,461
	1,957,497	1,659,173
Debts payable - non-current portion [Note 10]	9,162,306	9,182,006
<b>Total liabilities</b>	<b>11,119,803</b>	<b>10,841,179</b>
<b>MEMBERS' EQUITY [Note 11]</b>	<b>5,080,995</b>	<b>3,950,565</b>
<b>Total liabilities and members' equity</b>	<b>16,200,798</b>	<b>14,791,744</b>

*Nature of operations [Note 1]*

*Commitment and contingencies [Note 15]*

*Subsequent events [Note 18]*

Approved and authorized by the Board of Directors on August 5, 2019.

\_\_\_\_\_  
 "Mark Pitchford" (Signed)  
 Chief Executive Officer

\_\_\_\_\_  
 "Lilian Yohn" (Signed)  
 Chief Financial Officer

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**WASHOE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Operations**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Revenues, net of discounts</b>	<b>1,972,925</b>	<b>1,707,193</b>
Cost of goods sold before biological asset adjustment	<b>(1,017,328)</b>	<b>(865,140)</b>
Gross profit before biological asset adjustment	<b>955,597</b>	<b>842,053</b>
Fair value changes in biological assets included in cost of sales	<b>(804,650)</b>	<b>(551,056)</b>
Unrealized gain on biological asset transformation	<b>1,227,204</b>	<b>1,003,455</b>
<b>Gross profit</b>	<b>1,378,151</b>	<b>1,294,452</b>
<b>Expenses</b>		
General and administrative [Note 14]	<b>160,492</b>	<b>257,079</b>
Sales and marketing	<b>55,369</b>	<b>33,258</b>
Management fees [Note 15]	<b>120,000</b>	<b>-</b>
Depreciation [Note 8]	<b>95,266</b>	<b>67,488</b>
<b>Total expenses</b>	<b>431,127</b>	<b>357,825</b>
<b>Income from operations</b>	<b>947,024</b>	<b>936,627</b>
<b>Other income (expense)</b>		
Share of income on equity investments [Note 9]	<b>275,170</b>	<b>807,121</b>
Interest expense	<b>(94,888)</b>	<b>(84,720)</b>
Interest income	<b>-</b>	<b>12,067</b>
Management fee income [Note 12]	<b>-</b>	<b>60,000</b>
Rental income and others	<b>23,124</b>	<b>23,124</b>
<b>Total other income</b>	<b>203,406</b>	<b>817,592</b>
<b>Net income</b>	<b>1,150,430</b>	<b>1,754,219</b>

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**WASHOE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Members' Equity**  
**For the Three Months Ended March 31, 2019 and 2018**

	<b>Members' Equity \$</b>
<b>Balance as at December 31, 2017</b>	<b>2,444,394</b>
Distributions	-
Net income for the period	1,754,219
<b>Balance as at March 31, 2018</b>	<b>4,198,613</b>
<b>Balance as at December 31, 2018</b>	<b>3,950,565</b>
Distributions	(20,000)
Net income for the period	1,150,430
<b>Balance as at March 31, 2019</b>	<b>5,080,995</b>

The accompanying notes are in integral part of these unaudited condensed interim consolidated financial statements.



**WASHOE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Operating activities</b>		
Net income	1,150,430	1,754,219
<i>Adjustments for items not affecting cash:</i>		
Depreciation of property, plant and equipment	110,774	78,475
Share of income on equity investments	(275,170)	(807,121)
Unrealized gain on biological asset transformation	(1,227,204)	(1,003,455)
Fair value changes in biological assets included in cost of sales	804,650	551,056
<i>Changes in working capital items:</i>		
Accounts receivable	217,899	121,649
Other receivables	11,532	-
Inventory	(483,927)	(459,889)
Biological assets	20,867	(64,994)
Prepaid expenses and other assets	13,990	524,202
Trade payables	(283,782)	2,539,556
Accrued liabilities	54,737	(11,454)
Advance from a related corporation	527,369	(97,251)
Cash provided by operating activities	642,165	3,124,993
<b>Investing activities</b>		
Investment in associate	-	(10)
Purchase of property, plant and equipment	(226,179)	(311,762)
Receipts of loans receivable	-	13,309
Cash used in investing activities	(226,179)	(298,463)
<b>Financing activities</b>		
Repayments of debts payable	-	(2,361,998)
Proceeds from issuance of debts payable	(19,700)	-
Distributions	(20,000)	-
Cash used in financing activities	(39,700)	(2,361,998)
<b>Net increase in cash</b>	376,286	464,532
<b>Cash, beginning of period</b>	345,987	1,435,345
<b>Cash, end of period</b>	722,273	1,899,877
<b>Supplemental cash flow information</b>		
Interest paid	94,888	58,944

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS**

Washoe Wellness, LLC (“Washoe” or the “Company”) was incorporated as a Limited Liability Company on June 23, 2014 in the State of Nevada, United States of America (“USA”). The Company’s head office is located at 1645 Crane Way, Sparks, NV 89431.

The Company’s management, operations, structure and other matters are governed through an Operating Agreement entered between the Members and Managers of the Company on November 5, 2014. The Company’s principal activities, through its subsidiaries, are the growing, processing and distribution of cannabis as regulated under the laws applicable in the USA.

**2. BASIS OF PRESENTATION**

**2.1 Statement of compliance**

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards (“IFRS”). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s 2018 consolidated financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases (“IFRS 16”) effective from January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

**2.2 Basis of presentation**

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The unaudited condensed interim consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Basis of Consolidation**

The unaudited condensed interim consolidated financial statements include the unaudited condensed interim financial statements of the Company and its wholly owned subsidiaries – Tahoe-Reno Extractions, LLC (“TRE”), Tahoe-Reno Botanicals, LLC (“TRB”) and DWC Investments, LLC, Limited Liabilities Companies, and KLYMB Project Management, Inc., incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the period are included in the unaudited condensed interim consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation.

The unaudited condensed interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2 Leases**

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use assets and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim consolidated statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in Selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**4. CHANGES IN ACCOUNTING STANDARDS**

**Adoption of New Accounting Pronouncement**

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). The adoption of IFRS 16 did not result in any recognition of right-of-use assets and the related lease obligations as none of the leases met the criteria of capitalization.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**4. CHANGES IN ACCOUNTING STANDARDS (continued)**

**Changes in Accounting Standards not yet Effective**

Insurance Contracts

In May 2017, the International Accounting Standards Board (“IASB”) issued IFRS 17 - Insurance Contracts (“IFRS 17”), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

**5. INVENTORY**

The Company’s inventory includes the following:

	<b>March 31, 2019</b>			<b>December 31, 2018</b>		
	<b>Capitalized cost</b>	<b>Fair value adjustment</b>	<b>Carrying value</b>	<b>Capitalized cost</b>	<b>Fair value adjustment</b>	<b>Carrying value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><i>Harvested cannabis</i></b>						
Work in process	329,856	24,073	353,929	51,922	-	51,922
Finished goods	177,676	121,040	298,716	268,340	(29,676)	238,664
	507,532	145,113	652,645	320,262	(29,676)	290,586
<b><i>Cannabis oils</i></b>						
Raw materials	83,669	10,909	94,578	130,409	31,713	162,122
Work in process	575,355	49,031	624,386	1,384,047	102,105	1,486,152
Finished goods	75,284	4,121	79,405	58,385	8,347	66,732
	734,308	64,061	798,369	1,572,841	142,165	1,715,006
<b><i>Accessories and supplies</i></b>	1,068,491	-	1,068,491	29,986	-	29,986
	2,310,331	209,174	2,519,505	1,923,089	112,489	2,035,578

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 are \$70,852 and \$283,753, respectively. These exclude the fair market value changes of biological assets.

Non-cash expense relating to change in fair value of inventory sold recognized during the three months ended March 31, 2019 and 2018 are \$804,650 and \$551,056, respectively.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**6. BIOLOGICAL ASSETS**

The continuity of biological assets was as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Balance, at beginning	1,244,313	1,232,350
Production costs	334,824	3,049,368
Fair value change	1,294,067	968,197
Transferred to inventory upon harvest	(1,227,204)	(4,005,602)
<b>Balance, at end</b>	<b>1,646,000</b>	<b>1,244,313</b>

As of March 31, 2019, and December 31, 2018, the weighted average fair value less cost to complete and cost to sell was \$3.14 and \$3.39 per gram, respectively.

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(e) Cumulative stage of completion in production process	Level 3 input

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Significant inputs or assumptions	Range of inputs	Sensitivity	Effect on fair value	
			March 31, 2019	December 31, 2018
			\$	\$
Selling price per gram*	\$3.83 to \$4.16	Increase or decrease of \$1 per gram	617,716	366,308
Average yield per plant**	302 to 370 grams	Increase or decrease by 5 grams per plant	37,191	21,299

\*Selling price per gram is based on average selling prices for the period.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of March 31, 2019, and December 31, 2018, the biological assets were on average 55% and 51% complete, respectively. During the three months ended March 31, 2019 and year ended December 31, 2018, the Company's biological assets produced 390,345 grams and 1,181,220 grams of dried cannabis, respectively.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**7. INTANGIBLE ASSETS**

Intangible assets having indefinite lives consisted of the following:

	March 31, 2019 \$	December 31, 2018 \$
Product rights	59,894	59,894
Domain name	16,000	16,000
Trademarks	5,000	5,000
	<b>80,894</b>	<b>80,894</b>

**8. PROPERTY, PLANT AND EQUIPMENT**

	Land \$	Buildings & leasehold improvements \$	Furniture & fixtures \$	Office equipment \$	Machinery & equipment \$	Auto & trucks \$	Total \$
<b>Cost</b>							
As at December 31, 2018	896,444	7,447,311	62,684	104,211	1,141,003	34,322	9,685,975
Additions	-	165,673	1,150	3,848	55,508	-	226,179
As at March 31, 2019	896,444	7,612,984	63,834	108,059	1,196,511	34,322	9,912,154
<b>Depreciation</b>							
As at December 31, 2018	-	285,893	8,134	46,436	491,609	7,707	839,779
Depreciation	-	48,473	2,241	5,210	53,134	1,716	110,774
As at March 31, 2019	-	334,366	10,375	51,646	544,743	9,423	950,553
<b>Net book value</b>							
As at December 31, 2018	896,444	7,161,418	54,550	57,775	649,394	26,615	8,846,196
As at March 31, 2019	896,444	7,278,618	53,459	56,413	651,768	24,899	8,961,601

As at March 31, 2019 and December 31, 2018, buildings and leasehold improvements include borrowing costs of \$204,660 capitalized in connection with loan used for the construction of buildings.

Depreciation expense for the three months ended March 31, 2019 and 2018 of \$15,508 and \$10,987, respectively, is included in cost of goods sold.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**9. INVESTMENT IN ASSOCIATE**

The Company has a 52% participating interest in one of its related corporations. Management has concluded that the current participating interest does not provide control to the Company. Accordingly, the current investment has been accounted for as investment in associate using the equity method as detailed below:

	March 31, 2019 \$	December 31, 2018 \$
Balance, at beginning	1,664,347	1,200,651
Dividends	-	(1,178,719)
Share of income	275,170	1,642,415
<b>Balance, at end</b>	<b>1,939,517</b>	<b>1,664,347</b>

The following table presents a summary of statement of financial position and statement of operations of the investee:

	March 31, 2019 \$	December 31, 2018 \$
Current assets	2,757,005	2,295,880
Non-current assets	5,271,075	2,859,107
Current liabilities	412,128	689,284
Revenue	3,627,129	11,748,244
Income	570,498	3,150,573

**10. DEBTS PAYABLE**

The details of debts payable were as follows:

	March 31, 2019 \$	December 31, 2018 \$
Revolving line of credit promissory note (a)	6,561,819	6,561,749
Loan payable to a third party (b) and (c)	2,600,487	2,620,257
<b>Total debts payable</b>	<b>9,162,306</b>	<b>9,182,006</b>
Less: Current portion	-	-
<b>Debts payable - Non-current portion</b>	<b>9,162,306</b>	<b>9,182,006</b>

Total debt payable includes interest payable as at March 31, 2019 and December 31, 2018 of \$961,818 and \$961,818 respectively.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**10. DEBTS PAYABLE (continued)**

As at March 31, 2019, the maturity profile of the principal amounts of debts outstanding are as follows:

<b>Year ending December 31</b>	<b>\$</b>
2019 (9 months)	-
2020	161,590
2021	123,322
2022	2,213,481
Thereafter	6,663,913
	<b>9,162,306</b>

**(a) Revolving line of credit promissory note**

Debt under this arrangement represented financing obtained from a related corporation under an original Revolving Line of Credit Note dated November 5, 2014 of a maximum borrowing limit of \$2,500,000, which was revised from time to time. Effective January 1, 2017, the Company entered into a Restated Revolving Line of Credit, which replaced the revolving line of credit note with a straight promissory note of \$5,600,000 with maturity date extended indefinitely.

The promissory note carries an interest of 6% per annum to be paid monthly. If monthly payment of interest is not made timely, the interest for the period of the missed payment shall accrue at the default interest rate of 12%. The Company granted a 5% membership interest to the note holder due to the principal amount of note was not repaid by June 30, 2017 (First Repayment Date). Subsequently, a further 5% membership interest was granted to the note holder when the principal amount of the note was not repaid by December 31, 2017 (Second Repayment Date).

As at March 31, 2019, the entire principal amount remained outstanding. A 5% membership interest was granted to the note holder subsequent to the First Repayment Date, and a further 5% membership interest was granted to the note holder subsequent to the Second Repayment Date. In addition, as at March 31, 2019 and December 31, 2018, accrued interest, included in debts payable – non-current portion, the amount of \$961,818 has remained unpaid. The principal amounts outstanding as at March 31, 2019 and December 31, 2018 were \$5,600,000.

**(b) Loan Payable to a Third Party**

Effective August 24, 2017, the Company obtained a loan of \$2,525,000 for a term of five years from a third party. This loan carries interest at 5% per annum with a monthly blended payment of \$16,664, started from October 1, 2017 with a final payment of \$2,123,899 on September 1, 2022. The loan is secured by a deed of trust with assignment of rents on the Company's land and buildings in favour of the lender. The principal amounts outstanding as at March 31, 2019 and December 31, 2018, were \$2,410,487 and \$2,430,187, respectively.

**(c) Loan Payable to a Third Party**

On July 23, 2018, the Company borrowed \$190,000 in connection with the purchase of land. The loan bears interest at a rate of 6% per annum and is due in 2023. Monthly installments of principal and interest in an amount of \$3,673 beginning on July 23, 2020. The loan is secured by a deed of trust. Should the Company prepay this loan by July 23, 2019, the principal amount will be reduced by \$25,000. The principal amounts outstanding as at March 31, 2019 and December 31, 2018, were \$190,000.



**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**11. MEMBERS' EQUITY**

In a series of transaction in Q2 2018, the Company adjusted its capital structure. On May 31, 2018, the Company (i) added additional members, granting them membership interests in exchange for services provided on a historical and ongoing basis, (ii) created a revised membership class structure to reflect these new members and (iii) allowed an existing member to make an additional capital contribution to the Company. On June 4, 2018, the aforementioned member increased the amount of the additional capital contribution of \$1,100,000.

**12. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim consolidated financial statements, related party transactions and balances are as follows:

Included in other income for the three months ended March 31, 2019 is management fee of \$nil, received from a related corporation (March 31, 2018 - \$60,000). The management fee started on January 1, 2018 and was paid monthly. The monthly fee varied based on an allocation of the Company's expenses and was a month-to-month arrangement.

During the three months ended March 31, 2019, sales of \$1,576,525 made to a related corporation is included in revenue and purchase of \$259,772 from a related corporation is included in cost of goods sold.

Advance from a related corporation of \$1,217,830 and \$690,461 was outstanding as at March 31, 2019 and December 31, 2018, respectively. The advance from a related corporation is unsecured, interest free and is repayable on demand.

During the three months ended March 30, 2019 and 2018, management fees of \$120,000 and \$nil, respectively, were paid to a related party under consulting agreements. TRE and TRB each pay \$20,000 per month (\$40,000 per month in total) under these agreements, which were executed and were effective on June 1, 2018. These agreements have a three-year term and automatically renew every three years unless any party gives notice of their intent to terminate the agreement. Any party may also terminate the agreement at any time with 120 days notice.

The following outlines the compensation of the Company's key management personnel:

	<b>March 31, 2019</b>	March 31, 2018
	<b>\$</b>	\$
Salaries and benefits to key management personnel	<b>6,000</b>	43,754

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**13. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements. As at March 31, 2019, and December 31, 2018, the capital of the Company was \$5,080,995 and \$3,950,565 respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

The Company invest all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

**14. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	March 31, 2019 \$	March 31, 2018 \$
Salaries and benefits	78,133	161,623
Professional and consulting fees	17,666	13,502
Computer expenses	11,854	27,496
Shipping expenses	11,434	13,600
Office expenses	7,133	9,389
Utilities	3,475	2,870
Insurance	2,793	(9,128)
Taxes and licenses	1,506	1,185
	-	4,712
Others	26,498	31,830
	160,492	257,079

**15. COMMITMENTS AND CONTINGENCIES**

**Contingencies**

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**15. COMMITMENTS AND CONTINGENCIES (continued)**

**Contingencies (continued)**

While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**Claims and litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

**Management Fees**

On June 1, 2018 the Company entered into consulting agreements with a related party. Under these agreements TRE and TRB each pay \$20,000 per month (\$40,000 per month in total) for administrative, support, and management services. These agreements have a three-year term and automatically renew every three years unless any party gives notice of their intent to terminate the agreement. Any party may also terminate the agreement at any time with 120 days notice.

Future minimum payments under this agreement, assuming no party terminates the agreements prior to the three-year initial term, are as follows:

<b>Year ending December 31</b>	<b>\$</b>
<b>2019 (9 months)</b>	<b>360,000</b>
<b>2020</b>	<b>480,000</b>
<b>2021</b>	<b>200,000</b>
	<b>1,040,000</b>

**16. FINANCIAL RISK FACTORS**

The Company's financial instruments mainly comprise of cash, accounts receivable, other receivables, trade payables, accrued liabilities, advance from a related corporation and debts payable.

**(a) Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**16. FINANCIAL RISK FACTORS (continued)**

**(a) Fair Value (continued)**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

Financial assets	Carrying values			Fair values	
	FVTPL	FVTOCI	AC	Total	Total
<b>March 31, 2019</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	722,273	-	-	722,273	722,273
Accounts receivable	-	-	133,075	133,075	133,075
	722,273	-	133,075	855,348	855,348
<b>December 31, 2018</b>					
Cash	345,987	-	-	345,987	345,987
Accounts receivable	-	-	350,974	350,974	350,974
Other receivables	-	-	11,532	11,532	11,532
	345,987	-	362,506	708,493	708,493

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**16. FINANCIAL RISK FACTORS (continued)**

**(a) Fair Value (continued)**

Financial liabilities	Carrying values		Total	Fair values
	FVTPL	AC		Total
<b>March 31, 2019</b>	\$	\$	\$	\$
Trade payables	-	577,458	577,458	577,458
Accrued liabilities	-	162,209	162,209	162,209
Advance from a related corporation	-	1,217,830	1,217,830	1,217,830
Debts payable	-	9,162,306	9,162,306	9,162,306
	-	11,119,803	11,119,803	11,119,803
<b>December 31, 2018</b>	\$	\$	\$	\$
Trade payables	-	861,240	861,240	861,240
Accrued liabilities	-	107,472	107,472	107,472
Advance from a related corporation	-	690,461	690,461	690,461
Debts payable	-	9,182,006	9,182,006	9,182,006
	-	10,841,179	10,841,179	10,841,179

The Company's financial instruments as at March 31, 2019 and December 31, 2018 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company's management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

**(b) Credit Risk**

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable and other receivables. For its accounts receivable, the Company ensures to deal with creditworthy customers. As at March 31, 2019 and 31 December 2018, the maximum amount exposed to credit risks was \$855,348 and \$708,493 respectively.

During the three months ended March 31, 2019, revenue from one customer is approximately 41% (March 31, 2018: 41%) of total revenue and none for purchases of raw materials from suppliers (March 31, 2018: none).

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019, all trade payables and accrued liabilities are due within a year, whereas, long term debts over a period of seven years.

**WASHOE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**17. SEGMENTED INFORMATION**

*Operating and geographical segments*

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operation and geographical segment engaged in the growing, processing and distribution of cannabis.

**18. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

**SCHEDULE "I"**  
**LIVFREE INTERIM FINANCIAL STATEMENTS**

(see attached)

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**LIVFREE WELLNESS, LLC**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

**(EXPRESSED IN UNITED STATES DOLLARS)**

**Notice to reader**

The accompanying unaudited condensed interim consolidated financial statements of Livfree Wellness, LLC (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors

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**LIVFREE WELLNESS, LLC**

**Unaudited Condensed Interim Consolidated Financial Statements**

**March 31, 2019 and 2018**

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**MANAGEMENT’S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management’s Responsibility

To the Members of Livfree Wellness, LLC:

The accompanying unaudited condensed interim consolidated financial statements and other financial information in this report were prepared by management of Livfree Wellness, LLC (“the Company”), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company’s financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company’s unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of unaudited condensed interim consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

“Steve Menzies” (Signed)  
Managing Member

“Timothy Harris” (Signed)  
Chief Financial Officer

**LIVFREE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
**At March 31, 2019 and December 31, 2018**

	March 31, 2019 \$	December 31, 2018 \$
<b>ASSETS</b>		
Current		
Cash	2,182,938	2,196,398
Inventory [Note 5]	2,557,557	2,344,459
Due from a related corporation [Note 11]	89,389	-
Prepaid expenses and other assets	123,589	248,769
	4,953,473	4,789,626
Property, plant and equipment [Note 6]	1,673,445	1,625,978
Investment in associate [Note 8]	3,331,885	3,354,501
Right-of-use assets [Note 7]	2,230,783	-
<b>Total assets</b>	<b>12,189,586</b>	<b>9,770,105</b>
<b>LIABILITIES</b>		
Current		
Trade payables	849,613	1,150,649
Accrued liabilities	1,426,638	984,367
Distributions payables [Note 11]	-	280,000
Lease obligations - current portion [Note 7]	231,379	-
Debt payable - current portion [Note 9]	160,000	220,000
	2,667,630	2,635,016
Lease obligations - Non-current portion [Note 7]	1,985,735	-
<b>Total liabilities</b>	<b>4,653,365</b>	<b>2,635,016</b>
<b>MEMBERS' EQUITY [Note 10]</b>	<b>7,536,221</b>	<b>7,135,089</b>
<b>Total liabilities and members' equity</b>	<b>12,189,586</b>	<b>9,770,105</b>

*Nature of operations [Note 1]*

*Contingencies [Note 14]*

*Subsequent events [Note 17]*

*Approved and authorized by the Board of Directors on August 5, 2019*

“Steve Menzies” (Signed)

Managing Member

“Timothy Harris” (Signed)

Chief Financial Officer

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**LIVFREE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Operations**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Revenues, net of discounts</b>	<b>11,935,852</b>	<b>7,238,675</b>
Cost of goods sold	(7,651,562)	(4,637,085)
<b>Gross profit</b>	<b>4,284,290</b>	<b>2,601,590</b>
<b>Expenses</b>		
General and administrative [Note 13]	961,988	726,196
Sales and marketing	220,044	59,792
Depreciation [Note 6 & 7]	137,156	45,048
<b>Total expenses</b>	<b>1,319,188</b>	<b>831,036</b>
<b>Net income from operations</b>	<b>2,965,102</b>	<b>1,770,554</b>
<b>Other expenses (income)</b>		
Net finance costs	41,354	-
Share of loss (income) on investment in associate [Note 8]	22,616	(68,725)
<b>Total other expenses (income)</b>	<b>63,970</b>	<b>(68,725)</b>
<b>Net income</b>	<b>2,901,132</b>	<b>1,839,279</b>

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**LIVFREE WELLNESS, LLC**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Equity**  
**For the Three Months Ended March 31, 2019 and 2018**

	<b>Members' Equity \$</b>
<b>Balance as at December 31, 2017</b>	<b>2,879,700</b>
Distributions	-
Net income for the period	1,839,279
<b>Balance as at March 31, 2018</b>	<b>4,718,979</b>
<b>Balance as at December 31, 2018</b>	<b>7,135,089</b>
Distributions	(2,500,000)
Net income for the period	2,901,132
<b>Balance as at March 31, 2019</b>	<b>7,536,221</b>

The accompanying notes are in integral part of these unaudited condensed interim consolidated financial statements.

**LIVFREE WELLNESS, LLC**  
**Unaudited Condensed Interim Statements of Cash Flows**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Operating activities</b>		
Net income	2,901,132	1,839,279
<i>Adjustments for items not affecting cash:</i>		
Depreciation of property, plant and equipment and right-of-assets	137,156	45,048
Share of loss in investment in associate	22,616	(68,725)
<i>Changes in working capital items:</i>		
Inventory	(213,098)	(85,276)
Due from a related corporation	(89,389)	(430,392)
Prepaid expenses and other assets	67,820	(32,417)
Trade payables	(301,036)	1,097,844
Accrued liabilities	442,271	207,413
Distributions payables	(280,000)	(1,980,000)
Cash provided by operating activities	2,687,472	592,774
<b>Investing activities</b>		
Change in investment in associate, net	-	(400,000)
Net purchase of property, plant and equipment	(100,905)	(102,941)
Cash used in investing activities	(100,905)	(502,941)
<b>Financing activities</b>		
Repayment of debts	(60,000)	(60,000)
Distributions	(2,500,000)	-
Repayment of lease obligations	(40,027)	-
Cash used in financing activities	(2,600,027)	(60,000)
<b>Net (decrease) increase in cash</b>	(13,460)	29,833
<b>Cash, beginning of period</b>	2,196,398	898,658
<b>Cash, end of period</b>	2,182,938	928,491

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS**

Livfree Wellness, LLC (“LivFree” or the “Company”) [formerly LivFree Wellness Reno LLC (“Reno”)] was incorporated as a Limited Liability Company on July 16, 2014 in the State of Nevada, United States of America (“USA”). The Company’s head office is located at 5347 S. Decatur Blvd Las Vegas NV 89118.

The Company’s principal activities are buying and selling of cannabis as regulated under the laws applicable in the USA.

**2. BASIS OF PRESENTATION**

**2.1 Statement of compliance**

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting and therefore do not contain all disclosures required by International Financial Reporting Standards (“IFRS”). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s 2018 consolidated financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases (“IFRS 16”) effective from January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

**2.2 Basis of presentation**

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The unaudited condensed interim consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Basis of consolidation**

The unaudited condensed interim consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries Bilco Holdings, LLC (“Bilco”) and BP Solutions LLC (“BP”), Limited Liabilities Companies, incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the period is included in the unaudited condensed interim consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation. The unaudited condensed interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2 Leases**

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use assets and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim consolidated statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**4. CHANGES IN ACCOUNTING STANDARDS**

**Adoption of New Accounting Pronouncement**

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.



**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**4. CHANGES IN ACCOUNTING STANDARDS (continued)**

**Adoption of New Accounting Pronouncement (continued)**

Adoption of IFRS 16 – Leases (continued)

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

**Changes in Accounting Standards not yet Effective**

Insurance Contracts

In May 2017, the International Accounting Standards Board (“IASB”) issued IFRS 17 - Insurance Contracts (“IFRS 17”), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

**5. INVENTORY**

Inventory comprised of finished goods.

Inventories expensed as cost of goods sold for the three months ended March 31, 2019 and 2018 are \$6,402,651 and \$3,897,134, respectively.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**6. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold improvements	Furniture and fixtures	Office & Equipment	Total
	\$	\$	\$	\$
<b>Cost</b>				
<b>As at December 31, 2018</b>	<b>1,836,213</b>	<b>56,605</b>	<b>123,934</b>	<b>2,016,752</b>
Additions	85,090	-	20,105	105,195
Disposals	(4,290)	-	-	(4,290)
<b>As at March 31, 2019</b>	<b>1,917,013</b>	<b>56,605</b>	<b>144,039</b>	<b>2,117,657</b>
<b>Depreciation</b>				
<b>As at December 31, 2018</b>	<b>352,815</b>	<b>10,763</b>	<b>27,196</b>	<b>390,774</b>
Depreciation	44,016	2,144	7,278	53,438
<b>As at March 31, 2019</b>	<b>396,831</b>	<b>12,907</b>	<b>34,474</b>	<b>444,212</b>
<b>Net book value</b>				
<b>As at December 31, 2018</b>	<b>1,483,398</b>	<b>45,842</b>	<b>96,738</b>	<b>1,625,978</b>
<b>As at March 31, 2019</b>	<b>1,520,182</b>	<b>43,698</b>	<b>109,565</b>	<b>1,673,445</b>

Depreciation expense for the three months ended March 31, 2019 and 2018 of \$53,438 and \$45,048, is included within operating expenses.

**7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS**

	Right-of-use assets	Lease obligations
	\$	\$
Net book value at January 1, 2019	2,314,501	2,257,141
Depreciation and repayment	83,718	40,027
<b>Net book value at March 31, 2019</b>	<b>2,230,783</b>	<b>2,217,114</b>

Right-of-use assets and lease obligations of \$2,314,501 were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rates applied were in the range of 10.29% to 10.90%.

As at March 31, 2019, the current and non-current portion of the lease obligations were \$231,379 and \$1,985,735, respectively.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**8. INVESTMENT IN ASSOCIATE**

Pursuant to Membership Interest Purchase and Sale Agreement dated July 1, 2017, the Company acquired 50% membership interest in JDSS Investments LLC. Per the purchase agreement section 2.0. total purchase price shall be \$2.4 million. Management has concluded that the current investment is to be accounted for as an investment in associate using the equity method as detailed below:

	March 31, 2019	December 31, 2018
	\$	\$
Balance, at beginning	3,354,501	1,586,966
Additions	-	1,492,636
Share of (loss) income	(22,616)	274,899
<b>Balance, at end</b>	<b>3,331,885</b>	<b>3,354,501</b>

The following table presents a summary of statement of financial position and statement of operations of the investee:

	March 31, 2019	December 31, 2018
	\$	\$
Current assets	2,569,874	2,490,315
Non-current assets	2,771,490	2,839,647
Current liabilities	368,361	314,421
Revenue	1,230,192	4,736,053
(Loss) income	(42,539)	595,147

**9. DEBT PAYABLE**

Effective December 12, 2014, the Company obtained a loan of \$460,000 from a third party. The loan was unsecured, carried no interest and there was no repayment term.

On January 16, 2018, the Company entered into Settlement Agreement (the "Agreement") with the debt holder and one of its existing members for the repayment of debt in accordance with an agreed repayment schedule. The Company agreed to pay \$20,000 within 30 days from the execution of this Agreement and the remaining balance to be paid in 22 equal monthly payments of \$20,000. The current and non-current portion of the debt has been classified in accordance with the agreed repayment schedule.

The details of debt payable were as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Loan payable to a third party	160,000	220,000
Less: Current portion	(160,000)	(220,000)
<b>Debt payable - Non-current portion</b>	<b>-</b>	<b>-</b>

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**10. MEMBERS' EQUITY**

During the three months ended March 31, 2019 and March 31, 2018, the members of the Company contributed in cash amounting to \$nil.

During the three months ended March 31, 2019 and March 31, 2018, the distributions to the members of the Company in cash amounted to \$2,500,000 and \$nil, respectively.

As at March 31, 2019 and December 31, 2018, distributions payables balance was \$nil and \$280,000.

**11. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim consolidated financial statements, related party transactions and balances are as follows:

Total rent expense for three months ended March 31, 2019 and 2018, include rent charged from a related corporation amounting to \$17,458 and \$nil, respectively.

During the three months ended March 31, 2019 and 2018, purchases of harvested cannabis totaling \$118,188 and \$56,412, respectively, from a related party is included in cost of goods sold.

Due from a related corporation of \$80,389 and \$nil were outstanding as at March 31, 2019 and December 31, 2018, respectively. These advances are unsecured, interest free and repayable on demand.

No compensation was paid to key management for the three months ended March 31, 2019 and 2018.

**12. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements. As at March 31, 2019 and December 31, 2018, the capital of the Company was \$7,536,221 and \$7,135,089 respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**13. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	Three months ended March 31, 2019	Three months ended March 31, 2018
	\$	\$
Salaries and benefits	683,943	468,197
Insurance	80,188	38,907
Office expenses	64,988	31,385
Utilities	19,518	18,288
Travel	17,906	15,817
Taxes and licenses	8,885	2,475
Professional and consulting fees	4,551	61,733
Rent	3,000	75,000
Others	79,009	14,394
	<b>961,988</b>	<b>726,196</b>

**14. CONTINGENCIES**

**Contingencies**

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**Claims and litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

An affiliate of the Company engaged a contractor to determine if a site met the requirements for a new grow facility. Based on the survey done by the contractor, the Company proceeded with the purchase and incurred a loss when the site was subsequently determined not to be suitable. The Company filed a claim with the contractor's insurer to recover its losses and commenced litigation when the insurer refused to pay any portion of the claim. In 2018, the Company's legal counsel indicated they were not able to collect the \$250,000 paid by the Company. As a result, the Company recognized \$250,000 of bad debt expense.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**15. FINANCIAL RISK FACTORS**

The Company's financial instruments mainly comprise of cash, due from a related corporation, trade payables, accrued liabilities, distributions payable, debts payable and lease obligations.

**(a) Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

Financial assets	Carrying values			Total	Fair values Total
	FVTPL	FVTOCI	AC		
<b>March 31, 2019</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	2,182,938	-	-	2,182,938	2,182,938
Due from a related corporation	-	-	89,389	89,389	89,389
	2,182,938	-	89,389	2,272,327	2,272,327
<b>December 31, 2018</b>					
Cash	2,196,398	-	-	2,196,398	2,196,398
	2,196,398	-	-	2,196,398	2,196,398

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**15. FINANCIAL RISK FACTORS (continued)**

**(a) Fair Value (continued)**

Financial liabilities	Carrying values		Total	Fair values
	FVTPL	AC		Total
<b>March 31, 2019</b>	\$	\$	\$	\$
Trade payables	-	849,613	849,613	849,613
Accrued liabilities	-	1,426,638	1,426,638	1,426,638
Debt payable	-	160,000	160,000	160,000
Lease obligations	-	2,217,114	2,217,114	2,217,114
	-	4,653,365	4,653,365	4,653,365
<b>December 31, 2018</b>				
Trade payables	-	1,150,649	1,150,649	1,150,649
Accrued liabilities	-	984,367	984,367	984,367
Distributions payable	-	280,000	280,000	280,000
Debt payable	-	220,000	220,000	220,000
	-	2,635,016	2,635,016	2,635,016

The Company's financial instruments as at March 31, 2019 and December 31, 2018, classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite.

**(b) Credit Risk**

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and due from a related corporation. As at March 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was \$2,272,327 and \$2,196,398, respectively.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019 and December 31, 2018, all trade payables, accrued liabilities, distributions payable and debt payable are due within a year.

**LIVFREE WELLNESS, LLC**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**16. SEGMENTED INFORMATION**

*Operating and geographical segments*

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operating and geographical segment engaged in buying and selling of cannabis.

**17. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.



**SCHEDULE “J”**  
**CANNAPUNCH INTERIM FINANCIAL STATEMENTS**

(see attached)

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**CANNAPUNCH OF NEVADA, LLC**  
**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

**Notice to reader**

The accompanying unaudited condensed interim financial statements of CannaPunch of Nevada LLC. (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

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**CANNAPUNCH OF NEVADA, LLC**  
**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

**March 31, 2019 and 2018**

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**MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

Management's Responsibility

To the Members of CannaPunch of Nevada, LLC:

The accompanying unaudited condensed interim financial statements and other financial information in this report were prepared by management of CannaPunch of Nevada LLC. ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of the unaudited condensed interim financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

"Mark Smith" (Signed)

Chief Executive Officer

**CANNAPUNCH OF NEVADA, LLC**  
**Unaudited Condensed Interim Statement of Financial Position**  
**At March 31, 2019 and December 31, 2018**

	March 31, 2019 \$	December 31, 2018 \$
<b>ASSETS</b>		
Current		
Cash	193,329	122,367
Inventory [Note 5]	369,761	337,129
Accounts receivable, trade, no allowance	533,871	374,649
	1,096,961	834,145
Property, plant and equipment [Note 6]	460,823	22,154
Right-of-use assets [Note 7]	593,978	-
Total assets	2,151,762	856,299
<b>LIABILITIES</b>		
Current		
Trade payables	247,445	174,902
Accrued liabilities	255,968	58,956
Advance from a member	1,402	1,402
Lease obligations - current portion [Note 7]	116,879	-
Total liabilities	621,694	235,260
Advance from related party	285,000	-
Lease obligations - non-current portion [Note 7]	486,035	-
Total liabilities	1,392,729	235,260
<b>MEMBERS' EQUITY [Note 8]</b>	<b>759,033</b>	<b>621,039</b>
Total liabilities and members' equity	2,151,762	856,299

*Nature of operations [Note 1]*

*Contingencies [Note 13]*

*Subsequent events [Note 16]*

*Approved and authorized on behalf of the Board of Directors on August 5, 2019*

“Mark Smith” (Signed)

Chief Executive Officer

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

**CANNAPUNCH OF NEVADA, LLC**  
**Unaudited Condensed Interim Statement of Operations**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Revenues, net of discounts</b>	<b>1,598,666</b>	<b>1,540,443</b>
Cost of goods sold	<b>(805,234)</b>	<b>(816,833)</b>
<b>Gross profit</b>	<b>793,432</b>	<b>723,610</b>
<b>Expenses</b>		
General and administrative [Note 11]	<b>211,050</b>	189,740
Sales and marketing	<b>22,932</b>	40,517
Licensor profit share [Note 12]	<b>224,730</b>	339,542
<b>Total expenses</b>	<b>458,712</b>	<b>569,799</b>
<b>Net income from operations</b>	<b>334,720</b>	<b>153,811</b>
<b>Other expense</b>		
Net finance costs	<b>15,969</b>	-
<b>Net income</b>	<b>318,751</b>	<b>153,811</b>

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

**CANNAPUNCH OF NEVADA, LLC**  
**Statement of Changes in Members' Equity**  
**For the Three Months Ended March 31, 2019 and 2018**

	<b>Members' Equity \$</b>
<b>Balance as at December 31, 2017</b>	<b>289,884</b>
Distributions	(178,044)
Net income for the period	153,811
<b>Balance as at March 31, 2018</b>	<b>265,651</b>
<b>Balance as at December 31, 2018</b>	<b>621,039</b>
Contributions [Note 8]	47,180
Distributions	(227,937)
Net income for the period	318,751
<b>Balance as at March 31, 2019</b>	<b>759,033</b>

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

**CANNAPUNCH OF NEVADA, LLC**  
**Statement of Cash Flows**  
**For the Three Months Ended March 31, 2019 and 2018**

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
<b>Operating activities</b>		
Net income	318,751	153,811
<i>Adjustments for items not affecting cash:</i>		
Depreciation on property, plant and equipment and right-of-use assets	47,821	1,117
<i>Changes in working capital items:</i>		
Inventory	(32,632)	(8,594)
Accounts receivable, trade, no allowance	(159,222)	(106,148)
Prepaid expenses	-	22,645
Trade payables	72,543	127,258
Accrued liabilities	197,012	(70,721)
Advance from a member	-	1,402
Cash provided by operating activities	444,273	120,770
<b>Investing activities</b>		
Purchase of machinery and equipment	(450,851)	-
Cash used in investing activities	(450,851)	-
<b>Financing activities</b>		
Advance from a related party - Non current	285,000	-
Repayment of lease obligations	(26,703)	-
Contributions	47,180	-
Distributions	(227,937)	(178,044)
Cash provided by (used in) financing activities	77,540	(178,044)
<b>Net increase (decrease) in cash</b>	<b>70,962</b>	<b>(57,274)</b>
<b>Cash, beginning of the period</b>	<b>122,367</b>	<b>146,817</b>
<b>Cash, end of period</b>	<b>193,329</b>	<b>89,543</b>

The accompanying notes are an integral part of these unaudited condensed interim financial statements.



**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**1. NATURE OF OPERATIONS**

CannaPunch of Nevada LLC ("CannaPunch" or the "Company") was incorporated as a Limited Liability Company on March 30, 2017 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 5425 Polaris Ave, Las Vegas, NV 89118.

The Company's principal activities are the manufacture and distribution of cannabis infused products as regulated under the laws applicable in the USA.

**2. BASIS OF PRESENTATION**

**2.1 Statement of compliance**

These unaudited condensed interim financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim financial statements should be read in conjunction with the Company's 2018 financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

**2.2 Basis of presentation**

These unaudited condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The unaudited condensed interim financial statements are presented in US dollars which is the presentation and functional currency of the Company.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Leases**

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.1 Leases (continued)**

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the unaudited condensed interim statements of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the unaudited condensed interim statements of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**4. CHANGES IN ACCOUNTING STANDARDS**

**Adoption of New Accounting Pronouncements**

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

**Changes in Accounting Standards not yet Effective**

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**5. INVENTORY**

The Company's inventory includes the following:

	March 31, 2019	December 31, 2018
	\$	\$
Raw materials	44,486	65,193
Finished goods	325,275	271,936
	369,761	337,129

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 is \$545,844 and \$661,327 respectively.

**6. MACHINERY AND EQUIPMENT**

	Machinery and equipment
	\$
<b>Cost</b>	
<b>As at December 31, 2018</b>	<b>27,926</b>
Additions	450,851
<b>As at March 31, 2019</b>	<b>478,777</b>
<b>Depreciation</b>	
<b>As at December 31, 2018</b>	<b>5,772</b>
Depreciation	12,182
<b>As at March 31, 2019</b>	<b>17,954</b>
<b>Net book value</b>	
<b>As At December 31, 2018</b>	<b>22,154</b>
<b>As at March 31, 2019</b>	<b>460,823</b>

Depreciation expense for the three months period ended March 31, 2019 and 2018 of \$12,182 and \$1,117 is included in cost of goods sold.

**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**7. RIGHT OF-USE ASSETS AND LEASE OBLIGATIONS**

	<b>Right-of-use assets</b>	<b>Lease obligations</b>
	<b>\$</b>	<b>\$</b>
Net book value at January 1, 2019	629,617	629,617
Depreciation and repayment	35,639	26,703
<b>Net Book value at March 31, 2019</b>	<b>593,978</b>	<b>602,914</b>

Right-of-use assets and lease liabilities of \$629,617 were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 10.29%.

As at March 31, 2019, the current and the non-current portion of the lease obligations were \$116,879 and \$486,035 respectively.

**8. MEMBERS' EQUITY**

During the three months ended March 31, 2019 and 2018, the members of the Company contributed cash of \$47,180 and \$nil, respectively, to the Company.

**9. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim financial statements, related party transactions and balances are as follows:

During the three months ended March 31, 2019 and 2018, sales of \$86,058 and \$9,565, respectively, made to a related corporation is included in revenue and purchase of \$17,915 and \$13,653, respectively, from a related corporation is included in cost of goods sold.

No compensation was paid to key management for the three months ended March 31, 2019 and 2018.

Accounts receivable as at March 31, 2019 and December 31, 2018 include \$nil and \$953, respectively, representing amounts due from a related corporation.

**10. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company is not subject to externally imposed capital requirements. As at March 31, 2019 and December 31, 2018, the capital of the Company was \$759,033 and \$621,039, respectively.

**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**10. CAPITAL MANAGEMENT (continued)**

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

**11. GENERAL AND ADMINISTRATIVE**

General and administrative expenses were comprised of:

	March 31, 2019	March 31, 2018
	\$	\$
Salaries and benefits	130,967	128,113
Taxes and Licenses	41,061	22,551
Travel	18,488	5,631
Meals	2,327	-
Office expenses	1,754	1,591
Professional and consulting fees	14,327	29,658
Others	2,126	2,196
	211,050	189,740

**12. LICENSOR PROFIT SHARE**

Effective March 31, 2017, the Company entered into a Licensing Agreement (the "Agreement") with a Third Party ("Licensor") for use of Licensor's medical (and subsequent adult use recreational) marijuana production establishment and equipment, in order to produce wholesale and certain retail marijuana edible and infused products for a period of 5 years to be renewed annually by mutual agreement.

Pursuant to the terms of the Agreement, 50% of profits or EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) generated by sales, shall be paid as License Fee, along with any taxes and fees paid by the Licensor. On December 31, 2017, the Agreement was amended by signing a subsequent license fee agreement memo (the "Memo"). In accordance with the Memo, license fee payable by the Company would work as a credit netted against any amounts owed by Licensor for product purchases less any amounts owed by the Company for reimbursement of taxes and utilities to the Licensor.

On September 18, 2018, the Company entered into a Supply Agreement with the Licensor, which is contingent upon cancellation of the license fee Agreement. Pursuant to this Supply Agreement, the Company agreed to offer a 20% discount on its lowest retail price to the Licensor for a period of 5 years.

**CANNAPUNCH OF NEVADA, LLC Notes to the  
Notes to the Unaudited Condensed Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018**

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### **13. CONTINGENCIES**

#### **Contingencies**

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

#### **Claims and litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

### **14. FINANCIAL RISK FACTORS**

The Company's financial instruments mainly comprise of cash, account receivable, trade payables, accrued liabilities, advance from a member, advance from related party and lease obligations.

#### **(a) Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

**14. FINANCIAL RISK FACTORS (continued)**

**(a) Fair Value (continued)**

- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

Financial assets	Carrying values			Fair values
	FVTPL	AC	Total	Total
<b>March 31, 2019</b>	\$	\$	\$	\$
Cash	193,329	-	193,329	193,329
Accounts receivable	-	533,871	533,871	533,871
	193,329	533,871	727,200	727,200
<b>December 31, 2018</b>				
Cash	122,367	-	122,367	122,367
Accounts receivable	-	374,649	374,649	374,649
	122,367	374,649	497,016	497,016

Financial liabilities	Carrying values			Fair values
	FVTPL	AC	Total	Total
<b>March 31, 2019</b>	\$	\$	\$	\$
Trade payables	-	247,445	247,445	247,445
Accrued liabilities	-	255,968	255,968	255,968
Advance from a member	-	1,402	1,402	1,402
Advance from related party	-	285,000	285,000	285,000
Lease obligations	-	602,914	602,914	602,914
	-	1,392,729	1,392,729	1,392,729
<b>December 31, 2018</b>				
Trade payables	-	174,902	174,902	174,902
Accrued liabilities	-	58,956	58,956	58,956
Advance from a member	-	1,402	1,402	1,402
	-	235,260	235,260	235,260

The Company's financial instruments as at March 31, 2019 and December 31, 2018, classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite.

**CANNAPUNCH OF NEVADA, LLC**  
**Notes to the Unaudited Condensed Interim Financial Statements**  
**For the Three Months Ended March 31, 2019 and 2018**

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**14. FINANCIAL RISK FACTORS (continued)**

***(b) Credit Risk***

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable due from a related corporation. As at March 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was \$727,200 and \$497,016 respectively.

During the three months ended March 31, 2019 and 2018, revenue from one customer is approximately nil% and 32%, respectively, of total revenue and purchase of raw material from one supplier were approximately 29% and nil%, respectively, of total purchases.

***(c) Liquidity Risk***

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019 and December 31, 2018, all trade payables and accrued liabilities are due within a year.

**15. SEGMENTED INFORMATION**

***Operating and geographical segments***

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018 the Company's operations comprise a single reporting operating and geographical segment engaged in the manufacture and distribution of cannabis infused products.

**16. SUBSEQUENT EVENTS**

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.



**SCHEDULE “K”  
PRO FORMA FINANCIAL STATEMENTS**

(see attached)

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**Ayr Strategies Inc.**  
**(formerly, Cannabis Strategies Acquisition Corp.)**

**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2019**  
**AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018**

**(EXPRESSED IN UNITED STATES DOLLARS)**

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**Ayr Strategies Inc.**  
**(formerly, Cannabis Strategies Acquisition Corp.)**

**Unaudited Pro Forma Consolidated Financial Statements**

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**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Unaudited Pro Forma Consolidated Statement of Financial Position**  
**As at March 31, 2019**

US\$	AYR March 31, 2019 \$	Sira March 31, 2019 \$	Canopy March 31, 2019 \$	Washoe March 31, 2019 \$	LivFree March 31, 2019 \$	CannaPunch March 31, 2019 \$	Subtotal \$	Notes	Acquisition \$	Notes	Pro-Forma Adjustments \$	Total March 31, 2019 \$
<b>ASSETS</b>												
Current												
Cash	36,355	3,315,782	222,626	722,273	2,182,938	193,329	6,673,303	8a,e,f	30,566,737	8h	(3,529,170)	<b>33,710,870</b>
Accounts receivable, trade, no allowance	-	1,026,229	-	133,075	-	533,871	1,693,175		-	6a	(93,211)	<b>1,599,964</b>
Deposit	15,096	-	-	-	-	-	15,096		-		-	<b>15,096</b>
Inventory	-	8,868,104	1,163,196	2,519,505	2,557,557	369,761	15,478,123	8i	15,163,525		-	<b>30,641,648</b>
Biological assets	-	2,417,379	-	1,646,000	-	-	4,063,379		-		-	<b>4,063,379</b>
Prepaid expenses and other assets	-	132,789	153,353	197,933	123,589	-	607,664				-	<b>607,664</b>
Advance to a related corporation	-	-	1,217,830	-	89,389	-	1,307,219	8i	(1,307,219)		-	<b>-</b>
	51,451	15,760,283	2,757,005	5,218,786	4,953,473	1,096,961	29,837,959		44,423,043		(3,622,381)	<b>70,638,621</b>
Restricted cash and short- term												
investments held in escrow	101,986,737	-	-	-	-	-	101,986,737	8e	(101,986,737)		-	<b>-</b>
Intangible assets	-	-	1,623,114	80,894	-	-	1,704,008	8b	57,816,886		-	<b>59,520,894</b>
Property, plant and equipment	-	7,521,303	1,220,641	8,961,601	1,673,445	460,823	19,837,813		-		-	<b>19,837,813</b>
Right-of-use assets	-	5,434,999	2,427,320	-	2,230,783	593,978	10,687,080		-		-	<b>10,687,080</b>
Goodwill	-	-	-	-	-	-	-	8c	148,164,731		-	<b>148,164,731</b>
Investment in associate	-	-	-	1,939,517	3,331,885	-	5,271,402		-		-	<b>5,271,402</b>
Deferred tax assets	-	-	-	-	-	-	-		-		-	<b>-</b>
Other long term assets	-	140,401	-	-	-	-	140,401		-		-	<b>140,401</b>
<b>Total assets</b>	<b>102,038,188</b>	<b>28,856,986</b>	<b>8,028,080</b>	<b>16,200,798</b>	<b>12,189,586</b>	<b>2,151,762</b>	<b>169,465,400</b>		<b>148,417,923</b>		<b>(3,622,381)</b>	<b>314,260,942</b>
<b>LIABILITIES</b>												
Current												
Trade payables	3,650,804	605,217	-	577,458	849,613	247,445	5,930,537		-	6a	(93,211)	<b>5,837,326</b>
Accrued liabilities	-	2,025,356	349,301	162,209	1,426,638	255,968	4,219,472		-		-	<b>4,219,472</b>
Advance from a related corporation	612,385	-	-	1,217,830	-	-	1,830,215	8i	(1,307,219)	6a	-	<b>522,996</b>
Income tax payable	-	3,715,371	-	-	-	-	3,715,371		-		-	<b>3,715,371</b>
Distributions payables	-	-	-	-	-	-	-		-		-	<b>-</b>
Lease liabilities - current portion	-	142,220	62,841	-	231,379	116,879	553,319		-		-	<b>553,319</b>
Debts/notes payable - current portion	-	7,695	-	-	160,000	-	167,695		-		-	<b>167,695</b>
Advance from a member	-	-	-	-	-	1,402	1,402		-		-	<b>1,402</b>
	4,263,189	6,495,859	412,142	1,957,497	2,667,630	621,694	16,418,011		(1,307,219)		(93,211)	<b>15,017,581</b>
Deferred underwriters' commission	3,529,170	-	-	-	-	-	3,529,170		-	8h	(3,529,170)	<b>-</b>
Class A restricted voting shares subject to redemption	201,666,850	-	-	-	-	-	201,666,850		-	8g	(201,666,850)	<b>-</b>
Warrant liability	106,623,318	-	-	-	-	-	106,623,318		-		-	<b>106,623,318</b>
Deferred tax liability	-	2,402,770	-	-	-	-	2,402,770		-		-	<b>2,402,770</b>
Accrued interest payable	-	7,627,157	-	-	-	-	7,627,157		-		-	<b>7,627,157</b>
Advances from related party	-	-	-	-	-	285,000	285,000		-		-	<b>285,000</b>
Lease liabilities - Non- current portion	-	5,485,755	2,397,555	-	1,985,735	486,035	10,355,480		-		-	<b>10,355,480</b>
Debts payable - Non-current portion	-	14,963,691	421,128	9,162,306	-	-	24,547,125	8a	37,140,000		-	<b>61,687,125</b>
<b>Total liabilities</b>	<b>316,082,527</b>	<b>36,975,232</b>	<b>3,231,225</b>	<b>11,119,803</b>	<b>4,653,365</b>	<b>1,392,729</b>	<b>373,454,881</b>		<b>35,832,781</b>		<b>(205,289,231)</b>	<b>203,998,431</b>
Members' equity	-	(8,118,246)	4,796,855	5,080,995	7,536,221	759,033	10,054,858	8d	(10,054,858)		-	<b>-</b>
Shares capital	1,711,826	-	-	-	-	-	1,711,826	8a	125,140,000	8g	201,666,850	<b>328,518,676</b>
Accumulated deficit	(215,756,165)	-	-	-	-	-	(215,756,165)	8f	(2,500,000)		-	<b>(218,256,165)</b>
Contributed surplus	-	-	-	-	-	-	-		-		-	<b>-</b>
	(214,044,339)	(8,118,246)	4,796,855	5,080,995	7,536,221	759,033	(203,989,481)		112,585,142		201,666,850	<b>110,262,511</b>
<b>Total liabilities and members' equity</b>	<b>102,038,188</b>	<b>28,856,986</b>	<b>8,028,080</b>	<b>16,200,798</b>	<b>12,189,586</b>	<b>2,151,762</b>	<b>169,465,400</b>		<b>148,417,923</b>		<b>(3,622,381)</b>	<b>314,260,942</b>

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Unaudited Pro Forma Consolidated Statement of Operations**  
**For the Three Months Ended March 31, 2019**

US\$	AYR March 31, 2019 \$	Sira March 31, 2019 \$	Canopy March 31, 2019 \$	Washoe March 31, 2019 \$	LivFree March 31, 2019 \$	CannaPunch March 31, 2019 \$	Subtotal March 31, 2019 \$	Notes	Pro-Forma Adjustments \$	Consolidated March 31, 2019 \$
<b>Revenues, net of discounts</b>	-	6,670,180	3,627,129	1,972,925	11,935,852	1,598,666	25,804,752	<b>6b</b>	(2,080,660)	<b>23,724,092</b>
<b>Cost of goods sold before biological asset adjustment</b>	-	1,470,860	2,113,680	1,017,328	7,651,562	805,234	13,058,664	<b>6b</b>	(2,080,660)	<b>10,978,004</b>
	-	5,199,320	1,513,449	955,597	4,284,290	793,432	12,746,088		-	<b>12,746,088</b>
Fair value changes in biological assets included in cost of sales	-	(4,253,737)	-	(804,650)	-	-	(5,058,387)		-	<b>(5,058,387)</b>
Unrealized gain on biological asset transformation	-	7,282,658	-	1,227,204	-	-	8,509,862		-	<b>8,509,862</b>
Gross profit (loss)	-	8,228,241	1,513,449	1,378,151	4,284,290	793,432	16,197,563		-	<b>16,197,563</b>
<b>Expenses</b>										
Transaction Costs	-	-	-	-	-	-	-	<b>6c</b>	2,500,000	<b>2,500,000</b>
General and Administrative	1,540,740	1,450,206	590,157	160,492	961,988	211,050	4,914,633		-	<b>4,914,633</b>
Sales and Marketing	-	62,315	95,198	55,369	220,044	22,932	455,858		-	<b>455,858</b>
Depreciation	-	352,954	77,596	95,266	137,156	-	662,972		-	<b>662,972</b>
Licensor profit share	-	-	-	-	-	224,730	224,730		-	<b>224,730</b>
Management fee	-	49,500	180,000	120,000	-	-	349,500		-	<b>349,500</b>
Net unrealized loss on changes in the fair value of financial liabilities	135,781,900	-	-	-	-	-	135,781,900		-	<b>135,781,900</b>
<b>Total Expenses</b>	<b>137,322,640</b>	<b>1,914,975</b>	<b>942,951</b>	<b>431,127</b>	<b>1,319,188</b>	<b>458,712</b>	<b>142,389,593</b>		<b>2,500,000</b>	<b>144,889,593</b>
<b>Net income (loss) from operations</b>	<b>(137,322,640)</b>	<b>6,313,266</b>	<b>570,498</b>	<b>947,024</b>	<b>2,965,102</b>	<b>334,720</b>	<b>(126,192,030)</b>		<b>(2,500,000)</b>	<b>(128,692,030)</b>
<b>Other (income) expense</b>										
Share of (income) loss on equity investments	-	-	-	(275,170)	22,616	-	(252,554)		-	<b>(252,554)</b>
Interest expense / Finance cost	-	824,668	78,446	94,888	41,354	15,969	1,055,325		-	<b>1,055,325</b>
Interest income	(227,164)	-	-	-	-	-	(227,164)		-	<b>(227,164)</b>
Foreign exchange gain	(16,745)	-	-	-	-	-	(16,745)		-	<b>(16,745)</b>
Management fee income	-	-	-	-	-	-	-		-	<b>-</b>
Rental income and others	-	(3,000)	-	(23,124)	-	-	(26,124)		-	<b>(26,124)</b>
<b>Total other (income) expense</b>	<b>(243,909)</b>	<b>821,668</b>	<b>78,446</b>	<b>(203,406)</b>	<b>63,970</b>	<b>15,969</b>	<b>532,738</b>		<b>-</b>	<b>532,738</b>
Income tax (recovery) expense	-	2,453,234	-	-	-	-	2,453,234		-	<b>2,453,234</b>
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(137,078,731)</b>	<b>3,038,364</b>	<b>492,052</b>	<b>1,150,430</b>	<b>2,901,132</b>	<b>318,751</b>	<b>(129,178,002)</b>		<b>(2,500,000)</b>	<b>(131,678,002)</b>
<b>Loss per share - basic and diluted</b>								<b>9</b>		<b>(7.23)</b>
<b>Weighted average number of shares outstanding</b>								<b>9</b>		<b>18,214,341</b>
<b>For adjusted EBITDA refer to Note 10</b>										

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Unaudited Pro Forma Consolidated Statement of Operations**  
**For the Twelve Months Ended December 31, 2018**

US\$	AYR December 31, 2018 \$	Sira December 31, 2018 \$	Canopy December 31, 2018 \$	Washoe December 31, 2018 \$	LiveFree December 31, 2018 \$	CannaPunch December 31, 2018 \$	Subtotal \$	Notes	Pro-Forma Adjustments	Consolidated December 31, 2018 \$
<b>Revenues, net of discounts</b>	-	16,398,127	11,748,244	7,017,779	34,058,319	6,658,021	75,880,490	<b>6b</b>	(5,016,480)	<b>70,864,010</b>
Cost of goods sold before biological asset adjustment	-	3,823,025	6,821,581	4,636,341	22,142,020	2,961,681	40,384,648	<b>6b</b>	(5,016,480)	<b>35,368,168</b>
	-	12,575,102	4,926,663	2,381,438	11,916,299	3,696,340	35,495,842		-	<b>35,495,842</b>
Fair value changes in biological assets included in cost of	-	(18,470,531)	-	(4,005,602)	-	-	(22,476,133)			<b>(22,476,133)</b>
Unrealized gain on biological asset transformation	-	11,287,162	-	5,086,289	-	-	16,373,451			<b>16,373,451</b>
Gross profit (loss)	-	5,391,733	4,926,663	3,462,125	11,916,299	3,696,340	29,393,160		-	<b>29,393,160</b>
<b>Expenses</b>										
Transaction costs	392,467	-	-	-	-	-	392,467	<b>6c</b>	2,500,000	<b>2,892,467</b>
General and administrative	3,244,682	6,988,439	867,613	825,863	4,024,862	924,650	16,876,109			<b>16,876,109</b>
Sales and marketing	-	323,495	310,863	189,074	512,282	77,198	1,412,921			<b>1,412,912</b>
Depreciation	-	150,089	50,766	51,831	191,301	-	443,987			<b>443,987</b>
Licensor profit share	-	-	-	-	-	1,123,212	1,123,212			<b>1,123,212</b>
Management fee	-	342,472	546,848	240,000	-	-	1,129,320	<b>6b</b>	(125,000)	<b>1,004,320</b>
Net unrealized loss on changes in the fair value of financial liabilities	72,449,316	-	-	-	-	-	72,449,316			<b>72,449,316</b>
<b>Total expenses</b>	<b>76,086,465</b>	<b>7,804,495</b>	<b>1,776,090</b>	<b>1,306,768</b>	<b>4,728,445</b>	<b>2,125,060</b>	<b>93,827,323</b>		<b>2,375,000</b>	<b>96,202,323</b>
<b>Net income (loss) from operations</b>	<b>(76,086,465)</b>	<b>(2,412,762)</b>	<b>3,150,573</b>	<b>2,155,357</b>	<b>7,187,854</b>	<b>1,571,280</b>	<b>(64,434,163)</b>		<b>(2,375,000)</b>	<b>(66,809,163)</b>
<b>Other (income) expense</b>										
Share of (income) loss on equity investments	-	-	-	(1,642,415)	(274,899)	-	(1,917,314)			<b>(1,917,314)</b>
Interest expense	-	2,738,950	-	343,344	-	-	3,082,294			<b>3,082,294</b>
Interest income	(934,831)	-	-	(12,067)	-	-	(946,898)			<b>(946,898)</b>
Foreign exchange loss	20,212	-	-	-	-	-	20,212			<b>20,212</b>
Management fee income	-	-	-	(125,000)	-	-	(125,000)	<b>6b</b>	125,000	<b>-</b>
Rental income and others	-	(19,850)	-	(91,368)	-	-	(111,218)			<b>(111,218)</b>
<b>Total other (income) expense</b>	<b>(914,619)</b>	<b>2,719,100</b>	<b>-</b>	<b>(1,527,506)</b>	<b>(274,899)</b>	<b>-</b>	<b>2,076</b>		<b>125,000</b>	<b>127,076</b>
Income tax (recovery) expense	-	5,137,381	-	-	-	-	5,137,381			<b>5,137,381</b>
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(75,171,846)</b>	<b>(10,269,243)</b>	<b>3,152,573</b>	<b>3,682,863</b>	<b>7,462,753</b>	<b>1,571,280</b>	<b>(69,573,620)</b>		<b>(2,500,000)</b>	<b>(72,073,620)</b>
<b>Loss per share - basic and diluted</b>								<b>9</b>		<b>(3.96)</b>
<b>Weighted average number of share outstanding</b>								<b>9</b>		<b>18,214,341</b>
For Adjusted EBITDA refer to Note 10										

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

**1) Description of Transactions**

On October 17, 2018, Ayr Strategies Inc. (“Ayr” or the “Corporation” – formerly Cannabis Strategies Acquisition Corp. – “CSAC”) and its wholly-owned subsidiary, CSAC Acquisition Inc. (“CSAC AcquisitionCo”), entered into the following definitive agreements to acquire five (5) businesses (the “Target Businesses”):

- Equity Exchange Agreement dated as of October 17, 2018, among Green Partners Investor LLC and Green Partners Sponsor I, LLC as the shareholders of Sira Naturals, Inc. (“Sira”), Louis Karger as sellers’ representative, Sira, CSAC AcquisitionCo and Ayr, as amended and restated (the “Sira Agreement”);
- Equity Purchase Agreement dated as of October 17, 2018, among The Canopy NV, LLC (“Canopy”), Lemon Aide, LLC, Kynd-Strainz, LLC, CSAC AcquisitionCo and Ayr, as amended (the “Canopy Agreement”);
- Equity Purchase Agreement dated as of October 17, 2018, among the members of Washoe, Mark E. Pitchford as sellers’ representative, Washoe Wellness, LLC (“Washoe”), CSAC AcquisitionCo and Ayr, as amended (the “Washoe Agreement”);
- Equity Purchase Agreement, dated as of October 17, 2018, among the members of LivFree Wellness, LLC (“LivFree”), Steve Menzies as sellers’ representative, LivFree, CSAC AcquisitionCo and Ayr, as amended (the “LivFree Agreement”); and
- Equity Purchase Agreement dated as of October 17, 2018, among Mark Smith and Daniel Griffin as the members of CannaPunch of Nevada LLC (“CannaPunch”), CannaPunch, Mark Smith as sellers’ representative, CSAC AcquisitionCo and Ayr, as amended (the “CannaPunch Agreement”, and together with the Sira Agreement, the Canopy Agreement, the Washoe Agreement and the LivFree Agreement, the “Definitive Agreements”).

The description of the Definitive Agreements, both below and in Ayr’s final non-offering prospectus dated February 15, 2019 (the “Prospectus”), is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the Definitive Agreements, which may be found on Ayr’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Subsequent to March 31, 2019 and pursuant to the above mentioned Definitive Agreements, on May 24, 2019, the Corporation completed its concurrent acquisitions of the target businesses of Sira, Canopy (by acquisition of its two operating subsidiaries, Kynd-Strainz, LLC and Lemon Aide, LLC), Washoe, LivFree and CannaPunch, which collectively constituted its qualifying transaction (collectively, the “Qualifying Transaction”). In connection with the closing of the Qualifying Transaction, all non-redeemed Class A Restricted Voting shares of the Corporation (the “Class A Restricted Voting Shares”) were automatically converted into subordinate voting shares of the Corporation (the “Subordinate Voting Shares”), and all Class B shares of the Corporation (the “Class B Shares”) were automatically converted into multiple voting shares of the Corporation (the “Multiple Voting Shares”). Following the closing of the Qualifying Transaction, the Subordinate Voting Shares, the share purchase warrants of the Corporation and the rights of the Corporation began trading on the Neo Exchange Inc. (the “Exchange”) under the symbols “AYR.A”, “AYR.WT” and “AYR.RT”, respectively. The Multiple Voting Shares are not listed on the Exchange.

#### **Acquisition of Sira**

Pursuant to the Sira Agreement, the shareholders of Sira agreed to contribute all of the issued and outstanding securities of Sira to CSAC AcquisitionCo in exchange for (i) a note in the amount of \$5,000,000 (the “Sira Promissory Note”) to a lender of Sira that will be secured by a first-priority security interest over all of the assets of Sira, (ii) the issuance of an aggregate of 1,885,606 non-voting common stock of CSAC AcquisitionCo (such shares of CSAC AcquisitionCo, the “Exchangeable Shares”) that are exchangeable on a one-for-one basis into Subordinate Voting Shares with a deemed value of \$15.91, and (iii) a cash payment of \$15,000,000 to pay existing indebtedness of Sira. All of the Exchangeable Shares issuable under the Sira Agreement will be subject to a twelve-month post-closing lock-up period. Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. Additionally, CSAC AcquisitionCo will pay by wire transfer to the shareholders of Sira, each shareholder’s pro rata share of the fair market value of Sira’s inventory above a target level set at \$800,000 (the “Inventory Payment”), pursuant to a formula to be agreed to between Sira and CSAC AcquisitionCo. One-third of this Inventory Payment will be paid by CSAC AcquisitionCo following the closing date of the Qualifying Transaction and the remaining two-thirds within 90 days following the closing.

The Sira Agreement also contains an earn-out provision that may entitle the sellers to earn additional consideration, if certain milestones (as defined in the Sira Agreement) are achieved at Sira’s planned cultivation facility in Milford, MA over its first full year of operation. Such facility may not be financed with third-party debt that exceeds 50% of the cost of construction and a first priority mortgage (which would be subordinated to any third-party construction lender) on such facility will provide further security for the Sira Promissory Note. Ayr may set off indemnification claims against any payments to be made by it under the earn-out provision and/or the Sira Promissory Note, except the total amount set off against earn-out payments and the Sira Promissory Note may not exceed \$5,000,000 in the aggregate.

#### **Acquisition of Canopy**

Pursuant to the Canopy Agreement: (i) Canopy agreed to contribute all of the assets of its two operating companies, Lemon Aide, LLC and Kynd-Strainz, LLC (together, the “Canopy Target Businesses”), except for certain retained licenses and associated inventory, the transfer of which is subject to consent from regulatory authorities (the “Canopy Consents”), to a “NewCo” entity (the “Canopy NewCo”) (the “Canopy Reorganization”); (ii) CSAC AcquisitionCo agreed to acquire all of the equity interests of Canopy NewCo in exchange for (A) a promissory note in the amount of \$4,500,000 to Canopy that will be secured by a first-priority security interest over all of the assets of Canopy NewCo, (B) the issuance to Canopy of an aggregate of 250,000 Exchangeable Shares with a deemed value of \$5,500,000 and (C) cash consideration in the amount of \$7,000,000, some of which will be used to pay debt and expenses of Canopy, as well as applicable taxes; (iii) CSAC AcquisitionCo agreed to assume a loan in the amount of approximately \$400,000; and (iv) Canopy agreed to take all reasonable measures in good faith to secure the Canopy Consents and once obtained, agreed to convey the retained assets to Ayr via the transfer of the equity interests in the Canopy Target Businesses or the retained assets to CSAC AcquisitionCo for nominal consideration. 102,273 Exchangeable Shares issuable under the Canopy Agreement will be subject to a six-month post-closing lock-up period, a further 102,273 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period, and 45,454 Exchangeable Shares will not be subject to any lock-up period. On closing, Canopy granted to Ayr or its affiliates a five-year option to purchase the real property owned by affiliates of Canopy and used in the business of the Canopy Target Businesses at fair market value.



Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. The sellers have no obligation to indemnify for losses incurred by Ayr as a result of the Canopy Reorganization except for certain obligations with respect to obtaining necessary regulatory approval.

Additionally, Ayr agreed to issue additional Exchangeable Shares up to a year following the closing date in certain circumstances, subject to certain limitations. More specifically, if the trailing 3-day volume-weighted average trading price of the Subordinate Voting Shares (the “Closing Price”) is less than C\$29.00 on: (i) the closing date of the Canopy acquisition, a number of additional Exchangeable Shares may be issued to Canopy so that the cumulative market value of the Exchangeable Shares issued to Canopy on the closing date with no lock-up period is equal to \$999,998; (ii) the date that is 180 days after the closing date of the Canopy acquisition, a number of additional Exchangeable Shares may be issued to Canopy so that the cumulative market value of the Exchangeable Shares issued to Canopy with a 6-month lock-up period is equal to \$2,250,006; or (iii) the date that is 360 days after the closing date of the Canopy acquisition, a number of additional Exchangeable Shares may be issued to Canopy so that the cumulative market value of the Exchangeable Shares issued to Canopy with a 12-month lock-up period is equal to \$ 2,250,006. Under no circumstances may the total number of additional Exchangeable Shares to be issued under this make-whole provision exceed 10% of the total number of issued and outstanding Class B Shares as of the closing date of the Qualifying Transaction.

#### **Acquisition of Washoe**

Pursuant to the Washoe Agreement: (i) Washoe and the members of Washoe agreed to contribute all of the assets of Washoe and its subsidiaries (including certain parcels of real property owned by Washoe or a subsidiary), except for certain retained licenses and associated inventory, the transfer of which is subject to consent from regulatory authorities (the “Washoe Consents”), to a “NewCo” entity (the “Washoe NewCo”) (the “Washoe Reorganization”); (ii) CSAC AcquisitionCo agreed to acquire all of the equity interests of the Washoe NewCo in exchange for (A) a promissory note in the amount of \$5,640,000 to the members of Washoe that will be secured by a first-priority security interest over all of the assets of Washoe NewCo, (B) the issuance to the members of Washoe of an aggregate of 256,364 Exchangeable Shares with a deemed value of \$5,640,000 and (C) cash consideration in the amount of \$16,670,000, some of which will be used to pay debt and expenses of Washoe, as well as applicable taxes; (iii) Washoe and its members agreed to take all reasonable measures in good faith to secure the Washoe Consents, and once obtained, agreed to convey the retained assets to Ayr via the transfer of the equity interests in Washoe or the retained assets to CSAC AcquisitionCo for nominal consideration; (iv) CSAC AcquisitionCo agreed to assume a member loan in the amount of approximately \$6.5 million and issue 13,636 Exchangeable Shares in the name of such member (the “Washoe Lender”); and (v) CSAC AcquisitionCo agreed to assume mortgage debt of approximately \$2.6 million in the aggregate, secured by real property owned by Washoe or its subsidiaries. 128,182 Exchangeable Shares issuable under the Washoe Agreement will be subject to a six-month post-closing lock-up period, and the other 128,182 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period.

Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. The sellers have no obligation to indemnify for losses incurred by Ayr as a result of the Washoe Reorganization except for certain obligations with respect to obtaining necessary regulatory approval.

Additionally, Ayr agreed to issue additional Exchangeable Shares up to a year following the closing date in certain circumstances, subject to certain limitations. More specifically, if the Closing Price is less than C\$29.00 on: (i) the date that is 180 days after the closing date of the Washoe acquisition, a number of additional Exchangeable Shares may be issued to the sellers of Washoe so that the cumulative market value of the Exchangeable Shares issued to such persons with a 6-month lock-up period is equal to \$2,820,000 and a number of additional Exchangeable Shares may be issued to the Washoe Lender so that the cumulative market value of the Exchangeable Shares issued to the Washoe Lender with a 6-month lock-up period is equal to \$150,000 or (ii) the date that is 360 days after the closing date of the Washoe acquisition, a number of additional Exchangeable Shares may be issued to the sellers of Washoe so that the cumulative market value of the Exchangeable Shares issued to such persons with a 12-month lock-up period is equal to \$2,820,006 and a number of additional Exchangeable Shares may be issued to the Washoe Lender so that the cumulative market value of the Exchangeable Shares issued to the Washoe Lender with a 12-month lock-up period is equal to \$150,000. Under no circumstances may the total number of additional Exchangeable Shares to be issued under this make-whole provision exceed 10% of the total number of issued and outstanding Class B Shares as of closing date of the Qualifying Transaction. On closing, Washoe granted to Ayr or its affiliates a five-year option to purchase the real property owned by affiliates of Washoe and used in the business of Washoe at fair market value.

#### **Acquisition of LivFree**

Pursuant to the LivFree Agreement: (i) LivFree and the members of LivFree agreed to contribute all of the assets of LivFree and its subsidiaries, except for certain retained licenses and associated inventory, the transfer of which is subject to consent from regulatory authorities (the “LivFree Consents”), to a “NewCo” entity (“LivFree NewCo”) (the “LivFree Reorganization”); (ii) CSAC AcquisitionCo agreed to acquire all of the equity interests of LivFree NewCo in exchange for (A) a promissory note in the amount of \$20,000,000 to the members of LivFree that will be secured by a first-priority security interest over all of the assets of LivFree NewCo, (B) the issuance to the members of LivFree of an aggregate of 4,342,432 Exchangeable Shares with a deemed value of \$70,000,000 (approximately \$16.10 per Exchangeable Share) and (C) cash consideration in the amount of \$29,500,000, some of which will be used to pay debt and expenses of LivFree, as well as applicable taxes; and (iv) LivFree and its members agreed to take all reasonable measures in good faith to secure the LivFree Consents, and once obtained, agreed to convey the retained assets to Ayr via the transfer of the equity interests in LivFree or the retained assets to CSAC AcquisitionCo for nominal consideration. 3,038,986 Exchangeable Shares issuable under the LivFree Agreement will be subject to a six-month post-closing lock-up period, and the other 1,303,446 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period. Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. The sellers have no obligation to indemnify for losses incurred by Ayr as a result of the LivFree Reorganization except for certain obligations with respect to obtaining necessary regulatory approval. On closing, LivFree granted to Ayr or its affiliates a five-year option to purchase the real property owned by affiliates of LivFree and used in the business of LivFree at fair market value.

#### **Acquisition of CannaPunch**

Pursuant to the CannaPunch Agreements: (i) CSAC AcquisitionCo agreed to acquire all of the equity interests of CannaPunch NewCo in exchange for (A) a promissory note in the amount of \$ 2,000,000 to the members of CannaPunch that will be secured by a first-priority security interest over all of the assets of CannaPunch NewCo, (B) the issuance to the members of CannaPunch of an aggregate of 866,668 Exchangeable Shares with a deemed value of \$14,000,000 and (C) cash consideration in the amount of \$750,000, some of which will be used to pay debt and expenses of CannaPunch, as well as applicable taxes. 433,334 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period. Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. On closing, CannaPunch granted to Ayr or its affiliates (i) a five-year option to purchase the real property owned by affiliates of CannaPunch and used in the business of CannaPunch at fair market value and (ii) a license to use the CannaPunch name in all jurisdictions other than in the State of Colorado.

## **2) Basis of Presentation**

The unaudited pro forma consolidated statement of financial position ("Pro Forma Statement of Financial Position") as at March 31, 2019 has been prepared by Ayr to give effect to the Acquisitions comprising the Qualifying Transactions, as if they had occurred on March 31, 2019. The unaudited Pro Forma Consolidated Statement of Operations for the three month period ended March 31, 2019 and for the twelve months ended December 31, 2018 have been prepared by AYR to give effect to the acquisitions comprising the Qualifying Transaction, as if they had occurred on January 1, 2018.

Ayr financial statements have been translated per the Bank of Canada exchange rates as detailed below:

- Statement of financial position as at March 31, 2019 has been translated at period end rate of CAD/USD of 0.7483.
- Statement of operations for the three months period ended March 31, 2019 has been translated at 3 month (January to March 2019) average rate of CAD/USD of 0.7522.
- Statement of operations for the twelve months ended September 30, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018) has been translated at 12 month (October 2017 to September 2018) average rate of CAD/USD of 0.7793.
- Statement of operations for three months ended December 31, 2017 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018) has been translated at 3 month (October to December 2017) average rate of CAD/USD of 0.7867.
- Statement of operations for three months ended December 31, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018) has been translated at 3 month (October to December 2018) average rate of CAD/USD of 0.7575.

The Unaudited Pro Forma Consolidated Financial Statements are derived from the following:

- The unaudited condensed interim financial statements of Ayr, Sira, Canopy, Washoe, LivFree and CannaPunch for the three months period ended March 31, 2019.
- The audited financial statements of Sira, Canopy, Washoe, LivFree and CannaPunch for the twelve months ended December 31, 2018.
- The audited financial statements of Ayr for the twelve months ended September 30, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018).
- The audited financial statements of AYR for the short period (three months) ended December 31, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018).
- The unaudited condensed interim financial statements of AYR for the three months period ended December 31, 2017 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018).

The unaudited Pro Forma Consolidated Financial Statements were prepared using the acquisition method of accounting in accordance with IFRS 3 *Business Combinations*, with Ayr being the accounting and legal acquirer. It uses the fair value concepts defined in IFRS 13, *Fair Value Measurement*, and was based on the historical financial statements of Ayr, Sira, Canopy, Washoe, LivFree and CannaPunch. All financial data in the unaudited Pro Forma Consolidated Financial Statements are presented in United States Dollars, unless stated otherwise.

Under the acquisition method of accounting, the assets acquired and liabilities assumed are recorded as of the completion of the acquisitions comprising the Qualifying Transaction at their respective fair values. Under IFRS 3, acquisition-related transaction costs (i.e., advisory, legal, valuation, other professional fees) and certain acquisition-related restructuring charges are not included as a component of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred.

The accounting for the acquisitions comprising the Qualifying Transaction is dependent upon valuations, where available, that are provisional and are subject to change. Management will finalize the acquisition accounting for the acquisitions comprising the Qualifying Transaction no later than one year from the date of the respective acquisition dates as required under IFRS 3. Accordingly, certain pro forma adjustments are preliminary and have been prepared solely for the purpose of these unaudited Pro Forma Consolidated Financial Statements. Differences between these provisional estimates and the final acquisition accounting may occur and these differences could have a material impact on Ayr future financial performance. In addition, the unaudited Pro Forma Consolidated Statements of Operations do not reflect any cost savings, operating synergies or revenue enhancements that the consolidated businesses may achieve, the costs to integrate the operations of Ayr and the acquisitions comprising the Qualifying Transaction, or any costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

### **3) Accounting Policies**

The accounting policies used in the preparation of these unaudited Pro Forma Consolidated Financial Statements are consistent with those described in the audited financial statements of Ayr for the year ended March 31, 2019. Ayr has conducted a review of the acquisitions' accounting policies and has not identified any differences in accounting policies that were applied historically by these entities. Additional accounting policies related to the Target Businesses companies will be included in the Ayr consolidated financial statements after acquisition on going forward basis. For purposes of these unaudited Pro Forma Consolidated Financial Statements, certain reclassifications have been made to the acquisitions' historical financial statements (as described in notes 6 and 8) to conform to the classifications adopted by Ayr.

### **4) Preliminary Purchase Price Consideration**

Each of the acquisitions comprising the Qualifying Transaction is subject to specific terms relating to satisfaction of the purchase price by Ayr and incorporates payments in cash, notes payables and shares. In addition, the purchase prices may be adjusted for consideration of acquisition date working capital. No working capital adjustments have been reflected in the unaudited Pro Forma Consolidated Financial Statements. IFRS 3 requires that contingent consideration be estimated and recorded at the acquisition date with subsequent changes to estimates reflected in earnings. For purposes of the unaudited Pro Forma Consolidated Financial Statements, all estimates of contingent consideration are preliminary and subject to change. In addition, the purchase prices may be adjusted for consideration of acquisition date working capital. No working capital adjustments have been reflected in the unaudited Pro Forma Financial Statements. The purchase prices do not include any assumed debt of the Target Businesses.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Unaudited Pro Forma Consolidated Financial Statements**  
**As at March 31, 2019 (Expressed in US\$)**

The total purchase price consideration is summarized as follows:

	<b>Cash</b>	<b>Note Payable</b>	<b>Share Capital</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sira	15,000,000	5,000,000	30,000,000	<b>50,000,000</b>
Canopy	7,000,000	4,500,000	5,500,000	<b>17,000,000</b>
Washoe	16,670,000	5,640,000	5,640,000	<b>27,950,000</b>
Livfree	29,500,000	20,000,000	70,000,000	<b>119,500,000</b>
Cannapunch	750,000	2,000,000	14,000,000	<b>16,750,000</b>
<b>Total Consideration</b>	<b>68,920,000</b>	<b>37,140,000</b>	<b>125,140,000</b>	<b>231,200,000</b>

**Sira Acquisition**

Pursuant to the terms of the Sira Agreement, Ayr satisfied the purchase price of \$50 million for Sira through the following:

- i. \$15.0 million of the Sira purchase price was paid in the form of cash consideration.
- ii. \$5.0 million of the Sira purchase price was paid in the form of a promissory note payable.
- iii. \$30.0 million of the Sira purchase price was paid in the form of 1,885,606 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.
- iv. The Sira Agreement also contains an earn-out provision that may entitle the sellers to earn additional consideration, if certain Adjusted EBITDA (as defined in the Sira Agreement) milestones are achieved at Sira's planned cultivation facility in Milford, MA over its first full year of operation, which is expected to be 2020. See "*Description of Transactions – Acquisition of Sira.*"

Additionally, CSAC AcquisitionCo must pay an amount equal to the fair market value of Sira's inventory above a target level set at \$800,000 (the "Inventory Payment"), pursuant to a formula specified in the Sira Agreement. One- third of this Inventory Payment, in the amount of \$ 2,500,000, was paid by CSAC AcquisitionCo on the Closing Date and the remaining two-thirds will be paid within 120 days following the Closing Date.

**Canopy Acquisition**

Pursuant to the terms of the Sira Agreement, Ayr satisfied the purchase price of \$17 million for Canopy through the following:

- i. \$7.0 million of the Canopy purchase price was paid in the form of cash consideration.
- ii. \$4.50 million of the Canopy purchase price was paid in the form of a promissory note payable.
- iii. \$5.50 million of the Canopy purchase price was paid in the form of 250,000 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.

- iv. an additional 15,360 Exchangeable Shares were issued to Canopy pursuant to certain make-whole provisions (the “Canopy Make-Whole Provisions”) in the definitive agreement in respect of the Canopy acquisition (the “Canopy Agreement”); and
- v. Pursuant to the terms of the Canopy Agreement, Ayr assumed Canopy loans outstanding with total principal value of approximately \$400,000.

Additional Exchangeable Shares are also issuable to the Canopy sellers under the Canopy Make-Whole Provisions based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates.

#### **Washoe Acquisition**

Pursuant to the terms of the Washoe Agreement, Ayr satisfied the purchase price of \$27.950 million for Washoe through the following:

- i. \$16.670 million of the Washoe purchase price was paid in the form of cash consideration.
- ii. \$5.640 million of the Washoe purchase price was paid in the form of a promissory note payable.
- iii. \$5.640 million of the Washoe purchase price was paid in the form of 256,364 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.
- iv. Pursuant to the terms of the Washoe Agreement, Ayr assumed Washoe loans outstanding with total principal value of approximately \$9,100,000 and issued 13,636 Exchangeable Shares to a Washoe lender.

In addition, (i) CSAC AcquisitionCo agreed to fund a bonus plan in the amount of \$5,000,000 that would be payable over two years following the Closing Date to various employees and consultants of Washoe, and (ii) additional Exchangeable Shares are issuable to the Washoe sellers under certain make-whole provisions of the Washoe Agreement based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates.

#### **LivFree Acquisition**

Pursuant to the terms of the LivFree Agreement, Ayr satisfied the purchase price of \$119.50 million for LivFree through the following:

- i. \$29.50 million of the LivFree purchase price was paid in the form of cash consideration.
- ii. \$20.0 million of the LivFree purchase price was paid in the form of a promissory note payable.
- iii. \$70 million of the LivFree purchase price was paid in the form of 4,342,432 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.
- iv. Pursuant to an amendment to the definitive agreement in respect of the LivFree Acquisition, such amendment dated as of the Closing Date, CSAC AcquisitionCo issued an additional 321,750 Exchange Shares to the LivFree sellers.

## **CannaPunch Acquisition**

Pursuant to the terms of the CannaPunch Agreement, Ayr satisfied the purchase price of \$16.75 million for CannaPunch through the following:

- i. \$0.750 million of the CannaPunch purchase price was paid in the form of cash consideration.
- ii. \$2.0 million of the CannaPunch purchase price was paid in the form of a promissory note payable.
- iii. \$14.0 million of the CannaPunch purchase price was paid in the form of 866,668 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.
- iv. Pursuant to an amendment to the definitive agreement in respect of the CannaPunch acquisition, such amendment dated June 7, 2019, CSAC AcquisitionCo issued an additional 32,071 Exchangeable Shares to the CannaPunch sellers.

## **5) Preliminary Acquisition Accounting**

Assuming an acquisition date of January 1, 2018, a preliminary estimate of the fair values of the assets to be acquired and the liabilities to be assumed by Ayr in connection with the proposed acquisitions is as follows:

US\$	Ref	Sira \$	Canopy \$	Washoe \$	Livfree \$	Cannapunch \$	Total \$
<b>ASSETS ACQUIRED</b>							
Cash and cash equivalents	a	3,315,782	222,626	722,273	2,182,938	193,329	<b>6,636,948</b>
Accounts receivable, trade, no allowance	a	1,026,229	-	133,075	-	533,871	<b>1,693,175</b>
Inventory	f	15,470,123	4,252,023	5,686,129	4,239,362	994,011	<b>30,641,648</b>
Biological assets	f	2,417,379	-	1,646,000	-	-	<b>4,063,379</b>
Advance to a related corporation		-	1,217,830	-	89,389	-	<b>1,307,219</b>
Prepaid expenses and other assets	a	132,789	153,353	197,933	123,589	-	<b>607,664</b>
Intangible assets	c	19,109,000	8,789,000	6,080,894	25,542,000	-	<b>59,520,894</b>
Property, plant and equipment	f	7,521,303	1,220,641	8,961,601	1,673,445	460,823	<b>19,837,813</b>
Right-of-use assets		5,434,999	2,427,320	-	2,230,783	593,978	<b>10,687,080</b>
Investment in associate	a	-	-	1,939,517	3,331,885	-	<b>5,271,402</b>
Other long term assets		140,401	-	-	-	-	<b>140,401</b>
<b>Total assets acquired at fair value</b>		<b>54,568,005</b>	<b>18,282,793</b>	<b>25,367,422</b>	<b>39,413,391</b>	<b>2,776,012</b>	<b>140,407,623</b>
<b>LIABILITIES ASSUMED</b>							
Trade payables	b	605,217	-	577,458	849,613	247,445	<b>2,279,733</b>
Accrued liabilities	b	2,025,356	349,301	162,209	1,426,638	255,968	<b>4,219,472</b>
Income tax payable	b	3,715,371	-	-	-	-	<b>3,715,371</b>
Deferred tax liabilities		2,402,770	-	-	-	-	<b>2,402,770</b>
Accrued interest payable	b	7,627,157	-	-	-	-	<b>7,627,157</b>
Advance from a related corporation - current	b	-	-	1,217,830	-	-	<b>1,217,830</b>
Advance from a related corporation - non-current	b	-	-	-	-	285,000	<b>285,000</b>
Advance from a member		-	-	-	-	1,402	<b>1,402</b>
Lease liabilities - current portion		142,220	62,841	-	231,379	116,879	<b>553,319</b>
Lease liabilities - non-current portion		5,485,755	2,397,955	-	1,985,735	486,035	<b>10,355,480</b>
Debts payable - current portion	b	7,695	-	-	160,000	-	<b>167,695</b>
Debts payable - non-current portion	b,d	14,963,691	421,128	9,162,306	-	-	<b>24,547,125</b>
<b>Total liabilities assumed at fair value</b>		<b>36,975,232</b>	<b>3,231,225</b>	<b>11,119,803</b>	<b>4,653,365</b>	<b>1,392,729</b>	<b>57,372,354</b>
Goodwill	e	32,407,227	1,948,432	13,702,381	84,739,974	15,366,717	<b>148,164,731</b>
<b>Total Purchase Price</b>		<b>50,000,000</b>	<b>17,000,000</b>	<b>27,950,000</b>	<b>119,500,000</b>	<b>16,750,000</b>	<b>231,200,000</b>

- a) The carrying values of the assets acquired, including cash and equivalents, accounts receivable, prepaid expenses and other assets, investment in associates and deferred tax assets are all assumed to be representative of their estimated fair values given the short timeframe until settlement.

- b) The carrying values of the liabilities assumed, including trade payables, accrued liabilities, advance from a related corporation, income tax payable, accrued interest payable and debts payable are all assumed to be representative of their estimated fair values given the short timeframe until settlement.
- c) A preliminary fair value estimate of \$59,520,894 has been assigned to intangible assets representing licenses and intellectual properties. The assumptions used to determine the fair value of the acquired licenses and intellectual properties may change as Ayr finalises valuations of the acquired intangible assets following the completion of the acquisitions comprising the Qualifying Transaction.
- d) The carrying value of long term borrowings approximates the fair value of these liabilities. The value is preliminary and subject to change.
- e) Goodwill represents the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized and is not deductible for tax purposes.
- f) Assets acquired at their fair market values include inventory, biological assets and property, plant and equipment.

**6) Pro Forma adjustments to the statement of operations in connection with acquisitions**

The following summarizes the pro forma adjustments in connection with the acquisitions of the Target Businesses to give effect to the acquisitions as if they had occurred on April 1, 2019 for purposes of the unaudited Pro Forma Consolidated Statements of Operations for the three months ended March 31, 2019 and twelve months ended December 31, 2018:

- a) Intercompany balances were eliminated on consolidation consequent to acquisitions of the Target Businesses by Ayr.
- b) Intercompany transactions in the nature of sales, purchases and management fee were eliminated on consolidation consequent to the acquisitions of the Target Businesses by Ayr.
- c) To incorporate additional estimated transaction cost of \$2,500,000 to be incurred in connection of acquisition of the Target Businesses by Ayr.
- d) The tax rate is expected to be approximately 23% as a result of acquisitions. However, no impact of tax other than what is reflected historically on the financial statements of Ayr and the entities being acquired, has been shown in the unaudited Pro Forma statements. As the target businesses operate in the cannabis industry, they are subject to the limitations of the U.S. Internal Revenue Code Section 280E.

**7) Constructed/calculated statements of operations**

The financial statements of the businesses used to prepare the unaudited Pro Forma Consolidated Financial Statements, were prepared for the purpose of the unaudited Pro Forma Consolidated Financial Statements and do not conform with the financial statements for the businesses included elsewhere in the Prospectus.



**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Unaudited Pro Forma Consolidated Financial Statements**  
**As at March 31, 2019 (Expressed in US\$)**

For the purpose of the unaudited Pro Forma Consolidated Financial Statements, the Ayr unaudited Pro Forma Consolidated Statements of Operations for the twelve months ended December 31, 2018 were calculated as follows:

US\$	AYR (USD)			
	12M Ended September 30, 2018 \$	Less: 3M Ended December 31, 2017 \$	Plus: 3M Ended December 31, 2018 \$	12M Ended December 31, 2018 \$
<b>Revenues, net of discounts</b>	-	-	-	-
Cost of goods sold before biological asset adjustment	-	-	-	-
Fair value changes in biological assets included in cost of sales	-	-	-	-
Unrealized gain on biological asset transformation	-	-	-	-
<b>Gross profit (loss)</b>	-	-	-	-
<b>Expenses</b>				
Transaction costs	7,115,646	6,723,178	-	392,467
General and administrative	916,469	13,391	2,341,604	3,244,682
Sales and marketing	-	-	-	-
Depreciation	-	-	-	-
Licensor profit share	-	-	-	-
Management fee	-	-	-	-
Foreign exchange	-	-	20,212	20,212
Net unrealized loss on changes in the fair value of financial liabilities	29,454,070	(491,688)	42,503,558	72,449,316
<b>Total expenses</b>	37,486,185	6,244,882	44,865,374	76,106,677
<b>Income (loss) from operations</b>	(37,486,185)	(6,244,882)	(44,865,374)	(76,106,677)
<b>Other (income) expense</b>				
Share of (income) loss on equity investments	-	-	-	-
Interest expense	-	-	-	-
Interest income	(727,526)	(24,248)	(231,553)	(934,831)
Management fee income	-	-	-	-
Rental income and others	-	-	-	-
<b>Total other (income) expense</b>	(727,526)	(24,248)	(231,553)	(934,831)
Income tax (recovery) expense	-	-	-	-
<b>Net income (loss)</b>	<b>(36,758,658)</b>	<b>(6,220,634)</b>	<b>(44,633,822)</b>	<b>(75,171,846)</b>

**8) Pro Forma adjustments to the unaudited Pro Forma Consolidated Statement of Financial Position in connection with the Acquisitions of the Target Businesses**

The following summarizes the pro forma adjustments in connection with the acquisitions of the Target Businesses to give effect to the acquisitions as if they had occurred on January 1, 2018 for purposes of the unaudited Pro Forma Consolidated Statement of Financial Position as at December 31, 2018:

- a) Cash, shares and notes payable totaling \$231,200,000 is paid/issued on the acquisitions.
- b) To reflect the fair value adjustment to the licenses and intellectual property as discussed under “Preliminary Acquisition Accounting” section above (refer to note 5(c)).
- c) Goodwill represents the excess of the preliminary estimated purchase price over the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed by Ayr. Goodwill represents the value of intangible assets that do not qualify for separate recognition.
- d) All members’ equity relating to the Target Businesses were eliminated upon each respective acquisition thereof by Ayr.
- e) Upon the acquisition of each of the Target Businesses, the restricted cash and short-term investments held in escrow was transferred to cash.
- f) To incorporate additional estimated transaction cost of \$2,500,000 to be incurred in connection of acquisition of the Target Businesses by Ayr.
- g) This adjustment relates to the closing of the Qualifying Transaction. This adjustment has been presented based on the redemption of 1,000 Class A Restricted Voting Shares. The adjustment includes the following elements: (i) release of \$101 million from restricted cash held in the form of flexible guaranteed investment certificates to cash, and (ii) release of \$3.5 million to pay deferred underwriters commission.
- h) To show the repayment of the deferred underwriters’ commission as a reduction of the liability and cash.
- i) To adjust for the fair market value of assets taken over by Ayr on acquisition as disclosed in Note 5.

**9) Pro Forma Earnings per Share (“Pro Forma EPS”)**

The Pro Forma EPS have been adjusted to reflect the unaudited Pro Forma Consolidated Statement of Operations for the three months period ended March 31, 2019 and the twelve months ended December 31, 2018. In addition, the number of shares used in calculating the unaudited Pro Forma Consolidated Basic and Diluted Earnings Per Share has been adjusted to reflect the estimated total number of shares of Ayr that would be outstanding as of the closing of the acquisitions of the Target Businesses.

The pro forma total number of shares of stock of the consolidated corporation that would be outstanding after the expected closing of the acquisitions of the Target Businesses noted below in the table.

The following is a breakdown of the Pro Forma EPS calculation:

	<b>Three Months Ended March 31, 2019</b>	<b>Twelve Months Ended December 31, 2018</b>
<b>Net loss</b>	<b>\$ (131,678,002)</b>	<b>\$ (72,073,620)</b>
Ayr Strategies Inc. shares:		
Multiple voting shares	3,696,486	3,696,486
Subordinate voting shares	14,517,855	14,517,855
<b>Weighted average number of shares outstanding</b>	<b>18,214,341</b>	<b>18,214,341</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (7.23)</b>	<b>\$ (3.96)</b>

#### **10) Reconciliation of Non-IFRS Measures**

The Company reports certain non-IFRS measures that are used to evaluate the performance of such businesses and the performance of their respective segments, as well as to manage their capital structure. As non-IFRS measures generally do not have a standardized meaning, they may not be comparable to similar measures presented by other issuers. Securities regulations require such measures to be clearly defined and reconciled with their most directly comparable IFRS measure.

The Company references non-IFRS measures and cannabis industry metrics in this document and elsewhere. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these are provided as additional information to complement those IFRS measures by providing further understanding of the results of the operations of the Company from management's perspective. Accordingly, these measures should not be considered in isolation, nor as a substitute for analysis of the Company's financial information reported under IFRS. Non-IFRS measures used to analyze the performance of the Target Businesses include "Adjusted EBITDA".

The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding the Company's performances and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. These financial measures are intended to provide investors with supplemental measures of the Company's operating performances and thus highlight trends in the Company's core businesses that may not otherwise be apparent when solely relying on the IFRS measures.

#### **Adjusted EBITDA**

"Adjusted EBITDA" represents income (loss) from operations, as reported, before interest, tax, and adjusted to exclude extraordinary items, non-recurring items, other non-cash items, including stock based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories, and further adjusted to remove acquisition related costs.

The following is a reconciliation of how Ayr calculates Adjusted EBITDA and reconciles it to IFRS figures, based on figures derived from the financial statements of Ayr and the respective Target Businesses.

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Unaudited Pro Forma Consolidated Financial Statements**  
**As at March 31, 2019 (Expressed in US\$)**

***Adjusted EBITDA Reconciliation for the twelve months ended December 31, 2018***

Period	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 Pro forma	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 Pro forma
	<b>Washoe</b>	<b>Canopy</b>	<b>LivFree</b>	<b>Sira</b>	<b>CannaPunch</b>	<b>Total Anchor Portfolio</b>	<b>Ayr<sup>2</sup></b>	<b>Combined</b>
Net income (loss) from operations	3,682,863	3,150,573	7,462,753	(10,269,243)	1,571,280	<b>5,598,226</b>	(77,671,846)	<b>(72,073,620)</b>
<b><u>Non-cash items accounting for biological assets and inventories</u></b>								
Fair value changes in biological assets	5,086,289	—	—	18,470,531	—	<b>23,556,820</b>	—	<b>23,556,820</b>
Unrealized gain on changes in fair value of biological assets	(4,005,602)	—	—	(11,287,162)	—	<b>(15,292,764)</b>	—	<b>(15,292,764)</b>
	1,080,687	—	—	7,183,369	—	<b>8,264,056</b>	—	<b>8,264,056</b>
Interest	331,277	—	—	2,738,950	—	<b>3,070,227</b>	(934,831)	<b>2,135,396</b>
Depreciation and amortization	51,831	50,766	191,301	965,936	5,027	<b>1,264,861</b>	—	<b>1,264,861</b>
Acquisition costs	—	—	324,299	318,448	20,883	—	3,045,800	<b>3,045,800</b>
Share-based compensation expense	—	—	—	—	—	—	—	—
Other <sup>1</sup>	(1,858,783)	546,848	(274,899)	5,117,531	1,123,212	<b>4,653,909</b>	75,560,877	<b>80,214,786</b>
	(1,475,675)	597,614	240,701	9,140,865	1,149,122	<b>9,652,627</b>	77,671,846	<b>84,824,473</b>
<b>Adjusted EBITDA</b>	<b>3,287,875</b>	<b>3,748,187</b>	<b>7,703,454</b>	<b>6,054,991</b>	<b>2,720,402</b>	<b>23,514,909</b>	<b>(0)</b>	<b>23,514,909</b>

<sup>1</sup> Other adjustments made to exclude the impact of management fees, profit sharing arrangements, transaction fees, and the net unrealized loss on changes in the fair value of financial liabilities

<sup>2</sup> Includes pro forma adjustments as outlined in the notes to the Unaudited Pro Forma Consolidated Financial Statements

**Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)**  
**Notes to the Unaudited Pro Forma Consolidated Financial Statements**  
**As at March 31, 2019 (Expressed in US\$)**

*Adjusted EBITDA Reconciliation for the three months ended March 31, 2019*

Period	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 Pro forma	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 Pro forma
	<b>Washoe</b>	<b>Canopy</b>	<b>LivFree</b>	<b>Sira</b>	<b>CannaPunch</b>	<b>Total Anchor Portfolio</b>	<b>Ayr<sup>2</sup></b>	<b>Combined</b>
Net income (loss) from operations	1,150,430	492,052	2,901,132	3,038,364	318,751	<b>7,900,729</b>	(139,578,731)	<b>(131,678,002)</b>
<b>Non-cash items accounting for biological assets and inventories</b>								
Fair value changes in biological assets	804,650	—	—	4,253,838	—	<b>5,058,488</b>	—	<b>5,058,488</b>
Unrealized gain on changes in fair value of biological assets	(1,227,204)	—	—	(7,282,658)	—	<b>(8,509,862)</b>	—	<b>(8,509,862)</b>
	(422,554)	—	—	(3,028,820)	—	<b>(3,451,374)</b>	—	<b>(3,451,374)</b>
Interest	94,888	78,446	41,354	824,668	15,969	<b>1,055,325</b>	(227,164)	<b>828,161</b>
Depreciation and amortization	95,266	77,596	137,156	352,954	47,821	<b>710,793</b>	—	<b>710,793</b>
Acquisition costs	5,362	11,200	—	122,438	—	—	3,012,026	<b>3,012,026</b>
Share-based compensation expense	—	—	—	—	—	—	—	—
Other <sup>1</sup>	(178,294)	180,000	22,616	2,499,734	224,730	<b>2,748,786</b>	136,793,869	<b>139,542,655</b>
	17,222	347,242	201,126	3,799,794	288,520	<b>4,653,904</b>	139,578,731	<b>144,093,635</b>
<b>Adjusted EBITDA</b>	<b>745,098</b>	<b>839,294</b>	<b>3,102,258</b>	<b>3,809,338</b>	<b>607,271</b>	<b>9,103,259</b>	<b>0</b>	<b>9,103,259</b>

*No securities regulatory authority has in any way passed upon the merits of the transactions described in this management information circular.*

**AYR STRATEGIES INC.**

**NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS  
scheduled to be held on November 4, 2020**

**and**

**MANAGEMENT INFORMATION CIRCULAR**

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## NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that the annual general and special meeting of shareholders (the “**Meeting**”) of Ayr Strategies Inc. (“**Ayr**”, the “**Corporation**” or “**we**”) will be held via live audio webcast on Wednesday, November 4, 2020 at 11:00 a.m. (Eastern time), for the purposes of:

1. receiving the consolidated financial statements of the Corporation for the fiscal year ended December 31, 2019, together with the auditors’ report thereon;
2. electing directors for the ensuing year;
3. appointing auditors for the ensuing year;
4. considering, and if thought advisable, adopting a special resolution (the full text of which is reproduced as Appendix “A” to the accompanying management information circular dated September 30, 2020 (the “**Circular**”)) to approve the proposed amendment of the articles of Ayr (the “**Amendment Resolution**”), the whole as described in the Circular, to, among other things:
  - create and set the terms of two new share classes of Ayr, being the restricted voting shares of Ayr (the “**Restricted Voting Shares**”) and the limited voting shares of Ayr (the “**Limited Voting Shares**”), including applying coattail terms to such shares similar to those applicable to the existing Subordinate Voting Shares; and
  - amend the terms of the existing multiple voting shares of Ayr (the “**Multiple Voting Shares**”) and the existing subordinate voting shares of Ayr (the “**Subordinate Voting Shares**”, and together with the Multiple Voting Shares, the “**Ayr Shares**”), including without limitation, by amending the requirements on who may hold Subordinate Voting Shares; and
5. transacting such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

**The Amendment Resolution will be required to be approved by: (i) an ordinary resolution of all holders of the Multiple Voting Shares and the Subordinate Voting Shares (collectively, the “Ayr Shareholders”), voting together as if they were a single class of shares; (ii) a special resolution of all Ayr Shareholders, voting together as if they were a single class; (iii) an ordinary and special resolution of the holders of Subordinate Voting Shares (voting as a separate class); (iv) a special resolution of the holders of Multiple Voting Shares (voting as a separate class), which may be obtained in writing; and (v) an ordinary resolution of the minority holders of Subordinate Voting Shares (i.e., other than those held by holders of Multiple Voting Shares and other persons not permitted to vote thereon under Ontario Securities Commission Rule 56-501 – *Restricted Shares*).**

**The Amendment Resolution will, upon adoption (and at anytime thereafter), result in (i) the holders of all Multiple Voting Shares continuing to hold Multiple Voting Shares (subject to their existing conversion rights), (ii) subject to certain exceptions, the holders of all Subordinate Voting Shares held by “Non-U.S. Persons” (as defined in the Circular) continuing to hold Subordinate Voting Shares, (iii) subject to certain exceptions, the holders of all Subordinate Voting Shares if and when held by “U.S. Persons” (as defined in the Circular) being automatically converted on a one-for-one basis into Restricted Voting Shares, and (iv) the holders of Restricted Voting Shares being converted on a one-for-one basis into Limited Voting Shares, as applicable, in order to seek to maintain the Corporation’s “foreign private issuer” status under U.S. securities laws and thereby reduce compliance costs.**

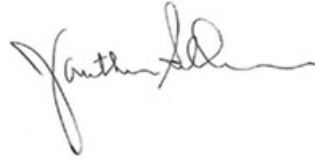
This year, out of an abundance of caution, to proactively deal with the unprecedented public health impact of the novel coronavirus disease, also known as COVID-19, and to mitigate risks to the health and safety of our communities, shareholders, employees and other stakeholders, we will hold the Meeting in a virtual only format, which will be conducted via live audio webcast. All shareholders, regardless of their geographic location, will have an equal opportunity to participate in the Meeting and engage with directors and management of Ayr as well as with other shareholders. Shareholders will not be able to virtually attend the Meeting in person. At the Meeting, if you virtually attend, you will have the opportunity to ask questions and vote on a number of important matters. Alternatively, you may vote by proxy (if you are a registered shareholder) or by following the instructions on the voting information form (if you are a beneficial shareholder), in each case, by following the applicable directions.

The record date for the determination of registered shareholders of Ayr entitled to receive notice of, and to vote at, the Meeting is the close of business on September 28, 2020 (the “**Record Date**”). Only shareholders whose names are entered in the Corporation’s register of shareholders as of the close of business on the Record Date will be entitled to receive notice of, and to vote their shares at, the Meeting. Registered shareholders of Ayr and duly appointed proxyholders will be able to virtually attend, participate, vote and ask questions at the Meeting online at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962). Beneficial shareholders of Ayr (being shareholders who hold their shares through a securities dealer or broker, bank, trust company or trustee, custodian, nominee or other intermediary), who have not duly appointed themselves as their proxy will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting.

This notice of annual general and special meeting of shareholders is accompanied by the Circular and a form of proxy (for registered shareholders) or a voting instruction form (for beneficial shareholders). As a shareholder of the Corporation, it is very important that you read these documents carefully, as they contain important information and detailed instructions about how to vote your shares and participate in the Meeting.

Dated at New York, New York on September 30, 2020.

By order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Jonathan Sandelman", with a long horizontal flourish extending to the right.

Jonathan Sandelman

Chairman, Chief Executive Officer and Corporate Secretary



Shareholders may exercise their rights by virtually attending the Meeting online or by completing a form of proxy or voting instruction form. If you are unable to virtually attend the Meeting, please complete, date and sign the enclosed form of proxy or voting instruction form and deal with it as directed. A shareholder who wishes to appoint a person other than the management nominees identified in the form of proxy or voting instruction form (the “**Ayr proxyholders**”) to represent such shareholder at the Meeting may do so by inserting such person’s name in the blank space provided in the form of proxy or voting instruction form and following the instructions for submitting such form of proxy or voting instruction form. This must be completed prior to registering such proxyholder, which is an additional step to be completed once you have submitted your form of proxy or voting instruction form. If you wish that a person other than the Ayr proxyholders virtually attend and participate in the Meeting as your proxy and vote your shares, including if you are a non-registered shareholder and wish to appoint yourself as your proxy to virtually attend, participate and vote at the Meeting, you **MUST** register such proxyholder after having submitted your form of proxy or voting instruction form identifying such proxyholder. Failure to register the proxyholder will result in the proxyholder not receiving a Username to participate in the Meeting. Without a Username, proxyholders will not be able to virtually attend, participate or vote at the Meeting. To register a proxyholder, shareholders **MUST** send an email to [ayr@odysseytrust.com](mailto:ayr@odysseytrust.com) and provide Odyssey Trust Company (“**Odyssey**”), the transfer agent and registrar of the Corporation, with their proxyholder’s contact information, amount of shares appointed, name in which the shares are registered if they are a registered shareholder, or name of broker where the shares are held if a beneficial shareholder, so that Odyssey may provide the proxyholder with a Username via email.

Proxies must be received by Odyssey (Odyssey Trust Company, Attn: Proxy Department, 67 Yonge St, Suite 702, Toronto, Ontario M5E 1J8) no later than 11:00 a.m. (Eastern time) on the second business day preceding the day of the Meeting (being Monday, November 2, 2020) or any adjournment(s) or postponement(s) thereof. Your shares will be voted in accordance with your instructions as indicated on the proxy.

If you are a registered shareholder, contact Odyssey at [www.odysseycontact.com](http://www.odysseycontact.com) for any voting questions you may have.

## INVITATION TO SHAREHOLDERS

Dear Shareholders:

On behalf of the board of directors and management of the Corporation, we are pleased to invite you to virtually attend the annual general and special meeting of shareholders that will be held this year on Wednesday, November 4, 2020 at 11:00 a.m. (Eastern time), which will be conducted in a virtual only format via live audio webcast at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962). Shareholders will not be able to attend the meeting in person. A summary of the information shareholders will need to virtually attend the meeting online is provided below in the section entitled "General Proxy Information".

This year, out of an abundance of caution, to proactively deal with the unprecedented public health impact of the novel coronavirus disease, also known as COVID-19, and to mitigate risks to the health and safety of our communities, shareholders, employees and other stakeholders, we will hold the annual general and special meeting in a virtual only format, which will be conducted via live audio webcast. All shareholders, regardless of their geographic location, will have an equal opportunity to participate in the meeting and engage with directors and management of the Corporation as well as other shareholders.

The annual general and special meeting is your opportunity to vote on a number of important matters as well as hear first-hand about our performance and strategic plans for the future. The enclosed management information circular describes the business to be conducted at the meeting and should be read in conjunction with the Corporation's Form 51-102F6V – *Statement of Executive Compensation* for the financial year ended December 31, 2019, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under the Corporation's profile and which provides information on the Corporation's executive compensation. Registered shareholders and duly appointed proxyholders will be able to virtually attend, participate, vote and ask questions at the meeting online at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962). Non-registered shareholders who have not duly appointed themselves as their proxy will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting.

Your participation in the meeting is important to us and we value your input as shareholders. You can vote by virtually attending the meeting online and voting, or alternatively via the Internet or by completing and returning the enclosed form of proxy or voting instruction form.

We look forward to welcoming you at the meeting and thank you for your continued support.

Sincerely,



**Jonathan Sandelman**

President, Chief Executive Officer and Chairman of the Board of Directors

## FREQUENTLY ASKED QUESTIONS

The following questions and answers about the Meeting, including voting thereat and participating therein, as applicable, are designed to help you understand such matters in more detail. All capitalized terms not otherwise defined have the meanings ascribed to them in the Circular.

### **About the Meeting**

#### ***Why did I receive this package of information?***

The matters described in the Circular are subject to, among other things, obtaining Ayr Shareholder approval, as further described below. As an Ayr Shareholder as of the close of business on September 28, 2020, you are entitled to receive notice of and vote at the Meeting.

#### ***What is this document?***

This document is a management information circular (the “**Circular**”) furnished to Ayr Shareholders in connection with the solicitation of proxies by and on behalf of the management of Ayr for use at the Meeting or at any adjournment(s) or postponement(s) thereof. References in this Circular to the Meeting include any adjournment(s) or postponement(s) thereof that may occur.

#### ***Who is soliciting my proxy?***

Your proxy is being solicited by and on behalf of Ayr’s management for use at the Meeting or any adjournment(s) or postponement(s) thereof. While it is expected that the solicitation will be primarily by mail, proxies may be solicited personally or by telephone by the regular employees of Ayr at nominal cost. All costs of solicitation by management will be borne by Ayr, other than the cost of solicitation of the Objecting Beneficial Holders. See the sections entitled “*Solicitation of Proxies*” and “*Advice to Beneficial Shareholders*”.

See “*How do I appoint a third party as proxy?*” for instructions on how to appoint a proxy.

#### ***When and where is the Meeting?***

The Meeting is scheduled to be held virtually will be held via live audio webcast on Wednesday, November 4, 2020 at 11:00 a.m. (Eastern time).

#### ***Who is entitled to vote at the Meeting and how will votes be counted?***

All Ayr Shareholders as of the close of business on September 28, 2020 (the “**Record Date**”) are entitled to vote on the items of business for the Meeting, including the Amendment Resolution.

Odyssey, the Corporation’s transfer agent and registrar, will count the votes.

#### ***What if I acquired ownership of Ayr Shares after September 28, 2020, 2020?***

Only registered Ayr Shareholders as of the close of business on the Record Date are entitled to receive notice of, virtually attend, participate and vote at the Meeting online at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962). Beneficial shareholders of Ayr (meaning that your Ayr Shares are held beneficially on your behalf, or for your account, by a broker, investment dealer, bank, trust company or other intermediary), who have not duly appointed themselves as their proxy will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting.

***When is voting recommended?***

In order to ensure that your proxy is received in time for the Meeting, to be held on Wednesday, November 4, 2020, we recommend that you vote as soon as possible.

***What am I being asked to vote on?***

You are being asked to vote on the election of directors, the appointment of auditors and the Amendment Resolution to approve the proposed amendments to the Corporation's articles, to, among other things, (i) create and set the terms of two new share classes of Ayr, being the Restricted Voting Shares and the Limited Voting Shares, including applying coattail terms to such shares similar to those applicable to the existing Subordinate Voting Shares; and (ii) amend the terms of the existing Multiple Voting Shares and the existing Subordinate Voting Shares, including by amending the requirements on who may hold Subordinate Voting Shares (collectively, the "**Amendment**"). See the section entitled "*Description of Share Capital*" for more information.

***Does the board of directors of Ayr (the "Board") support the Amendment Resolution?***

Yes. After careful consideration and in order to seek to maintain Ayr's foreign private issuer (FPI) status and reduce compliance costs, the Board has unanimously concluded that the Amendment Resolution is in the best interests of the Corporation. **Accordingly, the Board has unanimously approved the Amendment and unanimously recommends that Ayr Shareholders vote FOR the Amendment Resolution.**

***What is the quorum for the Meeting?***

For all purposes contemplated by this Circular, the quorum for the transaction of business at the Meeting shall be at least two registered or beneficial Ayr Shareholders holding or representing by proxy at least 25% of the issued and outstanding AYR Shares entitled to be voted at the Meeting.

***How many Ayr Shares are entitled to vote?***

The authorized capital of the Corporation consists of an unlimited number of Multiple Voting Shares and Subordinate Voting Shares. Each holder of Multiple Voting Shares is entitled to 25 votes per share, and each holder of Subordinate Voting Shares is entitled to one vote per share, in each case registered in his, her or its name at the close of business on the Record Date. At the close of business on the Record Date, there were 3,696,486 Multiple Voting Shares outstanding and 17,324,089 Subordinate Voting Shares outstanding.

***What if amendments are made to these matters or other business is brought before the Meeting?***

The accompanying form of proxy or voting instruction form confers discretionary authority on the persons named therein as proxies with respect to any amendments or variations to the matters identified in each of the Notice of Meeting contained in this Circular, or other matters that may properly come before the Meeting, and the named proxies in your properly executed proxy or voting instruction form will vote on such matters in accordance with their judgment. At the date of this Circular, management of Ayr is not aware of any such amendments, variations or other matters which are to be presented for action at the Meeting.

***How do I vote at the Meeting?***

Registered shareholders may vote at the Meeting by completing a ballot online during the Meeting, as further described below. See "*How do I virtually attend and participate at the Meeting?*".

Beneficial shareholders who have not duly appointed themselves as proxyholder will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting. This is because the Corporation and its transfer agent do not have a record of the beneficial shareholders of the Corporation, and, as a result, will have no knowledge of your shareholdings or entitlement to vote, unless you appoint yourself as proxyholder. If you are a beneficial shareholder and wish to vote at the Meeting, you have to appoint yourself as proxyholder, by inserting your own name in the space provided on the voting instruction form sent to you and must follow all of the applicable instructions provided by your intermediary. See "*How do I appoint a third party as proxy?*" and "*How do I virtually attend and participate at the Meeting?*".

### ***How do I appoint a third party as proxy?***

The following applies to Ayr Shareholders who wish to appoint a person (a “**third party proxyholder**”) other than the management nominees set forth in the form of proxy or voting instruction form as proxyholder, including beneficial shareholders who wish to appoint themselves as proxyholder to participate or vote at the Meeting.

Ayr Shareholders who wish to appoint a third party proxyholder to vote at the Meeting as their proxy and vote their Ayr Shares **MUST** submit their proxy or voting instruction form (as applicable) appointing such third party proxyholder **AND** register the third party proxyholder, as described below. Registering your proxyholder is an additional step to be completed **AFTER** you have submitted your proxy or voting instruction form. **Failure to register the proxyholder will result in the proxyholder not receiving a Username to virtually attend, participate or vote at the Meeting.**

- **Step 1: Submit your proxy or voting instruction form:** To appoint a third party proxyholder, insert such person’s name in the blank space provided in the form of proxy or voting instruction form and follow the instructions for submitting such form of proxy or voting instruction form. This must be completed prior to registering such proxyholder, which is an additional step to be completed once you have submitted your form of proxy or voting instruction form.
- **Step 2: Register your proxyholder:** To register a proxyholder, shareholders **MUST** send an email to [ayr@odysseytrust.com](mailto:ayr@odysseytrust.com) by 11:00 a.m. (Eastern time) on Monday, November 2, 2020, and provide Odyssey with the required proxyholder contact information, amount of shares appointed, name in which the shares are registered if they are a registered shareholder, or name of broker where the shares are held if a beneficial shareholder, so that Odyssey may provide the proxyholder with a Username via email. Without a Username, proxyholders will not be able to virtually attend, participate or vote at the Meeting.

If you are a beneficial shareholder and wish to virtually participate or vote at the Meeting, you have to insert your own name in the space provided on the voting instruction form sent to you by your intermediary, follow all of the applicable instructions provided by your intermediary **AND** register yourself as your proxyholder, as described above. By doing so, you are instructing your intermediary to appoint you as proxyholder. It is important that you comply with the signature and return instructions provided by your intermediary. Please also see further instructions below under the heading “*How do I virtually attend and participate at the Meeting?*”.

### ***Am I entitled to dissent rights?***

No, Ayr Shareholders are not entitled to exercise dissent rights in respect of any of the items of business at the Meeting, including the Amendment Resolution. See the heading entitled “*Dissent Rights*”.

### ***How do I virtually attend and participate at the Meeting?***

The Corporation is holding the Meeting in a virtual only format, which will be conducted via live audio webcast. Ayr Shareholders will not be able to attend the Meeting in person. In order to participate or vote at the Meeting (including for voting and asking questions at the Meeting), shareholders must have a valid Username. Registered shareholders and duly appointed proxyholders will be able to virtually attend, participate and vote at the Meeting online at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962). Such persons may then enter the Meeting by clicking “I have a login” and entering a Username and Password before the start of the Meeting.

- **Registered shareholders:** The 12-digit control number located on the form of proxy is the Username. The Password to the Meeting is “ayr2020” (case sensitive). If, as a registered shareholder, you are using your control number to login to the Meeting and have previously voted, you do not need to vote again when the polls are opened. Should you choose to vote at the meeting, you will be revoking any and all previously submitted votes.

- **Duly appointed proxyholders:** Odyssey will provide the proxyholder with a Username by e-mail after the voting deadline has passed. The Password to the Meeting is “ayr2020” (case sensitive). Only registered shareholders and duly appointed proxyholders will be entitled to participate and vote at the Meeting. Beneficial shareholders who have not duly appointed themselves as proxyholder will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting. Ayr Shareholders who wish to appoint a third party proxyholder to represent them at the Meeting (including beneficial shareholders who wish to appoint themselves as proxyholder to participate or vote at the Meeting) **MUST** submit their duly completed proxy or voting instruction form **AND** register the proxyholder. See “*How do I appoint a third party as proxy?*”.

Shareholders will be allowed to log in as early as 30 minutes before the start time on November 4, 2020. The virtual Meeting platform is supported across internet browsers (e.g. Edge, Firefox, Chrome, and Safari) and devices (e.g., desktops, laptops, tablets, and cell phones). If you intend to join the live audio webcast, you should ensure that you have a strong WiFi or Internet connection from wherever you intend to join and participate in the virtual Meeting. We encourage you to access the virtual Meeting before it begins, and you should give yourself plenty of time to log in and ensure that you can hear streaming audio prior to the start of the Meeting.

#### ***How do I ask questions prior to or at the Meeting?***

If you want to ask questions during the Meeting, log into the virtual meeting platform at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962), click on the double chat bubble icon, type your question into the chat field, and click the send arrow button.

Questions pertinent to Meeting matters will be answered during the Meeting, subject to time constraints of two-minute limits per question and two questions per shareholder. Questions that are unrelated to the proposals under discussion, use blatantly offensive language or are regarding personal matters, including those related to employment, product or service issues, or suggestions for product innovations, will not be answered by the Chair or management.

#### ***What do I do as a U.S. Beneficial Shareholder?***

If you are a beneficial shareholder located in the United States and wish to participate or vote at the Meeting or, if permitted, appoint a third party as your proxyholder, in addition to the steps described above under “*How do I virtually attend and participate at the Meeting?*”, you must obtain a valid legal proxy from your intermediary. Follow the instructions from your intermediary included with the legal proxy form and the voting information form sent to you or contact your intermediary to request a legal proxy form or a legal proxy if you have not received one. After obtaining a valid legal proxy from your intermediary, you must then submit such legal proxy to Odyssey. Requests for registration from beneficial shareholders located in the United States that wish to participate or vote at the Meeting or, if permitted, appoint a third party as their proxyholder must be sent by e-mail to [ayr@odysseytrust.com](mailto:ayr@odysseytrust.com) and received by no later than 11:00 a.m. (Eastern time) on the second business day preceding the day of the Meeting (being Monday, November 2, 2020) or any adjournment(s) or postponement(s) thereof.

#### **About the Amendment**

##### ***Why is the Corporation proposing the Amendment?***

The Corporation is proposing this expanded share structure and the introduction of Restricted Voting Shares and Limited Voting Shares in order to seek to maintain its foreign private issuer (FPI) status and reduce compliance costs. This is somewhat similar to other Canadian-listed issuers which have adopted variable voting share structures for airline and telecommunications regulatory purposes.

***I am a holder of Subordinate Voting Shares. What will happen to my shares?***

The Amendment Resolution will, upon adoption (and at anytime thereafter), result in (i) the holders of all Multiple Voting Shares continuing to hold Multiple Voting Shares (subject to their existing conversion rights), (ii) subject to certain exceptions, the holders of all Subordinate Voting Shares held by “Non-U.S. Persons” (as defined in the Circular) continuing to hold Subordinate Voting Shares, (iii) subject to certain exceptions, the holders of all Subordinate Voting Shares if and when held by “U.S. Persons” (as defined in the Circular) being automatically converted on a one-for-one basis into Restricted Voting Shares, and (iv) the holders of Restricted Voting Shares being converted on a one-for-one basis into Limited Voting Shares, as applicable, in order to seek to maintain the Corporation’s foreign private issuer status under U.S. securities laws and thereby reduce compliance costs.

**About Approval of the Amendment**

***What approvals are required for the Amendment to become effective?***

Adoption of the Amendment will be subject to, among other things, the receipt of (A) the requisite shareholder vote, as herein described, (B) the approval of the Canadian Securities Exchange, and (C) the approval of the Ontario Securities Commission (failing which, the Restricted Voting Shares will be known as “Class A Restricted Voting Shares” and the Limited Voting Shares will be known as “Class B Restricted Voting Shares”). In particular, the Amendment Resolution will be required to be approved by: (i) an ordinary resolution of all Ayr Shareholders, voting together as if they were a single class of shares; (ii) a special resolution of all Ayr Shareholders, voting together as if they were a single class; (iii) an ordinary and special resolution of the holders of Subordinate Voting Shares (voting as a separate class); (iv) a special resolution of the holders of Multiple Voting Shares (voting as a separate class), which may be obtained in writing; and (v) an ordinary resolution of the minority holders of Subordinate Voting Shares (i.e., other than those held by holders of Multiple Voting Shares and other persons not permitted to vote thereon under Ontario Securities Commission Rule 56-501 – *Restricted Shares*).

**Tax Consequences to Ayr Shareholders**

***What are the tax consequences of the Amendment to Ayr Shareholders?***

This Circular contains a summary of the principal Canadian federal income tax considerations relevant to Ayr Shareholders. Please see the discussions under the heading “*Certain Federal Income Tax Considerations - Certain Canadian Federal Income Tax Considerations*”. **This summary is of a general nature only and is not, and is not intended to be, nor should it be construed to be, legal or tax advice or representations to any particular Ayr Shareholder. This summary is not exhaustive of all income tax considerations. Accordingly, Ayr Shareholders are urged to consult their own legal and tax advisors with respect to the tax consequences to them having regard to their particular circumstances, including the application and effect of the income and other tax laws of any country, state, province or other jurisdiction that may be applicable to the Ayr Shareholder, including those in the United States.**

**Who to Call with Questions**

***Who can I contact if I have questions?***

If you have any questions or require any assistance in executing your proxy or voting instruction form, please call Odyssey, Ayr’s transfer agent, at 1-587-885-0960, or your tax, financial, legal or other professional advisors.

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## MANAGEMENT INFORMATION CIRCULAR

(All dollar amounts herein are in United States dollars, unless indicated otherwise)

### INTRODUCTION

This management information circular (the “**Circular**”) is furnished in connection with the solicitation by management of Ayr Strategies Inc. (“**Ayr**”, the “**Corporation**” or “**we**”) of proxies for use at the annual general and special meeting of shareholders of the Corporation to be held on November 4, 2020 at 11:00 a.m. (Eastern time), or any postponement(s) or adjournment(s) thereof (the “**Meeting**”), for the purposes set forth in the accompanying notice of the annual general and special meeting of shareholders (the “**Notice of Meeting**”).

Unless otherwise noted, references to “Ayr” and the “Corporation” refer to Ayr Strategies Inc. and its direct and indirect subsidiaries, predecessors and other entities controlled by them. Unless otherwise indicated, all references to “\$” or “dollars” in this Circular refer to U.S. dollars. Certain totals, subtotals and percentages throughout this Circular may not reconcile due to rounding. Where applicable, references herein to the “Board” may also refer to the executive committee of the Corporation (the “**Executive Committee**”), as several of the Board’s functions are delegated to the Executive Committee. This Circular is dated September 30, 2020, and all information, unless indicated otherwise, is as at that date.

**Due to the COVID-19 pandemic, the Meeting will be held as a completely virtual meeting conducted via live audio webcast. Shareholders will not be able to attend the Meeting in person. A summary of the information shareholders will need to virtually attend the Meeting online is provided below.**

**Ayr derives a substantial portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. Ayr is directly involved (through its licensed subsidiaries) in the cannabis industry in the United States where local state laws permit such activities. Currently, its subsidiaries and managed entities are directly engaged in the manufacture, possession, use, sale or distribution of cannabis and/or holds licenses in the adult-use and/or medicinal cannabis marketplace in the States of Nevada and Massachusetts.**

### FORWARD-LOOKING STATEMENTS

This Circular and the documents incorporated by reference herein contain certain “forward-looking statements” and “forward-looking information” within the meaning of applicable securities laws, including Canadian securities laws and United States securities laws (collectively, “**forward-looking statements**”). All information, other than statements of historical facts, included in this Circular and the documents incorporated by reference herein, including estimates, plans, expectations, opinions, forecasts, projections, targets and guidance, constitutes forward-looking information. 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”.

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;
- the business and future activities of, and developments related to, the Corporation after the date hereof, including such things as future business strategy, financial and operating performance, results and terms of strategic initiatives, strategic agreements and supply agreements, competitive strengths, goals, expansion and growth of the Corporation’s business, and anticipated profitability including new revenue streams;

- the completion and integration of contemplated acquisitions by the Corporation or other possible acquisitions or dispositions (directly or indirectly) of businesses or assets which may or may not be material and/or investment opportunities;
- the application for additional licenses and the grant of licenses and other regulatory approvals that have been applied for;
- the renewal of licenses held by the Corporation;
- 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, if any, and the potential form any such legislation and regulations may take;
- the number of users of cannabis or the size of the regulated cannabis market in the United States;
- 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;
- consistent or increasing pricing of various cannabis products;
- the level of demand for cannabis products, including the Corporation's products and third-party products sold by the Corporation;
- 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 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;
- other events or conditions that may occur in the future; and
- management's success in anticipating and managing the foregoing factors, as well as the risks described in the Corporation's annual information form for the financial year ended December 31, 2019 and dated as at June 30, 2020.

No assurance can be given that these expectations will prove to be correct and such forward-looking information included in this Circular should not be unduly relied upon, and the Corporation does not undertake any obligation to revise or update any forward-looking information or statements other than as required by applicable law. In making these statements, in addition to those described above and elsewhere herein, the parties have made assumptions with respect to, without limitation, receipt of requisite regulatory approvals on a timely basis, receipt and/or maintenance of required licenses and third-party consents in a timely manner, successful integration of the Corporation's and its subsidiaries' operations, and no unplanned materially adverse changes to its facilities, assets, customer base and the economic conditions affecting the Corporation's current and proposed operations. These assumptions, although considered reasonable by the Corporation at the time of preparation, may prove to be incorrect. In addition, the Corporation has assumed that there will be no material adverse change to the current regulatory landscape affecting the cannabis industry and has also assumed that the Corporation will remain compliant in the future with all state and local laws, regulations and rules imposed upon it by law. The Corporation's forward-looking information is expressly qualified in its entirety by this cautionary statement.

### **Definition and Reconciliation of Non-IFRS Measures**

The Corporation reports certain non-IFRS measures that are used to evaluate the performance of its businesses and the performance of their respective segments, as well as to manage their capital structures. 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 International Financial Reporting Standards (“IFRS”) measure.

The Corporation references non-IFRS measures including cannabis industry metrics in certain of its publicly filed documents, including the 2019 Financial Statements (as defined in this Circular). Non-IFRS 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 Corporation’s 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.

## SUMMARY

The following is a summary of certain information contained in this Circular. This summary is not intended to be complete and is qualified in its entirety by the more detailed information and financial statements, including the notes thereto contained elsewhere in this Circular and the attached Appendices all of which are important and should be reviewed carefully. All dollar amounts refer to U.S. dollars unless indicated otherwise.

### ***Date, Time and Place of the Meeting***

The Meeting is scheduled to be held virtually via live audio webcast on Wednesday, November 4, 2020 at 11:00 a.m. (Eastern time). Only Ayr Shareholders of record at 5:00 pm (Eastern time) on September 28, 2020 will be entitled to receive notice of and vote at the Meeting, or any adjournment(s) or postponement(s) thereof.

### **Business of the Meeting**

The Meeting will be held for the purposes of:

1. receiving the consolidated financial statements of the Corporation for the fiscal year ended December 31, 2019, together with the auditors' report thereon;
2. electing directors for the ensuing year;
3. appointing auditors for the ensuing year;
4. considering, and if thought advisable, adopting a special resolution (the full text of which is reproduced as Appendix "A" to the accompanying management information circular dated September 30, 2020 (the "**Circular**")) to approve the proposed amendment of the articles of Ayr (the "**Amendment Resolution**"), the whole as described in the Circular, to, among other things:
  - create and set the terms of two new share classes of Ayr, being the restricted voting shares of Ayr (the "**Restricted Voting Shares**") and the limited voting shares of Ayr (the "**Limited Voting Shares**"); and
  - amend the terms of the existing multiple voting shares of Ayr (the "**Multiple Voting Shares**") and the existing subordinate voting shares of Ayr (the "**Subordinate Voting Shares**"), and together with the Multiple Voting Shares, the "**Ayr Shares**"), including without limitation, by amending the requirements on who may hold Subordinate Voting Shares; and
5. transacting such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

The Amendment Resolution will be required to be approved by: (i) an ordinary resolution of all holders of the Multiple Voting Shares and the Subordinate Voting Shares (collectively, the "Ayr Shareholders"), voting together as if they were a single class of shares; (ii) a special resolution of all Ayr Shareholders, voting together as if they were a single class; (iii) an ordinary and special resolution of the holders of Subordinate Voting Shares (voting as a separate class); (iv) a special resolution of the holders of Multiple Voting Shares (voting as a separate class), which may be obtained in writing; and (v) an ordinary resolution of the minority holders of Subordinate Voting Shares (i.e., other than those held by holders of Multiple Voting Shares and other persons not permitted to vote thereon under Ontario Securities Commission Rule 56-501 – *Restricted Shares*).

See "*Business of the Meeting – Amendment to Articles*".

### **Recommendation of the Board**

The Board has unanimously determined that the Amendment is in the best interests of the Corporation. **Accordingly, the Board has unanimously approved the Amendment and unanimously recommends that the Ayr Shareholders vote FOR the Amendment Resolution.**

### **Dissent Rights**

Ayr Shareholders do not have dissent rights under the *Corporations Act* (British Columbia) (“**BCBCA**”) in respect of the Amendment Resolution. See “*Dissent Rights*”.

### **Certain Canadian Federal Income Tax Considerations**

The amendments to the terms of the Multiple Voting Shares and Subordinate Voting Shares will not, in and of themselves, result in a Holder (as defined in the Circular) realizing a capital gain or loss. Upon the adoption of the Amendment Resolution (the “**Adoption**”), all of the Subordinate Voting Shares held by U.S. Persons (subject to certain exceptions) will be automatically converted to Restricted Voting Shares. Upon such conversion, a Holder of such Subordinate Voting Shares will be deemed under the *Income Tax Act* (Canada) (the “**Tax Act**”) to have (i) disposed of its Subordinate Voting Shares for proceeds of disposition equal to the adjusted cost base of such shares immediately before the Adoption and (ii) acquired the Restricted Voting Shares at a cost equal to the adjusted cost base to such Holder of its Subordinate Voting Shares immediately before the Adoption. Accordingly, Holders will not realize a gain or loss on the conversion under the Tax Act. The conversion of shares of a class of Equity Shares into shares of a different class of Equity Shares (other than the conversion of Subordinate Voting Shares to Restricted Voting Shares upon the Adoption, as discussed above) will be deemed not to constitute a disposition of property for purposes of the Tax Act and, accordingly, will not give rise to a capital gain or capital loss. For more information, see “*Certain Canadian Federal Income Tax Considerations*”.

### **Other Tax Considerations**

This Circular does not address any tax considerations of the Amendment other than Canadian federal income tax considerations, nor does it address the particular circumstances of any shareholder. Ayr Shareholders who are resident in jurisdictions other than Canada, including those in the United States, should consult their tax advisors with respect to the tax implications of the Amendment, including any associated filing requirements, in such jurisdictions and with respect to the tax implications in such jurisdictions of owning Ayr Shares after the Amendment. Ayr Shareholders should also consult their own tax advisors regarding Canadian federal, provincial or territorial, and United States federal, state and local tax considerations of the Amendment or of holding Ayr Shares.

## GENERAL PROXY INFORMATION

### Virtual Only Meeting

This year, out of an abundance of caution, to proactively deal with the unprecedented public health impact of the novel coronavirus disease, also known as COVID-19, and to mitigate risks to the health and safety of our communities, shareholders, employees and other stakeholders, we will hold our Meeting in a virtual only format, which will be conducted via live audio webcast. All shareholders, regardless of their geographic location, will have an equal opportunity to participate in the Meeting and engage with directors and management of the Corporation as well as with other shareholders.

### Solicitation of Proxies

This Circular is sent in connection with the solicitation by the management of the Corporation of proxies to be used at the annual general and special meeting of shareholders of the Corporation to be held on Wednesday, November 4, 2020 (the “**Meeting**”), from 11:00 a.m. (Eastern time), in a virtual only format which will be conducted via live audio webcast at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962), and for the purposes set forth in the Notice of Annual Meeting of Shareholders (the “**Notice of Meeting**”), and at any adjournment(s) or postponement(s) thereof. The solicitation is being made primarily by mail, but proxies may also be solicited by telephone, facsimile or other personal contact by officers or other employees of the Corporation. The cost of the solicitation will be borne by the Corporation other than the cost of solicitation of the Objecting Beneficial Shareholders (as defined herein). See the section entitled “*Advice to Beneficial Shareholders*” below.

A form of proxy is a document that authorizes someone to virtually attend the Meeting and cast your vote(s) for you. If you are a registered Ayr Shareholder, the Corporation has included a form of proxy with this Circular. It should be used to appoint a proxyholder. The contents and the sending of this Circular have been approved by the Board.

The Corporation does not intend to pay for intermediaries to forward to Objecting Beneficial Shareholders under National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”) the proxy-related materials and Form 54-101F7 – *Request for Voting Instructions Made by Intermediary*, so in the case of an Objecting Beneficial Shareholder, the Objecting Beneficial Shareholder will not receive the materials unless the Objecting Beneficial Shareholder’s intermediary assumes the cost of delivery.

### Voting Shares and Principal Ayr Shareholders

The authorized capital of the Corporation consists of an unlimited number of Subordinate Voting Shares and Multiple Voting Shares, all without par or nominal value. As of September 30, 2020, there were 3,696,486 Multiple Voting Shares and 17,366,629 Subordinate Voting Shares issued and outstanding. Each Multiple Voting Share entitles its holder to 25 votes (subject in the case of Mercer, to the terms of the Voting Agreement (as defined herein)) and each Subordinate Voting Share entitles its holder to one vote with respect to the matters voted at the Meeting. As of September 30, 2020, there were 16,018,858 Warrants (each exercisable on a one-for-one basis into Subordinate Voting Shares) and 151,655 Rights (each convertible on a one-for-one-tenth basis into Subordinate Voting Shares) issued and outstanding.

Holders of Multiple Voting Shares and Subordinate Voting Shares whose names are registered on the respective lists of shareholders of the Corporation as at the close of business (Toronto time) on the Record Date will be entitled to exercise the voting rights attached to the Multiple Voting Shares and Subordinate Voting Shares, respectively, in respect of which they are so registered at the Meeting, or any adjournment(s) or postponement(s) thereof, if virtually present or represented by proxy thereat. As of September 28, 2020, there were an aggregate of 17,324,089 votes attached to the Subordinate Voting Shares and 92,412,150 votes attached to the Multiple Voting Shares entitled to be voted at the Meeting or any adjournment(s) or postponement(s) thereof.

At the Meeting, Ayr Shareholders will be asked to consider, and if deemed advisable, approve the Amendment Resolution and the other matters of business outlined in the Notice of Meeting. The Amendment Resolution will be required to be approved by: (i) an ordinary resolution of all Ayr Shareholders, voting together as if they were a single class of shares; (ii) a special resolution of all Ayr Shareholders, voting together as if they were a single class; (iii) an ordinary and special resolution of the holders of Subordinate Voting Shares (voting as a separate class); (iv) a special resolution of the holders of Multiple Voting Shares (voting as a separate class), which may be obtained in writing; and (v) an ordinary resolution of the minority holders of Subordinate Voting Shares (i.e., other than those held by holders of Multiple Voting Shares and other persons not permitted to vote thereon under Ontario Securities Commission Rule 56-501 – *Restricted Shares*, to the best knowledge of the Corporation, being an aggregate of 208,631 Subordinate Voting Shares).

To the knowledge of the directors and officers of the Corporation, other than as set forth below, no person owns beneficially, directly or indirectly, or exercises control or direction over, voting securities carrying 10% or more of the voting rights attached to any class of voting securities of the Corporation, as at September 30, 2020 (unless otherwise as of a date specified below).

<u>Name of Shareholder</u>	<u>Number and Type of Shares</u>	<u>Percentage of Class of Outstanding Shares</u>	<u>Percentage of All Outstanding Shares</u>
Mercer Park CB, L.P. <sup>(1)</sup>	3,677,626 Multiple Voting Shares	Approximately 99.49% of all issued and outstanding Multiple Voting Shares	Approximately 17.46% of all issued and outstanding Ayr Shares
Scoggin Management LP, Scoggin International Fund Ltd., CJS Partners LP, Carolyn Partners LP, Craig Effron, Curtis Schenker and Dev Chodry, acting jointly and in concert	2,318,440 Subordinate Voting Shares <sup>(2)</sup>	Approximately 13.35% of all issued and outstanding Subordinate Voting Shares	Approximately 11.01% of all issued and outstanding Ayr Shares

- (1) Mercer Park CB, L.P. (“**Mercer**”), Ayr’s former sponsor, is an affiliate of the Corporation. Jonathan Sandelman beneficially owns such securities of Ayr, as Mercer is a limited partnership of which Mercer Park CB GP, LLC is the general partner, and which is indirectly controlled by Mr. Sandelman. Mercer may be considered a control person pursuant to applicable Canadian securities laws.
- (2) Also own 1,428,800 Warrants of Ayr.

#### **Participation in the Meeting**

Registered shareholders and duly appointed proxyholders who participate in the Meeting online will be able to listen to the Meeting, ask questions and vote, all in real time, provided they are connected to the Internet and comply with all of the requirements set out in the sections below entitled “*Voting of Proxies*”, “*Virtual attendance and Participation in the Meeting*” and “*Asking Questions*”. Beneficial shareholders who have not duly appointed themselves as their proxy will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting.

#### **Appointment of Proxies**

The persons named as proxyholders in the enclosed form of proxy are directors and officers of the Corporation (the “**Ayr proxyholders**”). **Each shareholder has the right to appoint a person other than the Ayr proxyholders to represent such shareholder at the Meeting (including beneficial shareholders who wish to appoint themselves as proxyholder to participate or vote at the Meeting).** In order to appoint such other person (a “**third party proxyholder**”), the Ayr Shareholder must submit his, her or its proxy or voting instruction form (as applicable) appointing such third party proxyholder and register the third party proxyholder, as described below. Registering your proxyholder is an additional step to be completed after you have submitted your proxy or voting instruction form.

**Failure to register the proxyholder will result in the proxyholder not receiving a Username to virtually attend, participate or vote at the Meeting.**

- **Step 1: Submit your proxy or voting instruction form:**

To appoint a third party proxyholder, insert such person's name in the blank space provided in the form of proxy or voting instruction form and follow the instructions for submitting such form of proxy or voting instruction form. This must be completed prior to registering such proxyholder, which is an additional step to be completed once you have submitted your form of proxy or voting instruction form.

If you are a beneficial shareholder and wish to virtually participate or vote at the Meeting, you have to insert your own name in the space provided on the voting instruction form sent to you by your intermediary, follow all of the applicable instructions provided by your intermediary and register yourself as your proxyholder, as described below. By doing so, you are instructing your intermediary to appoint you as proxyholder. It is important that you comply with the signature and return instructions provided by your intermediary.

If you are a beneficial shareholder located in the United States and wish to participate or vote at the Meeting or, if permitted, appoint a third party as your proxyholder, in addition to the steps described below under the section entitled "*Virtual Attendance and Participation in the Meeting*", you must obtain a valid legal proxy from your intermediary. Follow the instructions from your intermediary included with the legal proxy form and the voting information form sent to you or contact your intermediary to request a legal proxy form or a legal proxy if you have not received one. After obtaining a valid legal proxy from your intermediary, you must then submit such legal proxy to Odyssey Trust Company ("Odyssey"), Ayr's transfer agent and registrar. Requests for registration from beneficial shareholders located in the United States that wish to participate or vote at the Meeting or, if permitted, appoint a third party as their proxyholder must be sent by e-mail to [ayr@odysseytrust.com](mailto:ayr@odysseytrust.com) and received by no later than 11:00 a.m. (Eastern time) on the second business day preceding the day of the Meeting (being Monday, November 2, 2020) or any adjournment(s) or postponement(s) thereof.

**A proxy will not be valid unless the completed form of proxy is received by Odyssey (Odyssey Trust Company, Attn: Proxy Department, 67 Yonge St, Suite 702, Toronto, Ontario M5E 1J8) not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for holding the Meeting or any adjournment(s) or postponement(s) thereof. Proxies delivered after that time will not be accepted. The deadline for deposit of proxies may be waived or extended by the Chair of the Meeting at his or her discretion, without notice.**

- **Step 2: Register your proxyholder:**

To register a proxyholder, shareholders must send an email to [ayr@odysseytrust.com](mailto:ayr@odysseytrust.com) by 11:00 a.m. (Eastern time) on Monday, November 2, 2020, and provide Odyssey with the required proxyholder contact information, amount of shares appointed, name in which the shares are registered if they are a registered shareholder, or name of broker where the shares are held if a beneficial shareholder, so that Odyssey may provide the proxyholder with a Username via email. Without a Username, proxyholders will not be able to virtually attend, participate or vote at the Meeting.

#### **Exercise of Discretion by Proxies**

The persons named in the enclosed form of proxy will, on any ballot that may be called for, vote (or withhold from voting) the Ayr Shares in respect of which they are appointed as proxies in accordance with the instructions of the Ayr Shareholders appointing them. If an Ayr Shareholder specifies a choice with respect to any matter to be acted upon, the Ayr Shares will be voted accordingly. **If no instructions are given as to how to vote on a particular issue to be decided at the Meeting, or if both choices have been specified by the Ayr Shareholder, the Ayr Shares will be voted FOR the election of the nominees of the Board as directors, FOR the appointment of MNP LLP as auditors and FOR the Amendment Resolution (as set out in Appendix "A").**



The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other business which may properly come before the Meeting or any adjournment(s) or postponement(s) thereof. If any such amendment or other business properly comes before the Meeting, or any postponement(s) or adjournment(s) thereof, the persons named in the enclosed form of proxy will vote in accordance with their best judgment on such matters or business. As of the date hereof, management of the Corporation knows of no such amendment, variation or other business to come before the Meeting.

## Voting of Proxies

Ayr Shareholders may vote by proxy before the Meeting or vote at the Meeting, as described below:

### 1. Voting by proxy before the Meeting

You may vote before the Meeting by completing your form of proxy or voting instruction form in accordance with the instructions provided therein. Beneficial shareholders should also carefully follow all instructions provided by their intermediaries to ensure that their Ayr Shares are voted at the Meeting. Voting by proxy is the easiest way to vote. It means you are giving someone else the authority to virtually attend the Meeting and vote on your behalf.

The Ayr proxyholders named in the enclosed form of proxy will vote (or withhold from voting) the Ayr Shares in respect of which they are appointed as proxies in accordance with your instructions, including on any ballot that may be called. If there are changes to the items of business or new items properly come before the Meeting, or any adjournment(s) or postponement(s) thereof, a proxyholder can vote as he or she sees fit.

**You can appoint someone else to be your proxy. This person does not need to be an Ayr Shareholder. See the section above entitled “Appointment of Proxies”.**

There are two ways for registered shareholders to vote by proxy before the Meeting:

- (a) **Internet voting** - You may vote by logging on to the website indicated on the form of proxy (<https://odysseytrust.com/login/> and clicking VOTE). Please follow the website prompts that allow you to vote your Multiple Voting Shares and Subordinate Voting Shares, as applicable, and confirm that your instructions have been properly recorded.
- (b) **Return your form of proxy by mail** - You may vote by completing, signing and returning the form of proxy in the postage-paid envelope provided.

Proxies, whether submitted through the Internet or by mail as described above, must be received by Odyssey (Odyssey Trust Company, Attn: Proxy Department, 67 Yonge St, Suite 702, Toronto, Ontario M5E 1J8) no later than 11:00 a.m. (Eastern time) on the second business day preceding the day of the Meeting (being Monday, November 2, 2020) or any adjournment(s) thereof or postponement(s). Your Ayr Shares will be voted in accordance with your instructions as indicated on the proxy. The deadline for the deposit of proxies may be waived or extended by the Chair of the Meeting at his or her discretion, without notice.

### 2. Voting at the Meeting

Registered Ay Shareholders may vote at the Meeting by completing a ballot online during the Meeting, as further described below. See the section entitled “Virtual Attendance and Participation in the Meeting”.

Beneficial shareholders who have not duly appointed themselves as their proxy will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting. This is because the Corporation and Odyssey, our transfer agent, do not have a record of the beneficial shareholders of the Corporation, and, as a result, will have no knowledge of your shareholdings or entitlement to vote unless you appoint yourself as your proxy. If you are a beneficial shareholder and wish to vote at the Meeting, you have to appoint yourself as your proxy, by inserting your own name in the space provided on the voting instruction form sent to you and you must follow all of the applicable instructions, including the deadline, provided by your intermediary. See the sections entitled “Appointment of Proxies” and “Virtual Attendance and Participation in the Meeting”.

## Virtual Attendance and Participation in the Meeting

The Corporation is holding the Meeting in a virtual only format, which will be conducted via live audio webcast. Ayr Shareholders will not be able to virtually attend the Meeting in person. Virtually attending the Meeting online enables registered Ayr Shareholders and duly appointed proxyholders, including beneficial shareholders who have duly appointed themselves as their proxy, to participate in the Meeting and ask questions, all in real time. Registered Ayr Shareholders and duly appointed proxyholders can vote at the appropriate times during the Meeting.

In order to participate or vote at the Meeting (including for voting and asking questions at the Meeting), Ayr Shareholders must have a valid Username. Registered Ayr Shareholders and duly appointed proxyholders will be able to virtually attend, participate and vote at the Meeting online at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962). Such persons may then enter the Meeting by clicking “I have a login” and entering a Username and Password before the start of the Meeting.

- **Registered shareholders:** The 12-digit control number located on the form of proxy is the Username. The Password to the Meeting is “**ayr2020**” (case sensitive). If, as a registered shareholder, you are using your control number to login to the Meeting and you have previously voted prior to voting cutoff, you do not need to vote again at the meeting. Should you wish to vote at the meeting, you will be revoking any and all previously submitted proxies for the Meeting.
- **Duly appointed proxyholders:** Odyssey will provide the proxyholder with a Username by e-mail after the voting deadline has passed. The Password to the Meeting is “ayr2020” (case sensitive). Only registered shareholders and duly appointed proxyholders will be entitled to participate and vote at the Meeting. Beneficial shareholders who have not duly appointed themselves as proxyholder will be able to virtually attend the Meeting only as guests and to listen to the webcast but not be able to participate, ask questions or vote at the Meeting. Ayr Shareholders who wish to appoint a third party proxyholder to represent them at the Meeting (including beneficial shareholders who wish to appoint themselves as proxyholder to participate or vote at the Meeting) **MUST** submit their duly completed proxy or voting instruction form **AND** register the proxyholder. See “*How do I appoint a third party as proxy?*”.

Shareholders will be allowed to log in as early as 30 minutes before the start time on November 4, 2020. The virtual Meeting platform is supported across internet browsers (e.g. Edge, Firefox, Chrome, and Safari) and devices (e.g., desktops, laptops, tablets, and cell phones). If you intend to join the live audio webcast, you should ensure that you have a strong WiFi or Internet connection from wherever you intend to join and participate in the virtual Meeting. We encourage you to access the virtual Meeting before it begins, and you should give yourself plenty of time to log in and ensure that you can hear streaming audio prior to the start of the Meeting.

## Asking Questions

If you want to ask questions during the Meeting, log into the virtual meeting platform at [web.lumiagm.com/223355962](http://web.lumiagm.com/223355962), click on the double chat bubble icon, type your question into the chat field, and click the send arrow button.

Questions pertinent to Meeting matters will be answered during the Meeting, subject to time constraints of two-minute limits per question and two questions per shareholder. Questions that are unrelated to the proposals under discussion, use blatantly offensive language or are regarding personal matters, including those related to employment, product or service issues, or suggestions for product innovations, will not be answered by the Chair or management.

## Advice to Beneficial Shareholders

You are a registered shareholder if your Subordinate Voting Shares are registered directly in your name with the Corporation's transfer agent. You may hold your Subordinate Voting Shares in the form of a physical share certificate or through the direct registration system (DRS) on the records of the Corporation's transfer agent in electronic form. You are a beneficial shareholder if the Subordinate Voting Shares you beneficially own are registered either: (i) in the name of an intermediary that you deal with in respect of your Subordinate Voting Shares, such as securities dealers or brokers, banks, trust companies and trustees or administrators of self-administered RRSPs, TFSA's, RRIFs, RESPs and similar plans, or (ii) in the name of a clearing agency of which the intermediary is a participant. In accordance with NI 54-101, the Corporation has distributed copies of the Notice of Meeting, this Circular and the form of proxy to the clearing agencies and intermediaries for onward distribution to beneficial shareholders. Intermediaries are required to forward such notices to beneficial shareholders, and often use a service company (such as Broadridge in Canada) for this purpose.

**Only registered shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting.** If you receive more than one Notice of Meeting, form of proxy or voting instruction form, it means that you have multiple accounts with brokers or other nominees or with the Corporation's transfer agent, as applicable, through which you hold Subordinate Voting Shares. The voting process is different for registered shareholders and beneficial shareholders. Every intermediary has its own mailing procedures and provides its own return instructions, which should be carefully followed by beneficial shareholders in order to ensure that their Subordinate Voting Shares are voted at the Meeting. Please follow the instructions carefully and vote or provide voting instructions for all of the Subordinate Voting Shares you own. **In all cases, beneficial shareholders should carefully follow the instructions of their intermediary, including those regarding when, where and by what means the voting instruction form or proxy form must be delivered.**

Applicable regulatory policy requires intermediaries to seek voting instructions from beneficial shareholders in advance of meetings unless the beneficial shareholders have waived the right to receive Meeting materials. Management of the Corporation does not intend to pay for an Intermediary to deliver the Meeting Materials to beneficial shareholders who have objected to their Intermediary disclosing ownership information about them to the Corporation ("**Objecting Beneficial Shareholders**"). Objecting Beneficial Shareholders will not receive the Meeting Materials unless the Objecting Beneficial Shareholder's intermediary assumes the costs of delivery.

## Revocation of Proxies

If you are a registered shareholder, you may revoke your proxy by delivering an instrument in writing executed by the shareholder (or by his or her attorney authorized in writing or, where the shareholder is a corporation, by a duly authorized officer or attorney of the corporation) to the offices of Odyssey at (Odyssey Trust Company, Attn: Proxy Department, 67 Yonge St, Suite 702, Toronto, Ontario M5E 1J8) at any time up to and including the last business day preceding the day of the Meeting (or, if adjourned or postponed, any reconvening thereof), or in any other manner provided by law. Your new instructions will revoke your earlier instructions.

If, as a registered shareholder, you are using your Username to log in to the Meeting, you will be provided the opportunity to vote by online ballot at the appropriate time on the matters put forth at the Meeting. If you have already voted by proxy and you vote again during the online ballot during the Meeting, your online vote during the Meeting will revoke your previously submitted proxy. If you have already voted by proxy and do not wish to revoke your previously submitted proxy, do not vote again during the online ballot.

If you are a beneficial shareholder and wish to revoke previously provided voting instructions, you should carefully follow the instructions provided by your intermediary. Intermediaries may set deadlines for the receipt of revocation notices that are farther in advance of the Meeting than those set out above and, accordingly, any such revocation should be completed well in advance of the deadline prescribed in the proxy card or voting instruction form to ensure it is given effect at the Meeting.

## Voting Deadline

If voting by proxy, your proxy must be received by the transfer agent (Odyssey Trust Company, Attn: Proxy Department, 67 Yonge St, Suite 702, Toronto, Ontario M5E 1J8) no later than 11:00 a.m. (Eastern time) on the second business day preceding the day of the Meeting (being Monday, November 2, 2020) or any adjournment(s) or postponement(s) thereof. The deadline for the deposit of proxies may be waived or extended by the Chair of the Meeting at his or her discretion, without notice.

The Corporation reminds Ayr Shareholders that only the most recently dated voting instructions will be counted and any prior dated instructions will be disregarded.

#### **Voting Questions**

Registered shareholders may contact Odyssey, the transfer agent, at [www.odysseycontact.com](http://www.odysseycontact.com) or 1-587-885-0960, for any voting questions.

#### **BUSINESS OF THE MEETING**

The Meeting will cover the following items of business:

##### **1. PRESENTATION OF FINANCIAL STATEMENTS**

The Corporation's audited consolidated financial statements for the years ended December 31, 2019 and 2018, together with the notes thereto and the independent auditor's report thereon (collectively, the "**2019 Financial Statements**") can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under the Corporation's profile.

##### **2. ELECTION OF DIRECTORS**

The articles of the Corporation provide that the Board shall consist of a minimum of three and a maximum of fifteen directors, with the number between such limits to be determined by the Board from time to time. All of the nominees are currently members of the Board and have been members since the dates indicated below. **If prior to the Meeting, any of the nominees shall be unable or, for any reason, become unwilling to serve as a director, it is intended that the discretionary power granted by the form of proxy or voting instruction form shall be used to vote for any other person or persons as directors.** Each director is elected for a one-year term ending at the next annual meeting of shareholders or when his successor is elected, unless he resigns or his office otherwise becomes vacant. The Board and management of the Corporation have no reason to believe that any of the said nominees will be unable or will refuse to serve, for any reason, if elected to office.

The tables found in the section entitled "Nominees for Election" provide the profile of the nominees proposed for election to the Board. Included in these tables is information relating to each nominee's experience, qualifications, areas of expertise, attendance at Board and committee meetings, ownership of Ayr securities, as well as other public company board memberships. As you will note from the enclosed form of proxy or voting instruction form, shareholders may vote for each director individually.

**The Board recommends that you vote FOR the election as director of each nominee whose name is set out below.**

Unless a proxy specifies that the Ayr Shares it represents should be withheld from voting for the election of a particular nominee as director, the management appointees named in the accompanying form of proxy and voting instruction form intend to vote **FOR** such election.

## Nominees for Election

Jonathan Sandelman		Chairman, Chief Executive Officer, Director and Corporate Secretary			
		Jonathan (Jon) Sandelman is the Chief Executive Officer of Mercer Park, L.P., the parent of Mercer, Ayr's former sponsor. Prior to this role, he was Chief Executive Officer and Chief Investment Officer of Sandelman Partners, L.P. Previously, he was the President of Bank of America Securities and former Head of Debt and Equities at Banc of America Securities. While at Banc of America Securities, he served as a member of the company's Operating Committee, Banc of America Securities Leadership Committee and The Global Corporate and Investment Banking Compensation Committee. As Head of Debt and Equities, Mr. Sandelman was responsible for all of market risk and the strategic direction of the firm's trading, distribution and new products development efforts. He oversaw the firm's capital markets function in coordination with the head of banking. Mr. Sandelman began his career with Banc of America Securities in 1998 as head of the Equity Financial Products business, and he became head of Equities in 2002. He was appointed President of Banc of America Securities in early 2004. Prior to joining Banc of America, he was deputy head of Global Equities and Managing Director of equity derivatives and proprietary trading at Salomon Brothers and a member of the firm's Risk Management Committee and Compensation Committee. Mr. Sandelman has been honored with Risk Magazine's prestigious "Derivative Superstar" award and Derivative Magazine's "Derivative Person of the Year." Mr. Sandelman earned a Bachelor of Science (BS) from Adelphi University and earned a law degree (Juris Doctor) from Cardozo School of Law.			
Age: 62		Board/Committee Membership	Attendance <sup>1</sup>	Other Public Board Memberships	
Residence: New York, USA		Executive Committee	10/10	100%	<u>Entity</u> <u>Since</u>
		Audit Committee	4/4	100%	Mercer Park Brand Acquisition Corp. May 2019
Not Independent		Compensation, Nominating and Corporation Governance Committee	1/1	100%	
Director since: September 25, 2017		Acquisition Committee	N/A	N/A	
		Disclosure Policy Committee	N/A	N/A	
		Value of Total Compensation Received as Director <sup>2</sup>			
		Year ended December 31, 2019	\$257,328		

<sup>1</sup> Reflects Board committee meeting attendance in respect of the previous 12-month period from the date hereof.

<sup>2</sup> Excluding equity-based incentive awards.

Securities Held as of September 30, 2020 <sup>3 4</sup>							
Subordinate Voting Shares / Multiple Voting Shares (#)	Market Value of Subordinate Voting Shares / Multiple Voting Shares (\$)	Awards (#)	Value of Vested In-the-Money Awards (\$)	Warrants (#)	Market Value of Warrants (\$)	Rights (#)	Market Value of Rights (\$)
3,677,626 Multiple Voting Shares	C\$61,416,354	850,250 Restricted Exchangeable Shares	C\$11,899,443	2,894,058	C\$15,689,276	262,188	C\$437,854
Charles Miles	Director						
	Charles (Charlie) Miles is a Managing Director at Recapture Partners, which is a venture capital company that advises, invests and raises money in early stage Fintech companies. Prior to this role, he worked at Bloomberg LLP as an equity option trader. Prior to his tenure at Bloomberg, he was a volatility arbitrage hedge fund portfolio manager and Managing Director at Deutsche Bank. He also was a portfolio manager at Del Mar Asset Management, and started his own hedge fund, Claris Capital Management. He began his career at Salomon Brothers, where he was involved in equity research, quantitative portfolio management and equity derivatives sales and management. As a Managing Director at Salomon Brothers and Citibank, he ran one of the most successful equity derivatives sales teams on Wall Street during a time of unprecedented growth in the product. Mr. Miles received his Bachelor of Arts in Economics and Political Science from Middlebury College.						
Age: 59	Board/Committee Membership	Attendance <sup>5</sup>			Other Public Board Memberships		
Residence: New York, USA	Executive Committee	10/10	100%		Entity	Since	
	Audit Committee	4/4	100%		Mercer Park Brand Acquisition Corp.	May 2019	
Independent	Compensation, Nominating and Corporation Governance Committee	1/1	100%				
Director since: September 25, 2017	Acquisition Committee	N/A	N/A				
	Value of Total Compensation Received as Director <sup>6</sup>						
	Year ended December 31, 2019	\$35,118					

<sup>3</sup> The securities attributed to Mr. Sandelman in the following table include securities held by Mercer, over which Mr. Sandelman exercises direction or control.

<sup>4</sup> Market values of securities held calculated as at September 30, 2020.

<sup>5</sup> Reflects Board committee meeting attendance in respect of the previous 12-month period from the date hereof.

<sup>6</sup> Excluding equity-based incentive awards.

# Securities Held as of September 30, 2020<sup>7</sup>

Subordinate Voting Shares / Multiple Voting Shares (#)	Market Value of Subordinate Voting Shares / Multiple Voting Shares (\$)	Awards (#)	Value of Vested In-the-Money Awards (\$)	Warrants (#)	Market Value of Warrants (\$)	Rights (#)	Market Value of Rights (\$)
9,430 Multiple Voting Shares	C\$908,981	2,750 Restricted Exchangeable Shares	C\$38,487	Nil	N/A	Nil	N/A
45,000 Subordinate Voting Shares							

## Chris R. Burggraeve

## Director

Chris R. Burggraeve is the founder and chief executive officer of Vicomte LLC, which is a brand management company that advises corporations, start-ups, private equity firms and family offices. Prior to founding Vicomte, Mr. Burggraeve spent five years as the Global Chief Marketing Office of Anheuser-Busch InBev SA/NV. He has also served in a number of senior marketing and general management roles with The Coca-Cola Company throughout Europe and Eurasia, and as a brand manager at Procter and Gamble Company. Mr. Burggraeve is a global business marketer turned investor, entrepreneur, advisor, board member and adjunct faculty member of the NYU School of Business, and has nearly 30 years of expertise merging brand management, societal context, and profit and loss statements. As one of the early consumer packaged goods industry leaders to have actively recognized the importance and potential of the cannabis industry, he co-founded Toast Holdings in 2016, the parent company of Aspen-born cannabis pre-roll brand ToastTM. Mr. Burggraeve is also the Chairman of greenRush, an online marketplace for legally purchasing cannabis in the United States. He holds a Master's degree in Economics and Business from KU Leuven, a Master's degree in European Economics from the Centre Européen Universitaire de Nancy and a TRIUM Global Executive Master's degree in Business Administration from (collectively) New York University – Stern School of Business, the London School of Economics and HEC Paris.

Age: 55

Residence: New York, NY

Independent Director since: December 17, 2018

Board/Committee Membership	Attendance <sup>8</sup>	Other Public Board Memberships
Executive Committee	10/10	100%
Audit Committee	4/4	100%
Compensation, Nominating and Corporation Governance Committee	1/1	100%

## Value of Total Compensation Received as Director<sup>9</sup>

Year ended December 31, 2019	\$30,274
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<sup>7</sup> Market values of securities held calculated as at September 30, 2020.

<sup>8</sup> Reflects Board committee meeting attendance in respect of the previous 12-month period from the date hereof.

<sup>9</sup> Excluding equity-based incentive awards.

# Securities Held as of September 30, 2020<sup>10</sup>

Subordinate Voting Shares / Multiple Voting Shares (#)	Market Value of Subordinate Voting Shares / Multiple Voting Shares (\$)	Awards (#)	Value of Vested In-the-Money Awards (\$)	Warrants (#)	Market Value of Warrants (\$)	Rights (#)	Market Value of Rights (\$)
6,000 Subordinate Voting Shares	C\$100,200	2,750 Restricted Exchangeable Shares	C\$38,487	Nil	N/A	Nil	N/A

## **Louis F. Karger**      **Director**

Louis F. Karger is the sole Manager and founder of Panther Residential Investments LLC and Panther Residential Management LLC. Both companies focus on the acquisition, development, management and sale of multi-family apartment properties in the Southeast United States. Panther Residential Investments LLC also serves as the Manager of many affiliated real estate entities (collectively with Panther Residential Investments LLC and Panther Residential Management LLC, the “**PRM Group Companies**”). Mr. Karger is responsible for the overall direction, vision and leadership of the PRM Group Companies with a focus on investment strategies, capital and debt financings, and determining new development objectives. In addition, he oversees the PRM Group Companies’ day-to-day operations and the execution of its overall business, management and development strategy. To date, the PRM Group Companies has acquired over 9,000 residential apartment units with a total transaction value of over \$2 billion. Mr. Karger is also a Director and the Treasurer of Sira Naturals, Inc. (“**Sira**”) and is a co-founder of (i) Compass Realty Associates, LLC, a private equity real estate firm that owns and manages approximately one million square feet of property throughout the New England region, and (ii) Compass Realty Partners, LLC, a \$72 million real estate investment fund. Mr. Karger holds a Bachelor of Science degree from the Boston University School of Hospitality Administration.

Age: 48	<b>Board/Committee Membership</b>	<b>Attendance<sup>11</sup></b>	<b>Other Public Board Memberships</b>
Residence: Needham, MA	Executive Committee	10/10	<u>Entity</u> <u>Since</u>
Not Independent		100%	None.
Director since May 24, 2019			

## **Value of Total Compensation Received as Director<sup>12</sup>**

Year ended December 31, 2019	\$Nil
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<sup>10</sup> Market values of securities held calculated as at September 30, 2020.

<sup>11</sup> Reflects Board committee meeting attendance in respect of the previous 12-month period from the date hereof.

<sup>12</sup> Excluding equity-based incentive awards.



# Securities Held as of September 30, 2020<sup>13</sup>

Subordinate Voting Shares / Multiple Voting Shares (#)	Market Value of Subordinate Voting Shares / Multiple Voting Shares (\$)	Awards (#)	Value of Vested In-the-Money Awards (\$)	Warrants (#)	Market Value of Warrants (\$)	Rights (#)	Market Value of Rights (\$)
16,742 Subordinate Voting Shares <sup>14</sup>	CS\$279,591	Nil	N/A	Nil	N/A	Nil	N/A

## **Steve Menzies**      **Director**

Steve Menzies is the founder of LivFree Wellness, LLC (“**LivFree**”). Mr. Menzies has over 40 years of experience in construction, home building and land development. He is a master electrician and a master plumber, and is certified by the National Association of Home Builders. As an entrepreneur, Mr. Menzies started and acquired several subcontractor companies in order to offer a “one stop shop” for Las Vegas homebuilders with highly efficient and streamlined administrative and accounting management. In 2006, he sold two of these companies, Efficient Electric and United Plumbing, along with McGwire Supply, an electrical distributor, to Stock Building Supply (“**SBS**”) where he continued to work as West Coast Manager, supporting SBS’ role as a major supplier of subcontracting services for homebuilders in the Las Vegas valley until SBS was wound up in 2009. Mr. Menzies is currently a majority owner of Focus Plumbing, Focus Electric, Focus Framing Door & Trim, Green Image LLC dba GTI, Focus Concrete and Focus Fire Protection.

Age: 58	Board/Committee Membership	Attendance <sup>15</sup>	Other Public Board Memberships
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Residence: Las Vegas, Nevada, USA

Not Independent

Director since:  
May 24, 2019

Executive Committee	10/10	100%	<u>Entity</u>	<u>Since</u>
			None.	

## **Value of Total Compensation Received as Director<sup>16</sup>**

Year ended December 31, 2019      \$Nil

<sup>13</sup> Market values of securities held calculated as at September 30, 2020.

<sup>14</sup> Mr. Karger also indirectly owns 332,809 Exchangeable Shares held through Green Partners Investor LLC and Green Partners Sponsor I, LLC.

<sup>15</sup> Reflects Board committee meeting attendance in respect of the previous 12-month period from the date hereof.

<sup>16</sup> Excluding equity-based incentive awards.

# Securities Held as of September 30, 2020<sup>17</sup>

Subordinate Voting Shares / Multiple Voting Shares (#)	Market Value of Subordinate Voting Shares / Multiple Voting Shares (\$)	Awards (#)	Value of Vested In-the-Money Awards (\$)	Warrants (#)	Market Value of Warrants (\$)	Rights (#)	Market Value of Rights (\$)
500 Subordinate Voting Shares <sup>18</sup>	C\$8,350	Nil	N/A	Nil	N/A	Nil	N/A

## Glenn Isaacson

### Director

Glenn is currently a Vice Chairman in the mid-town offices of Cushman & Wakefield. He was an executive Vice President at CBRE, Inc. from 1992-2016 and prior to that he spent 11 years at Newmark and Company. He has worked in commercial real estate for over 37 years and divides his time equally with non-profit and for-profit companies. Glenn joined the board of amfAR, the American Foundation for Aids Research, in October 2019. He graduated from Florida Southern College with a B.S. in Finance and a minor in economics.

Age: 62

#### Board/Committee Membership

#### Attendance

#### Other Public Board Memberships

Executive Committee

1/1

100%

Entity

Since

Residence: New York, NY

None.

Independent

Director since:  
August 25, 2020

### Value of Total Compensation Received as Director<sup>19</sup>

Year ended December  
31, 2019

\$Nil

<sup>17</sup> Market values of securities held calculated as at September 30, 2020.

<sup>18</sup> Mr. Menzies also holds 2,238,807 Exchangeable Shares.

<sup>19</sup> Excluding equity-based incentive awards.

**Securities Held as of September 30, 2020<sup>20</sup>**

<b>Subordinate Voting Shares / Multiple Voting Shares (#)</b>	<b>Market Value of Subordinate Voting Shares / Multiple Voting Shares (\$)</b>	<b>Awards (#)</b>	<b>Value of Vested In-the-Money Awards (\$)</b>	<b>Warrants (#)</b>	<b>Market Value of Warrants (\$)</b>	<b>Rights (#)</b>	<b>Market Value of Rights (\$)</b>
101,539 Subordinate Voting Shares	C\$1,695,701	Nil	N/A	Nil	N/A	Nil	N/A

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Corporation and based upon information provided by the proposed director nominees, none of the Corporation's proposed director nominees is, as at the date of this Circular, or has been, within the 10 years prior to the date of this Circular: (a) a director, chief executive officer or chief financial officer of any company (including the Corporation) that, while such person was acting in that capacity (or within a year of that person ceasing to act in that capacity but resulting from an event that occurred while that person was acting in such capacity), (i) was subject of a cease trade order, an order similar to a cease trade order, or an order that denied the company access to any exemption under securities legislation, in each case, for a period of more than 30 consecutive days, or (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) a director or executive of a company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, transaction or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the knowledge of the Corporation and based upon information provided by the proposed director nominees, except for the following, none of the Corporation's proposed director nominees has (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) been subject to any penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director nominee.

On February 17, 2017, a purported shareholder of SITO Mobile Ltd. ("**SITO**") commenced a class action against SITO and certain former officers and directors, in the United States District Court for the District of New Jersey, alleging violations of the Securities Exchange Act of 1934 and SEC regulations promulgated thereunder. On June 22, 2017, after being appointed lead plaintiffs, Red Oak Fund, L.P. and certain affiliated funds filed an amended complaint adding defendant Jonathan Sandelman, along with the other directors and officers who signed the registration statement and supplement for the September 16, 2016 offering of SITO stock, alleging violations of the Securities Exchange Act of 1934 and SEC regulations promulgated thereunder, and the U.S. Securities Act, claiming that the registration statement and prospectus failed to contain certain material facts about SITO's business, and that other statements made between August 15, 2016 and January 2, 2017, were materially false or misleading. On September 1, 2017, defendants moved to dismiss the amended complaint. That motion is pending. Discovery has not commenced and no trial date is set in this action.

<sup>20</sup> Market values of securities held calculated as at September 30, 2020.

### **Conflicts of Interest**

To the best of the Corporation's knowledge, other than as disclosed below and elsewhere in this Circular, there are no known existing or potential material conflicts of interest among the Corporation or a subsidiary of the Corporation and a director or officer of the Corporation or a subsidiary of the Corporation as a result of their outside business interests except that: (i) certain of the Corporation's or its subsidiaries' directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Corporation and their duties as a director or officer of such other companies, and (ii) certain of the Corporation's or its subsidiaries' directors and officers have portfolio investments consisting of minority stakes in businesses that may compete directly or indirectly with the Corporation or act as a customer of, or supplier to, the Corporation. The BCBCA requires, among other things, that the directors and executive officers of the Corporation act honestly and in good faith with a view to the best interest of the Corporation, to disclose any personal interest which they may have in any material contract or transaction which is proposed to be entered into with the Corporation and, in the case of directors, to abstain from voting as a director for the approval of any such contract or transaction. To the extent that conflicts of interest arise, such conflicts are required to be resolved in accordance with the provisions of the BCBCA.

Certain of the directors of the Corporation are formerly vendors of certain of the Corporation's businesses, namely Louis Karger for Sira and Steve Menzies for LivFree, and so while it is possible that a dispute may arise pursuant to the respective definitive agreement in connection with such acquisition, there are no current material disputes or claims.

Pursuant to the strategic opportunities agreement entered into among Ayr, Mercer Park Brand Acquisition Corp. (a special purpose acquisition corporation with a sponsor that is an affiliate of Mercer, for which Jonathan Sandelman is an officer and director, Charles Miles is a director and Louis Karger is an officer) and Mercer Park, L.P. (the parent of Mercer), regarding the allocation of corporate opportunities, the parties thereto granted rights of first refusal in an established order to the parties thereto for certain corporate opportunities involving businesses with a value, in the opinion of Mercer, of more than \$20 million, that are in alignment with either Mercer Park Brand Acquisition Corp.'s priority business focus (being cannabis-related brands, trade marks and/or service marks and ancillary businesses) or Ayr's priority business focus (being cultivation, manufacturing, wholesale, retail operations and/or licenses in respect of cannabis, not mainly attributable to brand value). For greater certainty, the rights of first refusal are not intended to apply to: (i) acquisition opportunities with respect to businesses with a value, in the opinion of Mercer, of less than \$20 million; or (ii) acquisition opportunities in respect of non-controlling interests.

### **Directors' and Officers' Liability Insurance**

The Corporation maintains directors' and officers' liability insurance for its directors, officers and the Corporation. The current policies have an aggregate limit of \$5,000,000 for the term May 24, 2020 to May 24, 2021. Protection is provided to directors and officers with no deductible for any actual or alleged neglect, misstatement, errors, omissions, or other wrongful acts during the course of their duties or capacity as such. Under the insurance coverage, the Corporation is reimbursed for payments which it is required or permitted to make to its directors and officers for indemnification, subject to a \$2,500,000 deductible for securities and non-securities related claims.

### **3. APPOINTMENT OF AUDITORS**

At the Meeting, Ayr Shareholders will be asked to appoint MNP LLP ("**MNP**") to hold office as the Corporation's auditor until the close of the next annual meeting of shareholders and to authorize the Board to fix the auditor's remuneration. MNP has served as the auditor of the Corporation (including its predecessor) since 2017. The Board adopted an updated Audit Committee charter attached as Appendix "C" to this Circular.

**The Board recommends that you vote FOR the appointment of MNP as auditor and the authorization of the Board to fix the auditor's remuneration.**

Unless a proxy specifies that the Ayr Shares it represents should be withheld from voting for the appointment of the auditor, the management appointees named in the accompanying form of proxy and voting instruction form intend to vote **FOR** the appointment of MNP as auditor of the Corporation and authorizing the Board to fix the auditor's remuneration.

#### **Auditors' Fees**

The aggregate fees billed for professional services by MNP for each of the last two fiscal periods were as follows:

*Audit Fees* - The aggregate audit fees billed by MNP were approximately \$530,000 for fiscal 2019 and \$32,750 for fiscal 2018. These services consisted of professional services rendered for the annual audit of the Corporation's consolidated financial statements (including for the Corporation's final prospectus dated February 15, 2019 in connection with the Corporation's qualifying transaction) and the quarterly reviews of the Corporation's interim financial statements, consultation concerning financial reporting and accounting standards, and services provided in connection with statutory and regulatory filings or engagements.

#### **4. AMENDMENT TO ARTICLES**

Pursuant to the Amendment Resolution, Ayr proposes to approve the Amendment, which amends and restates its articles (the "**Amended Articles**"), as further described in this Circular, in order to, among other things:

- create and set the terms of two new share classes of Ayr, being the Restricted Voting Shares and the Limited Voting Shares, including applying coattail terms to such shares similar to those applicable to the existing Subordinate Voting Shares;
- amend the terms of the existing Multiple Voting Shares and the existing Subordinate Voting Shares, including without limitation, by amending the requirements on who may hold Subordinate Voting Shares (collectively, the "**Amendment**").

The Corporation is proposing this expanded share structure and the introduction of Restricted Voting Shares and Limited Voting Shares in order to seek to maintain its foreign private issuer (FPI) status and reduce compliance costs. This is somewhat similar to other Canadian-listed issuers which have adopted variable voting share structures for airline and telecommunications regulatory purposes.

The Board has unanimously determined that the Amendment is in the best interests of the Corporation and has unanimously approved the Amendment. **The Board recommends that you vote FOR the Amendment Resolution.**

Unless a proxy specifies that the Ayr Shares it represents should be voted against the Amendment Resolution, the management appointees named in the accompanying form of proxy and voting instruction form intend to vote **FOR** the Amendment Resolution.

#### **Description of Share Capital**

##### ***Summary of the Rights, Privileges, Restrictions and Conditions of the Restricted Voting Shares and Limited Voting Shares***

Following the Amendment, the share capital of the Corporation will consist of Multiple Voting Shares, Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares (collectively, the "**Equity Shares**"). To seek to maintain Ayr's foreign private issuer (FPI) status and reduce compliance costs, it is desirable to implement a conversion mechanism in the share capital to decrease the number of shares eligible to be voted for directors held, beneficially owned or controlled by U.S. Persons in respect of the election of directors of the Board if the FPI threshold is exceeded, as further described below.

A “U.S. Person” has the meaning ascribed thereto in Rule 903(k) of Regulation S under the United States Securities Act of 1933, as amended, and a “Non-U.S. Person” is any person who is not a U.S. Person. Where Equity Shares are held, beneficially owned or controlled, directly or indirectly, or jointly by (i) one or more U.S. Persons and (ii) one or more Non-U.S. Persons, such Equity Shares shall be deemed to be held, beneficially owned or controlled by a U.S. Person. The Compliance Provisions that are currently contained in the Corporation’s Articles would continue to apply, but to all Equity Shares. See “*Compliance Provisions*” below. At the request of Ayr, beneficial shareholders and actual or proposed transferees will be required to respond to enquiries regarding their statuses as U.S. Persons or Non-U.S. Persons, and shall be required to provide declarations or other documents with respect thereto, as may be necessary or desirable, in the discretion of Ayr, failing which they would, in Ayr’s discretion, be deemed to be U.S. Persons.

Subject to the Specified Exceptions (as defined below), the Subordinate Voting Shares will only be held, beneficially owned or controlled by Non-U.S. Persons and carry one vote per share. The Subordinate Voting Shares would be automatically converted, without further act or formality, on a one-for one basis into Restricted Voting Shares if they become held, beneficially owned or controlled by a U.S. Person.

Subject to the Specified Exceptions, (i) the Restricted Voting Shares will be held, beneficially owned or controlled by U.S. Persons and will carry one vote per share, and (ii) the Limited Voting Shares will be held, beneficially owned or controlled by U.S. Persons and will carry one vote per share, except that the holders of Limited Voting Shares shall not have any entitlement to vote in respect of the election for directors of the Board. Notwithstanding the foregoing, if, at any given time, the total number of Equity Shares represents a number equal to or in excess of the formulaic threshold set forth below, then the minimum number of Restricted Voting Shares required to stay within the threshold will be automatically converted, without further act or formality, on a pro-rata basis across all registered holders of Restricted Voting Shares (rounded up to the next nearest whole number of shares), on a one-for-one basis, into Limited Voting Shares.

$(0.50 \times \text{Aggregate Number of Multiple Voting Shares, Subordinate Voting Shares and Restricted Voting Shares}) - (\text{Aggregate Number of Multiple Voting Shares held, beneficially owned or controlled by U.S. Persons})$  (the “**FPI Threshold**”)

If, at any given time, the total number of Limited Voting Shares represents a number below the FPI Threshold, then the number of Limited Voting Shares will be automatically converted, without further act or formality, on a pro-rata basis across all registered holders of Limited Voting Shares (rounded down to the next nearest whole number of shares), on a one-for-one basis, into Restricted Voting Shares, to the maximum extent possible such that the Limited Voting Shares then represent a number of Equity Shares that is one share less than the FPI Threshold.

If, at any given time, the Restricted Voting Shares or the Limited Voting Shares are held, beneficially owned or controlled by Non-U.S. Persons, they will be automatically converted, without further act or formality, on a one-for-one basis into Subordinate Voting Shares.

The “**Specified Exceptions**” are (i) Equity Shares held, beneficially owned or controlled by one or more underwriters for the purposes of a distribution to the public or (ii) Equity Shares held, beneficially owned or controlled by a person acting solely in the capacity of an intermediary in connection with either the payment of funds and/or the delivery of securities and that provides centralized facilities for the deposit, clearing or settlement of trades in securities (including CDS Clearing and Depositary Services Inc., or any successor or assign) without general discretionary authority over the voting or disposition of such Equity Shares.

The Multiple Voting Shares may be held, beneficially owned or controlled, directly or indirectly, by U.S. Persons and/or Non-U.S. Persons, and each Multiple Voting Share carries 25 votes per share (subject in the case of Mercer, to the terms the Voting Agreement). Each Multiple Voting Share will be convertible at the holder’s option, on a one-for-one basis, into (i) a Subordinate Voting Share, if such Multiple Voting Share is held, beneficially owned or controlled by a Non-U.S. Person, and (ii) a Restricted Voting Share, if such Multiple Voting Share is held, beneficially owned or controlled by a U.S. Person.

All Equity Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction, except that stock dividends or distributions may be declared by the Board that are payable in Multiple Voting Shares on the Multiple Voting Shares, in Subordinate Voting Shares on the Subordinate Voting Shares, in Restricted Voting Shares on the Restricted Voting Shares, and in Limited Voting Shares on the Limited Voting Shares, provided an equal number of shares is declared as a dividend or distribution on a per-share basis in each case. All Equity Shares will rank pari passu on a per-share basis in the event of the Corporation's liquidation, dissolution or winding-up, or a distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation. All holders of Equity Shares will be entitled to receive notice of, to attend (if applicable, virtually) and vote at all meetings of Ayr Shareholders, except that they will not be able to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the BCBCA and holders of the Limited Voting Shares will not be entitled to vote on the election of directors.

The Corporation has applied to the CSE to have the Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares listed under a single symbol on the CSE, if applicable, whereas the Multiple Voting Shares would remain unlisted.

*The summary below describes the rights, privileges, restrictions and conditions attached to the Restricted Voting Shares, the Limited Voting Shares, the Multiple Voting Shares and the Subordinate Voting Shares, which is qualified in its entirety by the proposed Amended Articles, a copy of which is attached hereto as Appendix "B". In the event that the Ontario Securities Commission and/or CSE request amendments to the Amended Articles prior to completion of the Amendment, the Amended Articles will be amended as necessary in order to satisfy such request. For the purposes of the descriptions below, "Ayr Shareholders" shall mean the holders of the Multiple Voting Shares, Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares, collectively.*

### **Restricted Voting Shares**

#### Exercise of Voting Rights

The holders of Restricted Voting Shares will be entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of Ayr Shareholders, except that they will not be able to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the BCBCA. The Restricted Voting Shares will carry one vote per share.

In connection with any Change of Control Transaction (as defined below) requiring approval of the holders of all Equity Shares under the BCBCA, holders of the Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Restricted Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

Notwithstanding the foregoing, in connection with a formal bid for all Equity Shares on identical terms made in compliance with Canadian securities laws that results in the bidder owning or controlling more than fifty percent (50%) of the total voting power of the voting securities of the Corporation for the election of directors (assuming the Limited Voting Shares each have one vote per share for the election of directors), the bidder may elect, by way of written notice to the Corporation, that the Restricted Voting Shares it so acquires not be automatically converted into Limited Voting Shares, in accordance with their terms.

For the purpose of the Corporation's Articles, a "**Change of Control Transaction**" means an amalgamation, arrangement, recapitalization, business combination or similar transaction of the Corporation, other than an amalgamation, arrangement, recapitalization, business combination or similar transaction that would result in (i) the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the continuing entity or its direct or indirect parent) more than fifty percent (50%) of the total voting power of the voting securities of the Corporation, the continuing entity or its direct or indirect parent, and more than fifty percent (50%) of the total number of outstanding shares of the Corporation, the continuing entity or its direct or indirect parent, in each case as outstanding immediately after such transaction, and (ii) the shareholders of the Corporation immediately prior to the transaction owning voting securities of the Corporation, the continuing entity or its direct or indirect parent immediately following the transaction in substantially the same proportions (vis-a-vis each other) as such shareholders owned the voting securities of the Corporation immediately prior to the transaction (provided that in neither event shall the exercise of any exchangeable shares of a subsidiary of the Corporation that are exchangeable into shares of the Corporation be taken into account in such determination).

Notwithstanding the foregoing, the holders of Restricted Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Corporation's Articles which would: (i) adversely affect the rights or special rights of the holders of Restricted Voting Shares (including an amendment to the terms of the Corporation's Articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in the Corporation's Articles) shall be automatically converted into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable); (ii) affect the holders of the Equity Shares differently, on a per share basis; or (iii) except as otherwise set forth in the Corporation's Articles, create any class or series of shares ranking equal to or senior to the Restricted Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Restricted Voting Shares.

#### Dividends

Holders of Restricted Voting Shares shall be entitled to receive, as and when declared by the Board, dividends in cash or property of the Corporation. No dividend will be declared or paid on any other class of Equity Shares unless the Corporation simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Restricted Voting Shares. The Restricted Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Restricted Voting Shares shall receive Restricted Voting Shares, unless otherwise determined by the Board, provided an equal number of shares is declared as a dividend or distribution on a per-Equity Share basis, without preference or distinction, in each case.

#### Subdivision or Consolidation

No subdivision or consolidation of the Restricted Voting Shares shall occur unless simultaneously, the other Equity Shares are subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of each of the classes of Equity Shares.

#### Liquidation, Dissolution or Winding-Up

In the case of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation, the holders of Restricted Voting Shares are entitled, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Restricted Voting Shares, to receive the Corporation's remaining property and are entitled to share equally, on a share for share basis, with the other Equity Shares in all distributions of such assets.

#### Rights to Subscribe; Pre-Emptive Rights

The holders of Restricted Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Corporation now or in the future.

#### Conversion

If the issued and outstanding Restricted Voting Shares are or become owned or controlled by a Non-U.S. Person, subject to the Specified Exceptions, such Restricted Voting Shares shall be automatically converted, without further act or formality, on a one-for-one basis, into Subordinate Voting Shares. Subject to the Specified Exceptions, if the total number of Equity Shares is equal to or exceeds the FPI Threshold, the minimum number of Restricted Voting Shares required to stay within the FPI Threshold shall be automatically converted, without further act or formality, on a pro-rata basis across all registered holders of Restricted Voting Shares (rounded up to the next nearest whole number of shares), on a one-for-one basis, into Limited Voting Shares.



If an offer is made to purchase a certain class of Equity Shares (other than Restricted Voting Shares) and such offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which such Equity Shares that are subject to the offer are then listed, to be made to all or substantially all the holders of such Equity Shares in a given province of Canada to which these requirements apply (assuming that the offeree was a resident in Ontario), each Restricted Voting Share shall become convertible, at the option of the holder, on a one-for-one basis, into such class of Equity Shares that are subject to the offer, at any time while such offer is in effect until the date prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to such offer. The conversion right may only be exercised in respect of Restricted Voting Shares for the purpose of depositing the resulting Equity Shares pursuant to the offer, and for no other reason, including with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Restricted Voting Shares, notwithstanding their conversion. The transfer agent is required to deposit the resulting Equity Shares pursuant to such offer on behalf of such holder.

Should the applicable Equity Shares issued upon such conversion and tendered in response to such offer be withdrawn by Ayr Shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, then each Equity Share resulting from such conversion shall be automatically reconverted, without any further act on the part of the Corporation or on the part of the holder, into one Restricted Voting Share.

#### Constraints on Share Ownership

Subject to the Specified Exceptions, the Restricted Voting Shares may only be held, beneficially owned or controlled by U.S. Persons.

#### ***Limited Voting Shares***

##### Exercise of Voting Rights

The holders of Limited Voting Shares will be entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of Ayr Shareholders, except that they will not be entitled to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) (i) at any time in respect of the election for directors of the Board, or (ii) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the BCBCA. The Limited Voting Shares will carry one vote per share.

In connection with any Change of Control Transaction requiring approval of the holders of all Equity Shares under the BCBCA, holders of the Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Limited Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

Notwithstanding the foregoing, in connection with a formal bid for all Equity Shares on identical terms made in compliance with Canadian securities laws that results in the bidder owning or controlling more than fifty percent (50%) of the total voting power of the voting securities of the Corporation for the election of directors (assuming the Limited Voting Shares each have one vote per share for the election of directors), the bidder may elect, by way of written notice to the Corporation, that the Limited Voting Shares it so acquires not be automatically converted into Restricted Voting Shares, in accordance with their terms.

Notwithstanding the foregoing, the holders of Limited Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Corporation's Articles which would: (i) adversely affect the rights or special rights of the holders of Limited Voting Shares; (ii) affect the holders of the Equity Shares differently, on a per share basis (including an amendment to the terms of the Corporation's Articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in the Articles) shall be automatically converted into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable); or (iii) except as otherwise set forth in the Corporation's Articles, create any class or series of shares ranking equal to or senior to the Limited Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Limited Voting Shares.

### Dividends

Holders of Limited Voting Shares shall be entitled to receive, as and when declared by the Board, dividends in cash or property of the Corporation. No dividend will be declared or paid on the other Equity Shares unless the Corporation simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Limited Voting Shares. The Limited Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Limited Voting Shares shall receive Limited Voting Shares, unless otherwise determined by the Board, provided an equal number of shares is declared as a dividend or distribution on a per-Equity Share basis, without preference or distinction, in each case.

### Subdivision or Consolidation

No subdivision or consolidation of the Limited Voting Shares shall occur unless simultaneously, the other Equity Shares are subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of each of the classes of Equity Shares.

### Liquidation, Dissolution or Winding-Up

In the case of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation, the holders of Limited Voting Shares are entitled, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Limited Voting Shares, to receive the Corporation's remaining property and are entitled to share equally, on a share for share basis, with the other Equity Shares in all distributions of such assets.

### Rights to Subscribe; Pre-Emptive Rights

The holders of Limited Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Corporation now or in the future.

### Conversion

Subject to the Specified Exceptions, if, at any given time, the total number of Restricted Voting Shares represents a number below the FPI Threshold, then the number of Limited Voting Shares will be automatically converted, without further act or formality, on a pro-rata basis across all registered holders of Limited Voting Shares (rounded down to the next nearest whole number of shares), on a one-for-one basis, into Restricted Voting Shares, to the maximum extent possible such that the Limited Voting Shares then represent a number of Equity Shares that is one share less than the FPI Threshold.

If, at any given time, the Limited Voting Shares or the Restricted Voting Shares are held, beneficially owned or controlled by Non-U.S. Persons, they will be automatically converted, without further act or formality, on a one-for-one basis into Subordinate Voting Shares.

If an offer is made to purchase a certain class of Equity Shares (other than Limited Voting Shares) and such offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which such Equity Shares that are subject to the offer are then listed, to be made to all or substantially all the holders of such Equity Shares in a given province of Canada to which these requirements apply (assuming that the offeree was a resident in Ontario), each Limited Voting Share shall become convertible, at the option of the holder, on a one-for-one basis, into such class of Equity Shares that are subject to the offer, at any time while such offer is in effect until the date prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to such offer. The conversion right may only be exercised in respect of Limited Voting Shares for the purpose of depositing the resulting Equity Shares pursuant to the offer, and for no other reason, including with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Limited Voting Shares, notwithstanding their conversion. The transfer agent is required to deposit the resulting Equity Shares pursuant to such offer on behalf of such holder.

Should the applicable Equity Shares issued upon such conversion and tendered in response to such offer be withdrawn by Ayr Shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, then each Equity Share resulting from such conversion shall be automatically reconverted, without any further act on the part of the Corporation or on the part of the holder, into one Limited Voting Share.

#### Constraints on Share Ownership

Subject to the Specified Exceptions, the Limited Voting Shares may only be held, beneficially owned or controlled by U.S. Persons.

#### Renamed as Non-Voting Shares

The Limited Voting Shares shall be named “Limited Voting Shares” subject to regulatory approval, failing which they shall be named and referred to as “Non-Voting Shares”.

### ***Summary of the Rights, Privileges, Restrictions and Conditions of the Multiple Voting Shares and Subordinate Voting Shares***

#### ***Multiple Voting Shares***

##### Exercise of Voting Rights

The holders of Multiple Voting Shares will be entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of Ayr Shareholders, except that they will not be able to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the BCBCA. The Multiple Voting Shares carry 25 votes per share (subject in the case of Mercer, to the terms of a voting agreement with the Corporation dated as of June 26, 2019 (the “**Voting Agreement**”), which may be found on Ayr’s profile on SEDAR at [www.sedar.com](http://www.sedar.com)).

In connection with any Change of Control Transaction requiring approval of the holders of all Equity Shares under the BCBCA, holders of the Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Multiple Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

Notwithstanding the foregoing, the holders of Multiple Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Corporation’s Articles which would: (i) adversely affect the rights or special rights of the holders of Multiple Voting Shares (including an amendment to the terms of the Corporation’s Articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in the Corporation’s Articles) shall be automatically converted into Restricted Voting Shares and/or Subordinate Voting Shares, as applicable) ; or (ii) affect the holders of the Equity Shares differently, on a per share basis; or (iii) except as otherwise set forth in the Corporation’s Articles, create any class or series of shares ranking equal to or senior to the Multiple Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Multiple Voting Shares.

#### Dividends

Holders of Multiple Voting Shares shall be entitled to receive, as and when declared by the Board, dividends in cash or property of the Corporation. No dividend will be declared or paid on the other Equity Shares unless the Corporation simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Multiple Voting Shares. The Multiple Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Multiple Voting Shares shall receive Multiple Voting Shares, unless otherwise determined by the Board, provided an equal number of shares is declared as a dividend or distribution on a per-Equity Share basis, without preference or distinction, in each case.

#### Subdivision or Consolidation

No subdivision or consolidation of the Multiple Voting Shares shall occur unless simultaneously, the other Equity Shares are subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of each of the classes of Equity Shares.

#### Liquidation, Dissolution or Winding-Up

In the case of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation, the holders of Multiple Voting Shares are entitled, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Multiple Voting Shares, to receive the Corporation's remaining property and are entitled to share equally, on a share for share basis, with the other Equity Shares in all distributions of such assets.

#### Rights to Subscribe; Pre-Emptive Rights

The holders of Multiple Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Corporation now or in the future.

#### Conversion

At the holder's option, the Multiple Voting Shares will be convertible, on a one-for-one basis, into (i) Subordinate Voting Shares in the event the Multiple Voting Shares are held, beneficially owned or controlled by a Non-U.S. Person, and (ii) Restricted Voting Shares in the event the Multiple Voting Shares are held, beneficially owned or controlled by a U.S. Person. In addition, the Multiple Voting Shares will be automatically converted, without further act or formality, into Subordinate Voting Shares or Restricted Voting Shares, as applicable, on the earliest of (i) the fifth anniversary of May 24, 2019, (ii) the date on which such Multiple Voting Shares are held or controlled by a person who is not a Permitted Holder (as defined in the Corporation's Articles) under the Corporation's Articles, and (iii) the date on which the aggregate number of Multiple Voting Shares issued and outstanding represents less than one-third of the number of Multiple Voting Shares issued and outstanding at the close of business on the first date of issuance, being May 24, 2019.

#### Constraints on Share Ownership

The Multiple Voting Shares may be held, beneficially owned or controlled by U.S. Persons and Non-U.S. Persons.

#### ***Subordinate Voting Shares***

##### Exercise of Voting Rights

The holders of Subordinate Voting Shares will be entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of Ayr Shareholders, except that they will not be able to vote (but will be entitled to receive notice of, to attend (if applicable, virtually) and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the BCBCA. The Subordinate Voting Shares carry one vote per share.

In connection with any Change of Control Transaction requiring approval of the holders of all Equity Shares under the BCBCA, holders of the Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Subordinate Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

Notwithstanding the foregoing, the holders of Subordinate Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the Corporation's Articles which would: (i) adversely affect the rights or special rights of the holders of Subordinate Voting Shares (including an amendment to the terms of the Corporation's Articles which provide that any Multiple Voting Shares sold or transferred to a person that is not a Permitted Holder (as defined in the Corporation's Articles) shall be automatically converted into Restricted Voting Shares and/or Subordinate Voting Shares, as applicable); or (ii) affect the holders of the Equity Shares differently, on a per share basis; or (iii) except as otherwise set forth in the Corporation's Articles, create any class or series of shares ranking equal to or senior to the Subordinate Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Subordinate Voting Shares.

#### Dividends

Holders of Subordinate Voting Shares shall be entitled to receive, as and when declared by the Board, dividends in cash or property of the Corporation. No dividend will be declared or paid on the other Equity Shares unless the Corporation simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Subordinate Voting Shares. The Subordinate Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Subordinate Voting Shares shall receive Subordinate Voting Shares, unless otherwise determined by the Board, provided an equal number of shares is declared as a dividend or distribution on a per-Equity Share basis, without preference or distinction, in each case.

#### Subdivision or Consolidation

No subdivision or consolidation of the Subordinate Voting Shares shall occur unless simultaneously, the other Equity Shares are subdivided or consolidated or otherwise adjusted in the same manner so as to maintain and preserve the relative rights of the holders of each of the classes of Equity Shares.

#### Liquidation, Dissolution or Winding-Up

In the case of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation for the purposes of a dissolution or winding-up of the Corporation, the holders of Subordinate Voting Shares are entitled, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Subordinate Voting Shares, to receive the Corporation's remaining property and are entitled to share equally, on a share for share basis, with the other Equity Shares in all distributions of such assets.

#### Rights to Subscribe; Pre-Emptive Rights

The holders of Subordinate Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Corporation now or in the future.

### Conversion

If the issued and outstanding Subordinate Voting Shares are or become owned and controlled by a U.S. Person, such Subordinate Voting Shares shall be automatically converted, without further act or formality, on a one-for-one basis, into Restricted Voting Shares.

If an offer is made to purchase a certain class of Equity Shares (other than Subordinate Voting Shares) and such offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which such Equity Shares that are subject to the offer are then listed, to be made to all or substantially all the holders of such Equity Shares in a given province of Canada to which these requirements apply (assuming that the offeree was a resident in Ontario), each Subordinate Voting Share shall become convertible, at the option of the holder, on a one-for-one basis, into such class of Equity Shares that are subject to the offer, at any time while such offer is in effect until the date prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to such offer. The conversion right may only be exercised in respect of Subordinate Voting Shares for the purpose of depositing the resulting Equity Shares pursuant to the offer, and for no other reason, including with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Subordinate Voting Shares, notwithstanding their conversion. The transfer agent is required to deposit the resulting Equity Shares pursuant to such offer on behalf of such holder.

Should the applicable Equity Shares issued upon such conversion and tendered in response to such offer be withdrawn by Ayr Shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, then each Equity Share resulting from such conversion shall be automatically reconverted, without any further act on the part of the Corporation or on the part of the holder, into one Subordinate Voting Share.

### Constraints on Share Ownership

Subject to the Specified Exceptions, the Subordinate Voting Shares may only be owned or controlled by Non-U.S. Persons.

### Renamed as Common Shares

At the effective time that there are no Multiple Voting Shares issued and outstanding (by the conversion of all Multiple Voting Shares, in accordance with their terms, into Subordinate Voting Shares or Restricted Voting Shares, as applicable), the Subordinate Voting Shares will henceforth be named and referred to as “Common Shares”.

### *Exchangeable Shares*

The Class B common stock (the “**Exchangeable Shares**”) of CSAC Acquisition Inc., a subsidiary of Ayr, will be exchangeable, at the option of the holder, in accordance with their terms and the terms specified in the applicable exchange Rights Agreement into Subordinate Voting Shares, following which the share terms set forth above would apply, and if the Subordinate Voting Shares are held, beneficially owned or controlled (or become held, beneficially owned or controlled) by a U.S. Person, such Subordinate Voting Shares would be automatically converted, without further act or formality, on a one-for-one basis into Restricted Voting Shares. The Exchangeable Shares are not entitled to vote at meetings of Ayr Shareholders.

### *The Warrants*

The Warrants are exercisable, in accordance with their terms and the terms of the warrant agency agreement dated December 21, 2017, between the Corporation and Odyssey, as the warrant agent (the “**Warrant Agent**”), as amended, on a one-for-one basis into Subordinate Voting Shares, following which the share terms set forth above would apply.

### ***The Rights***

The Rights are convertible, in accordance with their terms and the terms of the right agreement dated December 21, 2017 between the Corporation and Odyssey, as the rights agent (the “**Rights Agent**”), as amended, on a one-for-one-tenth basis into Subordinate Voting Shares, following which the share terms set forth above would apply.

### **Compliance Provisions**

In order to seek to ensure the compliance of Ayr and its subsidiaries with applicable regulatory and/or licensing regulations, the Corporation’s Articles include certain provisions (the “**Compliance Provisions**”), including a combination of certain remedies such as an automatic suspension of voting and/or dividend rights, a discretionary right to force a share transfer to a third party and/or a discretionary redemption right in favour of Ayr.

The purpose of the Compliance Provisions, as they are proposed to be amended to extend to Restricted Voting Shares and Limited Voting Shares, is to provide Ayr with a means of protecting itself from having a shareholder, or as determined by the Board, a group of shareholders acting jointly or in concert, with an ownership interest of, whether of record or beneficially (or having the power to exercise control or direction over) (“**Own or Controlling**”), five percent (5%) or more of the issued and outstanding shares of Ayr, or such other number as is determined by the Board from time to time, and: (i) who a governmental authority granting licenses to, or otherwise governing the operations of, Ayr or its subsidiaries has determined to be unsuitable to own any of the Equity Shares, as applicable; (ii) whose ownership of any of the Equity Shares, as applicable, may reasonably result in the loss, suspension or revocation (or similar action) with respect to any licenses or permits relating to Ayr’s or its subsidiaries’ conduct of business (being the conduct of any activities relating to the cultivation, manufacturing and dispensing of cannabis and cannabis-derived products in the United States, which include the owning and operating of cannabis licenses) or in Ayr being unable to obtain any new licenses or permits in the normal course, all as determined by the Board; or (iii) who have not been determined by the applicable regulatory authority to be an acceptable person or otherwise have not received the requisite consent of such regulatory authority to own the applicable Equity Shares, in each case within a reasonable time period acceptable to the Board or prior to acquiring any Equity Shares, as applicable.

For a full description of the Compliance Provisions, see the proposed Amended Articles, a copy of which is attached hereto as Appendix “B”.

### **DISSENT RIGHTS**

Ayr Shareholders are not entitled to exercise dissent rights in respect of any of the items of business at the Meeting, including the Amendment Resolution.

### **OTHER BUSINESS**

Management of the Corporation knows of no other matters to come before the Meeting other than those referred to in the Notice of Meeting accompanying this Circular. However, if any other matters properly come before the Meeting, it is the intention of the persons named in the form of proxy accompanying this Circular to vote on the same in accordance with their best judgment of such matters.

### **COMPENSATION DISCUSSION AND ANALYSIS**

Please see the Corporation’s Form 51-102F6V – *Statement of Executive Compensation* for the financial year ended December 31, 2019, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under the Corporation’s profile, which provides information on the Corporation’s executive compensation practices.

### **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

Under the Canadian Securities Administrators’ National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”), the Corporation is required to disclose certain information relating to its corporate governance practices, as set forth below.

## Board

The Corporation currently has three non-executive directors who the Corporation believes to be independent within the meaning of NI 58-101. The three independent directors of the Corporation are Charles Miles, Chris R. Burggraave and Glenn Isaacson. Each of Jonathan Sandelman, who serves as Chairman, Chief Executive Officer, Director and Corporate Secretary of the Corporation, Louis Karger, who was formerly a vendor of, and serves as director and the treasurer of Sira, one of the Corporation's businesses, and Steve Menzies, who was formerly a vendor, and is a founder of LivFree, one of the Corporation's businesses, are not considered to be independent given their current or recent status as executive officers of the Corporation or former vendors of certain of the Corporation's businesses.

## Directorships

The following directors of the Corporation currently serve on the board of directors of other issuers that are reporting issuers (or the equivalent) which are set out below:

DIRECTOR	REPORTING ISSUER (EXCHANGE)
Jonathan Sandelman	Mercer Park Brand Acquisition Corp. (NEO:BRND.U)
Charles Miles	Mercer Park Brand Acquisition Corp. (NEO:BRND.U)

## Orientation and Continuing Education

Following appointment, new directors of the Corporation are provided with an initial orientation regarding the nature and orientation of the Corporation's business and the affairs of the Corporation and as to the role of the Board and its committees. As part of such orientation, new directors are provided with historic information, current strategic plans for the Corporation and information summarizing issues relating to the Corporation. New directors are also briefed by the Chief Executive Officer, the Chief Financial Officer and/or the Chief Operating Officer of the Corporation and by the Chair of the committees of the Board to which they are appointed, if any. In addition, the Corporation will make available any documents or personnel as may be requested by a new director in order to assist with the orientation and onboarding to the Board.

Although the Corporation has not adopted formal policies respecting continuing education for Board members, new directors are encouraged to communicate with the Corporation's management and auditors to keep themselves current with industry trends and developments with management's assistance, and to attend related industry seminars and visit the Corporation's operations. In addition, the Board and its committees receive periodic updates from management and external advisors, as applicable, as to new developments in regard to corporate governance, industry trends, changes in legislation and other issues affecting the Corporation.

## Ethical Business Conduct

The Board has adopted an insider trading policy (the "Insider Trading Policy") and a disclosure policy (the "Disclosure Policy").

The Insider Trading Policy applies to all directors, managers, officers and employees of the Corporation and its subsidiaries, and other person engaged in business of professional activity with or on behalf of the Corporation and its subsidiaries (including consultants, independent contractors and advisors, and family members, spouses or dependent children of such individuals, and seeks to inform such individuals, and reinforce the Corporation's prohibition against insider trading, tipping, speculating, short-selling, puts and calls. It also outlines restrictions on trading of the Corporation's securities, including without limitation, during black-out periods to allow for appropriate dissemination of the Corporation's financial statements, as well as reporting requirements for insiders.



The Disclosure Policy seeks to reinforce the Corporation's commitment to compliance with the continuous disclosure obligations imposed by applicable Canadian securities law and regulations and the rules of the CSE, with an aim to seeking to ensure that all communications to the investing public about the business and affairs of the Corporation are informative, timely, factual and accurate, and consistent and disseminated in accordance with all applicable legal and regulatory requirements. It also seeks to promote effective communication with securityholders and encourage their participation at general meetings or during investor conference calls. The Disclosure Policy applies to all directors, managers, officers, employees, and contractors of, and consultants to, the Corporation or its subsidiaries, including of Mercer Park L.P., who have access to confidential corporate information of the Corporation, as well as those persons designated from time to time by the Chief Executive Officer to communicate on behalf of the Corporation.

The Board expects its directors, officers and employees to act ethically at all times. Each director of the Corporation must disclose all actual or potential conflicts of interest and refrain from voting on matters in which such director has a conflict of interest. In addition, the director must excuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest. The Corporation's compensation, nominating and corporate governance committee (the "**C&CG Committee**") is responsible for reviewing investigations and any resolutions of complaints received under any policies of the Corporation on conflicts of interest and ethics and report periodically to the Board thereon.

Further, the Corporation's businesses are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Achievement of the Corporation's business objectives is contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. The Corporation, through its management and with the assistance of its various advisors, seeks to remain abreast of the evolving environmental rules, regulations and protocols applicable to the Corporation's businesses in order to ensure that its internal practices and policies are following applicable standards.

#### **Nomination of Directors**

The C&CG Committee's role, in consultation with the Chairman of the Board and the Chief Executive Officer, is to recruit and identify individuals qualified to become new Board members and to recommend to the Board candidates for election as directors and candidates for appointment to Board committees, as set out in the C&CG Committee's mandate. The Chairman may also consult with the C&CG Committee regarding candidates for nomination or appointment to the Board.

#### **Diversity**

##### *Board*

The Corporation recognizes the benefits that diversity brings to the Corporation. The Board aims to be comprised of directors who have a range of perspectives, insights and views in relation to the issues affecting the Corporation. This belief in diversity is reflected in the Corporation's diversity policy (the "**Diversity Policy**"). The Diversity Policy states that the Board should include individuals from diverse backgrounds, having regard to, among other things, skills, regional and industry experience, professional expertise, personal skills, background, race, gender, status, age, education, nationality, culture, language and geographic background. Accordingly, consideration of whether the diverse attributes highlighted in the Diversity Policy are sufficiently represented on the Board is an important component of the selection process for new Board members.

None of the six proposed directors is female. The Corporation recognizes the value of the contribution of members with diverse attributes on the Board and is committed to ensuring that there is representation of women on the Board. However, the Corporation has not and does not intend to establish a target or adopt specific policies regarding the number of women on the Board. The Corporation believes a target would not be the most effective way of ensuring the Board is comprised of individuals with diverse attributes and backgrounds. The Corporation will, however, evaluate the appropriateness of adopting targets in the future. Selection of female candidates to join the Board will be, in part, dependent on the pool of female candidates with the necessary skills, knowledge and experience, and the ultimate decision will be based on merit and the contribution the chosen candidate(s) will bring to the Board.

The Corporation believes that a diversity of backgrounds, opinions and perspectives and a culture of inclusion helps to create a healthy and dynamic workplace, which improves overall business performance. The Corporation recognizes the value of ensuring that the Corporation has leaders who are women. The Corporation has and intends to work to develop its employees internally and provide them with opportunities to advance their careers. The Corporation has developed a strategy and execution plan to work towards increasing the representation of women in leadership roles at all levels of the organization. One of the objectives of this initiative is to ensure that there are highly qualified women within the Corporation available to fill vacancies in executive officer and other leadership positions. In appointing individuals to its leadership team, both at the corporate level and business vertical level, the Corporation weighs a number of factors, including the skills and experience required for the position and the personal attributes of the candidates.

Jennifer Drake is currently the Chief Operating Officer of the Corporation. The Corporation does not intend to establish a target regarding the number of women in executive officer or senior leadership positions. The Corporation believes that the most effective way to achieve its goal of increasing the representation of women in leadership roles at all levels of the organization is to identify high-potential women within the Corporation and work with them to ensure they develop the skills, acquire the experience and have the opportunities necessary to become effective leaders. The Corporation will, however, evaluate the appropriateness of adopting targets in the future.

#### Compensation

See the Corporation's Form 51-102F6V – *Statement of Executive Compensation* for the financial year ended December 31, 2019, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com) under the Corporation's profile, which provides information on the Corporation's director and executive compensation practices.

#### Board Committees

The standing committees of Board are the audit committee (the "**Audit Committee**"), the C&CG Committee, the Executive Committee, the acquisition committee (the "**Acquisition Committee**") and the disclosure policy committee (the "**Disclosure Policy Committee**").

The Audit Committee is authorized and empowered to provide assistance to the Board in fulfilling its responsibility to the Ayr Shareholders, potential shareholders and the investment community, including without limitation, to recommend to the Board the appointment and compensation of the external auditors of the Corporation, to oversee the work and review the qualifications and independence of the external auditors of the Corporation, to review the financial statements of the Corporation and public disclosure documents containing financial information, to pre-approve all non-audit services to be provided by the external auditors of the Corporation and to establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters. The Audit Committee is comprised of Jonathan Sandelman, Charles Miles and Chris R. Burggraeve. The Board adopted an updated Audit Committee charter attached as Appendix "C" to this Circular.

The C&CG Committee is authorized and empowered to exercise a wide range of roles in respect of compensation, nomination and corporate governance matters, and its primary mandate includes, without limitation, assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors, determining and making recommendations with respect to all forms of compensation to be granted to the Chief Executive Officer of the Corporation, reviewing the Chief Executive Officer's recommendations respecting compensation of the other senior executives of the Corporation, recommending to the Board candidates for election as directors and candidates for appointment to Board committees and advising the Board on enhancing the Corporation's corporate governance through a continuing assessment of the Corporation's approach to corporate governance. The C&CG Committee is comprised of Jonathan Sandelman, Charles Miles and Chris R. Burggraeve.

The Executive Committee is authorized and empowered to undertake, and in the interests of efficiency, has been delegated with, all of the powers of the Board, to the maximum extent permitted under the BCBCA and the Corporation's Articles. The Executive Committee is comprised of Jonathan Sandelman, Charles Miles, Chris R. Burggraeve, Steve Menzies, Louis Karger and Glenn Isaacson.

The Acquisition Committee is authorized and empowered to manage and do all things in connection with smaller acquisitions, being acquisitions with an enterprise value less than the greater of 1% of the then market capitalization of Ayr (taking into account all exchangeable shares then issued and all in-the-money warrants then issued) and \$10 million (provided that no member of the Acquisition Committee has any material conflict of interest in connection therewith), including authorizing share or debt issuances and/or payment of cash as consideration for such acquisitions and approving the terms of acquisition-related agreements. The Acquisition Committee is comprised of Jonathan Sandelman, Charles Miles and Jennifer Drake.

The Disclosure Policy Committee is authorized and empowered to assist in determining whether information is material information, to seek to ensure the timely disclosure of material information in accordance with applicable securities laws, to supervise the preparation of the disclosures contained in the Corporation's disclosure documents, to oversee the Corporation's disclosure practices, and to monitor and evaluate the effectiveness of, and compliance with, its corresponding policy. The Disclosure Policy Committee consists of the Chairman and Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer (COO) of the Corporation. Each member of the committee may appoint a designate.

#### **Assessments**

Based upon the Corporation's size, its current state of development and the number of individuals on the Board, the Board considers a formal process for assessing the effectiveness and contribution of the Board as a whole, its committees or individual directors to be unnecessary at this time. Given that the Board and its committees meet on several occasions each year, each director has regular opportunity to assess the Board as a whole, its committees and other directors in relation to the Board and such director's assessment of the competencies and skills that the Board and its committees should possess. The Board plans to continue to evaluate its own effectiveness and the effectiveness of its committees and individual directors in such manner for the foreseeable future.

#### **NORMAL COURSE ISSUER BID**

On September 24, 2019, the Corporation announced a normal course issuer bid (the "NCIB") to purchase, through the facilities of the CSE and in accordance with the requirements of the CSE, a maximum of 5% of the Corporation's issued and outstanding Subordinate Voting Shares during any 12-month period, which as at the announcement of the program for the 12-month period thereafter, represented 725,892 Subordinate Voting Shares. Ayr appointed Canaccord Genuity Corp. to purchase the Subordinate Voting Shares pursuant to the NCIB.

The NCIB commenced on October 1, 2019 (the "NCIB Commencement Date") and will terminate on the earliest of: (i) the date that is 12 months following the NCIB Commencement Date; (ii) the date on which the 5% maximum is purchased pursuant to the NCIB; and (iii) the date on which Ayr provides written notice to Odyssey, its transfer agent, that the NCIB is terminated.

As at September 30, 2020, the Corporation had repurchased 71,500 of its outstanding Subordinate Voting Shares under the NCIB, of which 7,400 Subordinate Voting Shares have been cancelled, and 64,100 Subordinate Voting Shares are being held as treasury shares by Ayr, which are not entitled to dividends or voting rights.

#### **CERTAIN FEDERAL INCOME TAX CONSIDERATIONS**

##### **Certain Canadian Federal Income Tax Considerations**

The following is, as of the date of this Circular, a summary of the principal Canadian federal income tax considerations in respect of the Amendment that are generally applicable under the *Income Tax Act* (Canada) (the "Tax Act") to a beneficial owner of Multiple Voting Shares or Subordinate Voting Shares who, at all relevant times, for purposes of the Tax Act, deals at arm's length with, and is not affiliated with, the Corporation and who holds such shares (or, in conjunction with and following the Amendment, any class of Equity Shares) as capital property (a "Holder"), all within the meaning of the Tax Act. An Equity Share will generally be considered to be capital property to a Holder unless the Holder holds (or will hold) such Equity Share in the course of carrying on a business of trading or dealing in securities or has acquired (or will acquire) them in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder: (a) that is a “financial institution” for purposes of the “mark-to-market rules” in the Tax Act; (b) an interest in which is a “tax shelter investment” as defined in the Tax Act; (c) that is a “specified financial institution” as defined in the Tax Act; (d) that has made a “functional currency” election under the Tax Act to determine its “Canadian tax results”, as defined in the Tax Act, in a currency other than the Canadian currency; or (e) who enters into, or has entered into, a “derivative forward agreement” as such term is defined in the Tax Act, with respect to an Equity Share. Any such Holder to which this summary does not apply should consult its own tax advisor.

This summary does not address the possible application of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act to a Holder that (i) is a corporation resident in Canada and (ii) is or becomes (or does not deal at arm’s length for purposes of the Tax Act with a corporation resident in Canada that is or becomes), as part of a transaction or event or series of transactions or events that includes the acquisition of an Equity Share, controlled by a non-resident corporation, non-resident individual, non-resident trust, or group of any of the foregoing who do not deal at arm’s length with each other for purposes of such rules. Such Holders should consult their own tax advisors with respect to the possible application of these rules.

This summary is of a general nature only, is based upon the current provisions of the Tax Act, all specific proposals to amend the Tax Act which have been announced by or on behalf the Minister of Finance (Canada) prior to the date hereof (the “**Tax Proposals**”), and counsel’s understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency. This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that the Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Equity Shares and is not intended to be, nor should it be construed to be, legal or income tax advice to any particular Holder. Holders are urged to consult their own income tax advisors with respect to the tax consequences of the Amendment based on their own particular circumstances.

## **The Amendment**

### *Amendments to Share Terms*

The amendments to the terms of the Multiple Voting Shares and Subordinate Voting Shares will not, in and of themselves, result in a Holder realizing a capital gain or loss.

### *Conversion of Subordinate Voting Shares to Restricted Voting Shares upon Adoption of the Amendment*

Upon the adoption of the Amendment Resolution (the “**Adoption**”), all of the Subordinate Voting Shares held by U.S. Persons (subject to certain exceptions) will be automatically converted to Restricted Voting Shares. Upon such conversion, a Holder of such Subordinate Voting Shares will be deemed under the Tax Act to have (i) disposed of its Subordinate Voting Shares for proceeds of disposition equal to the adjusted cost base of such shares immediately before the Adoption and (ii) acquired the Restricted Voting Shares at a cost equal to the adjusted cost base to such Holder of its Subordinate Voting Shares immediately before the Adoption. Accordingly, Holders will not realize a gain or loss under the Tax Act on the conversion.

## Residents of Canada

The following portion of this summary applies to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, is resident in Canada (a “**Resident Holder**”).

Certain Resident Holders who might not otherwise be considered to hold their Equity Shares as capital property may, in certain circumstances, be entitled to have such shares, and all other “Canadian securities” owned or subsequently owned by such Resident Holder, treated as capital property by making an irrevocable election in accordance with the Tax Act. Resident Holders should consult their own tax advisors to determine whether an election is available and advisable in their particular circumstances.

### *Dividends on Equity Shares*

Dividends received on Equity Shares by a Resident Holder who is an individual (and certain trusts) will be included in the Resident Holder’s income and be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for “eligible dividends” properly designated as such by the Corporation.

Dividends received on Equity Shares by a Resident Holder that is a corporation will be included in the Resident Holder’s income and will generally be deductible in computing such Resident Holder’s taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a “private corporation” (as defined in the Tax Act) or any other corporation resident in Canada and controlled, whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable to pay a refundable tax under Part IV of the Tax Act on dividends received on the Equity Shares to the extent that such dividends are deductible in computing the Resident Holder’s taxable income. Dividends received by a Resident Holder that is an individual or a trust, other than certain specified trusts, may give rise to minimum tax under the Tax Act.

A Resident Holder may be subject to United States withholding tax on dividends received on the Equity Shares. Any United States withholding tax paid by or on behalf of a Resident Holder in respect of dividends received on the Equity Shares by a Resident Holder may be eligible for foreign tax credit or deduction treatment where applicable under the Tax Act. Generally, a foreign tax credit in respect of a tax paid to a particular foreign country is limited to the Canadian tax otherwise payable in respect of income sourced in that country. Dividends received on the Equity Shares by a Resident Holder may not be treated as income sourced in the United States for these purposes. Resident Holders should consult their own tax advisors with respect to the availability of any foreign tax credits or deductions under the Tax Act in respect of any United States withholding tax applicable to dividends on the Equity Shares.

### *Dispositions of Equity Shares*

A Resident Holder who disposes of or is deemed to have disposed of an Equity Share (other than a disposition arising on the conversion of Subordinate Voting Shares to Restricted Voting Shares upon the Adoption) will generally realize a capital gain (or incur a capital loss) in the year of disposition equal to the amount by which the proceeds of disposition in respect of such Equity Share exceed (or are exceeded by) the aggregate of the adjusted cost base of such Equity Share and any reasonable expenses associated with the disposition. The tax treatment of capital gains and capital losses is discussed below under “*Taxation of Capital Gains and Capital Losses*”.

### *Taxation of Capital Gains and Capital Losses*

Generally, one-half of any capital gain (a “**taxable capital gain**”) realized by a Resident Holder must be included in computing the Resident Holder’s income for the taxation year in which the disposition occurs. Subject to and in accordance with the provisions of the Tax Act, one-half of any capital loss incurred by a Resident Holder (an “allowable capital loss”) may be used to offset taxable capital gains realized by the Resident Holder in the taxation year of disposition. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition may be applied to reduce net taxable capital gains realized by the Resident Holder in the three preceding taxation years or in any subsequent year in the circumstances and to the extent provided in the Tax Act.

The amount of any capital loss realized on the disposition of an Equity Share by a Resident Holder that is a corporation may, in certain circumstances, be reduced by the amount of dividends which have been previously received or deemed to have been received by the Resident Holder on such share. Similar rules may apply where a corporation is, directly or through a trust or partnership, a member of a partnership or a beneficiary of a trust that owns Equity Shares.

A Resident Holder that is, throughout the relevant taxation year, a “Canadian-controlled private corporation” (as defined in the Tax Act) may be subject to pay a refundable tax on its “aggregate investment income”, which is defined in the Tax Act to include capital gains.

In general terms, a Holder who is an individual (other than certain trusts) that realizes a capital gain on the disposition or deemed disposition of Equity Shares may be liable for alternative minimum tax under the Tax Act.

#### *Conversion of Equity Shares*

The conversion of shares of a class of Equity Shares into shares of a different class of Equity Shares (other than the conversion of Subordinate Voting Shares to Restricted Voting Shares upon the Adoption, as discussed above) will be deemed not to constitute a disposition of property for purposes of the Tax Act and, accordingly, will not give rise to a capital gain or capital loss. The cost to a Resident Holder of the Equity Shares received on such conversion will be deemed to be equal to the Resident Holder’s adjusted cost base of the converted shares immediately before the conversion. For the purpose of computing the adjusted cost base to a Holder of each Equity Share of a particular class acquired on such conversion, the cost of such Equity Share must be averaged with the adjusted cost base to such Holder of all other shares of that class (if any) held by the Holder as capital property immediately prior to the conversion.

#### **Non-Residents of Canada**

The following portion of this summary is applicable to a Holder who, for the purposes of the Tax Act and at all relevant times, is not resident nor deemed to be resident in Canada and does not use or hold, and is not deemed to use or hold, the Equity Shares in connection with carrying on a business in Canada (a “**Non-Resident Holder**”). Special rules which are not discussed in this summary may apply to a non-resident that is an insurer carrying on business in Canada and elsewhere.

#### *Dividends on Equity Shares*

Any dividends on Equity Shares paid or credited or deemed to be paid or credited to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividends, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled under any applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident. For example, where a Non-Resident Holder is a resident of the United States, is fully entitled to the benefits under the *Canada-United States Income Tax Convention* (1980), as amended, and is the beneficial owner of the dividend, the applicable rate of Canadian withholding tax is generally reduced to 15% of the amount of such dividend.

#### *Dispositions of Equity Shares*

A Non-Resident Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of an Equity Share, nor will capital losses arising therefrom be recognized under the Tax Act, unless the Equity Share constitutes “taxable Canadian property” to the Non-Resident Holder for purposes of the Tax Act, and the gain is not exempt from tax pursuant to the terms of an applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

As long as the Equity Share is listed on a designated stock exchange (which currently includes the Canadian National Stock Exchange (operating as the Canadian Securities Exchange)), such share generally will not constitute taxable Canadian property of a Non-Resident Holder, unless: (a) at any time during the 60-month period immediately preceding the disposition or deemed disposition of such share: (i) 25% or more of the issued shares of any class or series of the share capital of the Corporation was owned by, or belonged to, one or any combination of (x) the Non-Resident Holder, (y) persons with whom the Non-Resident Holder did not deal at arm's length (within the meaning of the Tax Act) and (z) partnerships in which the Non-Resident Holder or a person referred to in (y) holds a membership interest directly or indirectly through one or more partnerships; and (ii) more than 50% of the fair market value of the share was derived directly or indirectly from one or any combination of: (A) real or immovable property situated in Canada; (B) Canadian resource property (as defined in the Tax Act); (C) timber resource property (as defined in the Tax Act); or (D) options in respect of, or interests in, or for civil law rights in, property described in any of (A) through (C) above, whether or not such property exists; or (b) the share is otherwise deemed under the Tax Act to be taxable Canadian property.

If an Equity Share is taxable Canadian property to a Non-Resident Holder, any capital gain realized on the disposition or deemed disposition of such share may not be subject to Canadian federal income tax pursuant to the terms of an applicable income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder. Non-Resident Holders whose Equity Shares are taxable Canadian property should consult their own tax advisors.

#### *Conversion of Equity Shares*

The tax consequences of the conversion of shares of a class of Equity Shares into shares of a different class of Equity Shares (other than the conversion of Subordinate Voting Shares to Restricted Voting Shares upon the Adoption, as discussed above) are the same as those described above under "*Residents of Canada – Conversion of Equity Shares*".

#### **Other Tax Considerations**

This Circular does not address any tax considerations of the Amendment other than Canadian federal income tax considerations, nor does it address the particular circumstances of any shareholder. Ayr Shareholders who are resident in jurisdictions other than Canada, including those in the United States, should consult their tax advisors with respect to the tax implications of the Amendment, including any associated filing requirements, in such jurisdictions and with respect to the tax implications in such jurisdictions of owning Ayr Shares after the Amendment. Ayr Shareholders should also consult their own tax advisors regarding Canadian federal, provincial or territorial, and United States federal, state and local tax considerations of the Amendment or of holding Ayr Shares.

## OTHER INFORMATION

### **Indebtedness of Directors and Executive Officers**

None of the directors, executive officers, employees, former directors, former executive officers or former employees of the Corporation or any of its subsidiaries, and none of their respective associates, is or has within 30 days before the date of this Circular or at any time since the beginning of the most recently completed financial year been indebted to the Corporation or any of its subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided by the Corporation or any of its subsidiaries.

### **Management Contracts**

Mercer Park, L.P. entered into a management agreement with the Corporation dated May 24, 2019, governing a month-to-month arrangement. In exchange for a monthly management fee, the related entity provides the Corporation with administrative support, management services, office space, and utilities. In addition, the management fees pay other corporate or centralized expenses based on actual cost, including but not limited to legal and professional fees, software, and insurance. Jonathan Sandelman and certain of the executive officers are employed and compensated directly by Mercer Park, L.P. pursuant to the management agreement, which compensation is reimbursed by the Corporation. For the three and six months ended June 30, 2020, the Corporation incurred management fees of \$1,193,206 and \$2,322,258, respectively.

### **Interests of Certain Persons and Companies in Matters to be Acted Upon**

No director, proposed director nominee or officer of the Corporation, or any person who has been a director or officer of the Corporation at any time since the beginning of the Corporation's last fiscal year, nor any associate or affiliate of any such person, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting, other as set forth herein.

### **Interests of Informed Persons in Material Transactions**

No director, proposed director nominee or officer of the Corporation, or any person who has been a director or officer of the Corporation at any time since the beginning of the Corporation's last fiscal year, nor any associate or affiliate of any such person, has any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries other than as disclosed in this Circular or under "*Related Party Transactions and Balances*" in the 2019 Financial Statements.

### **Additional Information**

The Corporation's financial information for the year ended December 31, 2019 is contained in the 2019 Financial Statements and the management's discussion and analysis for the three months and year ended December 31, 2019 and 2018 (the "**2019 MD&A**"). Additional information about the Corporation, including the 2019 Financial Statements and the 2019 MD&A are accessible on SEDAR at [www.sedar.com](http://www.sedar.com) under the Corporation's profile or on the Corporation's website at [www.avrstrategies.com](http://www.avrstrategies.com). Shareholders may, upon request made via email at [IR@avrstrategies.com](mailto:IR@avrstrategies.com), receive a copy of the 2019 Financial Statements and the 2019 MD&A. Shareholders may also obtain a hard copy of the Circular by following the instructions on the notice of availability of proxy materials sent to their attention.

### **Approval of Circular**

The contents and sending of this Circular have been approved by the Board.

DATED at New York, New York on this 30<sup>th</sup> day of September, 2020.



**AYR STRATEGIES INC.**

*“Jonathan Sandelman”*

Chairman, Chief Executive Officer and Corporate Secretary

AMENDMENT RESOLUTION

(See attached)

**AMENDMENT RESOLUTION**  
**of**  
**AYR STRATEGIES INC.**  
**(the “Corporation”)**

**RESOLVED AS A SPECIAL RESOLUTION THAT:**

**Amendment of Articles**

1. The articles of the Corporation dated July 31, 2017, as amended by the articles of amendment dated December 14, 2017, and as further amended by the articles of amendment dated May 24, 2019 (the “**Articles**”) are authorized to be altered (collectively, the “**Amendment**”):
  - (a) to create two new share classes of the Corporation, being the restricted voting shares of the Corporation and the limited voting shares of the Corporation (or such other name designation as determined by the Chief Executive Officer of the Corporation), each without par value and having the special rights and restrictions substantially set out in Appendix “B” attached hereto; and
  - (b) to amend the terms of the existing multiple voting shares of the Corporation and the existing subordinate voting shares of the Corporation, each having the special rights and restrictions substantially set out in Appendix “B” attached hereto;
2. The Corporation shall adopt the amended articles substantially in the form set out in Appendix “B” hereto (the “**Amended Articles**”), with such amendments as any one director or officer of the Corporation may approve, and all amendments to the aforesaid Amended Articles, as amended, reflected therein are approved.
3. Amended Articles altering the Articles to reflect the effect of this resolution and the Amendment shall be filed by or on behalf of the Corporation.
4. The directors of the Corporation are authorized, in their discretion, by resolution, to abandon the Amendment and the Amended Articles without further approval, ratification or confirmation by the shareholders of the Corporation.

**General**

5. Any one or more of the directors or officers of the Corporation is hereby authorized and directed, acting for, in the name of and on behalf of the Corporation, to execute or cause to be executed, under the seal of the Corporation or otherwise, and to deliver or cause to be delivered, such other documents and instruments, and to do or cause to be done all such other acts and things, as may in the opinion of such director or officer of the Corporation be necessary or desirable to carry out the intent of the foregoing resolution (including, without limitation, the execution and filing of the aforementioned Amended Articles, and any applications, documents, filings or certificates in connection therewith), the execution of any such application, document, filing or certificate or the doing of any such other act or thing by any director or officer of the Corporation being conclusive evidence of such determination.

PROPOSED AMENDED ARTICLES

(See attached)

**ARTICLE 1  
INTERPRETATION**

**Section 1.1 Definitions**

In these ~~Articles~~ amended and restated articles (the “**Articles**”), the following words and phrases have the meanings set out beside them:

“**appropriate person**” has the meaning assigned in the Securities Transfer Act;

“**board of directors**”, “**directors**” and “**board**” mean the directors or sole director of the Company for the time being;

“**Business Corporations Act**” means the *Business Corporations Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

“**Change of Control Transaction**” means an amalgamation, arrangement, recapitalization, business combination or similar transaction of the Company, other than an amalgamation, arrangement, recapitalization, business combination or similar transaction that would result in (i) the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the continuing entity or its direct or indirect parent) more than fifty percent (50%) of the total voting power of the voting securities of the Company, the continuing entity or its direct or indirect parent, and more than fifty percent (50%) of the total number of outstanding shares of the Company, the continuing entity or its direct or indirect parent, in each case as outstanding immediately after such transaction, and (ii) the shareholders of the Company immediately prior to the transaction owning voting securities of the Company, the continuing entity or its direct or indirect parent immediately following the transaction in substantially the same proportions (vis-a-vis each other) as such shareholders owned the voting securities of the Company immediately prior to the transaction (provided that in neither event shall the exercise of any exchangeable shares of a subsidiary of the Company that are exchangeable into shares of the Company be taken into account in such determination);

“**Coattail Agreement**” has the meaning ascribed thereto in Section 25.2(1)(h);

“**Company**” means the company whose name is set out at the top of page 1, being the company which has adopted these Articles;

“**courts**” has the meaning ascribed thereto in Section 27.1(1);

“**Covered Persons**” has the meaning ascribed thereto in Section 28.1;

“**Equity Shares**” means collectively, the Multiple Voting Shares, the Subordinate Voting Shares, the Restricted Voting Shares and the Limited Voting Shares, and “**Equity Share**” shall mean any of them;

“**enforcement action**” has the meaning ascribed to such term in Section 27.1(2);

“**Exchange**” means the Canadian Securities Exchange (including any successor stock exchange), or any other stock exchange on which the Subordinate Voting Shares are then listed;

“**Excluded Opportunity**” has the meaning ascribed to such term in Section 28.1;

“**Foreign Action**” has the meaning ascribed to such term in Section 27.1(2);

“**FPI Threshold**” has the meaning ascribed to such term in Section 25.3(1)(g)(2);

“**Interpretation Act**” means the *Interpretation Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

“**legal personal representative**” means the personal or other legal representative of the shareholder;

“**Limited Voting Shares**” means the limited voting shares of the Company, subject to regulatory approval, failing which, means the non-voting shares of the Company and all references in these Articles to “Limited Voting Share” shall thereafter refer to “Non-Voting Share”;

“**Multiple Voting Shares**” means the multiple voting shares of the Company;

“**Nominating Shareholder**” has the meaning ascribed thereto in Section 26.1(1)(c);

“**Non-U.S. Person**” means any Person or entity that is not a U.S. Person;

“**Notice Date**” has the meaning ascribed thereto in Section 26.3(1)(a);

“**Person**” means any individual, partnership, corporation, company, association, trust, joint venture or limited or unlimited liability company, and for greater certainty, shall include any U.S. Person or Non-U.S. Person;

“**protected purchaser**” has the meaning assigned in the Securities Transfer Act;

“**registered address**” of a shareholder means the shareholder’s address as recorded in the central securities register;

“**Restricted Voting Shares**” means the restricted voting shares of the Company;

“**seal**” means the seal of the Company, if any;

“**Securities Act**” means the *Securities Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

“**securities legislation**” means statutes concerning the regulation of securities markets and trading in securities and the regulations, rules, forms and schedules under those statutes, all as amended from time to time, and the blanket rulings and orders, as amended from time to time, issued by the securities commissions or similar regulatory authorities appointed under or pursuant to those statutes; “**Canadian securities legislation**” means the securities legislation in any applicable province or territory of Canada and includes the Securities Act; and “**U.S. securities legislation**” means the securities legislation in the federal jurisdiction of the United States and in any state of the United States and includes the Securities Act of 1933 and the Securities Exchange Act of 1934;

“**Securities Transfer Act**” means the *Securities Transfer Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act; ~~and~~

“**Specified Exceptions**” has the meaning ascribed thereto in Section 25.1(1)(g)(3);

“**Subordinate Voting Shares**” means the subordinate voting shares of the Company;

“**U.S. Person**” has the meaning ascribed thereto in Rule 903(k) of Regulation S under the U.S. Securities Act (as may be amended or replaced from time to time);

“**U.S. Securities Act**” means the United States Securities Act of 1933, *as amended*.

## **Section 1.2 Business Corporations Act and Interpretation Act Definitions Applicable**

The definitions in the Business Corporations Act and the definitions and rules of construction in the Interpretation Act, with the necessary changes, so far as applicable, and unless the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the Business Corporations Act and a definition or rule in the Interpretation Act relating to a term used in these Articles, the definition in the Business Corporations Act will prevail in relation to the use of the term in these Articles. If there is a conflict between these Articles and the Business Corporations Act, the Business Corporations Act will prevail.

## **Section 1.3 Deeming Provision – Directly or Indirectly**

For purposes of these Articles, any reference to any of the Equity Shares that is “held” or “beneficially owned or controlled” by a Person shall refer to and include such Equity Shares held, beneficially owned or controlled, directly or indirectly, by such Person.

## **ARTICLE 2 SHARES AND SHARE CERTIFICATES**

### **Section 2.1 Authorized Share Structure**

The authorized share structure of the Company consists of shares of the kinds, classes and, if any, series described in the Notice of Articles of the Company.

### **Section 2.2 Form of Share Certificate**

Each share certificate issued by the Company must comply with, and be signed as required by, the Business Corporations Act.

### **Section 2.3 Shareholder Entitled to Certificate or Acknowledgment**

Unless the shares of which the shareholder is the registered owner are uncertificated shares within the meaning of the Business Corporations Act, each shareholder is entitled, without charge, to (a) one share certificate representing the shares of each class or series of shares registered in the shareholder's name or (b) a non-transferable written acknowledgment of the shareholder's right to obtain such a share certificate, provided that in respect of a share held jointly by several ~~persons~~ Persons, the Company is not bound to issue more than one share certificate or acknowledgment and delivery of a share certificate or an acknowledgment to one of several joint shareholders or to a duly authorized agent of one of the joint shareholders will be sufficient delivery to all.

### **Section 2.4 Delivery by Mail**

Any share certificate or non-transferable written acknowledgment of a shareholder's right to obtain a share certificate may be sent to the shareholder by mail at the shareholder's registered address and neither the Company nor any director, officer or agent of the Company (including the Company's legal counsel or transfer agent) is liable for any loss to the shareholder because the share certificate or acknowledgement is lost in the mail or stolen.

### **Section 2.5 Replacement of Worn Out or Defaced Certificate or Acknowledgement**

- (1) If the Company is satisfied that a share certificate or a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate is worn out or defaced, it must, on production to it of the share certificate or acknowledgment, as the case may be, and on such other terms, if any, as it thinks fit:
- (a) order the share certificate or acknowledgment, as the case may be, to be cancelled; and
  - (b) issue a replacement share certificate or acknowledgment, as the case may be.

## **Section 2.6 Replacement of Lost, Destroyed or Wrongfully Taken Certificate**

- (1) If a ~~person~~ Person entitled to a share certificate claims that the share certificate has been lost, destroyed or wrongfully taken, the Company must issue a new share certificate, if that ~~person~~ Person:
- (a) so requests before the Company or its transfer agent has notice that the share certificate has been acquired by a protected purchaser;
  - (b) provides the Company and its transfer agent with an indemnity bond sufficient in the Company and its transfer agent's ~~judgement~~ judgment to protect the Company and its transfer agent from any loss that the Company or its transfer agent may suffer by issuing a new certificate; and
  - (c) satisfies any other reasonable requirements imposed by the Company or its transfer agent.

A ~~person~~ Person entitled to a share certificate may not assert against the Company a claim for a new share certificate where a share certificate has been lost, apparently destroyed or wrongfully taken if that ~~person~~ Person fails to notify the Company of that fact within a reasonable time after that ~~person~~ Person has notice of it and the Company registers a transfer of the shares represented by the certificate before receiving a notice of the loss, apparent destruction or wrongful taking of the share certificate.

## **Section 2.7 Recovery of New Share Certificate**

If, after the issue of a new share certificate, a protected purchaser of the original share certificate presents the original share certificate for the registration of transfer, then in addition to any rights under any indemnity bond, the Company may recover the new share certificate from a ~~person~~ Person to whom it was issued or any ~~person~~ Person taking under that ~~person~~ Person other than a protected purchaser.

## **Section 2.8 Splitting Share Certificates**

If a shareholder surrenders a share certificate to the Company with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as represented by the share certificate so surrendered, the Company must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

## **Section 2.9 Certificate Fee**

There must be paid to the Company, in relation to the issue of any share certificate under Sections 2.5, 2.6 or 2.8, the amount, if any and which must not exceed the amount prescribed under the Business Corporations Act, determined by the directors.

## **Section 2.10 Recognition of Trusts**

Except as required by law or statute or these Articles, no ~~person~~ Person will be recognized by the Company as holding any share upon any trust, and the Company is not bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as required by law or statute or these Articles or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

# **ARTICLE 3 ISSUE OF SHARES**

## **Section 3.1 Directors Authorized**

Subject to the Business Corporations Act and the rights of the holders of issued shares of the Company, the Company may allot, sell, issue and otherwise dispose of the unissued shares, and issued shares held by the Company, at the times, to the ~~persons~~ Persons, including directors, in the manner, on the terms and conditions and for the issue prices (including any premium at which shares with par value may be issued) that the directors may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.



### **Section 3.2 Commissions and Discounts**

The Company may pay at any time a reasonable commission or allow a reasonable discount to any ~~person~~ Person in consideration of that ~~person~~ Person purchasing or agreeing to purchase shares of the Company from the Company or any other ~~person~~ Person or procuring or agreeing to procure purchasers for shares of the Company.

### **Section 3.3 Brokerage**

The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

### **Section 3.4 Conditions of Issue**

- (1) Except as provided for by the Business Corporations Act, no share may be issued until it is fully paid. A share is fully paid when:
- (a) consideration is provided to the Company for the issue of the share by one or more of the following:
    - (i) past services performed for the Company;
    - (ii) property;
    - (iii) money; and
  - (b) the value of the consideration received by the Company equals or exceeds the issue price set for the share under Section 3.1.

### **Section 3.5 Share Purchase Warrants and Rights**

Subject to the Business Corporations Act, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the directors determine, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

## **ARTICLE 4 SHARE REGISTERS**

### **Section 4.1 Central Securities Register**

- (1) The Company must maintain in British Columbia a central securities register as required by the Business Corporations Act. The directors may appoint:
- (a) an agent to maintain the central securities register; and
  - (b) one or more agents, including the agent which keeps the central securities register, as transfer agent for its shares or any class or series of its shares, as the case may be, and the same or another agent as registrar for its shares or such class or series of its shares.

The directors may terminate such appointment of any agent at any time and may appoint another agent in its place.

- (2) So long as they are publicly listed and subject to the Business Corporations Act, the Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares may, in the Company's discretion, be subject to a single securities register (with appropriate notations to indicate the applicable class where applicable).

#### **Section 4.2 Closing Register**

The Company must not at any time close its central securities register.

### **ARTICLE 5 SHARE TRANSFERS**

#### **Section 5.1 Registering Transfers**

- (1) The Company must register a transfer of a share of the Company if either:

- (a) the Company or the transfer agent or registrar for the class or series of share to be transferred has received:
  - (i) in the case where the Company has issued a share certificate in respect of the share to be transferred, that share certificate and a written instrument of transfer (which may be on a separate document or endorsed on the share certificate) made by the shareholder or other appropriate ~~person~~ Person or by an agent who has actual authority to act on behalf of that ~~person~~ Person;
  - (ii) in the case of a share that is not represented by a share certificate (including an uncertificated share within the meaning of the Business Corporations Act and including the case where the Company has issued a non-transferable written acknowledgement of the shareholder's right to obtain a share certificate in respect of the share to be transferred), a written instrument of transfer, made by the shareholder or other appropriate ~~person~~ Person or by an agent who has actual authority to act on behalf of that ~~person~~ Person; and
  - (iii) such other evidence, if any, as the Company or the transfer agent or registrar for the class or series of share to be transferred may require to prove the title of the transferor or the transferor's right to transfer the share, that the written instrument of transfer is genuine and authorized and that the transfer is rightful or to a protected purchaser (which may include a medallion or similar signature guarantee); or
- (b) all the preconditions for a transfer of a share under the Securities Transfer Act have been met and the Company is required under the Securities Transfer Act to register the transfer.

#### **Section 5.2 Waivers of Requirements for Transfer**

The Company may waive any of the requirements set out in Section 5.1(1)(a) and any of the preconditions referred to in Section 5.1(1)(b).

#### **Section 5.3 Form of Instrument of Transfer**

The instrument of transfer in respect of any share of the Company must be either in the form, if any, on the back of the Company's share certificates or in any other form that may be approved by the Company or the transfer agent for the class or series of shares to be transferred.

#### **Section 5.4      Transferor Remains Shareholder**

Except to the extent that the Business Corporations Act otherwise provides, the transferor of shares is deemed to remain the holder of the shares until the name of the transferee is entered in a securities register of the Company in respect of the transfer.

#### **Section 5.5      Signing of Instrument of Transfer**

If a shareholder or other appropriate ~~person~~ Person or an agent who has actual authority to act on behalf of that ~~person~~ Person, signs an instrument of transfer in respect of shares registered in the name of the shareholder, subject to the Company or its transfer agent requiring a medallion or similar signature guarantee and/or other evidence of authority, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents to register the number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified but share certificates are deposited with the instrument of transfer, all the shares represented by such share certificates:

- (a) in the name of the ~~person~~ Person named as transferee in that instrument of transfer; or
- (b) if no ~~person~~ Person is named as transferee in that instrument of transfer, in the name of the ~~person~~ Person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

#### **Section 5.6      Enquiry as to Title Not Required**

Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the ~~person~~ Person named in the instrument of transfer as transferee or, if no ~~person~~ Person is named as transferee in the instrument of transfer, of the ~~person~~ Person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares, of any interest in the shares, of any share certificate representing such shares or of any written acknowledgment of a right to obtain a share certificate for such shares.

### **ARTICLE 6 TRANSMISSION OF SHARES**

#### **Section 6.1      Legal Personal Representative Recognized on Death**

In the case of the death of a shareholder, the legal personal representative of the shareholder, or in the case of shares registered in the shareholder's name and the name of another ~~person~~ Person in joint tenancy, the surviving joint holder, will be the only ~~person~~ Person recognized by the Company as having any title to the shareholder's interest in the shares. Before recognizing a ~~person~~ Person as a legal personal representative of a shareholder, the directors may require the original grant of probate or letters of administration or a court certified copy of them or the original or a court certified or authenticated copy of the grant of representation, will, order or other instrument or other evidence of the death under which title to the shares or securities is claimed to vest.

#### **Section 6.2      Rights of Legal Personal Representative**

The legal personal representative of a shareholder has the rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles and applicable securities legislation, if appropriate evidence of appointment or incumbency within the meaning of the Securities Transfer Act has been deposited with the Company. This Section 6.2 does not apply in the case of the death of a shareholder with respect to shares registered in the shareholder's name and the name of another ~~person~~ Person in joint tenancy.

**ARTICLE 7  
PURCHASE OF SHARES**

**Section 7.1      Company Authorized to Purchase or Otherwise Acquire Shares**

Subject to Section 7.2, the special rights or restrictions attached to the shares of any class or series of shares, the Business Corporations Act and applicable securities legislation, the Company may, if authorized by the directors, purchase or otherwise acquire any of its shares at the price and upon the terms determined by the directors.

**Section 7.2      No Purchase, Redemption or Other Acquisition When Insolvent**

- (1) The Company must not make a payment or provide any other consideration to purchase, redeem or otherwise acquire any of its shares if there are reasonable grounds for believing that:
- (a) the Company is insolvent; or
  - (b) making the payment or providing the consideration would render the Company insolvent.

**Section 7.3      Sale and Voting of Purchased, Redeemed or Otherwise Acquired Shares**

- (1) If the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell or otherwise dispose of the share, but, while such share is held by the Company, it:
- (a) is not entitled to vote the share at a meeting of its shareholders;
  - (b) must not pay a dividend in respect of the share; and
  - (c) must not make any other distribution in respect of the share.

**ARTICLE 8  
BORROWING POWERS**

- (1) The Company, if authorized by the directors, may:
- (a) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;
  - (b) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other ~~person~~ Person and at such discounts or premiums and on such other terms as they consider appropriate;
  - (c) guarantee the repayment of money by any other ~~person~~ Person or the performance of any of any other ~~person~~ Person; and
  - (d) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

## ARTICLE 9 ALTERATIONS

### Section 9.1      **Alteration of Authorized Share Structure**

- (1) Subject to Section 9.2, the Company may by:
- (a) a resolution of its board of directors:
    - (i) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established;
    - (ii) change all or any of its unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;
    - (iii) alter the identifying name of any of its shares; and
    - (iv) subdivide or consolidate all or any of its unissued, or fully paid issued, shares.
  - (b) an ordinary resolution:
    - (i) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares; and
    - (ii) if the Company is authorized to issue shares of a class of shares with par value:
      - (A) *decrease the par value of those shares; and*
      - (B) *if none of the shares of that class of shares are allotted or issued, increase the par value of those shares.*
  - (c) a special resolution, otherwise alter its shares or authorized share structure when required or permitted to do so by the Business Corporations Act.

### Section 9.2      **Special Rights and Restrictions**

- (1) The Company may by ordinary resolution:
- (a) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, unless any of those shares have been issued in which case the Company may do so only by special resolution; or
  - (b) vary or delete any special rights or restrictions attached to the shares of any class or series of unless any of those shares have been issued in which case the Company may do so only by special resolution.

### Section 9.3      **Change of Name**

The Company may by a resolution of its board of directors or ordinary resolution authorize an alteration of its Notice of Articles to change its name or adopt or change any translation of that name.

### Section 9.4      **Other Alterations**

If the *Business Corporations Act* does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by ordinary resolution alter these Articles.

**ARTICLE 10  
MEETINGS OF SHAREHOLDERS**

**Section 10.1      Annual General Meetings**

The Company must, unless an annual general meeting is deferred or waived in accordance with the Business Corporations Act, hold its first annual general meeting following incorporation, amalgamation or continuation within 18 months after the date on which it was incorporated or otherwise created and recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place, either in or outside British Columbia, as may be determined by the directors.

**Section 10.2      Resolution Instead of Annual General Meeting**

If all the shareholders entitled to vote at an annual general meeting consent by a unanimous resolution under the Business Corporations Act to all of the business required to be transacted at that annual general meeting, the meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this Section 10.2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

**Section 10.3      Calling and Location of Meetings of Shareholders**

The directors may, whenever they think fit, call a meeting of shareholders to be held at such time and place, either in or outside British Columbia, as may be determined by the directors.

**Section 10.4      Notice for Meetings of Shareholders**

The Company must send notice of the date, time and location of any meeting of shareholders (including, without limitation, any notice specifying the intention to propose a resolution as an exceptional resolution, a special resolution or a special separate resolution, and any notice to consider approving an amalgamation into a foreign jurisdiction, an arrangement or the adoption of an amalgamation agreement, and any notice of a general meeting, class meeting or series meeting), in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

- (a) if and for so long as the Company is a public company, 21 days; and
- (b) otherwise, 10 days.

**Section 10.5      Record Date for Notice**

The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the Business Corporations Act, by more than four months. The record date must not precede the date on which the meeting is held by fewer than:

- (a) if and for so long as the Company is a public company, 21 days; and
- (b) otherwise, 10 days.

If no record date is set, it is 5:00 p.m. (Vancouver time) on the business day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

#### **Section 10.6 Record Date for Voting**

The directors may set a date as the record date for the purpose of determining shareholders entitled to vote at any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the Business Corporations Act, by more than four months. If no record date is set, the record date is 5:00 p.m. (Vancouver time) on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

#### **Section 10.7 Failure to Give Notice and Waiver of Notice**

The accidental omission to send notice of any meeting to, or the non-receipt of any notice by, any of the ~~persons~~ Persons entitled to notice does not invalidate any proceedings at that meeting. Any ~~person~~ Person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive or reduce the period of notice of such meeting. Attendance of a ~~person~~ Person at a meeting of shareholders is a waiver of entitlement to notice of the meeting unless that ~~person~~ Person attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

#### **Section 10.8 Notice of Special Business at Meetings of Shareholders**

- (1) If a meeting of shareholders is to consider special business within the meaning of Section 11.1, the notice of meeting must:
- (a) state the general nature of the special business; and
  - (b) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:
    - (i) at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice; and
    - (ii) during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

#### **Section 10.9 Class Meetings and Series Meetings of Shareholders**

Unless otherwise specified in these Articles, the provisions of these Articles relating to a meeting of shareholders will apply, with the necessary changes and so far as they are applicable, to a class meeting or series meeting of shareholders holding a particular class or series of shares.

#### **Section 10.10 Electronic Meetings**

The directors may determine that a meeting of shareholders shall be held entirely by means of telephonic, electronic or other communication facilities that permit all participants to communicate with each other during the meeting. A meeting of shareholders may also be held at which some, but not necessarily all, ~~persons~~ Persons entitled to attend may participate by means of such communications facilities, if the directors determine to make them available. A ~~person~~ Person participating in a meeting by such means is deemed to be present at the meeting.

**ARTICLE 11**  
**PROCEEDINGS AT MEETINGS OF SHAREHOLDERS**

**Section 11.1 Special Business**

(1) At a meeting of shareholders, the following business is special business:

- (a) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting;
- (b) at an annual general meeting, all business is special business except for the following:
  - (i) business relating to the conduct of or voting at the meeting;
  - (ii) consideration of any financial statements of the Company presented to the meeting;
  - (iii) consideration of any reports of the directors or auditor;
  - (iv) the setting or changing of the number of directors;
  - (v) the election or appointment of directors;
  - (vi) the appointment of an auditor;
  - (vii) the setting of the remuneration of an auditor;
  - (viii) business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution; and
  - (ix) any other business which, under these Articles or the Business Corporations Act, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

**Section 11.2 Special Majority**

The majority of votes required for the Company to pass a special resolution at a meeting of shareholders is two-thirds of the votes cast on the resolution.

**Section 11.3 Quorum**

Subject to the special rights and restrictions attached to the shares of any class or series of shares and to Section 11.4, the quorum for the transaction of business at a meeting of shareholders is two shareholders who are present in ~~person~~Person or represented by proxy and who represent at least 25% of the applicable class or series of shares.

**Section 11.4 One Shareholder May Constitute Quorum**

(1) If there is only one shareholder entitled to vote at a meeting of shareholders:

- (a) the quorum is one ~~person~~Person who is, or who represents by proxy, that shareholder, and
- (b) that shareholder, present in ~~person~~Person or by proxy, may constitute the meeting.

**Section 11.5 Other Persons May Attend**

The directors, the president (if any), the ~~corporate~~corporate secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other ~~persons~~Persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those ~~persons~~Persons does attend a meeting of shareholders, that ~~person~~Person is not to be counted in the quorum and is not entitled to vote at the meeting unless that ~~person~~Person is a shareholder or proxy holder entitled to vote at the meeting.



#### **Section 11.6 Requirement of Quorum**

No business, other than the election of a chair of the meeting and the adjournment of the meeting, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

#### **Section 11.7 Lack of Quorum**

- (1) If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present:
- (a) in the case of a general meeting requisitioned by shareholders, the meeting is dissolved, and
  - (b) in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

#### **Section 11.8 Lack of Quorum at Succeeding Meeting**

If, at the meeting to which the meeting referred to in Section 11.7(1)(b) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the ~~person or persons~~ Person or Persons present and being, or representing by proxy, one or more shareholders entitled to attend and vote at the meeting constitute a quorum.

#### **Section 11.9 Chair**

- (1) The following individuals are entitled to preside as chair at a meeting of shareholders:
- (a) the chair of the board, if any; or
  - (b) if the chair of the board is absent or unwilling to act as chair of the meeting, the first of the following individuals to agree to act as chair: the chief executive officer or the president, if any.

#### **Section 11.10 Selection of Alternate Chair**

If, at any meeting of shareholders, the chair of the board or president are not present within 15 minutes after the time set for holding the meeting, or if the chair of the board and the president are unwilling to act as chair of the meeting, or if the chair of the board and the president have advised the corporate secretary, if any, or any director present at the meeting, that they will not be present at the meeting, one of the chief executive officer, the chief financial officer, a vice-president, the corporate secretary or the Company's legal counsel may act as chair of the meeting and, failing them, the directors present must choose one of their number to be chair of the meeting or if all of the directors present decline to take the chair or fail to so choose or if no director is present, the shareholders entitled to vote at the meeting who are present in ~~person~~ Person or by proxy may choose any ~~person~~ Person present at the meeting to chair the meeting.

#### **Section 11.11 Adjournments**

The chair of a meeting of shareholders may, and if so directed by the meeting must, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

#### **Section 11.12 Notice of Adjourned Meeting**

It is not necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given as in the case of the original meeting.

### **Section 11.13 Electronic Voting**

Any vote at a meeting of shareholders may be held entirely or partially by means of telephonic, electronic or other communications facilities, if the directors determine to make them available, whether or not ~~persons~~ Persons entitled to attend participate in the meeting by means of communications facilities.

### **Section 11.14 Decisions by Show of Hands or Poll**

(1) Subject to the Business Corporations Act:

- (a) for so long as any Multiple Voting Shares are outstanding, every motion put to a vote at a meeting of shareholders will be decided by a poll, unless the chair determines otherwise;
- (b) if no Multiple Voting Shares are outstanding, every motion put to a vote at a meeting of shareholders will be decided on a show of hands or the functional equivalent of a show of hands by means of electronic, telephonic or other communications facility, unless a poll, before or on the declaration of the result of the vote by show of hands or the functional equivalent of a show of hands, is directed by the chair or demanded by at least one shareholder entitled to vote who is present in ~~person~~ Person or by proxy.

### **Section 11.15 Declaration of Result**

The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands (or its functional equivalent) or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the chair or demanded under Section 11.14, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

### **Section 11.16 Motion Need Not be Seconded**

No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of any meeting of shareholders is entitled to propose or second a motion.

### **Section 11.17 Casting Vote**

In case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair may be entitled as a shareholder.

### **Section 11.18 Manner of Taking Poll**

(1) Subject to Section 11.19, if a poll is duly demanded at a meeting of shareholders:

- (a) the poll must be taken:
  - (i) at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs; and
  - (ii) in the manner, at the time and at the place that the chair of the meeting directs;
- (b) the result of the poll is deemed to be the decision of the meeting at which the poll is demanded; and
- (c) the demand for the poll may be withdrawn by the ~~person~~ Person who demanded it.

#### **Section 11.19 Demand for Poll on Adjournment**

A poll demanded at a meeting of shareholders on a question of adjournment must be taken immediately at the meeting.

#### **Section 11.20 Chair Must Resolve Dispute**

In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of the meeting must determine the dispute, and their determination made in good faith is final and conclusive.

#### **Section 11.21 Casting of Votes**

On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

#### **Section 11.22 No Demand for Poll on Election of Chair**

No poll may be demanded in respect of the vote by which a chair of a meeting of shareholders is elected.

#### **Section 11.23 Demand for Poll Not to Prevent Continuance of Meeting**

The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

#### **Section 11.24 Retention of Ballots and Proxies**

The Company must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting at its records office, and, during that period, make them available for inspection during normal business hours by any shareholder or proxyholder entitled to vote at the meeting. At the end of such three-month period, the Company may destroy such ballots and proxies.

### **ARTICLE 12 VOTES OF SHAREHOLDERS**

#### **Section 12.1 Number of Votes by Shareholder or by Shares**

- (1) Subject to Section 25.2(1) and any other special rights or restrictions attached to any shares and to the restrictions imposed on joint shareholders under Section 12.3:
- (a) on a vote by show of hands, every ~~person~~ Person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote; and
  - (b) on a poll, every shareholder entitled to vote on the matter is entitled, in respect of each share entitled to be voted on the matter and held by that shareholder, to that number of votes provided by these Articles or the Business Corporations Act and may exercise that vote either in ~~person~~ Person or by proxy.

#### **Section 12.2 Votes of Persons in Representative Capacity**

A ~~person~~ Person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if, before doing so, the ~~person~~ Person satisfies the chair of the meeting, or the directors, that the ~~person~~ Person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

### **Section 12.3      Votes by Joint Holders**

(1) If there are joint shareholders registered in respect of any share:

- (a) any one of the joint shareholders may vote at any meeting of shareholders, either personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it; or
- (b) if more than one of the joint shareholders is present at any meeting of shareholders, personally or by proxy, and more than one of them votes in respect of that share, then only the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted.

### **Section 12.4      Legal Personal Representatives as Joint Shareholders**

Two or more legal personal representatives of a shareholder in whose sole name any share is registered are, for the purposes of Section 12.3, deemed to be joint shareholders.

### **Section 12.5      Representative of a Corporate Shareholder**

(1) If a corporation, that is not a subsidiary of the Company, is a shareholder, that corporation may appoint a ~~person~~ Person to act as ~~its~~ its representative at any meeting of shareholders of the Company, and:

- (a) for that purpose, the instrument appointing a representative must:
  - (i) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice for the receipt of proxies, or if no number of days is specified, two business days before the day set for the holding of the meeting; or
  - (ii) be provided, at the meeting, to the chair of the meeting or to a ~~person~~ Person designated by the chair of the meeting;
- (b) if a representative is appointed under this Section 12.5:
  - (i) the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder; and
  - (ii) the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in ~~person~~ Person at the meeting.

Evidence of the appointment of any such representative may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

### **Section 12.6      When Proxy Provisions Do Not Apply to the Company**

Sections 12.9 and 12.12 do not apply to the Company if and for so long as it is a public company.

### **Section 12.7      Appointment of Proxy Holders**

Every shareholder of the Company, including a corporation that is a shareholder but not a subsidiary of the Company, entitled to vote at a meeting of shareholders of the Company may, by proxy, appoint one or more (but not more than five) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy.

#### Section 12.8 Alternate Proxy Holders

A shareholder may appoint one or more alternate proxy holders to act in the place of an absent proxy holder.

#### Section 12.9 When Proxy Holder Need Not Be Shareholder

- (1) Subject to Section 12.6 a ~~person~~Person must not be appointed as a proxy holder unless the ~~person~~Person is a shareholder, although a ~~person~~Person who is not a shareholder may be appointed as a proxy holder if:
- (a) the ~~person~~Person appointing the proxy holder is a corporation or a representative of a corporation appointed under Section 12.5;
  - (b) the Company has at the time of the meeting for which the proxy holder is to be appointed only one shareholder entitled to vote at the meeting;
  - (c) the shareholders present in ~~person~~Person or by proxy at and entitled to vote at the meeting for which the proxy holder is to be appointed, by a resolution on which the proxy holder is not entitled to vote but in respect of which the proxy holder is to be counted in the quorum, permit the proxy holder to attend and vote at the meeting.

#### Section 12.10 Deposit of Proxy

- (1) A proxy for a meeting of shareholders must:
- (a) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice, or if no number of days is specified, two business days before the day set for the holding of the meeting; or
  - (b) unless the notice provides otherwise, be provided, at the meeting, to the chair of the meeting or to a ~~person~~Person designated by the chair of the meeting. A proxy may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

#### Section 12.11 Validity of Proxy Vote

- (1) A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received:
- (a) at the registered office of the Company, at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or
  - (b) by the chair of the meeting, before the vote is taken.

#### Section 12.12 Form of Proxy

- (1) Subject to Section 12.6, a proxy, whether for a specified meeting or otherwise, must be either in the following form or in any other form approved by the directors or the chair of the meeting:

*[name of company]*  
(the “Company”)

The undersigned, being a shareholder of the Company, hereby appoints **[name]** or, failing that ~~person~~Person, **[name]**, as proxy holder for the undersigned to attend, act and vote for and on behalf of the undersigned at the meeting of shareholders of the Company to be held on **[month, day, year]** and at any adjournment of that meeting.

Number of shares in respect of which this proxy is given (if no number is specified, then this proxy is given in respect of all shares registered in the name of the shareholder):

Signed **[month, day, year]**

---

**[Signature of shareholder]**

---

**[Name of shareholder-printed]**

#### **Section 12.13 Revocation of Proxy**

(1) Every proxy may be revoked by an instrument in writing that is:

- (a) received at the registered office of the Company at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or
- (b) provided, at the meeting, to the chair of the meeting.

#### **Section 12.14 Revocation of Proxy Must Be Signed**

(1) An instrument referred to in Section 12.13 must be signed as follows:

- (a) if the shareholder for whom the proxy holder is appointed is an individual, the instrument must be signed by the shareholder or their legal personal representative or trustee in bankruptcy;
- (b) if the shareholder for whom the proxy holder is appointed is a corporation, the instrument must be signed by the corporation or by a representative appointed for the corporation under Section 12.5.

#### **Section 12.15 Production of Evidence of Authority to Vote**

The chair of any meeting of shareholders may, but need not, inquire into the authority of any ~~person~~Person to vote at the meeting and may, but need not, demand from that ~~person~~Person production of evidence as to the existence of the authority to vote.

#### **Section 12.16 Chair May Determine Validity of Proxy.**

The chair of any meeting of shareholders may determine whether or not a proxy deposited for use at the meeting, which may not strictly comply with the requirements of this Article 12 as to form, execution, accompanying documentation, time of filing or otherwise, shall be valid for use at the meeting, and any such determination made in good faith shall be final, conclusive and binding upon the meeting.

### **ARTICLE 13 DIRECTORS**

#### **Section 13.1 First Directors; Number of Directors**

The Company shall have a minimum of three and a maximum of 15 directors. The number of directors initially is equal to the number of first directors after the Company is first recognized under the Business Corporations Act and thereafter is the number within the minimum and maximum determined by the directors from time to time. If the number of directors has not been determined as provided in this section, the number of directors is the number of directors holding office immediately following the most recent election or appointment of directors, whether at an annual or special general meeting of the shareholders, or by the directors pursuant to Section 14.7.

### **Section 13.2 Change in Number of Directors**

(1) If the number of directors is set under Section 13.1:

- (a) the shareholders may elect the directors needed to fill any vacancies in the board of directors up to that number; or
- (b) the directors, subject to Section 14.7, may appoint directors to fill those vacancies.

No decrease in the number of directors will shorten the term of an incumbent director.

### **Section 13.3 Directors' Acts Valid Despite Vacancy**

An act or proceeding of the directors is not invalid merely because fewer than the number of directors set or otherwise required under these Sections is in office.

### **Section 13.4 Qualifications of Directors**

A director is not required to hold a share in the capital of the Company as qualification for their office but must be qualified as required by the Business Corporations Act to become, act or continue to act as a director.

### **Section 13.5 Remuneration of Directors**

The directors are entitled to the remuneration for acting as directors, if any, as the directors may from time to time determine. If they so decide, the remuneration, if any, of the directors will be determined by the shareholders. That remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director.

### **Section 13.6 Reimbursement of Expenses of Directors**

The Company must reimburse each director for the reasonable expenses they may incur in and about the business of the Company.

### **Section 13.7 Special Remuneration for Directors**

If any director performs any professional or other services for the Company that, in the opinion of the directors, are outside the ordinary duties of a director, or if any director is otherwise specially occupied in or about the Company's business, they may be paid remuneration fixed by the directors, or, at the option of that director, fixed by ordinary resolution, and such remuneration may be either in addition to, or in substitution for, any other remuneration that they may be entitled to receive.

### **Section 13.8 Gratuity, Pension or Allowance on Retirement of Director**

Unless otherwise determined by ordinary resolution, the directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or to their spouse or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

**ARTICLE 14**  
**ELECTION AND REMOVAL OF DIRECTORS**

**Section 14.1 Election at Annual General Meeting**

- (1) At every annual general meeting and in every unanimous resolution contemplated by Section 10.2:
- (a) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set by the directors under these Articles; and
  - (b) the directors cease to hold office ~~immediately before~~ upon the termination of the next annual general meeting at which the election or appointment of directors under paragraph (a) occurs but are eligible for re-election or re-appointment, subject to being nominated in accordance with Article 26.

**Section 14.2 Consent to be a Director**

- (1) No election, appointment or designation of an individual as a director is valid unless:
- (a) that individual consents to be a director in the manner provided for in the Business Corporations Act;
  - (b) that individual is elected or appointed at a meeting at which the individual is present and the individual does not refuse, at the meeting, to be a director; or
  - (c) with respect to first directors, the designation is otherwise valid under the Business Corporations Act.

**Section 14.3 Failure to Elect or Appoint Directors**

- (1) If:
- (a) the Company fails to hold an annual general meeting, and all the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by Section 10.2, on or before the date by which the annual general meeting is required to be held under the Business Corporations Act; or
  - (b) the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by Section 10.2, to elect or appoint any directors;
  - (c) then each director then in office continues to hold office until the earlier of:
    - (i) the date on which their successor is elected or appointed; and
    - (ii) the date on which they otherwise cease to hold office under the Business Corporations Act or these Articles.

**Section 14.4 Directors May Fill Casual Vacancies**

Any casual vacancy occurring in the board of directors may be filled by the directors.

**Section 14.5 Remaining Directors Power to Act**

The directors may act notwithstanding any vacancy in the board of directors, but if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of calling a meeting of shareholders for the purpose of filling any vacancies on the board of directors or, subject to the Business Corporations Act, for any other purpose.



#### **Section 14.6 Shareholders May Fill Vacancies**

If the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board of directors.

#### **Section 14.7 Additional Directors**

(1) Notwithstanding Section 13.2, between annual general meetings or unanimous resolutions contemplated by Section 10.2, the directors may appoint one or more additional directors, but the number of additional directors appointed under this Section 14.7 must not at any time exceed:

- (a) one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office; or
- (b) in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this Section 14.7.

Any director so appointed ceases to hold office immediately ~~before~~ following the next annual general meeting at which the election or appointment of directors under Section 14.1(1)(a) occurs, but is eligible for re-election or re-appointment, subject to being nominated in accordance with Article 26.

#### **Section 14.8 Ceasing to be a Director**

(1) A director ceases to be a director when:

- (a) the term of office of the director expires;
- (b) the director dies;
- (c) the director resigns as a director by notice in writing provided to the Company or a lawyer for the Company; or
- (d) the director is removed from office pursuant to Sections 14.9 or 14.10.

#### **Section 14.9 Removal of Director by Shareholders**

The Company may remove any director before the expiration of their term of office by special resolution. In that event, the shareholders may elect, or appoint by ordinary resolution, a director to fill the resulting vacancy. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the directors may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

#### **Section 14.10 Removal of Director by Directors**

The directors may remove any director before the expiration of their term of office if the director is convicted of an indictable offence, convicted by a court of an offence under or found in breach and sanctioned by a securities regulatory authority of any Canadian or ~~United States~~ securities legislation or U.S. securities legislation, or if the director ceases to be qualified to act as a director of a company and does not promptly resign, and the directors may appoint a director to fill the resulting vacancy.

**ARTICLE 15**  
**POWERS AND DUTIES OF DIRECTORS**

**Section 15.1 Powers of Management**

The directors must, subject to the Business Corporations Act and these Articles, manage or supervise the management of the business and affairs of the Company and have the authority to exercise all such powers of the Company as are not, by the Business Corporations Act or by these Articles, required to be exercised by the shareholders of the Company.

**Section 15.2 Appointment of Attorney of Company**

The directors may from time to time, by power of attorney or other instrument, under seal if so required by law, appoint ~~any person~~ Person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles and excepting the power to fill vacancies in the board of directors, to remove a director, to change the membership of, or fill vacancies in, any committee of the directors, to appoint or remove officers appointed by the directors and to declare dividends) and for such period, and with such remuneration and subject to such conditions as the directors may think fit. Any such power of attorney may contain such provisions for the protection or convenience of ~~persons~~ Persons dealing with such attorney as the directors think fit. Any such attorney may be authorized by the directors to sub-delegate all or any of the powers, authorities and discretions ~~for the time being vested in them.~~

**ARTICLE 16**  
**DISCLOSURE OF INTEREST OF DIRECTORS**

**Section 16.1 Obligation to Account for Profits**

A director or senior officer who holds a disclosable interest (as that term is used in the Business Corporations Act) in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the Business Corporations Act.

**Section 16.2 Restrictions on Voting by Reason of Interest**

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

**Section 16.3 Interested Director Counted in Quorum**

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

**Section 16.4 Disclosure of Conflict of Interest or Property**

A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the *Business Corporations Act*.

#### **Section 16.5 Director Holding Other Office in the Company**

A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to their office of director for the period and on the terms (as to remuneration or otherwise) that the directors may determine.

#### **Section 16.6 No Disqualification**

No director or intended director is disqualified by their office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or behalf of the Company in which a director is in any way interested is liable to be voided for that reason.

#### **Section 16.7 Professional Services by Director or Officer**

A director or officer, or any ~~person~~ Person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and the director or officer or such ~~person~~ Person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

#### **Section 16.8 Director or Officer in Other Corporations**

A director or officer may be or become a director, officer or employee of, or otherwise interested in, any ~~person~~ Person in which the Company may be interested as a shareholder or otherwise, and the director or officer is not accountable to the Company for any remuneration or other benefits received by them as director, officer or employee of, or from their interest in, such other ~~person~~ Person.

### **ARTICLE 17 PROCEEDINGS OF DIRECTORS**

#### **Section 17.1 Meetings of Directors**

The directors may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of the directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the directors may from time to time determine.

#### **Section 17.2 Voting at Meetings**

Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

#### **Section 17.3 Chair of Meetings**

(1) The following individual is entitled to preside as chair at a meeting of directors:

- (a) the chair of the board, if any;
- (b) in the absence of the chair of the board, the president, if any, if the president is a director; or
- (c) any other director chosen by the directors if:
  - (i) neither the chair of the board nor the president, if a director, is present at the meeting within 15 minutes after the time set for holding the meeting;
  - (ii) neither the chair of the board nor the president, if a director, is willing to chair the meeting; or

- (iii) the chair of the board and the president, if a director, have advised the corporate secretary, if any, or any other director, that they will not be present at the meeting.

#### **Section 17.4 Meetings by Telephone or Other Communications Medium**

A director may participate in a meeting of the directors or of any committee of the directors in ~~person~~ Person or by telephone if all directors participating in the meeting, whether in ~~person~~ Person or by telephone or other communications medium, are able to communicate with each other. A director may participate in a meeting of the directors or of any committee of the directors by a communications medium other than telephone if all directors participating in the meeting, whether in ~~person~~ Person or by telephone or other communications medium, are able to communicate with each other and if all directors who wish to participate in the meeting agree to such participation. A director who participates in a meeting in a manner contemplated by this Section 17.4 is deemed for all purposes of the Business Corporations Act and these Articles to be present at the meeting and to have agreed to participate in that manner.

#### **Section 17.5 Calling of Meetings**

A director may, and the corporate secretary or an assistant secretary of the Company, if any, on the request of a director must, call a meeting of the directors at any time.

#### **Section 17.6 Notice of Meetings**

Other than for meetings held at regular intervals as determined by the directors pursuant to Section 17.1, not less than 48 hours <sup>=</sup> notice of each meeting of the directors, specifying the place, day and time of that meeting must be given to each of the directors by any method set out in Section 23.1.

#### **Section 17.7 When Notice Not Required**

- (1) It is not necessary to give notice of a meeting of the directors to a director if:
- (a) the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of the directors at which that director is appointed; or
  - (b) the director, as the case may be, has waived notice of the meeting.

#### **Section 17.8 Meeting Valid Despite Failure to Give Notice**

The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director, does not invalidate any proceedings at that meeting.

#### **Section 17.9 Waiver of Notice of Meetings**

- (1) Any director may send to the Company a document signed by them waiving notice of any past, present or future meeting or meetings of the directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of the directors need be given to that director and, unless the director otherwise requires by notice in writing to the Company, and all meetings of the directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director.
- (2) Attendance of a director at a meeting of the directors is a waiver of notice of the meeting, unless that director attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

#### **Section 17.10 Quorum**

The quorum necessary for the transaction of the business of the directors shall be a majority of the board of directors or such other number as the directors may determine from time to time. If the number of directors is set at one or two, quorum is deemed to be set at one director, and that director may constitute a meeting.

#### **Section 17.11 Validity of Acts Where Appointment Defective**

Subject to the Business Corporations Act, an act of a director or officer is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

#### **Section 17.12 Consent Resolutions in Writing**

- (1) A resolution of the directors or of any committee of the directors may be passed without a meeting:
- (a) in all cases, if each of the directors entitled to vote on the resolution consents to it in writing; or
  - (b) in the case of a resolution to approve a contract or transaction in respect of which a director has disclosed that they have or may have a disclosable interest, if each of the other directors who are entitled to vote on the resolution consents to it in writing.

A consent in writing under this Section may be by signed document, fax, e-mail or any other method of transmitting legibly recorded messages. A consent in writing may be in two or more counterparts which together are deemed to constitute one consent in writing. A resolution of the directors or of any committee of the directors passed in accordance with this Section 17.12 is effective on the date stated in the consent in writing or on the latest date stated on any counterpart and is deemed to be a proceeding at a meeting of directors or of the committee of the directors and to be as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors that satisfies all the requirements of the Business Corporations Act and all the requirements of these Articles relating to meetings of the directors or of a committee of the directors.

### **ARTICLE 18 EXECUTIVE AND OTHER COMMITTEES**

#### **Section 18.1 Appointment and Powers of Executive Committee**

- (1) The directors may, by resolution, appoint an executive committee consisting of the director or directors that they consider appropriate, and this committee has, during the intervals between meetings of the board of directors, all of the directors' powers, except:
- (a) the power to fill vacancies in the board of directors;
  - (a) the power to remove a director;
  - (b) the power to change the membership of, or fill vacancies in, any committee of the directors; and
  - (c) such other powers, if any, as may be set out in the resolution or any subsequent directors' resolution.

#### **Section 18.2 Appointment and Powers of Other Committees**

- (1) The directors may, by resolution:
- (a) appoint one or more committees (other than the executive committee) consisting of the director or directors and, if applicable, officer or officers that they consider appropriate;

- (b) delegate to a committee appointed under paragraph (a) any of the directors' powers, except:
  - (i) the power to fill vacancies in the board of directors;
  - (ii) the power to remove a director;
  - (iii) the power to change the membership of, or fill vacancies in, any committee; and
  - (iv) the power to appoint or remove officers appointed by the directors; and
- (c) make any delegation referred to in paragraph (b) subject to the conditions set out in the resolution or any subsequent directors' resolution.

### **Section 18.3 Obligations of Committees**

- (1) In the exercise of the powers delegated to a committee appointed under Sections 18.1 or 18.2, the committee must:
  - (a) conform to any rules that may from time to time be imposed on it by the directors; and
  - (b) report every act or thing done in exercise of those powers at such times as the directors may require.

### **Section 18.4 Powers of Board**

- (1) The directors may, at any time, with respect to a committee appointed under Sections 18.1 or 18.2:
  - (a) revoke or alter the authority given to the committee, or override a decision made by the committee, except as to acts done before such revocation, alteration or overriding;
  - (b) terminate the appointment of, or change the membership of, the committee; and
  - (c) fill vacancies in the committee.

### **Section 18.5 Committee Meetings**

- (1) Subject to Section 18.3(1)(a) and unless the directors otherwise provide in the resolution appointing the committee or in any subsequent resolution, with respect to a committee appointed under Sections 18.1 or 18.2:
  - (a) the committee may meet and adjourn as it thinks proper;
  - (b) the committee may elect a chair of its meetings but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their number to chair the meeting;
  - (c) a majority of the members of the committee constitutes a quorum of the committee; and
  - (d) questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in case of an equality of votes, the chair of the meeting does not have a second or casting vote.

## ARTICLE 19 OFFICERS

### Section 19.1 Directors May Appoint Officers

The directors may, from time to time, appoint such officers, if any, as the directors determine and the directors may, at any time, terminate any such appointment.

### Section 19.2 Functions, Duties and Powers of Officers

- (1) The directors may, for each officer:
- (a) determine the functions and duties of the officer;
  - (b) entrust to and confer on the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit; and
  - (c) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

### Section 19.3 Qualifications

An officer is not required to hold a share in the capital of the Company as qualification for their office but must be qualified as required by the Business Corporations Act to become, act or continue to act as an officer. One ~~person~~ Person may hold more than one position as an officer of the Company. Any ~~person~~ Person appointed as the chair of the board or as a managing director must be a director. Any other officer need not be a director.

### Section 19.4 Remuneration and Terms of Appointment

All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fee, commission, participation in profits or otherwise) that the directors think fit and are subject to termination at the pleasure of the directors, and an officer, in addition to such remuneration, may receive, after they cease to hold such office or leaves the employment of the Company, a pension or gratuity.

## ARTICLE 20 INDEMNIFICATION

### Section 20.1 Definitions

(1) **In this Article ~~24~~20:**

- (a) “**eligible penalty**” means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding;
- (b) “**eligible proceeding**” means a legal proceeding or investigative action, whether current, threatened, pending or completed, in which a director or former director of the Company (an “**eligible party**”) or any of the heirs and legal personal representatives of the eligible party, by reason of the eligible party being or having been a director of the Company:
  - (i) is or may be joined as a party; or
  - (ii) is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding;
- (c) “**expenses**” has the meaning set out in the Business Corporations Act.

## **Section 20.2      Mandatory Indemnification of Directors and Officers and Former Directors and Officers**

The Company must indemnify a director, officer, former director or officer of the Company and their heirs and legal personal representatives, as set out in the Business Corporations Act, against all eligible penalties to which such ~~person~~Person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such ~~person~~Person in respect of that proceeding. Each director, officer, former director and officer is deemed to have contracted with the Company on the terms of the indemnity contained in this Section 20.2.

## **Section 20.3      Mandatory Advancement of Expenses**

The Company must pay, as they are incurred in advance of the final disposition of an eligible proceeding, the expenses actually and reasonably incurred by an eligible party in respect of that proceeding but the Company must first receive from the eligible party a written undertaking that, if it is ultimately determined that the payment of expenses is prohibited by the Business Corporations Act, the eligible party will repay the amounts advanced.

## **Section 20.4      Indemnification of Other Persons**

The Company may indemnify any other ~~person~~Person in accordance with the Business Corporations Act.

## **Section 20.5      Non-Compliance with the Business Corporations Act**

The failure of a director or officer of the Company to comply with the Business Corporations Act or these Articles does not invalidate any indemnity to which they are entitled under this Part.

## **Section 20.6      Company May Purchase Insurance**

(1) The Company may purchase and maintain insurance for the benefit of any ~~person~~Person (or their heirs or legal personal representatives) who:

- (a) is or was a director, officer, employee or agent of the Company;
- (b) is or was a director, officer, employee or agent of a corporation at a time when the corporation is or was an affiliate of the Company;
- (c) at the request of the Company, is or was a director, officer, employee or agent of a corporation or of a partnership, trust, joint venture or other unincorporated entity;
- (d) at the request of the Company, holds or held a position equivalent to that of a director or officer of a partnership, trust, joint venture or other unincorporated entity;

against any liability incurred by them as such director, officer, employee or agent or ~~person~~Person who holds or held such equivalent position.

## **ARTICLE 21 DIVIDENDS**

### **Section 21.1      Payment of Dividends Subject to Special Rights**

The provisions of this Article 21 are subject to the rights, if any, of shareholders holding shares with special rights as to dividends.



**Section 21.2 Declaration of Dividends**

The directors may from time to time declare and authorize payment of such dividends as they may deem advisable.

**Section 21.3 No Notice Required**

The directors need not give notice to any shareholder of any declaration under Section 21.2.

**Section 21.4 Record Date**

The directors may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5:00 p.m. (Vancouver time) on the date on which the directors pass the resolution declaring the dividend.

**Section 21.5 Manner of Paying Dividend**

A resolution declaring a dividend may direct payment of the dividend wholly or partly by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways.

**Section 21.6 Settlement of Difficulties**

(1) If any difficulty arises in regard to a distribution under Section 21.5, the directors may settle the difficulty as they deem advisable, and, in particular, may:

- (a) set the value for distribution of specific assets;
- (b) determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled may be made to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties; and
- (c) vest any such specific assets in trustees for the ~~persons~~ Persons entitled to the dividend.

**Section 21.7 When Dividend Payable**

Any dividend may be made payable on such date as is fixed by the directors.

**Section 21.8 Dividends to be Paid in Accordance with Number of Shares**

All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

**Section 21.9 Receipt by Joint Shareholders**

If several ~~persons~~ Persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

**Section 21.10 Dividend Bears No Interest**

No dividend bears interest against the Company.

#### **Section 21.11 Fractional Dividends**

If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

#### **Section 21.12 Payment of Dividends**

Any dividend or other distribution payable in cash in respect of shares may be paid by electronic transfer, if so authorized by the shareholder, or by cheque, made payable to the order of the ~~person~~ Person to whom it is sent, and mailed to the address of the shareholder, or in the case of joint shareholders, to the address of the joint shareholder who is first named on the central securities register, or to the ~~person~~ Person and to the address the shareholder or joint shareholders may direct in writing. The mailing of such cheque or the forwarding by electronic transfer will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on presentation or the amount of tax so deducted is not paid to the appropriate taxing authority.

#### **Section 21.13 Capitalization of Surplus**

Notwithstanding anything contained in these Articles, the directors may from time to time capitalize any surplus of the Company and may from time to time issue, as fully paid, shares or any bonds, debentures or other securities of the Company as a dividend representing the surplus or any part of the surplus.

### **ARTICLE 22 DOCUMENTS, RECORDS AND REPORTS**

#### **Section 22.1 Recording of Financial Affairs**

The directors must cause adequate accounting records to be kept to record properly the financial affairs and condition of the Company and to comply with the Business Corporations Act.

#### **Section 22.2 Inspection of Accounting Records**

Unless the directors determine otherwise, or unless otherwise determined by ordinary resolution, no shareholder of the Company is entitled to inspect or obtain a copy of any accounting records of the Company.

### **ARTICLE 23 NOTICES**

#### **Section 23.1 Method of Giving Notice**

- (1) Unless the Business Corporations Act or these Articles provides otherwise, a notice, statement, report or other record required or permitted by the Business Corporations Act or these Articles to be sent by or to a ~~person~~ Person may be sent by any one of the following methods:
  - (a) prepaid mail addressed to the ~~person~~ Person at the applicable address for that ~~person~~ Person as follows:
    - (i) for a record mailed to a shareholder, the shareholder's registered address;
    - (ii) for a record mailed to a director or officer, the prescribed address for mailing shown for the director or officer in the records kept by the Company or the mailing address provided by the recipient for the sending of that record or records of that class;
    - (iii) in any other case, the mailing address of the intended recipient;

- (b) delivery at the applicable address for that ~~person~~Person as follows, addressed to the ~~person~~Person:
  - (i) for a record delivered to a shareholder, the shareholder's registered address;
  - (ii) for a record delivered to a director or officer, the prescribed address for delivery shown for the director or officer in the records kept by the Company or the delivery address provided by the recipient for the sending of that record or records of that class;
  - (iii) in any other case, the delivery address of the intended recipient;
- (c) fax to the fax number provided by the intended recipient for the sending of that record or records of that class;
- (d) e-mail to the e-mail address provided by the intended recipient for the sending of that record or records of that class;
- (e) physical delivery to the intended recipient;
- (f) creating and providing a record posted on or made available through a general accessible electronic source and providing written notice by any of the foregoing methods as to the availability of such record; or
- (g) as otherwise permitted by applicable securities legislation.

### **Section 23.2 Deemed Receipt of Mailing**

A record that is mailed to a ~~person~~Person by ordinary mail to the applicable address for that ~~person~~Person referred to in Section 23.1 is deemed to be received by the ~~person~~Person to whom it was mailed on the day, Saturdays, Sundays and holidays (in Vancouver) excepted, following the date of mailing. A record that is delivered to a ~~person~~Person or their applicable address is deemed to be received by the ~~person~~Person on receipt by that ~~person~~Person or delivery to that address. A record that is sent to a ~~person~~Person by fax or e-mail is deemed to be received by the ~~person~~Person on transmission if sent during business hours at the place of intended receipt by that ~~person~~Person and, if not sent during their business hours, on the next business day of the place of intended receipt of that ~~person~~Person. A record that is delivered in accordance with Section 23.1(1) (f) is deemed to be received by the ~~person~~Person on the day such written notice is sent.

### **Section 23.3 Certificate of Sending**

A certificate signed by the corporate secretary, if any, or other officer of the Company or of any other corporation acting in that behalf for the Company stating that a notice, statement, report or other record was addressed as required, and sent as permitted, by Section 23.1 is conclusive evidence of that fact.

### **Section 23.4 Notice to Joint Shareholders**

A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing the notice to the joint shareholder first named in the central securities register in respect of the share.

### **Section 23.5 Notice to Trustees**

- (1) A notice, statement, report or other record may be provided by the Company to the ~~persons~~Persons entitled to a share in consequence of the death, bankruptcy or incapacity of a shareholder by:
  - (a) mailing the record, *addressed* to them:
    - (i) by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description; and

- (ii) at the address, if any, supplied to the Company for that purpose by the ~~persons~~ Persons claiming to be so entitled; or
- (b) if an address referred to in paragraph 23.5(1)(a)(ii) has not been supplied to the Company, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

## ARTICLE 24

### SEAL

#### Section 24.1 Who May Attest Seal

- (1) Except as provided in Sections 24.2 and 24.3, the Company's seal, if any, must not be impressed on any record except when that impression is attested by the signatures of:
  - (a) any two directors;
  - (b) any officer, together with any director;
  - (c) if the Company only has one director, that director; or
  - (d) any one or more directors or officers or ~~persons~~ Persons as may be determined by the directors.

#### Section 24.2 Sealing Copies

For the purpose of certifying under seal a certificate of incumbency of the directors or officers of the Company or a true copy of any resolution or other document, despite Section 24.1, the impression of the seal may be attested by the signature of any director or officer.

#### Section 24.3 Mechanical Reproduction of Seal

The directors may authorize the seal to be impressed by ~~third parties~~ parties on share certificates or bonds, debentures or other securities of the Company as they may determine appropriate from time to time. To enable the seal to be impressed on any share certificates or bonds, debentures or other securities of the Company, whether in definitive or interim form, on which facsimiles of any of the signatures of the directors or officers of the Company are, in accordance with the Business Corporations Act or these Articles, printed or otherwise mechanically reproduced, there may be delivered to the ~~person~~ Person employed to engrave, lithograph or print such definitive or interim share certificates or bonds, debentures or other securities one or more unmounted dies reproducing the seal and the chair of the board or any senior officer together with the corporate secretary, treasurer, secretary-treasurer, an assistant secretary, an assistant treasurer or an assistant secretary treasurer may in writing authorize such ~~person~~ Person to cause the seal to be impressed on such definitive or interim share certificates or bonds, debentures or other securities by the use of such dies. Share certificates or bonds, debentures or other securities to which the seal has been so impressed are for all purposes deemed to be under and to bear the seal impressed on them.

**ARTICLE 25**  
**SPECIAL RIGHTS AND RESTRICTIONS**

**Section 25.1 Subordinate Voting Shares**

- (1) An unlimited number of Subordinate Voting Shares, without nominal or par value, are authorized for issuance, having attached thereto the special rights and restrictions as set forth below:

(a) Voting Rights.

Holders of Subordinate Voting Shares shall be entitled to notice of and to attend (if applicable, virtually) any meeting of the shareholders of the Company. Holders of Subordinate Voting Shares shall be entitled to vote at any meeting of the shareholders of the Company, ~~except and at each such meeting, shall be entitled to one (1) vote in respect of each Subordinate Voting Share held, except for a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting, holders of Subordinate Voting Shares shall be entitled to one vote in respect of each Subordinate Voting Share held.~~

Except as otherwise provided in these Articles (including without limitation the restrictions on voting rights for directors in the case of the Limited Voting Shares) or except as provided in the *Business Corporations Act*, Subordinate Voting Shares and ~~Multiple Voting Shares, Restricted Voting Shares and Limited Voting Shares~~ are equal in all respects and shall vote together as if they were shares of a single class. In connection with any Change of Control Transaction requiring approval of the holders of Subordinate Voting Shares and ~~Multiple Voting~~ all Equity Shares under the *Business Corporations Act*, holders of Subordinate Voting Shares and ~~Multiple Voting~~ all Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Subordinate Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

For the purpose of these Articles, a “~~Change of Control Transaction~~” means an amalgamation, arrangement, recapitalization, business combination or similar transaction of the Company, other than an amalgamation, arrangement, recapitalization, business combination or similar transaction that would result in (i) the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the continuing entity or its direct or indirect parent) more than fifty percent (50%) of the total voting power of the voting securities of the Company, the continuing entity or its direct or indirect parent, and more than fifty percent (50%) of the total number of outstanding shares of the Company, the continuing entity or its direct or indirect parent, in each case as outstanding immediately after such transaction, and (ii) the shareholders of the Company immediately prior to the transaction owning voting securities of the Company, the continuing entity or its direct or indirect parent immediately following the transaction in substantially the same proportions (vis-a-vis each other) as such shareholders owned the voting securities of the Company immediately prior to the transaction (provided that in neither event shall the exercise of any exchangeable shares of a subsidiary of the Company that are exchangeable into shares of the Company be taken into account in such determination).

Notwithstanding the provisions of the second paragraph of this Section 25.1(a), the holders of Subordinate Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of these Articles (other than in respect of the creation of a series of preferred shares) which would: (i) adversely affect the rights or special rights of the holders of Subordinate Voting Shares, ~~(including an amendment to the terms of these Articles which provide that any Multiple Voting Shares sold or transferred to a Person that is not a Permitted Holder shall be automatically converted into Subordinate Voting Shares);~~ or (ii) affect the holders of ~~Subordinate Voting Shares and Multiple Voting~~ any Equity Shares differently, on a per share basis; or (iii) except as already set forth herein, create any class or series of shares ranking equal to or senior to the Subordinate Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Subordinate Voting Shares.

(b) Constraints on Ownership.

~~(b) Alteration to Rights of Subject to the Specified Exceptions, the Subordinate Voting Shares may only be held, beneficially owned or controlled, by Non-U.S. Persons.~~

As long as any Subordinate Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution alter or amend these Articles if the result would (i) prejudice or interfere with any right or special right attached to the Subordinate Voting Shares, or (ii) affect the rights or special rights of holders of Subordinate Voting Shares or ~~Multiple Voting Shares~~ on a per share basis as provided herein.

(c) *Dividends.*

Holders of Subordinate Voting Shares shall be entitled to receive, as and when declared by the board of directors, dividends in cash or property of the Company. No dividend will be declared or paid on ~~the Multiple Voting~~ any other class of Equity Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Subordinate Voting Shares. The Subordinate Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Subordinate Voting Shares shall receive Subordinate Voting Shares, unless otherwise determined by the Board of Directors of the Company, provided an equal number of shares is declared as a dividend or distribution on a then outstanding per-Equity Share basis, without preference or distinction, in each case.

(d) *Liquidation, Dissolution or Winding-Up.*

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Voting Shares shall, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Subordinate Voting Shares, be entitled to participate ratably in the remaining property of the Company along with all holders of ~~Multiple Voting Shares and other holders of Subordinate Voting~~ the other classes of Equity Shares (on a per share basis).

(e) *Rights to Subscribe; Pre-Emptive Rights.*

The holders of Subordinate Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Company now or in the future.

(f) *Subdivision or Consolidation.*

No subdivision or consolidation of the Subordinate Voting Shares shall occur unless, simultaneously, the ~~Multiple Voting~~ other classes of Equity Shares are subdivided or consolidated or otherwise adjusted so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes. Subject to Section 25.1(1)(g), the Subordinate Voting Shares cannot be converted into any other class of shares.

(g) *Conversion of Subordinate Voting Shares ~~Upon an Offer.~~*

(1) Automatic

Subject to the Specified Exceptions, each issued and outstanding Subordinate Voting Share shall be automatically converted into one Restricted Voting Share, without any further act on the part of the Company or of the holder, if such Subordinate Voting Share becomes held, beneficially owned or controlled, by a U.S. Person.

(2) Upon an Offer

(i) For the purposes of this Section 25.1 (g)(2):

(A) “**Affiliate**” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced;

- (B) “**Associate**” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced;
- (C) “**Conversion Period**” means the period of time commencing on the eighth day after the Offer Date and terminating on the Expiry Date;
- (D) “**Converted Shares**” means ~~Multiple Voting Subject Equity~~ Shares resulting from the conversion of Subordinate Voting Shares into ~~Multiple Voting the Subject Equity~~ Shares pursuant to subparagraph (ii);
- (E) “**Exclusionary Offer**” means an offer to purchase ~~Multiple Voting Subject Equity~~ Shares that:
- (i) is a General Offer; and
  - (ii) is not made concurrently with an offer to purchase Subordinate Voting Shares that is identical to the offer to purchase ~~Multiple Voting the Subject Equity~~ Shares in terms of price per share and percentage of outstanding shares to be taken up exclusive of shares owned immediately prior to the offer by the Offeror, and in all other material respects, and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for ~~Multiple Voting Subject Equity~~ Shares;
- and for the purposes of this definition, if an offer to purchase ~~Multiple Voting Subject Equity~~ Shares is a General Offer but not an Exclusionary Offer, the varying of any term of such offer shall be deemed to constitute the making of a new offer unless a variation identical in all material respects concurrently is made to the corresponding offer to purchase Subordinate Voting Shares;
- (F) “**Expiry Date**” means the last date on which holders of ~~Multiple Voting the Subject Equity~~ Shares may accept an Exclusionary Offer;
- (G) “**General Offer**” means an offer to purchase ~~Multiple Voting Subject Equity~~ Shares that must, by reason of applicable securities legislation or the requirements of any stock exchange on which the ~~Multiple Voting Subject Equity~~ Shares are listed, be made to all or substantially all holders of ~~Multiple Voting Subject Equity~~ Shares who are in a province of Canada to which any such legislation or requirement applies (assuming that the offeree was resident in Ontario);
- (H) “**Offer Date**” means the date on which an Exclusionary Offer is made;
- (I) “**Offeror**” means a Person that makes an offer to purchase ~~Multiple Voting the Subject Equity~~ Shares (the “**bidder**”), and includes any Associate or Affiliate of the bidder or any Person that is disclosed in the offering document to be acting jointly or in concert with the bidder,
- (J) “**Person**” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced and includes a company or other body corporate wherever or however incorporated;~~and~~
- (K) “**Subject Equity Shares**” means any one or more classes of Equity Shares that are subject to an Exclusionary Offer, other than Subordinate Voting Shares; and

(L) ~~(K)~~ **“Transfer Agent”** means the transfer agent of the Company at the relevant time for any of the Multiple Voting Subject Equity Shares (and if there is no such transfer agent, **“Transfer Agent”** means the Company);

- (ii) subject to subparagraph (v), if an Exclusionary Offer is made, each outstanding Subordinate Voting Share shall ~~be convertible into one (1) Multiple Voting Share~~, at the option of each holder of Subordinate Voting Shares during the Conversion Period, be convertible on a one-for-one basis into the class of Equity Shares that are subject to such Exclusionary Offer (and if more than one class of Equity Shares are subject to such Exclusionary Offer, or different Exclusionary Offers are made for separate classes of Subject Equity Shares, on a one-for-one basis into any class of Equity Shares that are subject to any such Exclusionary Offer, at the holder's election, or failing such election, into any class of Equity Shares that are subject to any such Exclusionary Offer at the board of directors' discretion). The conversion right may be exercised by notice in writing given to the Transfer Agent prior to the Expiry Date accompanied by the share certificate ~~or certificates~~ (s) representing the Subordinate Voting Shares which the holder desires to convert, together with any letter of transmittal or other documentation, including any medallion signature guarantee, as may be required by the Transfer Agent or pursuant to the Exclusionary Offer, in either case in duly executed or completed form, and such notice shall be executed by such holder, or by his attorney duly authorized in writing, and shall specify the number of Subordinate Voting Shares which the holder desires to have converted and the class of Equity Shares which are desired to be converted into. The Company shall pay any governmental stamp, transfer or similar tax (but for greater certainty, no income or capital gains tax) imposed on or in respect of such conversion. If less than all of the Subordinate Voting Shares represented by any share certificate are to be converted, the holder shall be entitled to receive a new share certificate representing in the aggregate the number of Subordinate Voting Shares represented by the original share certificate, which are not to be converted. Upon any conversion of any shares of any class into shares of another class, the Company shall adjust the capital accounts maintained for the respective classes of shares as provided in the Business Corporations Act. The conversion right may only be exercised in respect of Subordinate Voting Shares for the purpose of depositing the resulting Subject Equity Shares pursuant to such offer and for no other reason;
- (iii) an election by a holder of Subordinate Voting Shares to exercise the conversion right provided for in subparagraph (ii) shall be deemed to also constitute irrevocable elections by such holder (a) to deposit the Converted Shares pursuant to the Exclusionary Offer (subject to such holder's right to subsequently withdraw the shares from the offer), and (b) to exercise the right to convert back into Subordinate Voting Shares all Converted Shares (on a ~~1:1 one-for-one~~ basis) in respect of which such holder exercises his-, her or its right of withdrawal from the Exclusionary Offer or which are not otherwise ultimately taken up under the Exclusionary Offer. Any conversion of Converted Shares back into Subordinate Voting Shares in respect of which the holder exercises his-, her or its right of withdrawal from the Exclusionary Offer shall become effective at the time such right of withdrawal is exercised. If the right of withdrawal is not exercised, any conversion of Converted Shares back into Subordinate Voting Shares pursuant to a deemed election shall become effective:
- (A) for Converted Shares not taken up in accordance with the terms of an Exclusionary Offer which is nonetheless completed, on the day that the Offeror has taken up and paid for all shares to be acquired by the Offeror under the Exclusionary Offer; and
- (B) in respect of an Exclusionary Offer which is abandoned or withdrawn, at the time at which the Exclusionary Offer is abandoned or withdrawn;



- (iv) no share certificates representing Converted Shares shall be delivered to the holders of such shares before such shares are deposited pursuant to the Exclusionary Offer. The Transfer Agent, on behalf of the holders of the Converted Shares, shall deposit pursuant to the Exclusionary Offer the certificates representing all Subordinate Voting Shares for which the certificates, notices and other documents have been duly delivered to the Transfer Agent pursuant to subparagraph (ii) and shall advise the Offeror of the extent that such certificates so deposited represent ~~Multiple Voting Subject Equity~~ Shares of the Company. Upon completion of the Exclusionary Offer, the Transfer Agent shall deliver to the holders of the shares purchased pursuant to the Exclusionary Offer all consideration paid by the Offeror pursuant to the Exclusionary Offer. If Converted Shares are converted back into Subordinate Voting Shares pursuant to subparagraph (iii), the Transfer Agent shall deliver to the holders entitled thereto share certificates representing the Subordinate Voting Shares resulting from the conversion. Provided however that if no Subordinate Voting Shares of a shareholder were acquired by the Offeror pursuant to the Exclusionary Offer, the Transfer Agent shall return the original share certificate (if not duly endorsed for transfer to a named transferee) evidencing such Subordinate Voting Shares tendered pursuant to subparagraph (ii) in satisfaction of its obligations under this subparagraph (iv). The Company shall make all arrangements with the Transfer Agent necessary or desirable to give effect to this subparagraph (iv);
- (v) subject to subparagraph (vi), the conversion right provided for in subparagraph (ii) shall not come into effect with respect to a class of Subject Equity Shares if:
- (A) prior to the time at which the Exclusionary Offer is made there is or has been delivered to the Transfer Agent and to the ~~Secretary~~ corporate secretary of the Company a certification or certifications signed by or on behalf of one or more shareholders of the Company owning in the aggregate, as at the time the Exclusionary Offer is made, more than 50% of the then outstanding ~~Multiple Voting Subject Equity~~ Shares, of each class (exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror), which certification or certifications shall confirm, in the case of each such shareholder that made such certification, that such shareholder shall not:
- (i) accept any Exclusionary Offer without giving the Transfer Agent and the ~~Secretary~~ corporate secretary of the Company written notice of such acceptance or intended acceptance at least 7 days prior to the Expiry Date;
  - (ii) make any Exclusionary Offer;
  - (iii) act jointly or in concert with any Person that makes any Exclusionary Offer; or
  - (iv) transfer any ~~Multiple Voting Subject Equity~~ Shares, directly or indirectly, during the time any Exclusionary Offer is outstanding without giving the Transfer Agent and the ~~Secretary~~ corporate secretary of the Company written notice of such transfer or intended transfer at least ~~7~~ seven (7) days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of ~~Multiple Voting Subject Equity~~ Shares transferred or to be transferred to each transferee; or

- (B) within ~~7~~seven (7) days after the Offer Date there is delivered to the Transfer Agent and to the ~~Secretary~~corporate secretary of the Company a certification or certifications signed by or on behalf of one or more shareholders of the Company owning in the aggregate more than 50% of the then outstanding ~~Multiple Voting Subject Equity Shares of such class~~ (exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror), which certification or certifications shall confirm, in the case of each shareholder who made such certification:
- (i) the number of ~~Multiple Voting Subject Equity Shares~~ owned by the shareholder;
  - (ii) that such shareholder is not making the Exclusionary Offer and is not an Associate or Affiliate of, or acting jointly or in concert with, the Person making such offer;
  - (iii) that such shareholder shall not accept the Exclusionary Offer, including any varied form of the offer, without giving the Transfer Agent and the ~~Secretary~~corporate secretary of the Company written notice of such acceptance or intended acceptance at least ~~7~~seven (7) days prior to the Expiry Date; and
  - (iv) that such shareholder shall not transfer any ~~Multiple Voting Subject Equity Shares~~, directly or indirectly, prior to the Expiry Date without giving the Transfer Agent and the ~~Secretary~~corporate secretary of the Company written notice of such transfer or intended transfer at least ~~7~~seven (7) days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of ~~Multiple Voting Subject Equity Shares~~ transferred or to be transferred to each transferee if this information is known to the transferor;
- (vi) if a notice (the “**Notice**”) referred to in sub-clause (v)(A)(i), (v)(A)(iv), (v)(B)(iii) or (v)(B)(iv) is given to the Transfer Agent and to the ~~Secretary~~corporate secretary of the Company and the conversion right provided for in subparagraph (ii) has not, because of the giving of such Notice, come into effect, the Company shall, either forthwith upon receipt of the Notice or forthwith after the seventh (7<sup>th</sup>) day following the Offer Date, whichever is later, make a good faith determination as to whether there are subsisting certifications that comply with either clause (v)(A) or (v)(B) from shareholders of the Company who own in the aggregate more than 50% of the then outstanding ~~Multiple Voting Subject Equity Shares~~, exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror. If the Company determines that there are not such subsisting certifications, subparagraph (v) shall cease to apply and the conversion right provided for in subparagraph (ii) shall be in effect for the remainder of the Conversion Period;
- (vii) as soon as reasonably possible after the seventh (7<sup>th</sup>) day after the Offer Date, the Company shall send to each holder of Subordinate Voting Shares a written notice advising the holders as to whether they are entitled to convert their Subordinate Voting Shares into ~~Multiple Voting Subject Equity Shares~~ and the reasons therefor. If such notice discloses that they are not so entitled, but it is subsequently determined that they are so entitled by virtue of subparagraph (vi) or otherwise, the Company shall forthwith send another notice to them advising them of that fact and the reasons therefor;
- (viii) if a notice referred to in subparagraph (vii) discloses that the conversion right set forth in Section 25.1(1)(g)(ii) has come into effect, the notice shall:
- (A) include a description of the procedure to be followed to effect the conversion and to have the Converted Shares tendered under the Exclusionary Offer;
  - (B) include the information set out in subparagraph (iii) hereof; and

- (C) be accompanied by a copy of the Exclusionary Offer and all other materials sent to any holders of ~~Multiple Voting Subject Equity Shares~~ in respect of such offer; and as soon as reasonably possible after any additional material, including any notice of variation, is sent to any holders of ~~Multiple Voting Subject Equity Shares~~ in respect of such offer, the Company shall send a copy of such additional materials to each holder of Subordinate Voting Shares;
- (ix) prior to or forthwith after sending any notice referred to in subparagraph (vii), the Company shall cause a news release to be issued to a Canadian national news service, describing the contents of the notice; and
- (x) references to share certificates shall include, as applicable, the equivalent in any non-certificated inventory system (such as, for example, a Direct Registration System or electronic position), with appropriate changes.

(3) Specified Exceptions

There will be no right to convert the Subordinate Voting Shares into Restricted Voting Shares in each of the following circumstances (collectively, the “**Specified Exceptions**”):

(i) Equity Shares held, beneficially owned or controlled, by one or more underwriters solely for the purposes of a distribution to the public; or

(ii) Equity Shares held, beneficially owned or controlled, by a Person acting solely in the capacity of an intermediary in connection with either the payment of funds and/or the delivery of securities and that provides centralized facilities for the deposit, clearing or settlement of trades in securities (including CDS Clearing and Depository Services Inc., or any successor or assign) without general discretionary authority over the voting or disposition of such Equity Shares.

(b) Renaming as Common Shares.

At the effective time that no Multiple Voting Shares remain issued and outstanding (including, without limitation, by the conversion of all Multiple Voting Shares, in accordance with these Articles, into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable), the Subordinate Voting Shares shall henceforward be named “Common Shares”, and all references in these Articles to “Subordinate Voting Share” shall thereafter refer to “Common Share”.

**Section 25.2 Multiple Voting Shares**

- (1) An unlimited number of Multiple Voting Shares, without nominal or par value, are authorized for issuance, having attached thereto the special rights and restrictions as set forth below:

*(a) Voting Rights.*

Holders of Multiple Voting Shares shall be entitled to notice of and to attend (if applicable, virtually) any meeting of the shareholders of the Company. Holders of Multiple Voting Shares shall be entitled to vote at any meeting of the shareholders of the Company, except and at each such meeting, shall be entitled to twenty-five (25) votes in respect of each Multiple Voting Share held, except for a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. ~~At each such meeting, holders of Multiple Voting Shares will be entitled to 25 votes in respect of each Multiple Voting Share held.~~

Except as otherwise provided in these Articles (including without limitation the restrictions on voting rights for directors in the case of the Limited Voting Shares) or except as provided in the *Business Corporations Act*, Multiple Voting Shares, Subordinate Voting Shares and Multiple, Restricted Voting Shares and Limited Voting Shares are equal in all respects and shall vote together as if they were shares of a single class. In connection with any Change of Control Transaction requiring approval of the holders of Subordinate Voting Shares and Multiple Voting all Equity Shares under the *Business Corporations Act*, holders of Subordinate Voting Shares and Multiple Voting each such Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of outstanding Multiple Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of that class called and held for such purpose.

*(b) Alteration to Rights of Multiple Voting Shares.*

As long as any Multiple Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Multiple Voting Shares by separate special resolution alter or amend these Articles if the result would: (i) prejudice or interfere with any right or special right attached to the Multiple Voting Shares; or (ii) affect the rights or special rights of the holders of Subordinate Voting Shares or Multiple Voting Shares on a per share basis as provided herein.

Notwithstanding the provisions of the second paragraph of this Section 25.2(1)(a), the holders of Multiple Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of these Articles which would: (i) adversely affect the rights or special rights of the holders of Multiple Voting Shares (including an amendment to the terms of these Articles which provide that any Multiple Voting Shares sold or transferred to a Person that is not a Permitted Holder shall be automatically converted into Restricted Voting Shares and/or Subordinate Voting Shares, as applicable); or (ii) affect the holders of Equity Shares differently, on a per share basis; or (iii) create any class or series of shares ranking equal to or senior to the Multiple Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Multiple Voting Shares.

*(c) Constraints on Ownership.*

The Multiple Voting Shares may be held, beneficially owned or controlled, by U.S. Persons and Non-U.S. Persons.

*(b) Dividends.*

Holders of Multiple Voting Shares shall be entitled to receive, as and when declared by the directors, dividends in cash or property of the Company. No dividend will be declared or paid on ~~the Subordinate Voting~~ other Equity Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Multiple Voting Shares. The Multiple Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Multiple Voting Shares shall receive Multiple Voting Shares, unless otherwise determined by the Board of Directors board of directors of the Company, provided an equal number of shares is declared as a dividend or distribution on a per-Equity Share basis in each case.

*(c) Liquidation, Dissolution or Winding-Up.*

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Multiple Voting Shares shall, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Multiple Voting Shares, be entitled to participate ratably in the remaining property of the Company along with all other holders of Multiple Voting Shares and Subordinate Voting Equity Shares (on a per share basis).

(d) *Rights to Subscribe; Pre-Emptive Rights.*

The holders of Multiple Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Company now or in the future.

(d) *Subdivision or Consolidation.*

~~(d)~~ No subdivision or consolidation of the Multiple Voting Shares shall occur unless, simultaneously, the other classes of Equity Shares are subdivided or consolidated or otherwise adjusted so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes. Subject to Section 25.2(1)(g), the Multiple Voting Shares cannot be converted into any other class of shares.

(e) *Conversion of Multiple Voting Shares.*

Holders of Multiple Voting Shares shall have conversion rights as follows (the “**Conversion Rights**”):

(i) *Right to Convert.*

Each Multiple Voting Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for such shares, on a one-for-one basis, into one (1) fully paid and non-assessable Subordinate Voting Share in the event the Multiple Voting Shares are held, beneficially owned or controlled, by a Non-U.S. Person, and (ii) fully paid and non-assessable Restricted Voting Shares in the event the Multiple Voting Shares are held, beneficially owned or controlled, by a U.S. Person.

(ii) *Automatic Conversion.*

- (A) Upon the date that is 60 months from the date of first issuance of a Multiple Voting Share (the date of first issuance being May 24, 2019), each Multiple Voting Share shall be automatically converted, without any action on the part of the holder, into one (1) fully paid and non-assessable Subordinate Voting Share, in the event the Multiple Voting Share is held, beneficially owned or controlled by a Non-U.S. Person, and (ii) fully paid and non-assessable Restricted Voting Share in the event the Multiple Voting Shares is held, beneficially owned or controlled by a U.S. Person.
- (B) Upon the first date that any Multiple Voting Share shall be held by a Person other than by a Permitted Holder, the Permitted Holder which held such Multiple Voting Share until such date, without any further action, shall automatically be deemed to have exercised his, her or its rights under Section 25.2(1)(g)(i) to convert such Multiple Voting Share into one (i) fully paid and non-assessable Subordinate Voting Share, in the event the Multiple Voting Share is held, beneficially owned or controlled by a Non-U.S. Person, and (ii) fully paid and non-assessable Restricted Voting Share in the event the Multiple Voting Shares is held, beneficially owned or controlled by a U.S. Person.
- (C) Upon the first date that the aggregate number of Multiple Voting Shares held by all Permitted Holders is reduced to a number which is less than 33 1/3% of the aggregate number of Multiple Voting Shares held by all Permitted Holders on the date of first issuance of the Multiple Voting Shares (being May 24, 2019), each Permitted Holder shall automatically be deemed, without further action, to have exercised his, her or its rights under Section 25.2(1)(g)(i) to convert all Multiple Voting Shares held by such Permitted Holder into an equal number of (i) fully paid and non-assessable Subordinate Voting Shares, in the event the Multiple Voting Shares are held, beneficially owned or controlled by a Non-U.S. Person, and (ii) fully paid and non-assessable Restricted Voting Shares in the event the Multiple Voting Shares are held, beneficially owned or controlled by a U.S. Person.

- (D) A Multiple Voting Share that is converted into a Subordinate Voting ~~Share~~ Share or a Restricted Voting Share, in each case as applicable and as provided for in Section 25.2(1)(f)(ii)(A), Section 25.2(1)(f)(ii)(B) or Section 25.2(1)(f)(ii)(C) 25.2(1)(g)(ii)(A), Section 25.2(1)(g)(ii)(B) or Section 25.2(1)(g)(ii)(C) will automatically be cancelled.
- (E) For the purposes hereof:
- (i) **“Members of the Immediate Family”** means with respect to any individual, each parent (whether by birth or adoption), spouse or child (including any step-child) or other descendants (whether by birth or adoption) of such individual, each spouse of any of the aforementioned ~~persons~~ Persons, each trust created solely for the benefit of such individual and/or one or more of the aforementioned ~~persons~~ Persons, and each legal representative of such individual or of any aforementioned ~~persons~~ Persons (including without limitation a tutor, curator, mandatary due to incapacity, custodian, guardian or testamentary executor), acting in such capacity under the authority of the law, an order from a competent tribunal, a will or a mandate in case of incapacity or similar instrument. For the purposes of this definition, a Person shall be considered the spouse of an individual if such ~~person~~ Person is legally married to such individual, lives in a civil union with such individual or is the common law partner of such individual. A Person who was the spouse of an individual within the meaning of this paragraph immediately before the death of such individual shall continue to be considered a spouse of such individual after the death of such individual;
  - (ii) **“Permitted Holders”** means (a) Jonathan Sandelman, Charles Miles or Kamaldeep Thindal and any Members of the Immediate Family of any of them, (b) Mercer Park L.P., (c) Mercer Park CB, L.P., and (d) any ~~person~~ Person controlled, directly or indirectly by one or more of the ~~persons~~ Persons referred to in clause (a), (b) or (c) above; and
  - (iii) **“Person”** has the meaning assigned by the Securities Act (British Columbia) as, from time to time, amended, re-enacted or replaced and includes a company or other body corporate wherever or however incorporated.

(iii) Mechanics of Conversion.

Before any holder of Multiple Voting Shares shall be entitled to convert Multiple Voting Shares into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable, the holder thereof shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or of any transfer agent for Subordinate Voting Shares or Restricted Voting Shares, as applicable, or the equivalent in any non-certificated inventory system (such as, for example, a Direct Registration System or electronic position) administered by any applicable depository or transfer agent of the Company, and shall give written notice to the Company at its head office, of the election to convert the same ~~(each, a “Conversion Notice”)~~ and the Subordinate Voting Shares or Restricted Voting Shares, as applicable, resulting therefrom shall be registered in the name of the registered holder of the Multiple Voting Shares converted or, subject to payment by the registered holder of any stock transfer or applicable taxes and compliance with any other reasonable requirements of the Company in respect of such transfer, in such name or names as such registered holder may direct in writing. Upon receipt of such notice and certificate or certificates and, as applicable, compliance with such other requirements, the Company shall (or shall cause its transfer agent to), at its expense, as soon as practicable thereafter, remove or cause the removal of such holder from the register of holders in respect of the Multiple Voting Shares for which the conversion right is being exercised, add the holder (or any ~~person or persons~~ Person or Persons in whose name or names such converting holder shall have directed the resulting Subordinate Voting Shares or Restricted Voting Shares, as applicable, to be registered) to the securities register of holders in respect of the resulting Subordinate Voting Shares or Restricted Voting Shares, as applicable, cancel or cause the cancellation of the certificate or certificates representing such Multiple Voting Shares and issue and deliver at such office to such holder, or to the nominee or nominees of such holder, a certificate or certificates or the equivalent in any non-certificated inventory system (such as, for example, a Direct Registration System or electronic position) administered by any applicable depository or transfer agent of the Company, representing the Subordinate Voting Shares or Restricted Voting Shares, as applicable, issued upon the conversion of such Multiple Voting Shares. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the Multiple Voting Shares to be converted, and the ~~person or persons~~ Person or Persons entitled to receive the Subordinate Voting Shares or Restricted Voting Shares, as applicable, issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Subordinate Voting Shares or Restricted Voting Shares, as applicable, as of such date. If less than all of the Multiple Voting Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate representing the Multiple Voting Shares represented by the original certificate which are not to be converted. A Multiple Voting Share that is converted into a Subordinate Voting ~~Shares~~ Share or Restricted Voting Share, as applicable, as provided for in this Section ~~25.2(1)(f)(iii)~~ 25.2(1)(g)(iii) will automatically be cancelled.

(iv) Effect of Conversion.

All Multiple Voting Shares which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall immediately cease and terminate at the time of conversion ~~(the “Conversion Time”)~~, except only the right of the holders thereof to receive Subordinate Voting Shares or Restricted Voting Shares, as applicable, in exchange therefor.

~~(g) Subdivision or Consolidation.~~

~~No subdivision or consolidation of the Multiple Voting Shares shall occur unless, simultaneously, the Subordinate Voting Shares are subdivided or consolidated or otherwise adjusted so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes. Subject to Section 25.2(1)(f), the Multiple Voting Shares cannot be converted into any other class of shares.~~

(f) Transfer of Multiple Voting Shares.

Except in accordance with Sections 2.3 or 2.8 of the ~~Coattail Agreement~~ coattail agreement dated the same date as the Multiple Voting Shares are first issued ~~(the “Coattail Agreement”)~~ or as expressly provided herein, including upon conversion into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable, no Multiple Voting Share may be sold, transferred, assigned, pledged or otherwise disposed of without the written consent of the directors, and the directors are not required to give any reason for refusing to consent to any such sale, transfer or disposition.

(g) Share Superior to Multiple Voting Shares

The Company may take no action which would authorize or create shares of any class or series having preferences superior to or on a parity with the Multiple Voting Shares without the consent of the holders of a majority of the outstanding Multiple Voting Shares expressed by special separate resolution. At any meeting of holders of Multiple Voting Shares called to consider such a special separate resolution, each Multiple Voting Share will entitle the holder to one (1) vote and each fraction of a Multiple Voting Share shall entitle the holder to the corresponding fraction of one (1) vote.

**Redemption**

**Section 25.3 Restricted Voting Shares**

- (1) An unlimited number of Restricted Voting Shares, without nominal or par value, are authorized for issuance, having attached thereto the special rights and restrictions as set forth below:

(a) *Voting Rights*

Holders of Restricted Voting Shares shall be entitled to notice of and to attend (if applicable, virtually) any meeting of the shareholders of the Company. Holders of Restricted Voting Shares shall be entitled to vote at any meeting of the shareholders of the Company, and at each such meeting, shall be entitled to one (1) vote in respect of each Restricted Voting Share held, except for a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote.

Except as otherwise provided in these Articles (including without limitation the restrictions on voting rights for directors in the case of the Limited Voting Shares) or except as provided in the Business Corporations Act, Multiple Voting Shares, Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares are equal in all respects and shall vote together as if they were shares of a single class. In connection with any Change of Control Transaction requiring approval of the holders of all Equity Shares under the Business Corporations Act, holders of each class of Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of any such class is approved by a majority of the votes cast by the holders of outstanding Restricted Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of Restricted Voting Shares called and held for such purpose.

Notwithstanding the provisions of the second paragraph of this Section 25.3(1)(a), the holders of Restricted Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of these Articles (other than in respect of the creation of a series of preferred shares) which would: (i) adversely affect the rights or special rights of the holders of Restricted Voting Shares (including an amendment to the terms of these Articles which provide that any Multiple Voting Shares sold or transferred to a Person that is not a Permitted Holder shall be automatically converted into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable); or (ii) affect the holders of any class of Equity Shares differently, on a per share basis; or (iii) except as already set forth herein, create any class or series of shares ranking equal to or senior to the Restricted Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Restricted Voting Shares.

(b) *Constraints on Ownership*

Subject to the Specified Exceptions, the Restricted Voting Shares may only be held, beneficially owned or controlled, by U.S. Persons.

(c) *Dividends*

Holders of Restricted Voting Shares shall be entitled to receive, as and when declared by the board of directors, dividends in cash or property of the Company. No dividend will be declared or paid on any other class of Equity Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Restricted Voting Shares. The Restricted Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Restricted Voting Shares shall receive Restricted Voting Shares, unless otherwise determined by the board of directors, provided an equal number of shares is declared as a dividend or distribution on a then outstanding per-Equity Share basis, without preference or distinction, in each case.



(d) Liquidation, Dissolution or Winding-Up.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Restricted Voting Shares shall, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Restricted Voting Shares, be entitled to participate ratably in the remaining property of the Company along with all holders of the other classes of Equity Shares (on a per share basis).

(e) Rights to Subscribe; Pre-Emptive Rights.

The holders of Restricted Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Company now or in the future.

(f) Subdivision or Consolidation.

No subdivision or consolidation of the Restricted Voting Shares shall occur unless, simultaneously, the other classes of Equity Shares are subdivided or consolidated or otherwise adjusted so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes. Subject to Section 25.3(1)(g), the Restricted Voting Shares cannot be converted into any other class of shares.

(g) Conversion of Restricted Voting Shares.

(1) Automatic

Subject to the Specified Exceptions, each issued and outstanding Restricted Voting Share shall be automatically converted into one Subordinate Voting Share, without any further act on the part of the Company or of the holder, if such Restricted Voting Share becomes held, beneficially owned or controlled, by a Non-U.S. Person.

(2) Conversion into Limited Voting Shares

Subject to the Specified Exceptions, if, at any given time, the total number of Restricted Voting Shares becomes equal to or in excess of the FPI Threshold, the minimum number of Restricted Voting Shares required to stay within the FPI Threshold shall be automatically converted, without further act or formality, on a pro-rata basis across all registered holders of Restricted Voting Shares (rounded up to the next nearest whole number of shares), on a one-for-one basis, into Limited Voting Shares. For purposes of these Articles, "FPI Threshold" means:

$(0.50 \times \text{Aggregate Number of Multiple Voting Shares, Subordinate Voting Shares and Restricted Voting Shares}) - (\text{Aggregate Number of Multiple Voting Shares held, beneficially owned or controlled by U.S. Persons})$

Notwithstanding the foregoing, in connection with a formal bid for all Equity Shares on identical terms made in compliance with Canadian securities laws that results in the bidder owning or controlling more than fifty percent (50%) of the total voting power of the voting securities of the Company for the election of directors (assuming the Limited Voting Shares each have one (1) vote per share for the election of directors), the bidder may elect, by way of written notice to the Company, that the Restricted Voting Shares it so acquires not be automatically converted into Limited Voting Shares.

(3) Upon an Offer

(i) For the purposes of this Section 25.3(1)(g)(3):

- (A) “Affiliate” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced;
  - (B) “Associate” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced;
  - (C) “Conversion Period” means the period of time commencing on the eighth day after the Offer Date and terminating on the Expiry Date;
  - (D) “Converted Shares” means the Subject Equity Shares resulting from the conversion of Restricted Voting Shares into the Subject Equity Shares pursuant to subparagraph (ii);
  - (E) “Exclusionary Offer” means an offer to purchase Subject Equity Shares that:
    - (i) is a General Offer; and
    - (ii) is not made concurrently with an offer to purchase Restricted Voting Shares that is identical to the offer to purchase the Subject Equity Shares in terms of price per share and percentage of outstanding shares to be taken up exclusive of shares owned immediately prior to the offer by the Offeror, and in all other material respects, and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Subject Equity Shares;
- and for the purposes of this definition, if an offer to purchase Subject Equity Shares is a General Offer but not an Exclusionary Offer, the varying of any term of such offer shall be deemed to constitute the making of a new offer unless a variation identical in all material respects concurrently is made to the corresponding offer to purchase Restricted Voting Shares;
- (F) “Expiry Date” means the last date on which holders of the Subject Equity Shares may accept an Exclusionary Offer;
  - (G) “General Offer” means an offer to purchase Subject Equity Shares that must, by reason of applicable securities legislation or the requirements of any stock exchange on which the Subject Equity Shares are listed, be made to all or substantially all holders of Subject Equity Shares who are in a province of Canada to which any such legislation or requirement applies (assuming that the offeree was resident in Ontario);
  - (H) “Offer Date” means the date on which an Exclusionary Offer is made;
  - (I) “Offeror” means a Person that makes an offer to purchase the Subject Equity Shares (the “bidder”), and includes any Associate or Affiliate of the bidder or any Person that is disclosed in the offering document to be acting jointly or in concert with the bidder;

- (J) “Person” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced and includes a company or other body corporate wherever or however incorporated;
- (K) “Subject Equity Shares” means any one or more classes of Equity Shares that are subject to an Exclusionary Offer, other than Restricted Voting Shares; and
- (L) “Transfer Agent” means the transfer agent of the Company at the relevant time for any of the Subject Equity Shares (and if there is no such transfer agent, “Transfer Agent” means the Company);
- (ii) subject to subparagraph (v), if an Exclusionary Offer is made, each outstanding Restricted Voting Share shall, at the option of each holder of Restricted Voting Shares during the Conversion Period, be convertible on a one-for-one basis into the class of Equity Shares that are subject to such Exclusionary Offer (and if more than one class of Equity Shares are subject to such Exclusionary Offer, or different Exclusionary Offers are made for separate classes of Subject Equity Shares, on a one-for-one basis into any class of Equity Shares that are subject to any such Exclusionary Offer, at the holder's election, or failing such election, into any class of Equity Shares that are subject to any such Exclusionary Offer at the board of directors' discretion). The conversion right may be exercised by notice in writing given to the Transfer Agent prior to the Expiry Date accompanied by the share certificate(s) representing the Restricted Voting Shares which the holder desires to convert, together with any letter of transmittal or other documentation, including any medallion signature guarantee, as may be required by the Transfer Agent or pursuant to the Exclusionary Offer, in either case, in duly executed or completed form, and such notice shall be executed by such holder, or by his attorney duly authorized in writing, and shall specify the number of Restricted Voting Shares which the holder desires to have converted and the class of Equity Shares which are desired to be converted into. The Company shall pay any governmental stamp, transfer or similar tax (but for greater certainty, no income or capital gains tax) imposed on or in respect of such conversion. If less than all of the Restricted Voting Shares represented by any share certificate are to be converted, the holder shall be entitled to receive a new share certificate representing in the aggregate the number of Restricted Voting Shares represented by the original share certificate, which are not to be converted. Upon any conversion of any shares of any class into shares of another class, the Company shall adjust the capital accounts maintained for the respective classes of shares as provided in the Business Corporations Act. The conversion right may only be exercised in respect of Restricted Voting Shares for the purpose of depositing the resulting Subject Equity Shares pursuant to such offer and for no other reason;
- (iii) an election by a holder of Restricted Voting Shares to exercise the conversion right provided for in subparagraph (ii) shall be deemed to also constitute irrevocable elections by such holder (a) to deposit the Converted Shares pursuant to the Exclusionary Offer (subject to such holder's right to subsequently withdraw the shares from the offer), and (b) to exercise the right to convert back into Restricted Voting Shares all Converted Shares (on a one-for-one basis) in respect of which such holder exercises his, her or its right of withdrawal from the Exclusionary Offer or which are not otherwise ultimately taken up under the Exclusionary Offer. Any conversion of Converted Shares back into Restricted Voting Shares in respect of which the holder exercises his, her or its right of withdrawal from the Exclusionary Offer shall become effective at the time such right of withdrawal is exercised. If the right of withdrawal is not exercised, any conversion of Converted Shares back into Restricted Voting Shares pursuant to a deemed election shall become effective;
- (A) for Converted Shares not taken up in accordance with the terms of an Exclusionary Offer which is nonetheless completed, on the day that the Offeror has taken up and paid for all shares to be acquired by the Offeror under the Exclusionary Offer; and

- (B) in respect of an Exclusionary Offer which is abandoned or withdrawn, at the time at which the Exclusionary Offer is abandoned or withdrawn;
- (iv) no share certificates representing Converted Shares shall be delivered to the holders of such shares before such shares are deposited pursuant to the Exclusionary Offer. The Transfer Agent, on behalf of the holders of the Converted Shares, shall deposit pursuant to the Exclusionary Offer the share certificates representing all Restricted Voting Shares for which the certificates, notices and other documents have been duly delivered to the Transfer Agent pursuant to subparagraph (ii) and shall advise the Offeror of the extent that such certificates so deposited represent Subject Equity Shares of the Company. Upon completion of the Exclusionary Offer, the Transfer Agent shall deliver to the holders of the shares purchased pursuant to the Exclusionary Offer all consideration paid by the Offeror pursuant to the Exclusionary Offer. If Converted Shares are converted back into Restricted Voting Shares pursuant to subparagraph (iii), the Transfer Agent shall deliver to the holders entitled thereto share certificates representing the Restricted Voting Shares resulting from the conversion. Provided however that if no Restricted Voting Shares of a shareholder were acquired by the Offeror pursuant to the Exclusionary Offer, the Transfer Agent shall return the original share certificate (if not duly endorsed for transfer to a named transferee) evidencing such Restricted Voting Shares tendered pursuant to subparagraph (ii) in satisfaction of its obligations under this subparagraph (iv). The Company shall make all arrangements with the Transfer Agent necessary or desirable to give effect to this subparagraph (iv);
- (v) subject to subparagraph (vi), the conversion right provided for in subparagraph (ii) shall not come into effect with respect to a class of Subject Equity Shares if:
- (A) prior to the time at which the Exclusionary Offer is made there is or has been delivered to the Transfer Agent and to the corporate secretary of the Company a certification or certifications signed by or on behalf of one or more shareholders of the Company owning in the aggregate, as at the time the Exclusionary Offer is made, more than 50% of the then outstanding Subject Equity Shares of each class (exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror), which certification or certifications shall confirm, in the case of each such shareholder, that made such certification, that such shareholder shall not:
- (i) accept any Exclusionary Offer without giving the Transfer Agent and the corporate secretary of the Company written notice of such acceptance or intended acceptance at least 7 days prior to the Expiry Date;
- (ii) make any Exclusionary Offer;
- (iii) act jointly or in concert with any Person that makes any Exclusionary Offer; or
- (iv) transfer any Subject Equity Shares, directly or indirectly, during the time any Exclusionary Offer is outstanding without giving the Transfer Agent and the corporate secretary of the Company written notice of such transfer or intended transfer at least seven (7) days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of Subject Equity Shares transferred or to be transferred to each transferee; or

- (B) within seven (7) days after the Offer Date there is delivered to the Transfer Agent and to the corporate secretary of the Company a certification or certifications signed by or on behalf of one or more shareholders of the Company owning in the aggregate more than 50% of the then outstanding Subject Equity Shares of such class (exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror), which certification or certifications shall confirm, in the case of each shareholder who made such certification:
- (i) the number of Subject Equity Shares owned by the shareholder;
  - (ii) that such shareholder is not making the Exclusionary Offer and is not an Associate or Affiliate of, or acting jointly or in concert with, the Person making such offer;
  - (iii) that such shareholder shall not accept the Exclusionary Offer, including any varied form of the offer, without giving the Transfer Agent and the corporate secretary of the Company written notice of such acceptance or intended acceptance at least seven (7) days prior to the Expiry Date; and
  - (iv) that such shareholder shall not transfer any Subject Equity Shares, directly or indirectly, prior to the Expiry Date without giving the Transfer Agent and the corporate secretary of the Company written notice of such transfer or intended transfer at least seven (7) days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of Subject Equity Shares transferred or to be transferred to each transferee if this information is known to the transferor;
- (vi) if a notice (the "Notice") referred to in sub-clause (v)(A)(i), (v)(A)(iv), (v)(B)(iii) or (v)(B)(iv) is given to the Transfer Agent and to the corporate secretary of the Company and the conversion right provided for in subparagraph (ii) has not, because of the giving of such Notice, come into effect, the Company shall, either forthwith upon receipt of the Notice or forthwith after the seventh (7<sup>th</sup>) day following the Offer Date, whichever is later, make a good faith determination as to whether there are subsisting certifications that comply with either clause (v)(A) or (v)(B) from shareholders of the Company who own in the aggregate more than 50% of the then outstanding Subject Equity Shares of each class, exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror. If the Company determines that there are not such subsisting certifications, subparagraph (v) shall cease to apply and the conversion right provided for in subparagraph (ii) shall be in effect for the remainder of the Conversion Period;
- (vii) as soon as reasonably possible after the seventh (7<sup>th</sup>) day after the Offer Date, the Company shall send to each holder of Restricted Voting Shares a written notice advising the holders as to whether they are entitled to convert their Restricted Voting Shares into Subject Equity Shares and the reasons therefor. If such notice discloses that they are not so entitled, but it is subsequently determined that they are so entitled by virtue of subparagraph (vi) or otherwise, the Company shall forthwith send another notice to them advising them of that fact and the reasons therefor;
- (viii) if a notice referred to in subparagraph (vii) discloses that the conversion right set forth in Section 25.3(1)(g)(3)(ii) has come into effect, the notice shall:
- (A) include a description of the procedure to be followed to effect the conversion and to have the Converted Shares tendered under the Exclusionary Offer;
  - (B) include the information set out in subparagraph (iii) hereof; and
  - (C) be accompanied by a copy of the Exclusionary Offer and all other materials sent to any holders of Subject Equity Shares in respect of such offer; and as soon as reasonably possible after any additional material, including any notice of variation, is sent to any holders of Subject Equity Shares in respect of such offer, the Company shall send a copy of such additional materials to each holder of Restricted Voting Shares;

- (ix) prior to or forthwith after sending any notice referred to in subparagraph (vii), the Company shall cause a news release to be issued to a Canadian national news service, describing the contents of the notice; and
- (x) references to share certificates shall include, as applicable, the equivalent in any non-certificated inventory system (such as, for example, a Direct Registration System or an electronic position), with appropriate changes.

#### **Section 25.4     Limited Voting Shares**

- (1) An unlimited number of Limited Voting Shares, without nominal or par value, are authorized for issuance, having attached thereto the special rights and restrictions as set forth below:

- (a) *Voting Rights.*

Holders of Limited Voting Shares shall be entitled to notice of and to attend (if applicable, virtually) any meeting of the shareholders of the Company. Holders of Limited Voting Shares shall be entitled to vote at any meeting of the shareholders of the Company, and at each such meeting, shall be entitled to one (1) vote in respect of each Limited Voting Share held, except that holders shall not have an entitlement to vote (i) in respect of the election for directors of the board of directors or (ii) for a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote.

Except as otherwise provided in these Articles (including without limitation the restrictions on voting rights for directors in the case of the Limited Voting Shares) or except as provided in the Business Corporations Act, Multiple Voting Shares, Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares are equal in all respects and shall vote together as if they were shares of a single class. In connection with any Change of Control Transaction requiring approval of the holders of all Equity Shares under the Business Corporations Act, holders of each class of Equity Shares shall be treated equally and identically, on a per share basis, unless different treatment of the shares of any such class is approved by a majority of the votes cast by the holders of outstanding Limited Voting Shares or their proxyholders in respect of a resolution approving such Change of Control Transaction, voting separately as a class at a meeting of the holders of Limited Voting Shares called and held for such purpose.

Notwithstanding the provisions of the second paragraph of this Section 25.4(1)(a), the holders of Limited Voting Shares shall be entitled to vote as a separate class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of these Articles (other than in respect of the creation of a series of preferred shares) which would: (i) adversely affect the rights or special rights of the holders of Limited Voting Shares (including an amendment to the terms of these Articles which provide that any Multiple Voting Shares sold or transferred to a Person that is not a Permitted Holder shall be automatically converted into Subordinate Voting Shares and/or Restricted Voting Shares, as applicable); or (ii) affect the holders of any class of Equity Shares differently, on a per share basis; or (iii) except as already set forth herein, create any class or series of shares ranking equal to or senior to the Limited Voting Shares; and in each case such alteration, repeal or amendment shall not be effective unless a resolution in respect thereof is approved by a majority of the votes cast by holders of outstanding Limited Voting Shares.

- (b) *Constraints on Ownership.*

Subject to the Specified Exceptions, the Limited Voting Shares may only be held, beneficially owned or controlled, by U.S. Persons.

(c) Dividends.

Holders of Limited Voting Shares shall be entitled to receive, as and when declared by the board of directors, dividends in cash or property of the Company. No dividend will be declared or paid on any other class of Equity Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on a per share basis) on the Limited Voting Shares. The Limited Voting Shares shall rank equally with the other Equity Shares as to dividends on a share-for-share basis, without preference or distinction. In the event of the payment of a dividend in the form of shares, holders of Limited Voting Shares shall receive Limited Voting Shares, unless otherwise determined by the board of directors, provided an equal number of shares is declared as a dividend or distribution on a then outstanding per-Equity Share basis, without preference or distinction, in each case.

(d) Liquidation, Dissolution or Winding-Up.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Limited Voting Shares shall, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Limited Voting Shares, be entitled to participate ratably in the remaining property of the Company along with all holders of the other classes of Equity Shares (on a per share basis).

(e) Rights to Subscribe; Pre-Emptive Rights.

The holders of Limited Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of shares, or bonds, debentures or other securities of the Company now or in the future.

(f) Subdivision or Consolidation.

No subdivision or consolidation of the Limited Voting Shares shall occur unless, simultaneously, the other classes of Equity Shares are subdivided or consolidated or otherwise adjusted so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes. Subject to Section 25.4(1)(g), the Limited Voting Shares cannot be converted into any other class of shares.

(g) Conversion of Limited Voting Shares.

(1) Automatic

Subject to the Specified Exceptions, each issued and outstanding Limited Voting Share shall be automatically converted into one Subordinate Voting Share, without any further act on the part of the Company or of the holder, if at any given time, such Limited Voting Share becomes held, beneficially owned or controlled, by a Non-U.S. Person.

(2) Conversion into Restricted Voting Shares

Subject to the Specified Exceptions, if, at any given time, the total number of Restricted Voting Shares represents a number below the FPI Threshold, the number of Limited Voting Shares shall be automatically converted, without further act or formality, on a pro-rata basis across all registered holders of Limited Voting Shares (rounded up to the next nearest whole number of shares), on a one-for-one basis, into Restricted Voting Shares, to the maximum extent possible such that the Limited Voting Shares then represent a number of Equity Shares that is one share less than the FPI Threshold.

Notwithstanding the foregoing, in connection with a formal bid for all Equity Shares on identical terms made in compliance with Canadian securities laws that results in the bidder owning or controlling more than fifty percent (50%) of the total voting power of the voting securities of the Company for the election of directors (assuming the Limited Voting Shares each have one (1) vote per share for the election of directors), the bidder may elect, by way of written notice to the Company, that the Limited Voting Shares it so acquires not be automatically converted into Restricted Voting Shares.

(3) Upon an Offer

(i) For the purposes of this Section 25.4(1)(g)(3):

- (A) “Affiliate” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced;
  - (B) “Associate” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced;
  - (C) “Conversion Period” means the period of time commencing on the eighth day after the Offer Date and terminating on the Expiry Date;
  - (D) “Converted Shares” means the Subject Equity Shares resulting from the conversion of Limited Voting Shares into the Subject Equity Shares pursuant to subparagraph (ii);
  - (E) “Exclusionary Offer” means an offer to purchase Subject Equity Shares that:
    - (i) is a General Offer; and
    - (ii) is not made concurrently with an offer to purchase Limited Voting Shares that is identical to the offer to purchase the Subject Equity Shares in terms of price per share and percentage of outstanding shares to be taken up exclusive of shares owned immediately prior to the offer by the Offeror, and in all other material respects, and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Subject Equity Shares;
- and for the purposes of this definition, if an offer to purchase Subject Equity Shares is a General Offer but not an Exclusionary Offer, the varying of any term of such offer shall be deemed to constitute the making of a new offer unless a variation identical in all material respects concurrently is made to the corresponding offer to purchase Limited Voting Shares;
- (F) “Expiry Date” means the last date on which holders of the Subject Equity Shares may accept an Exclusionary Offer;
  - (G) “General Offer” means an offer to purchase Subject Equity Shares that must, by reason of applicable securities legislation or the requirements of any stock exchange on which the Subject Equity Shares are listed, be made to all or substantially all holders of Subject Equity Shares who are in a province of Canada to which any such legislation or requirement applies (assuming that the offeree was resident in Ontario);
  - (H) “Offer Date” means the date on which an Exclusionary Offer is made;
  - (I) “Offeror” means a Person that makes an offer to purchase the Subject Equity Shares (the “bidder”), and includes any Associate or Affiliate of the bidder or any Person that is disclosed in the offering document to be acting jointly or in concert with the bidder;



- (J) “Person” has the meaning assigned by the Securities Act (Ontario) as, from time to time, amended, re-enacted or replaced and includes a company or other body corporate wherever or however incorporated;
- (K) “Subject Equity Shares” means any one or more classes of Equity Shares that are subject to an Exclusionary Offer, other than Limited Voting Shares; and
- (L) “Transfer Agent” means the transfer agent of the Company at the relevant time for any of the Subject Equity Shares (and if there is no such transfer agent, “Transfer Agent” means the Company);
- (ii) subject to subparagraph (v), if an Exclusionary Offer is made, each outstanding Limited Voting Share shall, at the option of each holder of Limited Voting Shares during the Conversion Period, be convertible on a one-for-one basis into the class of Equity Shares that are subject to such Exclusionary Offer (and if more than one class of Equity Shares are subject to such Exclusionary Offer, or different Exclusionary Offers are made for separate classes of Subject Equity Shares, on a one-for-one basis into any class of Equity Shares that are subject to any such Exclusionary Offer, at the holder's election, or failing such election, into any class of Equity Shares that are subject to any such Exclusionary Offer at the board of directors' discretion). The conversion right may be exercised by notice in writing given to the Transfer Agent prior to the Expiry Date accompanied by the share certificate(s) representing the Limited Voting Shares which the holder desires to convert, together with any letter of transmittal or other documentation, including any medallion signature guarantee, as may be required by the Transfer Agent or pursuant to the Exclusionary Offer, in either case, in duly executed or completed form, and such notice shall be executed by such holder, or by his attorney duly authorized in writing, and shall specify the number of Limited Voting Shares which the holder desires to have converted and the class of Equity Shares which are desired to be converted into. The Company shall pay any governmental stamp, transfer or similar tax (but for greater certainty, no income or capital gains tax) imposed on or in respect of such conversion. If less than all of the Limited Voting Shares represented by any share certificate are to be converted, the holder shall be entitled to receive a new share certificate representing in the aggregate the number of Limited Voting Shares represented by the original share certificate, which are not to be converted. Upon any conversion of any shares of any class into shares of another class, the Company shall adjust the capital accounts maintained for the respective classes of shares as provided in the Business Corporations Act. The conversion right may only be exercised in respect of Limited Voting Shares for the purpose of depositing the resulting Subject Equity Shares pursuant to such offer and for no other reason;
- (iii) an election by a holder of Limited Voting Shares to exercise the conversion right provided for in subparagraph (ii) shall be deemed to also constitute irrevocable elections by such holder (a) to deposit the Converted Shares pursuant to the Exclusionary Offer (subject to such holder's right to subsequently withdraw the shares from the offer), and (b) to exercise the right to convert back into Limited Voting Shares all Converted Shares (on a one-for-one basis) in respect of which such holder exercises his, her or its right of withdrawal from the Exclusionary Offer or which are not otherwise ultimately taken up under the Exclusionary Offer. Any conversion of Converted Shares back into Limited Voting Shares in respect of which the holder exercises his, her or its right of withdrawal from the Exclusionary Offer shall become effective at the time such right of withdrawal is exercised. If the right of withdrawal is not exercised, any conversion of Converted Shares back into Limited Voting Shares pursuant to a deemed election shall become effective;
- (A) for Converted Shares not taken up in accordance with the terms of an Exclusionary Offer which is nonetheless completed, on the day that the Offeror has taken up and paid for all shares to be acquired by the Offeror under the Exclusionary Offer; and

- (B) in respect of an Exclusionary Offer which is abandoned or withdrawn, at the time at which the Exclusionary Offer is abandoned or withdrawn;
- (iv) no share certificates representing Converted Shares shall be delivered to the holders of such shares before such shares are deposited pursuant to the Exclusionary Offer. The Transfer Agent, on behalf of the holders of the Converted Shares, shall deposit pursuant to the Exclusionary Offer the share certificates representing all Limited Voting Shares for which the certificates, notices and other documents have been duly delivered to the Transfer Agent pursuant to subparagraph (ii) and shall advise the Offeror of the extent that such certificates so deposited represent Subject Equity Shares of the Company. Upon completion of the Exclusionary Offer, the Transfer Agent shall deliver to the holders of the shares purchased pursuant to the Exclusionary Offer all consideration paid by the Offeror pursuant to the Exclusionary Offer. If Converted Shares are converted back into Limited Voting Shares pursuant to subparagraph (iii), the Transfer Agent shall deliver to the holders entitled thereto share certificates representing the Limited Voting Shares resulting from the conversion. Provided however that if no Limited Voting Shares of a shareholder were acquired by the Offeror pursuant to the Exclusionary Offer, the Transfer Agent shall return the original share certificate (if not duly endorsed for transfer to a named transferee) evidencing such Limited Voting Shares tendered pursuant to subparagraph (ii) in satisfaction of its obligations under this subparagraph (iv). The Company shall make all arrangements with the Transfer Agent necessary or desirable to give effect to this subparagraph (iv);
- (v) subject to subparagraph (vi), the conversion right provided for in subparagraph (ii) shall not come into effect with respect to a class of Subject Equity Shares if:
- (A) prior to the time at which the Exclusionary Offer is made there is or has been delivered to the Transfer Agent and to the corporate secretary of the Company a certification or certifications signed by or on behalf of one or more shareholders of the Company owning in the aggregate, as at the time the Exclusionary Offer is made, more than 50% of the then outstanding Subject Equity Shares of each class (exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror), which certification or certifications shall confirm, in the case of each such shareholder, that made such certification, that such shareholder shall not:
- (i) accept any Exclusionary Offer without giving the Transfer Agent and the corporate secretary of the Company written notice of such acceptance or intended acceptance at least 7 days prior to the Expiry Date;
- (ii) make any Exclusionary Offer;
- (iii) act jointly or in concert with any Person that makes any Exclusionary Offer; or
- (iv) transfer any Subject Equity Shares, directly or indirectly, during the time any Exclusionary Offer is outstanding without giving the Transfer Agent and the corporate secretary of the Company written notice of such transfer or intended transfer at least seven (7) days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of Subject Equity Shares transferred or to be transferred to each transferee; or

- (B) within seven (7) days after the Offer Date there is delivered to the Transfer Agent and to the corporate secretary of the Company a certification or certifications signed by or on behalf of one or more shareholders of the Company owning in the aggregate more than 50% of the then outstanding Subject Equity Shares of such class (exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror), which certification or certifications shall confirm, in the case of each shareholder who made such certification:
- (i) the number of Subject Equity Shares owned by the shareholder;
  - (ii) that such shareholder is not making the Exclusionary Offer and is not an Associate or Affiliate of, or acting jointly or in concert with, the Person making such offer;
  - (iii) that such shareholder shall not accept the Exclusionary Offer, including any varied form of the offer, without giving the Transfer Agent and the corporate secretary of the Company written notice of such acceptance or intended acceptance at least seven (7) days prior to the Expiry Date; and
  - (iv) that such shareholder shall not transfer any Subject Equity Shares, directly or indirectly, prior to the Expiry Date without giving the Transfer Agent and the corporate secretary of the Company written notice of such transfer or intended transfer at least seven (7) days prior to the Expiry Date, which notice shall state, if known to the transferor, the names of the transferees and the number of Subject Equity Shares transferred or to be transferred to each transferee if this information is known to the transferor;
- (vi) if a notice (the "Notice") referred to in sub-clause (v)(A)(i), (v)(A)(iv), (v)(B)(iii) or (v)(B)(iv) is given to the Transfer Agent and to the corporate secretary of the Company and the conversion right provided for in subparagraph (ii) has not, because of the giving of such Notice, come into effect, the Company shall, either forthwith upon receipt of the Notice or forthwith after the seventh (7<sup>th</sup>) day following the Offer Date, whichever is later, make a good faith determination as to whether there are subsisting certifications that comply with either clause (v)(A) or (v)(B) from shareholders of the Company who own in the aggregate more than 50% of the then outstanding Subject Equity Shares of each class, exclusive of shares owned immediately prior to the Exclusionary Offer by the Offeror. If the Company determines that there are not such subsisting certifications, subparagraph (v) shall cease to apply and the conversion right provided for in subparagraph (ii) shall be in effect for the remainder of the Conversion Period;
- (vii) as soon as reasonably possible after the seventh (7<sup>th</sup>) day after the Offer Date, the Company shall send to each holder of Limited Voting Shares a written notice advising the holders as to whether they are entitled to convert their Limited Voting Shares into Subject Equity Shares and the reasons therefor. If such notice discloses that they are not so entitled, but it is subsequently determined that they are so entitled by virtue of subparagraph (vi) or otherwise, the Company shall forthwith send another notice to them advising them of that fact and the reasons therefor;
- (viii) if a notice referred to in subparagraph (vii) discloses that the conversion right set forth in Section 25.4(1)(g)(3)(ii) has come into effect, the notice shall:
- (A) include a description of the procedure to be followed to effect the conversion and to have the Converted Shares tendered under the Exclusionary Offer;
  - (B) include the information set out in subparagraph (iii) hereof; and
  - (C) be accompanied by a copy of the Exclusionary Offer and all other materials sent to any holders of Subject Equity Shares in respect of such offer; and as soon as reasonably possible after any additional material, including any notice of variation, is sent to any holders of Subject Equity Shares in respect of such offer, the Company shall send a copy of such additional materials to each holder of Limited Voting Shares;

- (ix) prior to or forthwith after sending any notice referred to in subparagraph (vii), the Company shall cause a news release to be issued to a Canadian national news service, describing the contents of the notice; and
- (x) references to share certificates shall include, as applicable, the equivalent in any non-certificated inventory system (such as, for example, a Direct Registration System or an electronic position), with appropriate changes.

## **Section 25.5      Rights, Privileges, Restrictions and Conditions Applicable to Equity Shares**

### **(A)      Redemption, Transfer and Other Limiting Provisions**

- (1) For the purposes of this Section 25.5, the following terms will have the meaning specified below:

**“Applicable Price”** means a price per Equity Share determined by the Board, but not less than 95% of the lesser of: (i) ~~the closing price~~ Closing Market Price of the Subordinate Voting Shares on the Exchange (or the then principal marketplace on which the Subordinate Voting Shares are listed or quoted for trading) on the trading day immediately prior to the closing of the Redemption or Transfer (or the average of the last bid and last asking prices if there was no trading on the specified date); and (ii) the five-day volume weighted average price of the Subordinate Voting Shares on the Exchange (or the then principal marketplace on which the Subordinate Voting Shares are listed or quoted for trading) for the five trading days immediately prior to the closing of the Redemption or Transfer (or the average of the last bid and last asking prices if there was no trading on the specified dates). Notwithstanding the foregoing, if the Subordinate Voting Shares are not traded or quoted for trading on the ~~exchange~~ Exchange or any other marketplace, the Applicable Price may be determined by the Board in its sole discretion and if at such time of determination there are no Subordinate Voting Shares issued and outstanding, then all references in this definition to “Subordinate Voting Shares” shall be to “Restricted Voting Shares” or “Limited Voting Shares”, as applicable;

**“Board”** means the board of directors of the Company;

**“Business”** means the conduct of any activities relating to the cultivation, manufacturing and dispensing of cannabis and cannabis-derived products, including in the United States or elsewhere, which include the owning and operating of cannabis licenses;

**“Closing Market Price”** shall be: (i) an amount equal to the closing price of the Subordinate Voting Shares on the trading day immediately prior to the closing of the Redemption or Transfer or exchange if there was a trade on the specified date and the applicable exchange or market provides a closing price; or (ii) an amount equal to the average of the last bid and last asking prices if there was no trading on the applicable date; and notwithstanding the foregoing, if at such time of determination there are no Subordinate Voting Shares issued and outstanding, then all references in this definition to “Subordinate Voting Shares” shall be to “Restricted Voting Shares” or “Limited Voting Shares”, as applicable;

**“Determination Date”** means the date on which the Company provides written notice to any shareholder that the Board has determined that such shareholder is an Unsuitable Person;

**“Exchange”** means the ~~NEO Aequitas~~ Canadian Securities Exchange or any other stock exchange on which the Subordinate Voting Shares are then listed;

**“Governmental Authority”** or **“Governmental Authorities”** means any United States or foreign, federal, provincial, state, county, regional, local or municipal government, any agency, administration, board, bureau, commission, department, service, or other instrumentality or political subdivision of the foregoing, and any Person with jurisdiction exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government or monetary policy (including any court or arbitration authority) and any Exchange;

“**Licenses**” means all licenses, permits, approvals, orders, authorizations, registrations, findings of suitability, franchises, exemptions, waivers and entitlements issued by a Governmental Authority to or for the benefit of the Company or any affiliate required for, or relating to, the conduct of the Business;

“**Limited Voting Shares**” means the limited voting shares of the Company;

“**Multiple Voting Shares**” means the multiple voting shares of the Company;

“**Ownership**” (and derivatives thereof) means (i) ownership of record as evidenced in the Company’s central securities register, (ii) “**beneficial ownership**” as defined in Section 1 of the Business Corporations Act, or (iii) the power to exercise control or direction over a security;

“**Person**” means an individual, partnership, corporation, company, limited or unlimited liability company, trust or any other entity;

“**Redemption**” has the meaning ascribed thereto in Section ~~25.3~~25.5(8);

“**Redemption Date**” means the date on which the Company will redeem and pay for the Equity Shares pursuant to Section ~~25.3~~25.5. The Redemption Date will be not less than thirty (30) Trading Days following the date of the Redemption Notice unless a Governmental Authority requires that the Equity Shares be redeemed as of an earlier date, in which case, the Redemption Date will be such earlier date and if there is an outstanding Redemption Notice, the Company will issue an amended Redemption Notice reflecting the new Redemption Date forthwith;

“**Redemption Notice**” has the meaning ascribed thereto in Section ~~25.3~~25.5(9);

“**Restricted Voting Shares**” means the restricted voting shares of the Company;

“**Significant Interest**” means Ownership of five percent (5%) or more of all of the issued and outstanding shares of the Company, including through acting jointly or in concert with another shareholder, or such other number of Equity Shares as is determined by the Board from time to time;

“**Shares**” refers to ~~Subordinate Voting Shares and/or Multiple Voting Shares of the Company, as applicable;~~

“**Subject Shareholder**” means a ~~person~~Person, a group of ~~persons~~Persons acting jointly or in concert or a group of ~~persons~~Persons who the Board reasonably determines are acting jointly or in concert;

“**Subordinate Voting Shares**” means the subordinate voting shares of the Company;

“**Trading Day**” means a day on which trades of any class of the Equity Shares are executed on the Exchange or any other stock exchange on which the Equity Shares are listed or quoted for trading;

“**Transfer**” has the meaning ascribed thereto in Section ~~25.3~~25.5(8);

“**Transfer Date**” means the date on which a Transfer of Equity Shares required by the Company is required to be completed by the Company;

“**Transfer Notice**” has the meaning ascribed thereto in Section ~~25.3~~25.5(12); and 25.5(12);

“**Transferred Share**” has the meaning ascribed thereto in Section 25.5(8); and

“Unsuitable Person” means:

- (i) any ~~person~~ Person (including a Subject Shareholder) with a Significant Interest who a Governmental Authority granting the Licenses has determined to be unsuitable to own Equity Shares;
  - (ii) any ~~person~~ Person (including a Subject Shareholder) with a Significant Interest whose ownership of Equity Shares may result in the loss, suspension or revocation (or similar action) with respect to any Licenses or in the Company or any affiliate being unable to obtain any new Licenses in the normal course, including, but not limited to, as a result of such ~~person's~~ Person's failure to apply for a suitability review from or to otherwise fail to comply with the requirements of a Governmental Authority, all as determined by the Board; or
  - (iii) who have not been determined by the applicable Governmental Authority to be an acceptable ~~person~~ Person or otherwise have not received the requisite consent of such Governing Authority to own the Equity Shares within a reasonable period of time acceptable to the Board or prior to acquiring any Equity Shares, as applicable.
- (2) Subject to Section ~~25.3(4)~~ 25.5(4), no Subject Shareholder may acquire Equity Shares that would result in the holding of a Significant Interest, directly or indirectly, in one or more transactions, without providing not less than 30 days' advance written notice (or such shorter period as the Board may approve) to the Company by written notice to the Company's head office to the attention of the Corporate Secretary ~~corporate secretary~~ and without having received all required approvals from all Governmental Authorities.
- (3) If the Board reasonably believes that a Subject Shareholder may have failed to comply with any of the provisions of Section ~~25.3(2)~~ 25.5(2), the Company may, without prejudice to any other remedy hereunder, apply to the Supreme Court of British Columbia or another court of competent jurisdiction for an order directing that the Subject Shareholder disclose the number of Equity Shares Owned.
- (4) The provisions of ~~Sections 25.3(2)~~ Section 25.5(2) and ~~25.3(3)~~ Section 25.5(3) will not apply to the Ownership, acquisition or disposition of Equity Shares as a result of:
- (a) any transfer of Equity Shares occurring by operation of bankruptcy or insolvency law including, inter alia, the transfer of Equity Shares of the Company to a trustee in bankruptcy;
  - (b) an acquisition or proposed acquisition by one or more underwriters or portfolio managers who hold Equity Shares for the purposes of distribution to the public or for the benefit of a third party provided that such third party is in compliance with Section ~~25.3(2)~~ 25.5(2);
  - (c) the holding by a recognized clearing agency or recognized depository in the ordinary course of its business; or
  - (d) the conversion, exchange or exercise of securities of the Company or an affiliate (other than the Equity Shares) duly issued or granted by the Company or an affiliate, into or for Equity Shares, in accordance with their respective terms.
- (5) At the option of the Company and upon determination by the Board that an Unsuitable Person has not received the requisite approval of any Government Authority to own the ~~shares~~ Equity Shares, the Company may issue a notice prohibiting any Unsuitable Person owning Equity Shares from exercising any voting rights with respect to such Equity Shares and on and after the Determination Date specified therein, and/or providing that such holder will cease to have any rights whatsoever with respect to such Equity Shares, including any rights to the receipt of dividends from the Company, other than the right to receive the Applicable Price, without interest, on the Redemption Date or the Transfer Date, as applicable; provided, however, that if any such Equity Shares come to be owned solely by ~~persons~~ Persons other than an Unsuitable Person (such as by transfer of such Equity Shares to a liquidating trust, subject to the approval of the Board and any applicable Governmental Authority), such ~~persons~~ Persons may, in the discretion of the Board, exercise the voting and/or other rights attached to such Equity Shares and the Board may determine, in its sole discretion, not to Redeem or require the Transfer of such Equity Shares.

- (6) Notwithstanding anything to the contrary contained herein, all transfers of Multiple Voting Shares are subject to the terms of ~~any coattail agreement entered into in respect thereof~~ the Coattail Agreement and to the other provisions of Article 25. In the event of any conflict between these Articles and any provision of the Coattail Agreement, the provisions of these Articles shall prevail.
- (7) Following any Redemption in accordance with the terms of this Section ~~25.3~~ 25.5, the redeemed Equity Shares will be cancelled.
- (8) At the option, but not obligation, of the Company, and at the discretion of the Board, any Equity Shares directly or indirectly owned by an Unsuitable Person may be (i) redeemed by the Company (for the Applicable Price) out of funds lawfully available on the Redemption Date (a “Redemption”), or (ii) required to be transferred to a third party for the Applicable Price and on such terms and conditions as the Board may direct (a “Transfer”); ~~and each Equity Share subject to a Transfer, a “Transferred Share”).~~ Equity Shares to be redeemed or mandatorily transferred pursuant to this section will be redeemed or mandatorily transferred at any time and from time to time pursuant to the terms hereof.
- (9) In the case of a Redemption, the Company will send a written notice to the holder of the Equity Shares called for Redemption, which will set forth: (i) the Redemption Date, (ii) the number of Equity Shares to be redeemed on the Redemption Date, (iii) the Applicable Price or the formula pursuant to which the Applicable Price will be determined and the manner of payment therefor, (iv) the place where such Equity Shares (or certificate therefor, as applicable) must be surrendered, or accompanied by proper instruments of transfer (and if so determined by the Board, together with a medallion signature guarantee), and (v) any other requirement of surrender of the Equity Shares to be redeemed (the “Redemption Notice”). The Redemption Notice may be conditional such that the Company need not redeem the Equity Shares owned by an Unsuitable Person on the Redemption Date if the Board determines, in its sole discretion, that such Redemption is no longer advisable or necessary on or before the Redemption Date. If applicable, the Company will send a written notice confirming the amount of the Applicable Price promptly following the determination of such Applicable Price.
- (10) Upon receipt by the Unsuitable Person of a Redemption Notice in accordance with Section ~~25.3~~ 25.5(9) and surrender of the relevant Equity Share certificate, if applicable, the holder of the Equity Shares tendered for redemption (together with the applicable transfer documents) shall be entitled to receive the Applicable Price per redeemed Equity Share.
- (11) The Applicable Price payable in respect of the Equity Shares surrendered for Redemption during any calendar month shall be satisfied by way of cash payment no later than the last day of the calendar month following the month in which the Equity Shares were tendered for Redemption. Payments made by the Company of the cash portion of the Applicable Price, less any applicable taxes and any costs to the Company of the Redemption, are conclusively deemed to have been made upon the mailing of a cheque in a postage prepaid envelope addressed to the Unsuitable Person unless such cheque is dishonoured upon presentment. Upon such payment, the Company shall be discharged from all liability to the former Unsuitable Person in respect of the redeemed Equity Shares.
- (12) In the case of a required Transfer, the Company will send a written notice to the holder of the Equity Shares in question, which will set forth: (i) the Transfer Date, (ii) the number of Equity Shares to be Transferred on the Transfer Date, (iii) the Applicable Price or the formula pursuant to which the Applicable Price will be determined and the manner of payment therefor, (iv) the place where such Equity Shares (or certificate therefor, as applicable) must be surrendered, accompanied by proper instruments of transfer (and if so determined by the Board, together with a medallion signature guarantee), and (v) any other requirement in respect of the Equity Shares to be Transferred, which may without limitation include a requirement to dispose of the Equity Shares via the Exchange to a person ~~Person~~ who would not be in violation of the provisions of this Section ~~25.3~~ 25.5(12) (the “Transfer Notice”). The Transfer Notice may be conditional such that the Company need not require the Transfer of the Equity Shares owned by an Unsuitable Person on the Transfer Date if the Board determines, in its sole discretion, that such Transfer is no longer advisable or necessary on or before the Transfer Date. If applicable, the Company will send a written notice confirming the amount of the Applicable Price promptly following the determination of such Applicable Price.

- (13) Upon receipt by the Unsuitable Person of a Transfer Notice in accordance with Section ~~25.3~~25.5(12) and surrender of the relevant Equity Share certificate, if applicable (together with applicable Transfer documents), the holder of the Equity Shares tendered for Transfer shall be entitled to receive the Applicable Price per Transferred Share.
- (14) The Applicable Price payable in respect of the Equity Shares surrendered for Transfer during any calendar month shall be satisfied, less any costs to the Company of the Transfer, by way of cash payment no later than the last day of the calendar month following the month in which the Equity Shares were tendered for Transfer. Payments made by the Company of the cash portion of the Applicable Price, less any applicable taxes and any costs to the Company of the Transfer, are conclusively deemed to have been made upon the mailing of a cheque in a postage prepaid envelope addressed to the Unsuitable Person unless such cheque is dishonoured upon presentment. Upon such payment, the Company shall be discharged from all liability to the former Unsuitable Person in respect of the Transferred Shares.
- (15) If Equity Shares are required to be Transferred under Section ~~25.3~~25.5(12), the former owner of the Equity Shares immediately before the Transfer shall by that Transfer be divested of their interest or right in the Equity Shares, and the person Person who, but for the Transfer, would be the registered owner of the Equity Shares or a person Person who satisfies the Company that, but for the Transfer, they could properly be treated as the registered owner or registered holder of the Equity Shares shall, from the time of the Transfer, be entitled to receive only the Applicable Price per Transferred Share, without interest, less any applicable taxes and any costs to the Company of the Transfer.
- (16) Following the sending of any Redemption Notice or Transfer Notice, and prior to the completion of the Redemption or Transfer specified therein, the Company may refuse to recognize any other disposition of the Equity Shares in question.
- (17) If the Company does not know the address of the former holder of Equity Shares Transferred or Redeemed hereunder, it may retain the amount payable to the former holder thereof, title to which shall revert to the Company if not claimed within two (2) years (and at that time all rights thereto shall belong to the Company).
- (18) To the extent required by applicable laws, the Company may deduct and withhold any tax from the Applicable Price. To the extent any amounts are so withheld and are timely remitted to the applicable Governmental Authority, such amounts shall be treated for all purposes herein as having been paid to the Person in respect of which such deduction and withholding was made.
- (19) All notices given by the Company to holders of Equity Shares pursuant to this Schedule, including a Redemption Notice or Transfer Notice, will be in writing and will be deemed given when delivered by personal service, overnight courier or first-class mail, postage prepaid, to the holder's registered address as shown on the Company's share register.
- (20) The Company's right to Redeem or Transfer Equity Shares pursuant to this Section ~~25.3~~ 25.5 will not be exclusive of any other right the Company may have or hereafter acquire under any agreement or any provision of the notice of articles or the articles of the Company or otherwise with respect to the Equity Shares or any restrictions on holders thereof.
- (21) In connection with the conduct of its or its affiliates' Business, the Company may require that a Subject Shareholder provide to one or more Governmental Authorities, if and when required, information and fingerprints for a criminal background check, individual history form(s), and other information required in connection with applications for Licenses.



- (22) The Board can waive any provision of this Section ~~25.3~~25.5.
- (23) In the event that any provision (or portion of a provision) of this Section ~~25.3-25.5~~ or the application thereof becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of Section ~~25.3~~ 25.5 (including the remainder of such provision, as applicable) will continue in full force and effect.

**(B) Board Powers, Declarations and Deeming Provisions**

- (1) Where an Equity Share is held, beneficially owned or controlled, directly or indirectly, or jointly by (i) one or more U.S. Persons and (ii) one or more Non-U.S. Persons, such Equity Share shall be deemed to be held, beneficially owned or controlled by a U.S. Person.
- (2) So long as they are publicly listed, the Subordinate Voting Shares, Restricted Voting Shares and Limited Voting Shares may, in the Company's discretion and subject to regulatory approval, trade under a single stock symbol on the Exchange.
- (3) Subject to the Business Corporations Act, the board of directors may, in its sole discretion, in order to administer the constrained share provisions of the Equity Shares set out in these Articles:
- (h) require any Person in whose name Equity Shares are registered or any beneficial holder or controller, whether direct or indirect, of the Equity Shares to furnish a statutory declaration declaring whether:
- (i) the shareholder holds, is the beneficial owner of and/or has control over the Equity Shares of the Company (and if the Person is not also the beneficial owner and in control of the Equity Shares, the Person must make reasonable inquiries of the beneficial owner(s) or persons in control of such Equity Shares to confirm that the statements made in the statutory declaration as they pertain to the beneficial owner and controller are true); and
- (ii) the Equity Shares are held, beneficially owned or controlled, by a U.S. Person or a Non-U.S. Person;
- and declaring any further facts or provide any other documents that the directors consider relevant;
- (b) require any Person seeking to have a transfer of an Equity Share registered in such Person's name or to have an Equity Share issued to him or her or it to furnish a declaration similar to the declaration a shareholder may be required to furnish under paragraph (a) above; and
- (c) determine the circumstances in which any declarations are required, their form and the times when they are to be furnished.
- (2) Where a Person fails to furnish a declaration pursuant to a by-law or other document made under this Section 25.5(B) in accordance with the requested timeline, the directors may, in their sole discretion, deem such shareholder to be a U.S. Person.
- (3) Where a Person is required to furnish a declaration pursuant to a by-law or other document made under this Section 25.5(B) the directors may refuse to register a transfer of an Equity Share in such Person's name or to issue an Equity Share to such Person until that Person has furnished the declaration.

**(C) Administration by the Board**

- (1) In the administration of the provisions of these Articles, the board of directors shall have, in addition to the powers set forth herein, all of the powers necessary or desirable, in their opinion, to carry out the intent and purpose of these Articles.

- (2) In administering the provisions of these Articles, including for the purpose of determining the shareholder's or transferee's status as a U.S. Person or Non-U.S. Person, the board of directors may rely on:
- (a) a statement made in a declaration referred to in Section 25.5(B); and
  - (b) any information received from Broadridge Investor Communications Corporation, or any affiliate, successor or assign thereof;
  - (c) any information received from CDS Clearing and Depositary Services Inc., or any affiliate, successor or assign thereof; and/or
  - (d) the knowledge of any director, officer, employee or agent (including the Transfer Agent) of the Company.
- (3) Where the directors are required to determine the number of any class or classes of Equity Shares of the Company held by or on behalf of Persons who are U.S. Persons or Non-U.S. Person, as applicable, the directors may rely upon (i) the share register of the Company or (ii) any other register held, or any declaration collected by, the transfer agent of the Company or any depositary, such as CDS Clearing and Depositary Services Inc. (or any affiliate, successor or assign thereof), or by Broadridge Investor Communications Corporation (or any affiliate, successor or assign thereof), in each case, as of any date.
- (4) Wherever in these Articles it is necessary to determine the opinion of the board of directors, such opinion shall be expressed and conclusively evidenced by a resolution of the board of directors duly adopted, including a resolution in writing executed pursuant these Articles and the Business Corporations Act.
- (5) No shareholder of the Company nor any other Person claiming an interest in shares of the Company shall have any claim or action against the Company or against any director or officer of the Company, and the Company shall have no claim or action against any director or officer of the Company, arising out of any act (including any omission to act) taken by any such director or officer pursuant to, or in intended pursuance of, the provisions of these articles or any breach or alleged breach of such provisions.

**ARTICLE 26**  
**ADVANCE NOTICE OF MEETINGS OF SHAREHOLDERS**

**Section 26.1      Nomination Procedures.**

- (1) Subject only to the Business Corporations Act, regulations, Applicable Securities Law and the articles of the Company, only ~~persons~~ Persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company. Nominations of ~~persons~~ Persons for election to the board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if the election of directors is a matter specified in the notice of meeting,
- (a) by or at the direction of the board, including pursuant to a notice of meeting;
  - (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Business Corporations Act, or a requisition of the shareholders made in accordance with the provisions of the Business Corporations Act; or
  - (c) by any ~~person~~ Person (a "**Nominating Shareholder**") who (A) at the close of business on the date of the giving of the notice provided for in this Article 26 and on the record date for notice of such meeting, is entered in the central securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting and provides evidence of such beneficial ownership to the Company, and (B) complies with the notice procedures set forth below in this Article.

**Section 26.2** ~~Timely notice~~Notice.

In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the ~~Corporate Secretary~~corporate secretary of the Company in accordance with this Article 26.

**Section 26.3** ~~Manner of timely notice~~Timely Notice.

- (1) To be timely, a Nominating Shareholder's notice under this Article 26 must be given:
- (a) in the case of an annual meeting (including an annual and special meeting) of shareholders, not less than 30 days prior to the date of the meeting; provided, however, that in the event that the meeting is to be held on a date that is less than 50 days after the date (the "**Notice Date**") on which the first public announcement of the date of the meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10<sup>th</sup>) day following the Notice Date; and
  - (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15<sup>th</sup>) day following the day on which the first public announcement of the date of the meeting was made.

**Section 26.4** ~~Proper form of notice~~Form of Notice.

- (1) To be in proper written form, a Nominating Shareholder's notice under this Article 26 must set forth:
- (a) as to each ~~person~~Person whom the Nominating Shareholder proposes to nominate for election as a director: (A) the name, age, province or state, and country of residence of the ~~person~~Person, (B) the principal occupation, business or employment of the ~~person~~Person, both present and within the five years preceding the notice, (C) the number of securities of each class of voting securities of the ~~Corporation~~Company or any of its subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by such ~~person~~Person, as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, and (D) any other information relating to the ~~person~~Person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Business Corporations Act or any Applicable Securities Laws; and
  - (b) as to the Nominating Shareholder: (A) the number of securities of each class of voting securities of the Company or any of its subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by such ~~person~~Person or any joint actors, as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (B) full particulars regarding any proxy, contract, arrangement, agreement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote or to direct or to control the voting of any shares of the Company; and (C) any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Business Corporations Act or any Applicable Securities Laws;
  - (c) References to "Nominating Shareholder" in this Article 26 shall be deemed to refer to each shareholder that nominates a ~~person~~Person for election as director in the case of a nomination proposal where more than one shareholder is involved in making such nomination proposal.

**Section 26.5      ~~Notice to be updated~~Updated.**

In addition, to be considered timely and in proper written form, a Nominating Shareholder's notice shall be promptly updated and supplemented, if necessary, so that the information provided or required under this Article 26 to be provided in such notice shall be true and correct as of the record date for the meeting.

**Section 26.6      ~~Power of the chairman~~Chair.**

The ~~chairman~~chair of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

**Section 26.7      ~~Delivery of notice~~Notice.**

Notwithstanding any other provision of these articles, notice given to the ~~Corporate Secretary~~corporate secretary of the Company pursuant to this Article 26 may only be given by personal delivery, facsimile transmission or by email (provided that the ~~Corporate Secretary~~corporate secretary of the Company has stipulated an email address for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of the confirmation of such transmission has been received) to the ~~Corporate Secretary~~corporate secretary of the Company at the address of the principal executive offices of the Company; provided that if such delivery or electronic communication is made on a day which is not a business day or later than 5:00 p.m. (Vancouver time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

**Section 26.8      ~~Waiver.~~**

Notwithstanding the foregoing, the board may, in its sole discretion, waive any or all requirements in this Article 26.

**Section 26.9      ~~Definitions.~~**

(1) For purposes of this Article 26,

- (a) “**Applicable Securities Laws**” means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the written rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commissions and similar regulatory authorities of each province and territory of Canada;
- (b) “**beneficially owns**” or “**beneficially owned**” means, in connection with the ownership of shares in the capital of the Company by a ~~person~~Person, (i) any such shares as to which such ~~person~~Person or any of such ~~person's~~Person's affiliates (as defined in the Business Corporations Act) owns at law or in equity, or has the right to acquire or become the owner at law or in equity, where such right is exercisable immediately or after the passage of time and whether or not on condition or the happening of any contingency or the making of any payment, upon the exercise of any conversion right, exchange right or purchase right attaching to any securities, or pursuant to any agreement, arrangement, pledge or understanding whether or not in writing; (ii) such shares as to which such ~~person~~Person or any of such ~~person's~~Person's affiliates (as defined in the Business Corporations Act) has the right to vote, or the right to direct the voting, where such right is exercisable immediately or after the passage of time and whether or not on condition or the happening of any contingency or the making of any payment, pursuant to any agreement, arrangement, pledge or understanding whether or not in writing; and (iii) any such shares which are owned beneficially within the meaning of this definition by any other ~~person~~Person with whom such ~~person~~Person is acting jointly or in concert with respect to the ~~Corporation~~Company or any of its securities; and

- (c) “**close of business**” means 5:00 p.m. (Vancouver time) on a business day in British Columbia, Canada; and
- (d) “**public announcement**” shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the ~~Corporation~~ Company under its profile on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).

## **ARTICLE 27 FORUM SELECTION**

### **Section 27.1 Forum Selection**

- (1) Unless the Company consents in writing to the selection of an alternative forum, the Supreme Court of the Province of British Columbia, Canada and the appellate courts therefrom (collectively, the “courts”) shall, to the fullest extent permitted by law, be the sole and exclusive forum for : (i) any derivative action or proceeding brought on behalf of the Company; (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Company to the Company; (iii) any action asserting a claim arising pursuant to any provision of the Business Corporations Act or the notice of articles or articles of the Company (as either may be amended from time to time); or (iv) any action asserting a claim otherwise related to the relationships among the Company, its affiliates and their respective shareholders, directors and/or officers, but this paragraph (v) does not include claims related to the business carried on by the Company or such affiliates.
- (2) If any action or proceeding the subject matter of which is within the scope of the preceding sentence is filed in a court other than a court located within the province of British Columbia (a “Foreign Action”) in the name of any registered or beneficial shareholder, such registered or beneficial shareholder shall be deemed to have consented to : (i) the personal jurisdiction of the courts in connection with any action brought in any such court to enforce the foregoing exclusive forum provision (an “enforcement action”); and (ii) having service of process made upon such registered or beneficial shareholder in such enforcement action by service upon such registered or beneficial shareholder’s counsel in the Foreign Action as agent for such shareholder.

## **ARTICLE 28 CORPORATE OPPORTUNITIES**

### **Section 28.1 Excluded Opportunities**

The Company renounces, to the maximum extent permitted by law, any interest or expectancy of the Company in, or in being offered an opportunity to participate in, any Excluded Opportunity. An “Excluded Opportunity” is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of, any director or officer of the Company (or any of its subsidiaries) who is also a director or officer of another company or corporation (or of any subsidiaries thereof) (collectively, “Covered Persons”), unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person’s capacity as a director or officer of the Company or a subsidiary thereof.

## **Section 28.2      Allocation of Opportunities**

The Company may enter into agreements with other parties regarding the allocation of corporate opportunities. To the maximum extent permissible under applicable law, no director or officer shall have any liability for complying or attempting to comply in good faith with the provisions thereof (which may involve, among other things, not bringing potential transactions to the attention of the Company).

Dated \_\_\_\_\_, ~~2019~~2020.

## AUDIT COMMITTEE CHARTER

**Section 1 PURPOSE**

The audit committee (the “**Audit Committee**”) is a committee of the board of directors (the “**Board**”) of Ayr Strategies Inc. (the “**Corporation**”). The primary function of the Audit Committee is to assist the directors of the Corporation in fulfilling their applicable roles by:

- (a) recommending to the Board the appointment and compensation of the Corporation’s external auditor;
- (b) overseeing the work of the external auditor, including the resolution of disagreements between the external auditor and management;
- (c) pre-approving all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Corporation by the Corporation’s external auditor;
- (d) satisfying themselves that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information, other than those described in (g) below, extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures;
- (e) establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (f) reviewing and approving any proposed hiring of current or former partner or employee of the current and former auditor of the Corporation; and
- (g) reviewing and approving the annual and interim financial statements, related Management Discussion and Analysis (“**MD&A**”) and other financial information provided by the Corporation to any governmental body or the public.

The Audit Committee should primarily fulfill these roles by carrying out the activities enumerated in this Charter. However, it is not the duty of the Audit Committee to prepare financial statements, to plan or conduct internal or external audits, to determine that the financial statements are complete and accurate and are in accordance with Canadian generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Corporation’s internal policies, procedures and controls, as these are the responsibility of management, and in certain cases, the external auditor.

**Section 2 LIMITATIONS ON AUDIT COMMITTEE’S DUTIES**

In contributing to the Audit Committee’s discharge of its duties under this Charter, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended to be, or may be construed as, imposing on any members of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the directors are subject.

Members of the Audit Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor, (iv) financial statements of the Corporation represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles, and (v) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

### Section 3 COMPOSITION AND MEETINGS

The Audit Committee should be comprised of not less than three directors as determined by the Board, all of whom should be “financially literate” within the meaning of NI 52-110 – *Audit Committees* (“**52-110**”) of the Canadian Securities Administrators. The Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant. In the event the Corporation ceases to be a venture issuer, the Audit Committee should comply with the independence requirements set forth in NI 52-110.

The members of the Audit Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair of the Audit Committee (the “**Chair**”) is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

In addition, the Audit Committee members should meet all of the requirements for members of audit committees as defined from time to time under applicable legislation and the rules of any stock exchange on which the Corporation’s securities are listed or traded.

The Audit Committee should meet at least four times annually, or more frequently as circumstances require. The Audit Committee should meet within forty-five (45) days following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and should meet within 90 days following the end of the fiscal year end to review and discuss the audited financial results for the preceding quarter and year and the related MD&A.

The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Audit Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Corporation with senior employees, officers and the external auditor of the Corporation, and others as they consider appropriate.

For greater certainty, management is indirectly accountable to the Audit Committee and is responsible for the timeliness and integrity of the financial reporting and information presented to the Board.

In order to foster open communication, the Audit Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee or its Chair should meet with management quarterly in connection with the Corporation’s interim financial statements.

A quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee or such greater number as the Audit Committee shall by resolution determine.

Meetings of the Audit Committee shall be held from time to time and at such place as any member of the Audit Committee shall determine upon 48 hours’ notice to each of its members. The notice period may be waived by all members of the Audit Committee. Each of the Chair of the Board, the external auditor, the Chief Executive Officer, the Chief Financial Officer or the Secretary shall be entitled to request that any member of the Audit Committee call a meeting.

This Charter is subject in all respects to the Corporation’s articles of incorporation and by-laws from time to time.



#### **Section 4           ROLE**

As part of its function in assisting the Board in fulfilling its oversight role (and without limiting the generality of the Audit Committee's role), the Audit Committee should:

- (1) Determine any desired agenda items;
- (2) Review and recommend to the Board changes to this Charter, as considered appropriate from time to time;
- (3) Review the public disclosure regarding the Audit Committee required by 52-110;
- (4) Review and seek to ensure that disclosure controls and procedures and internal control over financial reporting frameworks are operational and functional;
- (5) Summarize in the Corporation's annual information form the Audit Committee's composition and activities, as required;
- (6) Submit the minutes of all meetings of the Audit Committee to the Board upon request;

#### **Documents / Reports Review**

- (7) Review and recommend to the Board for approval the Corporation's annual and interim financial statements, including any certification, report, opinion, undertaking or review rendered by the external auditor and the related MD&A, as well as such other financial information of the Corporation provided to the public or any governmental body as the Audit Committee or the Board require;
- (8) Review other financial information provided to any governmental body or the public as they see fit;
- (9) Review, recommend and approve any of the Corporation's press releases that contain financial information;
- (10) Seek to satisfy itself and ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and related MD&A and periodically assess the adequacy of those procedures;

#### **External Auditor**

- (11) Recommend to the Board the selection of the external auditor, considering independence and effectiveness, and review the fees and other compensation to be paid to the external auditor;
- (12) Review and seek to ensure that all financial information provided to the public or any governmental body, as required, provides for the fair presentation of the Corporation's financial condition, financial performance and cash flow;
- (13) Instruct the external auditor that its ultimate client is not management and that it is required to report directly to the Audit Committee, and not management;
- (14) Monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion between management and the external auditor;
- (15) Review and discuss, on an annual basis, with the external auditor all significant relationships it has with the Corporation to determine the external auditor's independence;
- (16) Pre-approve all non-audit services (or delegate such pre-approval, as the Audit Committee may determine and as permitted by applicable Canadian securities laws) to be provided by the external auditor;
- (17) Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant;

- (18) Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper;
- (19) Communicate directly with the external auditor and arrange for the external auditor to be available to the Audit Committee and the full Board as needed;
- (20) Review and approve any proposed hiring by the Corporation of current or former partners or employees of the current (and any former) external auditor of the Corporation;

#### **Audit Process**

- (21) Review the scope, plan and results of the external auditor's audit and reviews, including the auditor's engagement letter, the post-audit management letter, if any, and the form of the audit report. The Audit Committee may authorize the external auditor to perform supplemental reviews, audits or other work as deemed desirable;
- (22) Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews;
- (23) Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements;
- (24) Where there are significant unsettled issues between management and the external auditor that do not affect the audited financial statements, the Audit Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters;

#### **Financial Reporting Processes**

- (25) Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor as they see fit;
- (26) Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices;
- (27) Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions;
- (28) Review with management and the external auditor the Corporation's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and practices used, any alternative treatments of financial information that have been discussed with management, the ramification of their use and the external auditor's preferred treatment and any other material communications with management with respect thereto;
- (29) Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financial reporting;
- (30) If considered appropriate, establish separate systems of reporting to the Audit Committee by each of management and the external auditor;

- (31) Periodically consider the need for an internal audit function, if not present;

**Risk Management**

- (32) Review program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance;

**General**

- (33) With prior Board approval, the Audit Committee may at its discretion retain independent counsel, accountants and other professionals to assist it in the conduct of its activities and to set and pay (as an expense of the Corporation) the compensation for any such advisors;
- (34) Respond to requests by the Board with respect to the functions and activities that the Board requests the Audit Committee to perform.
- (35) Periodically review this Charter and, if the Audit Committee deems appropriate, recommend to the Board changes to this Charter;
- (36) Review the public disclosure regarding the Audit Committee required from time to time by applicable Canadian securities laws, including:
- (i) the Charter of the Audit Committee;
  - (ii) the composition of the Audit Committee;
  - (iii) the relevant education and experience of each member of the Audit Committee;
  - (iv) the external auditor services and fees; and
  - (v) such other matters as the Corporation is required to disclose concerning the Audit Committee;
- (37) Review in advance, and approve, the hiring and appointment of the Corporation's senior financial executives by the Corporation, if any; and
- (38) Perform any other activities as the Audit Committee deems necessary or appropriate including ensuring all regulatory documents are compiled to meet Committee reporting obligations under 52-110.

**Section 5 AUDIT COMMITTEE COMPLAINT PROCEDURES**

**Submitting a Complaint**

- (39) Anyone may submit a complaint regarding conduct by the Corporation or its employees or agents (including its independent auditors) reasonably believed to involve questionable accounting, internal accounting controls or auditing matters. The Chair should oversee treatment of such complaints.

**Procedures**

- (40) The Chair will be responsible for the receipt and administration of employee complaints.
- (41) In order to preserve anonymity when submitting a complaint regarding questionable accounting or auditing matters, the employee may submit a complaint confidentially.

**Investigation**

- (42) The Chair should review and investigate the complaint. Corrective action will be taken when and as warranted in the Chair's discretion.

**Confidentiality**

- (43) The identity of the complainant and the details of the investigation should be kept confidential throughout the investigatory process.

**Records and Report**

- (44) The Chair should maintain a log of complaints, tracking their receipt, investigation, findings and resolution, and should prepare a summary report for the Audit Committee.

The Audit Committee is a committee of the Board and is not and shall not be deemed to be an agent of the Corporation's securityholders for any purpose whatsoever. The Board may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Corporation or other liability whatsoever.

## Form 51-102F3

*Material Change Report***Item 1 Name and Address of Company**

Ayr Strategies Inc. (“Ayr” or the “Company”)  
590 Madison Avenue, 26<sup>th</sup> Floor  
New York, New York 10022

**Item 2 Date of Material Change**

November 4, 2020

**Item 3 News Release**

A press release describing the material change was disseminated by Ayr on November 4, 2020 through GlobeNewswire and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Item 4 Summary of Material Change**

Ayr today announced an agreement to acquire a vertically integrated cannabis operation in the state of Arizona (“Oasis”), including cultivation and processing facilities and three operational licensed dispensaries, expanding the Company’s activities to five key states. Including all pending transactions, Ayr will have operations in Massachusetts, Nevada, Pennsylvania, Ohio and Arizona.

Ayr has signed a binding term sheet for three licensed dispensaries in greater Phoenix, two in Chandler and one in Glendale, a 10,000 ft<sup>2</sup> licensed cultivation and processing facility in Chandler and an 80,000 ft<sup>2</sup> licensed cultivation facility under development in Phoenix (the “Phoenix Facility”).

**Item 5 Full Description of Material Change****5.1 Full Description of Material Change**

Ayr today announced an agreement to acquire a vertically integrated cannabis operation in the state of Arizona, including cultivation and processing facilities and three operational licensed dispensaries, expanding the Company’s activities to five key states. Including all pending transactions, Ayr will have operations in Massachusetts, Nevada, Pennsylvania, Ohio and Arizona.

Ayr has signed a binding term sheet for three licensed dispensaries in greater Phoenix, two in Chandler and one in Glendale, a 10,000 ft<sup>2</sup> licensed cultivation and processing facility in Chandler and an 80,000 ft<sup>2</sup> licensed cultivation facility under development in Phoenix.

The terms of the transaction include upfront consideration of US\$81 million, made up of US\$10 million in cash, US\$41 million in exchangeable shares exercisable on a 1-for-1 basis into subordinate voting shares (representing approximately 2.75 million subordinate voting shares, shares priced at the 10-day VWAP prior to announcement, namely C\$19.24) and US\$30 million in seller notes.

An additional 2 million exchangeable shares, which will be issued at closing but placed in escrow, would be payable when the Phoenix Facility produces in excess of 3,000 pounds of sellable dry weight cannabis flower (excluding trim) over a trailing 90-day period.

Additional earn-out consideration in 2021 and 2022 may be paid in shares exchangeable into subordinate voting shares of Ayr, priced at the then 10-day VWAP, with the earnout value calculated based on a 25% discount to Ayr’s then trading enterprise value to Adjusted EBITDA multiple and based on Oasis exceeding Adjusted EBITDA hurdles of (i) US\$30 million for the twelve-month period ending December 31, 2021, and (ii) the Adjusted EBITDA of Oasis in 2021 for the twelve-month period ending December 31, 2022.

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The acquisition is subject to final due diligence, definitive documentation, customary closing conditions and regulatory approvals, and there can be no assurance that it will be completed.

“Adjusted EBITDA” represents income (loss) from operations, as reported, before interest and tax, adjusted to exclude extraordinary items, non-recurring items, other non-cash items, including stock-based compensation expense, depreciation and amortization, the adjustments for the accounting of the fair value of biological assets and the incremental costs to acquire cannabis inventory in a business combination, acquisition related costs, and further adjusted to add back any lease expense capitalized by IFRS accounting standards. A reconciliation of how Ayr calculates adjusted EBITDA is provided in Ayr’s Q2 MD&A. The Company reminds you that Adjusted EBITDA is a non-IFRS measure without a standardized meaning and therefore may not be comparable to similar figures used by other companies. It is being used in this case for purposes of purchase price determination, and there is accordingly no directly comparable IFRS measure applicable.

## **5.2 Disclosure for Restructuring Transactions**

Not applicable.

## **Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

## **Item 7 Omitted Information**

Not applicable.

## **Item 8 Executive Officer**

Further information regarding the matters described in this report may be obtained from:

Megan Kulick  
Head of Investor Relations  
Ayr Strategies Inc.  
590 Madison Avenue, 26th Floor  
New York, New York 10022  
(646) 977-7914 or [ir@ayrstrategies.com](mailto:ir@ayrstrategies.com)

## **Item 9 Date of Report**

November 4, 2020

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## Form 51-102F3

*Material Change Report***Item 1 Name and Address of Company**

Ayr Strategies Inc. (“Ayr” or the “Company”)  
590 Madison Avenue, 26<sup>th</sup> Floor  
New York, New York 10022

**Item 2 Date of Material Change**

November 20, 2020

**Item 3 News Release**

A press release describing the material change was disseminated by Ayr on November 27, 2020 through GlobeNewswire and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Item 4 Summary of Material Change**

Ayr entered into a definitive membership interest purchase agreement with CannTech PA, LLC (“CannTech”) dated November 20, 2020, following the announcement on August 26, 2020 that it intended to purchase 100% of the membership interests of CannTech for total purchase consideration of US\$55.4 million. The purchase consideration will be paid as to US\$25.2 million in cash, US\$15 million in exchangeable shares of CSAC Acquisition Inc. (“CSAC AcquisitionCo”), a wholly-owned subsidiary of Ayr, each of which is exchangeable on a one-for-one basis for a subordinate voting share of the Ayr, and US\$15.2 million in notes.

**Item 5 Full Description of Material Change****5.1 Full Description of Material Change**

Ayr entered into a definitive membership interest purchase agreement with CannTech PA, LLC (“CannTech”) dated November 20, 2020, following the announcement on August 26, 2020 that it intended to purchase 100% of the membership interests of CannTech for total purchase consideration of US\$57 million. The purchase consideration will be paid as to US\$25.2 million in cash, US\$15 million in exchangeable shares of CSAC AcquisitionCo, each of which is exchangeable on a one-for-one basis for a subordinate voting share of Ayr and US\$15.2 million in notes. A copy of the purchase agreement is being filed contemporaneously on SEDAR.

The transaction is expected to close by the end of 2020, subject to customary conditions including required regulatory approvals.

CannTech is a licensed operator in the Commonwealth of Pennsylvania. The acquisition includes a 143,000 ft<sup>2</sup> cultivation and processing facility under development with the initial construction phase comprising 45,000 ft<sup>2</sup> recently approved for cultivation and with an expected first harvest in March 2021. The site provides room for further expansion beyond the 143,000 ft<sup>2</sup> facility.

CannTech also has the right to operate six dispensaries expected to open in retail locations, most of which are clustered in the Pittsburgh and Philadelphia regions. The first such dispensary opened in October 2020 in New Castle, PA, with two more expected to open in early 2021.

CannTech also has a research program in collaboration with a local medical school.

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### *Forward Looking Statements*

Certain information contained in this material change report may be forward-looking statements within the meaning of applicable securities laws. Forward-looking statements are often, but not always, identified by the use of words such as “target”, “expect”, “anticipate”, “believe”, “foresee”, “could”, “would”, “estimate”, “goal”, “outlook”, “intend”, “plan”, “seek”, “will”, “may”, “tracking”, “pacing” and “should” and similar expressions or words suggesting future outcomes. This material change report includes forward-looking information and statements pertaining to, among other things, Ayr’s future growth plans. Numerous risks and uncertainties could cause the actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: anticipated strategic, operational and competitive benefits may not be realized; events or series of events, including in connection with COVID-19, may cause business interruptions; required regulatory approvals may not be obtained; acquisitions may not be able to be completed on satisfactory terms or at all; and Ayr may not be able to raise additional debt or equity capital. Among other things, Ayr has assumed that its businesses will operate as anticipated, that it will be able to complete acquisitions on reasonable terms, and that all required regulatory approvals will be obtained on satisfactory terms and within expected time frames. In particular, there can be no assurance that we will complete the pending acquisition in or enter into agreements with respect to other acquisitions.

### **5.2 Disclosure for Restructuring Transactions**

Not applicable.

### **Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

### **Item 7 Omitted Information**

Not applicable.

### **Item 8 Executive Officer**

Further information regarding the matters described in this report may be obtained from:

Megan Kulick  
Head of Investor Relations  
Ayr Strategies Inc.  
590 Madison Avenue, 26th Floor  
New York, New York 10022  
(646) 977-7914 or [ir@ayrstrategies.com](mailto:ir@ayrstrategies.com)

### **Item 9 Date of Report**

November 30, 2020

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**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**Item 1 Name and Address of Company**

Ayr Strategies Inc. (“Ayr” or the “Company”)  
590 Madison Avenue, 26th Floor  
New York, New York 10022

**Item 2 Date of Material Change**

December 10, 2020

**Item 3 News Release**

Press releases describing the material change were disseminated by Ayr on December 9, 2020 and December 10, 2020 through GlobeNewswire and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Item 4 Summary of Material Change**

Ayr announced the closing of an offering of US\$110 million aggregate principal amount of 12.5% senior secured notes due 2024 (the “Notes”).

Ayr also announced the completion of its incentive cash exercise of three million of the Company’s share purchase warrants (the “Warrants”), resulting in gross proceeds to the Company of over US\$25 million.

**Item 5 Full Description of Material Change****5.1 Full Description of Material Change**Note Offering

Ayr announced on December 3, 2020, that it received commitments from a syndicate of lenders for the purchase of US\$75 million aggregate principal amount of Notes with a further US\$25 million overallotment option.

On December 9, 2020, Ayr announced that it increased the size of its previously announced offering to US \$110 million aggregate principal amount of Notes. The offering of the Notes closed on December 10, 2020. The Notes were sold at an issue price of US\$985 per US\$1,000 aggregate principal amount. The Notes bear interest of 12.5% per annum, payable semi-annually, in equal instalments, with a maturity date 48 months from the issue date.

Warrant Exercise

Ayr previously announced on November 23, 2020 that it had offered Warrant holders a temporary C\$0.50 incentive for the cash exercise of up to three million Warrants. Over six million of the approximately 14 million outstanding Warrants were exercised under the incentive plan, resulting in gross proceeds to the Company of over US\$25 million. The Warrants exercised were issued pursuant to a warrant agency agreement dated December 21, 2017, between the Company and Odyssey Trust Company, as warrant agent (the “Warrant Agent”), as amended. Warrants exercised under the inducement were pro-rated and unexercised warrants and surplus cash are expected to be returned to the exercising holders by the Warrant Agent within five business days.

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**5.2 Disclosure for Restructuring Transactions**

Not applicable.

**Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

**Item 7 Omitted Information**

Not applicable.

**Item 8 Executive Officer**

Further information regarding the matters described in this report may be obtained from:

Megan Kulick  
Head of Investor Relations  
Ayr Strategies Inc.  
590 Madison Avenue, 26th Floor  
New York, New York 10022  
(646) 977-7914 or [ir@ayrstrategies.com](mailto:ir@ayrstrategies.com)

**Item 9 Date of Report**

December 11, 2020

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**FORM 51-102F3  
MATERIAL CHANGE REPORT**

**Item 1 Name and Address of the Corporation**

Ayr Strategies Inc. (the “Corporation” or “Ayr”)  
199 Bay Street, Suite 5300  
Commerce Court West  
Toronto, Ontario  
M5L 1B9

**Item 2 Date of Material Change**

December 21, 2020

**Item 3 News Release**

A news release with respect to the material change referred to in this material change report was disseminated by the Corporation through GlobalNewswire on December 22, 2020, and was subsequently filed on the System for Electronic Document Analysis and Retrieval (“SEDAR”) ([www.sedar.com](http://www.sedar.com)) under Ayr’s issuer profile.

**Item 4 Summary of Material Change**

On December 22, 2020, the Corporation announced that it had entered into:

- (i) a definitive arrangement agreement dated December 21, 2020 (the “**Arrangement Agreement**”), pursuant to which the Corporation agreed to acquire all of the issued and outstanding common shares (the “**Liberty Shares**”) of Liberty Health Sciences Inc. (“**Liberty**”) in exchange for, subject to a collar, share consideration equal to 0.03683 of a share of the Corporation pursuant to the terms of the Arrangement Agreement, for each Liberty Share (the “**Liberty Share Consideration**”), for a total transaction value of approximately USD \$290 million (the “**Arrangement**”), subject to the satisfaction or waiver (as applicable) of the conditions contained in the Arrangement Agreement, to be completed by way of a statutory plan of arrangement under the *Business Corporations Act* (British Columbia); and
- (ii) a letter of intent dated December 21, 2020 (the “**Letter of Intent**”), pursuant to which the Corporation agreed to work together with GSD NJ LLC (“**GSD**”) and its equity owners (the “**GSD Investors**”) in good faith to negotiate and enter into a membership purchase agreement (the “**Purchase Agreement**”) whereby an affiliate of the Corporation (“**Buyer**”) will acquire all of the issued and outstanding membership interests of GSD (the “**GSD Interests**”) in exchange for cash consideration of USD \$41,000,000 (the “**GSD Cash Consideration**”), a promissory note in the amount of USD \$30,000,000 (the “**GSD Seller Note**”), and share consideration of USD \$30,000,000 in the form of non-voting common exchangeable shares in Buyer (the “**GSD Exchangeable Shares**”, and together with the GSD Cash Consideration and the GSD Seller Note, the “**Closing Date Consideration**”), for a total closing date transaction value of approximately USD \$101,000,000 (the “**Transaction**”), subject to the satisfaction or waiver (as applicable) of the conditions to be contained in the Purchase Agreement. The Letter of Intent contemplates a bridge loan from the Corporation, or its affiliate, to GSD in the amount of USD \$15,000,000, bearing interest of 9% per annum on the amount outstanding thereunder, which shall be used for capital expenditures upon closing of the Transaction (the “**Bridge Loan**”). Ayr has also agreed to pay GSD Investors a deposit of USD \$1,250,000 (the “**Deposit**”) within two days of signing the Letter of Intent, which shall be refundable under certain circumstances. The Letter of Intent represents a binding obligation of the parties to work together in good faith to negotiate and enter into the Purchase Agreement and the other definitive agreements contemplated therein. In addition, certain terms contained therein, including exclusivity, the Bridge Loan and Deposit provisions, are legally binding on the parties in accordance with their terms.

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**Item 5 Full Description of Material Change**

Arrangement Agreement

On December 22, 2020, the Corporation announced that it had entered into the Arrangement Agreement. Under the terms of the Arrangement Agreement, shareholders of Liberty (“**Liberty Shareholders**”) will be entitled to receive the Liberty Share Consideration in exchange for each Liberty Share held immediately prior to the effective time of the Arrangement. Liberty will have the right to nominate one new member to Ayr’s board of directors at the closing of the Arrangement, increasing the total number of members to seven.

Each holder of Liberty options outstanding immediately prior to the effective time of the Arrangement will be entitled to receive, for each such option, a replacement option to acquire shares of the Corporation pursuant to the terms of the Arrangement Agreement.

Liberty’s warrants, of which there were 9,407,661 outstanding as of December 21, 2020, will expire in accordance with their terms, if not exercised by their holders prior to February 15, 2021. In addition, Liberty’s **\$4,325,000** principal amount convertible debentures due November 22, 2021 will survive the closing of the Arrangement. Following the closing, each such convertible debenture shall represent the right of the holder to (i) acquire shares of the Corporation in lieu of shares of Liberty, or (ii) require the Corporation to purchase the convertible debentures at 101% of the principal amount thereof plus unpaid interest.

The Arrangement Agreement includes representations, warranties and covenants typical of a transaction of this nature, along with customary non-solicitation and right to match provisions. In addition, Liberty has agreed to pay a termination fee of CDN \$13 million in favour of Ayr, if the Arrangement Agreement is terminated in certain circumstances, including if Liberty enters into an agreement with respect to a superior proposal or if the board of directors of Liberty withdraws its recommendation with respect to the Arrangement in certain circumstances.

In order to become effective, the Arrangement must be approved by at least two-thirds of the votes cast by Liberty securityholders at a special meeting of Liberty, which is expected to occur in February, 2021 (the “**Liberty Meeting**”), in person or by proxy, on a resolution approving the Arrangement.

- 3 -

Certain Liberty Shareholders, who collectively own or control, directly or indirectly, approximately 29.3% of the Liberty Shares, have entered into voting and support agreements with Ayr to, among other things, vote their Liberty Shares in favour of the Arrangement, subject to the provisions thereof.

The Arrangement is subject to, among other things, (i) the approval of the Supreme Court of British Columbia by way of interim and final orders, (ii) expiration or termination of the applicable waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976* (United States), (iii) certain required regulatory approvals from the Florida Department of Health, and (iv) the satisfaction or waiver of certain closing conditions customary in transactions of this nature. Subject to the satisfaction of such conditions, the Arrangement is expected to close in the first quarter of 2021.

The Arrangement Agreement is available on SEDAR ([www.sedar.com](http://www.sedar.com)) under Ayr's issuer profile.

#### Letter of Intent

On December 22, 2020, the Corporation announced that it had entered into a Letter of Intent pursuant to which the Corporation agreed to work to together with GSD and the GSD Investors in good faith to negotiate and enter into a Purchase Agreement. Under the terms of the Letter of Intent, the GSD Investors will be entitled to receive the Closing Date Consideration upon closing of the Transaction.

The Letter of Intent contemplates the Bridge Loan, which shall be used for capital expenditures upon closing of the Transaction and the Deposit, which shall be refundable under certain circumstances.

The Letter of Intent represents a binding obligation of the parties to work together in good faith to negotiate and enter into the Purchase Agreement and the other definitive agreements contemplated therein. In addition, certain terms contained therein, including exclusivity, the Bridge Loan and Deposit provisions, are legally binding on the parties in accordance with their terms.

Subject to the signing of the Purchase Agreement and the satisfaction of the conditions contained therein, the Transaction is expected to close no earlier than July 1, 2021.

**Item 6**                      **Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

**Item 7**                      **Omitted Information**

Not applicable.

**Item 8**                      **Executive Officer**

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- 4 -

The following senior officer of the Corporation is knowledgeable about the material change and this Material Change Report, and may be contacted as follows:

Megan Kulick  
Head of Investor Relations  
Ayr Strategies Inc.  
590 Madison Avenue, 26th Floor  
New York, New York 10022  
(646) 977-7914 or [ir@ayrstrategies.com](mailto:ir@ayrstrategies.com)

**Item 9**                      **Date of Report**

December 30, 2020

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**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**Item 1 Name and Address of Company**

Ayr Strategies Inc. (“Ayr” or the “Company”)  
590 Madison Avenue, 26<sup>th</sup> Floor  
New York, New York 10022

**Item 2 Date of Material Change**

January 14, 2021

**Item 3 News Release**

Press releases describing the material change were disseminated by Ayr on January 11, 2021, January 12, 2021 and January 14, 2021 through GlobeNewswire and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Item 4 Summary of Material Change**

The Company announced the closing of an underwritten overnight marketed offering (the “Offering”) of an aggregate of 4,600,000 subordinate voting shares, restricted voting shares or limited voting shares (the “Offered Securities”) at a price of C\$34.25 per Offered Security for total gross proceeds of approximately C\$157,550,000, which includes the full exercise of the over-allotment option granted to the underwriters.

**Item 5 Full Description of Material Change****5.1 Full Description of Material Change**

The Company announced the closing of the Offering of 4,600,000 Offered Securities at a price of C\$34.25 per Offered Security for total gross proceeds of C\$157,550,000, which includes the full exercise of the over-allotment option granted to the underwriters.

Canaccord Genuity Corp. acted as the lead underwriter for the Offering.

The Company intends to use the net proceeds of the Offering for working capital and general corporate purposes.

The Offered Securities were offered in each of the Provinces of Canada, other than Québec pursuant to a prospectus supplement to the Company’s base shelf prospectus dated December 17, 2020 (the “Prospectus”) and in the United States on a private placement basis to “qualified institutional buyers” pursuant to an exemption from the registration requirements of the *United States Securities Act of 1933* as amended (the “U.S. Securities Act”). The Offered Securities have not been and will not be registered under the U.S. Securities Act or any state securities laws. Accordingly, the Offered Securities may not be offered or sold within the United States unless registered under the U.S. Securities Act and applicable state securities laws or pursuant to exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws.

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Copies of the Prospectus may be obtained on SEDAR at [www.sedar.com](http://www.sedar.com) and from Canaccord Genuity Corp., 161 Bay Street, Suite 3000, Toronto, ON M5J 2S1. The Prospectus contains important detailed information about the Company and the Offering. Prospective investors should read the Prospectus and the other documents the Company has filed on SEDAR at [www.sedar.com](http://www.sedar.com) before making an investment decision.

**5.2 Disclosure for Restructuring Transactions**

N/A

**Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

N/A

**Item 7 Omitted Information**

N/A

**Item 8 Executive Officer**

Further information regarding the matters described in this report may be obtained from:

Megan Kulick  
Head of Investor Relations  
Ayr Strategies Inc.  
590 Madison Avenue, 26th Floor  
New York, New York 10022  
(646) 977-7914 or [ir@ayrstrategies.com](mailto:ir@ayrstrategies.com)

**Item 9 Date of Report**

January 14, 2021

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**Consent of Independent Registered Public Accounting Firm**

We consent to the use in this Registration Statement on Form F-10 of:

- our report, dated March 20, 2020, on the consolidated financial statements of Ayr Strategies Inc. (formerly Cannabis Strategies Acquisition Corp.) and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies; and
- our report, dated March 22, 2019, on the consolidated financial statements of Cannabis Strategies Acquisition Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2018 and September 30, 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the period and year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies; and

which is included in this Registration Statement on Form F-10 being filed by Ayr Wellness Inc. with the United States Securities and Exchange Commission.

We also consent to the reference to us under the heading "Interests of Experts", which is incorporated by reference in this Registration Statement.

/s/ MNP LLP

Burlington, Canada

February 24, 2021

MNP LLP  
Chartered Professional Accountants  
Licensed Public Accountants

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**AYR WELLNESS INC.**  
**as Issuer**

**and**

**[     ]**  
**as U.S. Trustee**

**and**

**[     ]**  
**as Canadian Trustee**

**Indenture**

**Dated as of [     ]**

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# CROSS-REFERENCE TABLE

TIA <u>Section</u>	Indenture <u>Section</u>
310 (a)	6.08(1)
(b)	6.09
(c)	Not Applicable
311 (a)	6.05
(b)	6.05
(c)	Not Applicable
312 (a)	7.05
(b)	7.03
(c)	7.03
313 (a)	7.04
(b)	7.04
(c)	7.04
(d)	7.05
314 (a)	7.05
(a)(4)	10.04
(b)	Not Applicable
(c)(1)	1.01
(c)(2)	1.01
(d)	Not Applicable
(e)	1.01
(f)	Not Applicable
315 (a)	6.02
(b)	6.01
(c)	6.02
(d)	6.02
(e)	5.15
316 (a)(last sentence)	1.02 (“Outstanding”)
(a)(1)(A)	5.12
(a)(1)(B)	5.02, 5.13
(a)(2)	Not Applicable
(b)	5.08
(c)	1.04(e)
317 (a)(1)	5.03
(a)(2)	5.04
(b)	10.03
318 (a)	1.16

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of this Indenture.

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INDENTURE, dated as of \_\_\_\_\_, among AYR WELLNESS INC., a corporation duly continued and existing under the laws of British Columbia, Canada (herein called the “**Company**”), having its principal office at 199 Bay Street, Suite 5300, Toronto, Ontario, Canada M5L 1B9, and \_\_\_\_\_, a \_\_\_\_\_, organized under the laws of \_\_\_\_\_, as U.S. trustee (herein called the “**U.S. Trustee**”), and \_\_\_\_\_, a \_\_\_\_\_, organized under the laws of \_\_\_\_\_, as Canadian trustee (the “**Canadian Trustee**” and, together with the U.S. Trustee, the “**Trustees**”).

## RECITALS

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its debentures, notes, bonds or other evidences of indebtedness (herein called the “**Securities**”), which may be convertible into or exchangeable for any securities of any Person (including the Company), to be issued in one or more series as in this Indenture provided.

This Indenture is subject to the provisions of Trust Indenture Legislation that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

## ARTICLE ONE DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

### SECTION 1.01 Definitions.

“**Act**,” when used with respect to any Holder, has the meaning specified in Section 1.04.

“**Affiliate**” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Authenticating Agent**” means any Person authorized by the applicable Trustee pursuant to Section 6.12 to act on behalf of such Trustee to authenticate Securities.

“**Authorized Newspaper**” means a newspaper, in the English language or in an official language of the country of publication, customarily published on each Business Day, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

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“**Base Currency**” has the meaning specified in Section 1.14.

“**Bearer Security**” means any Security except a Registered Security.

“**Board of Directors**” means the board of directors of the Company or any duly authorized committee thereof.

“**Board Resolution**” means a copy of a resolution certified by the Corporate Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustees.

“**Business Day**,” when used with respect to any Place of Payment or any other particular location referred to in this Indenture or in the Securities, means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, any day other than Saturday, Sunday or any other day on which commercial banking institutions in that Place of Payment or other location are permitted or required by any applicable law, regulation or executive order to close.

“**calculation period**” has the meaning specified in Section 3.11.

“**Canadian Trustee**” means the Person named as the “Canadian Trustee” in the first paragraph of this Indenture until a successor Canadian Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Canadian Trustee” shall mean or include each Person who is then a Canadian Trustee hereunder; *provided, however*, that if at any time there is more than one such Person, “Canadian Trustee” as used with respect to the Securities of any series shall mean only the Canadian Trustee with respect to Securities of that series.

“**Commission**” means the U.S. Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

“**Common Depository**” has the meaning specified in Section 3.04.

“**Company**” means the Person named as the “Company” in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Company” shall mean such successor Person.

“**Company Request**” or “**Company Order**” means a written request or order signed in the name of the Company by an Officer and delivered to the Trustees.

“**Component Currency**” has the meaning specified in Section 3.12(h).

“**Conversion Date**” has the meaning specified in Section 3.12(d).

“**Conversion Event**” means the cessation of use of (i) a Foreign Currency (other than the Euro or other Currency unit) both by the government of the country which issued such Currency and by a central bank or other public institution of or within the international banking community for the settlement of transactions, (ii) the Euro or (iii) any currency unit (or composite currency) other than the Euro for the purposes for which it was established.

“**Corporate Trust Office**” means the principal corporate trust office of the U.S. Trustee or the Canadian Trustee, as applicable, at which at any particular time its corporate trust business may be administered, such an office on the date of execution of this Indenture of the U.S. Trustee is located at \_\_\_\_\_, Attention: \_\_\_\_\_, and of the Canadian Trustee is located at \_\_\_\_\_, Attention: \_\_\_\_\_, except that with respect to presentation of Securities for payment or for registration of transfer or exchange, such term shall mean the office or agency of the U.S. Trustee or the Canadian Trustee, as applicable, designated in writing to the Company at which, at any particular time, its corporate agency business shall be conducted.

“**coupon**” means any interest coupon appertaining to a Bearer Security.

“**covenant defeasance**” has the meaning specified in Section 14.03.

“**Currency**” means any currency or currencies, composite currency or currency unit or currency units, including, without limitation, the Euro, issued by the government of one or more countries or by any recognized confederation or association of such governments.

“**Default**” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“**Defaulted Interest**” has the meaning specified in Section 3.07.

“**defeasance**” has the meaning specified in Section 14.02.

“**Depository**” means, with respect to the Securities of any series issuable or issued in the form of one or more Registered Securities, the Person designated as Depository by the Company pursuant to Section 3.05 until a successor Depository shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Depository” shall mean or include each Person who is then a Depository hereunder, and, if at any time there is more than one such Person, “Depository” as used with respect to the Securities of any such series shall mean the Depository with respect to the Registered Securities of that series.

“**Dollar**” or “**\$**” means a dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

“**Dollar Equivalent of the Currency Unit**” has the meaning specified in Section 3.12(g).

“**Dollar Equivalent of the Foreign Currency**” has the meaning specified in Section 3.12(f).

“**Election Date**” has the meaning specified in Section 3.12(h).

“**Euro**” means the single currency of the participating member states from time to time of the European Union described in legislation of the European Council for the operation of a single unified European currency (whether known as the Euro or otherwise).

“**Event of Default**” has the meaning specified in Section 5.01.

“**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

“**Exchange Date**” has the meaning specified in Section 3.04.



“**Exchange Rate Agent**” means, with respect to Securities of or within any series, unless otherwise specified with respect to any Securities pursuant to Section 3.01, a New York clearing house bank, designated pursuant to Section 3.01 or Section 3.13.

“**Exchange Rate Officer’s Certificate**” means a tested telex or a certificate setting forth (i) the applicable Market Exchange Rate and (ii) the Dollar or Foreign Currency amounts of principal, premium (if any) and interest (if any) (on an aggregate basis and on the basis of a Security having the lowest denomination principal amount determined in accordance with Section 3.02 in the relevant Currency), payable with respect to a Security of any series on the basis of such Market Exchange Rate, sent (in the case of a telex) or signed (in the case of a certificate) by the Chief Executive Officer, President or Chief Financial Officer of the Company.

“**Extension Notice**” has the meaning specified in Section 3.08.

“**Extension Period**” has the meaning specified in Section 3.08.

“**Final Maturity**” has the meaning specified in Section 3.08.

“**First Currency**” has the meaning specified in Section 1.15.

“**Foreign Currency**” means any Currency other than Currency of the United States.

“**GAAP**” means generally accepted accounting principles in Canada in effect from time to time, unless the Person’s most recent audited or quarterly financial statements are not prepared in accordance with generally accepted accounting principles in Canada, in which case “GAAP” shall mean generally accepted accounting principles in the United States in effect from time to time.

“**Government Obligations**” means, unless otherwise specified with respect to any series of Securities pursuant to Section 3.01, securities which are (i) direct obligations of the government which issued the Currency in which the Securities of a particular series are payable or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the government which issued the Currency in which the Securities of such series are payable, the payment of which is unconditionally guaranteed by such government, which, in either case, are full faith and credit obligations of such government payable in such Currency and are not callable or redeemable at the option of the issuer thereof and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest or principal of the Government Obligation evidenced by such depository receipt.

“**Holder**” means, in the case of a Registered Security, the Person in whose name a Security is registered in the Security Register and, in the case of a Bearer Security, the bearer thereof and, when used with respect to any coupon, shall mean the bearer thereof.

“**Indenture**” means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, and shall include the terms of particular series of Securities established as contemplated by Section 3.01; *provided, however*, that, if at any time more than one Person is acting as Trustee under this instrument, “Indenture” shall mean, with respect to any one or more series of Securities for which such Person is Trustee, this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of the particular series of Securities for which such Person is Trustee established as contemplated by Section 3.01, exclusive, however, of any provisions or terms which relate solely to other series of Securities for which such Person is not Trustee, regardless of when such terms or provisions were adopted, and exclusive of any provisions or terms adopted by means of one or more indentures supplemental hereto executed and delivered after such Person had become such Trustee but to which such Person, as such Trustee, was not a party.

**“Indexed Security”** means a Security the terms of which provide that the principal amount thereof payable at Stated Maturity may be more or less than the principal face amount thereof at original issuance.

**“interest,”** when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity at the rate prescribed in such Original Issue Discount Security.

**“Interest Payment Date,”** when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

**“Judgment Currency”** has the meaning specified in Section 1.14.

**“Lien”** means any mortgage, pledge, hypothecation, charge, assignment, deposit arrangement, encumbrance, security interest, lien (statutory or other), or preference, priority or other security or similar agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any agreement to give or grant a Lien or any lease, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing).

**“mandatory sinking fund payment”** has the meaning specified in Section 12.01.

**“Market Exchange Rate”** means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, (i) for any conversion involving a Currency unit on the one hand and Dollars or any Foreign Currency on the other, the exchange rate between the relevant Currency unit and Dollars or such Foreign Currency calculated by the method specified pursuant to Section 3.01 for the Securities of the relevant series, (ii) for any conversion of Dollars into any Foreign Currency, the noon (New York City time) buying rate for such Foreign Currency for cable transfers quoted in New York City as certified for customs purposes by the Federal Reserve Bank of New York and (iii) for any conversion of one Foreign Currency into Dollars or another Foreign Currency, the spot rate at noon local time in the relevant market at which, in accordance with normal banking procedures, the Dollars or Foreign Currency into which conversion is being made could be purchased with the Foreign Currency from which conversion is being made from major banks located in New York City, Toronto, London or any other principal market for Dollars or such purchased Foreign Currency, in each case determined by the Exchange Rate Agent. Unless otherwise specified with respect to any Securities pursuant to Section 3.01, in the event of the unavailability of any of the exchange rates provided for in the foregoing clauses (i), (ii) and (iii), the Exchange Rate Agent shall use, in its sole discretion and without liability on its part, such quotation of the Federal Reserve Bank of New York as of the most recent available date, or quotations from one or more major banks in New York City, Toronto, London or another principal market for the Currency in question, or such other quotations as the Exchange Rate Agent shall deem appropriate. Unless otherwise specified by the Exchange Rate Agent, if there is more than one market for dealing in any Currency by reason of foreign exchange regulations or otherwise, the market to be used in respect of such Currency shall be that upon which a non-resident issuer of securities designated in such Currency would purchase such Currency in order to make payments in respect of such securities.

“**Maturity**,” when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, notice of redemption, notice of option to elect repayment or otherwise.

“**Notice of Default**” has the meaning specified in Section 6.01.

“**Officer**” means the Chair of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, the Chief Operating Officer, any Executive Vice President, any Vice President, the Treasurer or the Corporate Secretary of the Company or, in the event that the Company is a partnership or a limited liability company that has no such officers, a person duly authorized under applicable law by the general partner, managers, members or a similar body to act on behalf of the Company.

“**Officer’s Certificate**” means a certificate, which shall comply with this Indenture, signed by an Officer and delivered to the Trustees.

“**Opinion of Counsel**” means a written opinion of counsel, who may be counsel for the Company, including an employee of the Company, who shall be acceptable to the Trustees, which opinion may contain customary exceptions and qualifications as to the matters set forth therein.

“**Optional Reset Date**” has the meaning specified in Section 3.07.

“**optional sinking fund payment**” has the meaning specified in Section 12.01.

“**Original Issue Discount Security**” means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02.

“**Original Stated Maturity**” has the meaning specified in Section 3.08.

“**Outstanding**,” when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

- (i) Securities theretofore cancelled by either Trustee or delivered to either Trustee for cancellation;
- (ii) Securities, or portions thereof, for whose payment or redemption or repayment at the option of the Holder, money in the necessary amount has been theretofore deposited with either Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities and any coupons appertaining thereto; *provided* that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustees has been made;

- (iii) Securities, except to the extent provided in Section 14.02 and Section 14.03, with respect to which the Company has effected defeasance and/or covenant defeasance as provided in Article Fourteen; and
- (iv) Securities which have been paid pursuant to Section 3.06 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustees proof satisfactory to them that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

*provided, however,* that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders for quorum purposes, and for the purpose of making the calculations required by TIA Section 313, (i) the principal amount of an Original Issue Discount Security that may be counted in making such determination or calculation and that shall be deemed to be Outstanding for such purpose shall be equal to the amount of principal thereof that would be (or shall have been declared to be) due and payable, at the time of such determination, upon a declaration of acceleration of the maturity thereof pursuant to Section 5.02, (ii) the principal amount of any Security denominated in a Foreign Currency that may be counted in making such determination or calculation and that shall be deemed Outstanding for such purpose shall be equal to the Dollar equivalent, determined as of the date such Security is originally issued by the Company as set forth in an Exchange Rate Officer's Certificate delivered to the Trustees, of the principal amount (or, in the case of an Original Issue Discount Security, the Dollar equivalent as of such date of original issuance of the amount determined as provided in clause (i) above) of such Security, (iii) the principal amount of any Indexed Security that may be counted in making such determination or calculation and that shall be deemed outstanding for such purpose shall be equal to the principal face amount of such Indexed Security at original issuance, unless otherwise provided with respect to such Security pursuant to Section 3.01, and (iv) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustees shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustees know to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustees the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor.

**"Paying Agent"** means any Person (including the Company acting as Paying Agent) authorized by the Company to pay the principal of, premium (if any) or interest (if any) on any Securities on behalf of the Company. Such Person must be capable of making payment in the Currency of the issued Security.

**"Person"** means any individual, corporation, body corporate, partnership, limited partnership, limited liability partnership, joint venture, limited liability company, unlimited liability company, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

**"Place of Payment"** means, when used with respect to the Securities of or within any series, each place where the principal of, premium (if any) and interest (if any) on such Securities are payable as specified as contemplated by Sections 3.01 and 10.02.

**"Predecessor Security"** of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.06 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security or a Security to which a mutilated, destroyed, lost or stolen coupon appertains shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security or the Security to which the mutilated, destroyed, lost or stolen coupon appertains, as the case may be.

“**Privacy Laws**” has the meaning specified in Section 6.14.

“**rate(s) of exchange**” has the meaning specified in Section 1.14.

“**Redemption Date**,” when used with respect to any Security to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

“**Redemption Price**,” when used with respect to any Security to be redeemed, in whole or in part, means the price at which it is to be redeemed pursuant to this Indenture, plus accrued and unpaid interest thereon to the Redemption Date.

“**Registered Security**” means any Security registered in the Security Register.

“**Regular Record Date**” for the interest payable on any Interest Payment Date on the Registered Securities of or within any series means the date specified for that purpose as contemplated by Section 3.01.

“**Repayment Date**” means, when used with respect to any Security to be repaid at the option of the Holder, the date fixed for such repayment pursuant to this Indenture.

“**Reset Notice**” has the meaning specified in Section 3.07.

“**Responsible Officer**,” when used with respect to a Trustee, means any vice president, secretary, any assistant secretary, treasurer, any assistant treasurer, any senior trust officer, any trust officer, the controller within the corporate trust administration division of a Trustee or any other officer of a Trustee customarily performing functions similar to those performed by any of the above-designated officers, and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“**Securities**” has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture; *provided, however*, that if at any time there is more than one Person acting as Trustee under this Indenture, “Securities” with respect to the Indenture as to which such Person is Trustee shall have the meaning stated in the first recital of this Indenture and shall more particularly mean Securities authenticated and delivered under this Indenture, exclusive, however, of Securities of any series as to which such Person is not Trustee.

“**Security Register**” and “**Security Registrar**” have the respective meanings specified in Section 3.05.

“**Special Record Date**” for the payment of any Defaulted Interest on the Registered Securities of or within any series means a date fixed by the Trustees pursuant to Section 3.07.

“**Specified Amount**” has the meaning specified in Section 3.12(h).

“**Stated Maturity**,” when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security or a coupon representing such installment of interest as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable, as such date may be extended pursuant to the provisions of Section 3.08 (if applicable).

“**Subsequent Interest Period**” has the meaning specified in Section 3.07.

“**Trust Indenture Act**” or “**TIA**” means the United States Trust Indenture Act of 1939, as amended, as in force at the date as of which this Indenture was executed, except as provided in Section 9.05.

“**Trust Indenture Legislation**” means, at any time, the provisions of (i) any applicable statute of Canada or any province or territory thereof and the regulations thereunder as amended or re-enacted from time to time, but only to the extent applicable, or (iii) the Trust Indenture Act and regulations thereunder, in each case, relating to trust indentures and to the rights, duties and obligations of trustees under trust indentures and of corporations issuing debt obligations under trust indentures, to the extent that such provisions are at such time in force and applicable to this Indenture or the Company or the Trustees.

“**Trustee**” or “**Trustees**” means the U.S. Trustee and the Canadian Trustee. If a Canadian Trustee is not appointed under this Indenture, or resigns or is removed and, pursuant to Section 6.09, the Company is not required to appoint a successor Trustee to the Canadian Trustee, “Trustee,” “Trustees” and any reference to “either Trustee,” “both of the Trustees” or such similar references shall mean the Person named as the U.S. Trustee or any successor thereto appointed pursuant to the applicable provisions of this Indenture. Except to the extent otherwise indicated, “Trustees” shall refer to the Canadian Trustee (if appointed and still serving) and the U.S. Trustee, both jointly and individually.

“**U.S. Federal Bankruptcy Code**” means the Bankruptcy Act of Title 11 of the United States Code, as amended from time to time.

“**U.S. Trustee**” means the Person named as the “U.S. Trustee” in the first paragraph of this Indenture until a successor U.S. Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “U.S. Trustee” shall mean or include each Person who is then a U.S. Trustee hereunder; *provided, however*, that if at any time there is more than one such Person, “U.S. Trustee” as used with respect to the Securities of any series shall mean only the U.S. Trustee with respect to Securities of that series.

“**United States**” means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, the United States of America (including the states and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

“**United States person**” means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, an individual who is a citizen or resident of the United States, a corporation, partnership (including any entity treated as a corporation or as a partnership for United States federal income tax purposes) or other entity created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if (A) it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (B) it has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person.

“**Valuation Date**” has the meaning specified in Section 3.12(c).

“**Writing**” has the meaning specified in Section 6.13.

“**Yield to Maturity**” means the yield to maturity, computed at the time of issuance of a Security (or, if applicable, at the most recent redetermination of interest on such Security) and as set forth in such Security in accordance with generally accepted United States bond yield computation principles.

## **SECTION 1.02                      Rules of Construction.**

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Indenture have the meanings assigned to them herein and include the plural as well as the singular;
- (2) all terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein, and the terms “cash transaction” and “self-liquidating paper,” as used in TIA Section 319, shall have the meanings assigned to them in the rules of the Commission adopted under the Trust Indenture Act;
- (3) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;
- (4) “or” is not exclusive;
- (5) words implying any gender shall apply to all genders;
- (6) the words Subsection, Section and Article refer to the Subsections, Sections and Articles, respectively, of this Indenture unless otherwise noted; and
- (7) “include,” “includes” or “including” means include, includes or including, in each case, without limitation.

## **SECTION 1.03                      Compliance Certificates and Opinions.**

Upon any application or request by the Company to the Trustees to take any action under any provision of this Indenture, the Company shall furnish to the Trustees an Officer’s Certificate stating that all conditions precedent, if any, provided for in this Indenture (including any covenant compliance with which constitutes a condition precedent) relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture (other than pursuant to Section 10.04) shall include:

- (1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement as to whether, in the opinion of each such individual, such covenant or condition has been complied with.

#### **SECTION 1.04 Form of Documents Delivered to Trustees.**

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons may certify or give an opinion with respect to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, a certificate of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Any certificate or opinion of an officer of the Company or counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of, or representations by, an accountant or firm of accountants in the employ of the Company, unless such officer or counsel, as the case may be, knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the accounting matters upon which such certificate or opinion may be based are erroneous. Any certificate or opinion of any independent firm of public accountants filed with the Trustees shall contain a statement that such firm is independent.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

#### **SECTION 1.05 Acts of Holders.**

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of the Outstanding Securities of all series or one or more series, as the case may be, may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing. If Securities of a series are issuable as Bearer Securities, any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of such series may, alternatively, be embodied in and evidenced by the record of Holders of Securities of such series voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Securities of such series duly called and held in accordance with the provisions of Article Fifteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustees and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “**Act**” of the Holders signing such instrument or instruments or so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustees and the Company, if made in the manner provided in this Section 1.05. The record of any meeting of Holders of Securities shall be proved in the manner provided in Section 15.06.



(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustees deem sufficient.

(c) The principal amount and serial numbers of Registered Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) The principal amount and serial numbers of Bearer Securities held by any Person, and the date of holding the same, may be proved by the production of such Bearer Securities or by a certificate executed, as depositary, by any trust company, bank, banker or other depositary, wherever situated, if such certificate shall be deemed by the Trustees to be satisfactory, showing that at the date therein mentioned such Person had on deposit with such depositary, or exhibited to it, the Bearer Securities therein described; or such facts may be proved by the certificate or affidavit of the Person holding such Bearer Securities, if such certificate or affidavit is deemed by the Trustees to be satisfactory. The Trustees and the Company may assume that such ownership of any Bearer Security continues until (1) another certificate or affidavit bearing a later date issued in respect of the same Bearer Security is produced, or (2) such Bearer Security is produced to the Trustees by some other Person, or (3) such Bearer Security is surrendered in exchange for a Registered Security, or (4) such Bearer Security is no longer Outstanding. The principal amount and serial numbers of Bearer Securities held by any Person, and the date of holding the same, may also be proved in any other manner that the Trustees deem sufficient.

(e) If the Company shall solicit from the Holders of Registered Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. Notwithstanding Trust Indenture Legislation, including TIA Section 316(c), such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 days prior to the first solicitation of Holders generally in connection therewith and not later than the date such solicitation is completed. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; *provided* that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than eleven months after the record date.

(f) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

**SECTION 1.06 Notices, Etc. to Trustees and Company.**

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other documents provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

- (1) the U.S. Trustee, by the Canadian Trustee, any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the U.S. Trustee at its Corporate Trust Office, Attention: \_\_\_\_\_, or
- (2) the Canadian Trustee, by the U.S. Trustee, any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Canadian Trustee at its Corporate Trust Office, Attention: \_\_\_\_\_, or
- (3) the Company by either Trustee or any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, or sent by overnight courier, to the Company at 590 Madison Ave., 26th Floor, New York, New York, 10022, Attention: Corporate Secretary or such other address and/or officer as the Company may designate on written notice to the Trustees.

**SECTION 1.07 Notice to Holders; Waiver.**

Where this Indenture provides for notice of any event to Holders of Registered Securities by the Company or the Trustees, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each such Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders of Registered Securities is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders of Registered Securities or the sufficiency of any notice to Holders of Bearer Securities given as provided. Any notice mailed to a Holder in the manner herein prescribed shall be conclusively deemed to have been received by such Holder, whether or not such Holder actually receives such notice.

In case, by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impractical to mail notice of any event to Holders of Registered Securities when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustees shall be deemed to be sufficient giving of such notice for every purpose hereunder.

Except as otherwise expressly provided herein or otherwise specified with respect to any Securities pursuant to Section 3.01, where this Indenture provides for notice to Holders of Bearer Securities of any event, such notice shall be sufficiently given to Holders of Bearer Securities if published in an Authorized Newspaper in The City of New York and in such other city or cities as may be specified in such Securities on a Business Day at least twice, the first such publication to be not earlier than the earliest date, and not later than the latest date, prescribed for the giving of such notice. Any such notice shall be deemed to have been given on the date of the first such publication.

In case, by reason of the suspension of publication of any Authorized Newspaper or Authorized Newspapers or by reason of any other cause, it shall be impracticable to publish any notice to Holders of Bearer Securities as provided above, then such notification to Holders of Bearer Securities as shall be satisfactory to the Trustees shall be deemed to be sufficient giving of such notice for every purpose hereunder. Neither the failure to give notice by publication to Holders of Bearer Securities as provided above, nor any defect in any notice so published, shall affect the sufficiency of such notice with respect to other Holders of Bearer Securities or the sufficiency of any notice to Holders of Registered Securities given as provided herein.

Any request, demand, authorization, direction, notice, consent or waiver required or permitted under this Indenture shall be in the English language, except that any published notice may be in an official language of the country of publication.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustees, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**SECTION 1.08                      Effect of Headings and Table of Contents.**

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

**SECTION 1.09                      Successors and Assigns.**

All covenants and agreements in this Indenture by the Company and the Trustees shall bind their successors and assigns, whether so expressed or not.

**SECTION 1.10                      Severability Clause.**

In case any provision in this Indenture or in any Security or coupon shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**SECTION 1.11                      Benefits of Indenture.**

Nothing in this Indenture or in the Securities or coupons, express or implied, shall give to any Person, other than the parties hereto, any Authenticating Agent, any Paying Agent, any Securities Registrar and their successors hereunder and the Holders of Securities or coupons, any benefit or any legal or equitable right, remedy or claim under this Indenture. Subject to Section 1.16, at all times in relation to this Indenture and any action to be taken hereunder, the Company and the Trustees each shall observe and comply with Trust Indenture Legislation and the Company, the Trustees and each Holder of a Security shall be entitled to the benefits of Trust Indenture Legislation.

**SECTION 1.12                    Governing Law.**

This Indenture and the Securities and coupons shall be governed by and construed in accordance with the law of the State of New York, but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. Each Trustee and the Company agrees to comply with all provisions of Trust Indenture Legislation applicable to or binding upon it in connection with this Indenture and any action to be taken hereunder. This Indenture is subject to the provisions of the Trust Indenture Act that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions. Notwithstanding the preceding sentence, the exercise, performance or discharge by the Canadian Trustee of any of its rights, powers, duties or responsibilities hereunder shall be construed in accordance with the laws of the Province of [Ontario] and the federal laws of Canada applicable thereto.

**SECTION 1.13                    Legal Holidays.**

In any case where any Interest Payment Date, Redemption Date, sinking fund payment date or Stated Maturity or Maturity of any Security shall not be a Business Day at any Place of Payment or other location contemplated hereunder, then (notwithstanding any other provision of this Indenture or of any Security or coupon other than a provision in the Securities of any series which specifically states that such provision shall apply in lieu of this Section 1.13), payment of principal, premium (if any) or interest (if any), need not be made at such Place of Payment or other location contemplated hereunder on such date, but may be made on the next succeeding Business Day at such Place of Payment or other location contemplated hereunder with the same force and effect as if made on the Interest Payment Date or Redemption Date or sinking fund payment date, or at the Stated Maturity or Maturity; *provided* that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, sinking fund payment date, Stated Maturity or Maturity, as the case may be.

**SECTION 1.14                    Agent for Service; Submission to Jurisdiction; Waiver of Immunities.**

By the execution and delivery of this Indenture, the Company (i) acknowledges that it has irrevocably designated and appointed \_\_\_\_\_ as its authorized agent upon which process may be served in any suit, action or proceeding arising out of or relating to the Securities or this Indenture that may be instituted in any United States federal or New York state court located in The Borough of Manhattan, The City of New York, or brought by the Trustees (whether in their individual capacity or in their capacity as Trustees hereunder), (ii) irrevocably submits to the non-exclusive jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon \_\_\_\_\_ and written notice of said service to the Company (mailed or delivered to the Company at 590 Madison Ave., 26th Floor, New York, New York, 10022, Attention: Corporate Secretary or such other address and/or officer as the Company may designate on written notice to the Trustees), shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of \_\_\_\_\_ in full force and effect so long as this Indenture shall be in full force and effect.

To the extent that the Company has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Company hereby irrevocably waives such immunity in respect of its obligations under this Indenture and the Securities, to the extent permitted by law.

The Company irrevocably and unconditionally waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of venue of any such action, suit or proceeding in any such court or any appellate court with respect thereto. The Company irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of any such action, suit or proceeding in any such court.

**SECTION 1.15                      Conversion of Judgment Currency.**

(a)            The Company covenants and agrees that the following provisions shall apply to conversion of Currency in the case of the Securities and this Indenture, to the fullest extent permitted by applicable law:

(i)            If for the purposes of obtaining judgment in, or enforcing the judgment of, any court in any country, it becomes necessary to convert into a Currency (the “**Judgment Currency**”) an amount due or contingently due in any other Currency under the Securities of any series and this Indenture (the “**Base Currency**”), then the conversion shall be made at the rate of exchange prevailing on the Business Day before the day on which the final judgment is given or the order of enforcement is made, as the case may be (unless a court shall otherwise determine).

(ii)           If there is a change in the rate of exchange prevailing between the Business Day before the day on which the judgment referred to in (i) above is given or an order of enforcement is made, as the case may be (or such other date as a court shall determine), and the date of receipt of the amount due, the Company shall pay such additional (or, as the case may be, such lesser) amount, if any, as may be necessary so that the amount paid in the Judgment Currency when converted at the rate of exchange prevailing on the date of receipt will produce the amount in the Base Currency originally due.

(b)           In the event of the winding-up of the Company at any time while any amount or damages owing under the Securities and this Indenture, or any judgment or order rendered in respect thereof, shall remain outstanding, the Company shall indemnify and hold the Holders and the Trustees harmless against any deficiency arising or resulting from any variation in rates of exchange between (1) the date as of which the equivalent of the amount in the Base Currency due or contingently due under the Securities and this Indenture (other than under this Subsection (b)) is calculated for the purposes of such winding-up and (2) the final date for the filing of proofs of claim in such winding-up. For the purpose of this Subsection (b) the final date for the filing of proofs of claim in the winding-up of the Company shall be the date fixed by the liquidator or otherwise in accordance with the relevant provisions of applicable law as being the latest practicable date as at which liabilities of the Company may be ascertained for such winding-up prior to payment by the liquidator or otherwise in respect thereto.

(c)           The obligations contained in Subsections (a)(ii) and (b) of this Section 1.15 shall constitute separate and independent obligations of the Company from its other obligations under the Securities and this Indenture, shall give rise to separate and independent causes of action against the Company, shall apply irrespective of any waiver or extension granted by any Holder or the Trustees from time to time and shall continue in full force and effect notwithstanding any judgment or order or the filing of any proof of claim in the winding up of the Company for a liquidated sum in respect of amounts due hereunder (other than under Subsection (b) above) or under any such judgment or order. Any such deficiency as aforesaid shall be deemed to constitute a loss suffered by the Holders or the Trustees, as the case may be, and no proof or evidence of any actual loss shall be required by the Company or its liquidator. In the case of Subsection (b) above, the amount of such deficiency shall not be deemed to be increased or reduced by any variation in rates of exchange occurring between the said final date and the date of any liquidating distribution.

The term “**rate(s) of exchange**” shall mean the rate of exchange quoted by a Canadian chartered bank as may be designated in writing by the Company to the Trustees from time to time, at its central foreign exchange desk in its main office in Ontario at 12:00 noon (Ontario time) on the relevant date for purchases of the Base Currency with the Judgment Currency and includes any premiums and costs of exchange payable. The Trustees shall have no duty or liability with respect to monitoring or enforcing this Section 1.15.

**SECTION 1.16                      Currency Equivalent.**

Except as otherwise provided in this Indenture, for purposes of the construction of the terms of this Indenture or of the Securities, in the event that any amount is stated herein in the Currency of one nation (the “**First Currency**”), as of any date such amount shall also be deemed to represent the amount in the Currency of any other relevant nation which is required to purchase such amount in the First Currency at the Bank of Canada noon rate as reported by Telerate on screen 3194 (or such other means of reporting the Bank of Canada noon rate as may be agreed upon by each of the parties to this Indenture) on the date of determination.

**SECTION 1.17                      Conflict with Trust Indenture Legislation.**

If and to the extent that any provision of this Indenture limits, qualifies or conflicts with any mandatory requirement of Trust Indenture Legislation, such mandatory requirement shall control. If and to the extent that any provision hereof modifies or excludes any provision of Trust Indenture Legislation that may be so modified or excluded, the latter provision shall be deemed to apply hereof as so modified or to be excluded, as the case may be.

**SECTION 1.18                      Incorporators, Shareholders, Officers and Directors of the Company Exempt from Individual Liability.**

No recourse under or upon any obligation, covenant or agreement contained in this Indenture, or in any Security, or because of any indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future shareholder, officer or director, as such, of the Company or of any successor, either directly or through the Company or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the Holders and as part of the consideration for the issue of the Securities.

**SECTION 1.19                      Waiver of Jury Trial.**

Each of the Company and the Trustees hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Indenture, the Securities or the transactions contemplated hereby.

**SECTION 1.20                      Counterparts.**

This Indenture may be executed in any number of counterparts (either by facsimile or by original manual signature), each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Indenture.

**SECTION 1.21 Force Majeure.**

Except for the payment obligations of the Company contained herein, neither the Company nor the Trustees shall be liable to each other, or held in breach of this Indenture, if prevented, hindered, or delayed in the performance or observance of any provision contained herein by reason of act of God, riots, terrorism, acts of war, epidemics, governmental action or judicial order, earthquakes, or any other similar causes (including, but not limited to, mechanical, electronic or communication interruptions, disruptions or failures). Performance times under this Indenture shall be extended for a period of time equivalent to the time lost because of any delay that is excusable under this Section 1.21.

**ARTICLE TWO  
SECURITIES FORMS**

**SECTION 2.01 Forms Generally.**

The Registered Securities, if any, of each series and the Bearer Securities, if any, of each series and related coupons, if any, shall be in substantially the forms as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the Officer executing such Securities or coupons, as evidenced by the execution of such Securities or coupons by such Officer. If the forms of Securities or coupons of any series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Corporate Secretary or an Assistant Secretary of the Company and delivered to the Trustees at or prior to the delivery of the Company Order contemplated by Section 3.03 for the authentication and delivery of such Securities or coupons. Any portion of the text of any Security may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Security.

Unless otherwise specified as contemplated by Section 3.01, Bearer Securities shall have interest coupons attached.

Either Trustee's certificate of authentication shall be in substantially the form set forth in this Article Two.

**SECTION 2.02 Form of Trustee's Certificate of Authentication.**

Subject to Section 6.12, either Trustee's certificate of authentication shall be in substantially the following form:

**TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

(Certificate of Authentication may be executed by either Trustee)

Dated: \_\_\_\_\_

\_\_\_\_\_, as U.S. Trustee, certifies that this is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

\_\_\_\_\_  
as U.S. Trustee

By: \_\_\_\_\_  
Authorized Officer

Dated: \_\_\_\_\_

\_\_\_\_\_, as Canadian Trustee, certifies that this is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

\_\_\_\_\_  
as Canadian Trustee

By: \_\_\_\_\_  
Authorized Officer

**SECTION 2.03                      Securities Issuable in Global Form.**

If Securities of or within a series are issuable in global form, as specified and contemplated by Section 3.01, then any such Security shall represent such of the Outstanding Securities of such series as shall be specified therein and may provide that it shall represent the aggregate amount of Outstanding Securities of such series from time to time endorsed thereon and that the aggregate amount of Outstanding Securities of such series represented thereby may from time to time be increased or decreased to reflect exchanges. Any endorsement of a Security in global form to reflect the amount, or any increase or decrease in the amount, of Outstanding Securities represented thereby shall be made by the Trustees in such manner and upon instructions given by the Holder or its nominee as shall be specified therein or in the Company Order to be delivered to the Trustees pursuant to Section 3.03 or 3.04. Subject to the provisions of Sections 3.03 and 3.04 (if applicable), the Trustees shall deliver and redeliver any Security in global form in the manner and upon instructions given by the Holder or its nominee as shall be specified therein or in the applicable Company Order. If a Company Order pursuant to Section 3.03 or Section 3.04 has been, or simultaneously is, delivered, any instructions by the Company with respect to endorsement or delivery or redelivery of a Security in global form shall be in writing but need not comply with Section 1.03 and need not be accompanied by an Opinion of Counsel.

Notwithstanding the provisions of Section 3.07, unless otherwise specified as contemplated by Section 3.01, payment of principal of, premium (if any) and interest (if any) on any Security in permanent global form shall be made to the Holder or its nominee specified therein.

Notwithstanding Section 3.09 and except as provided in the preceding paragraph, the Company, the Trustees and any agent of the Company and the Trustees shall treat as the Holder of such principal amount of Outstanding Securities represented by a permanent global Security (i) in the case of a permanent global Security in registered form, the Holder of such permanent global Security in registered form, or (ii) in the case of a permanent global Security in bearer form, the Depositary.



**ARTICLE THREE  
THE SECURITIES**

**SECTION 3.01            Issuable in Series.**

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series and may be denominated and payable in Dollars or any Foreign Currency. There shall be established in one or more Board Resolutions or pursuant to authority granted by one or more Board Resolutions and set forth in, or determined in the manner provided in, an Officer's Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series, any or all of the following, as applicable:

- (1) the title of the Securities of the series (which shall distinguish the Securities of such series from the Securities of all other series);
- (2) the aggregate principal amount of the Securities of the series and any limit upon the aggregate principal amount of the Securities of the series that may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer (including any restriction or condition on the transferability of the Securities of such series) of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 3.04, 3.05, 3.06, 9.06, 11.07 or 13.05) and, in the event that no limit upon the aggregate principal amount of the Securities of that series is specified, the Company shall have the right, subject to any terms, conditions or other provisions specified pursuant to this Section 3.01 with respect to the Securities of such series, to re-open such series for the issuance of additional Securities of such series from time to time;
- (3) the extent and manner, if any, to which payment on or in respect of the Securities of the series will be senior or will be subordinated to the prior payment of other liabilities and obligations of the Company, and whether the payment of principal, premium (if any) and interest (if any) will be guaranteed by any other Person;
- (4) the percentage or percentages of principal amount at which the Securities of the series will be issued;
- (5) the date or dates, or the method by which such date or dates will be determined or extended, on which the Securities of the series may be issued and the date or dates, or the method by which such date or dates will be determined or extended, on which the principal of and premium (if any) on the Securities of the series is payable;
- (6) the rate or rates at which the Securities of the series shall bear interest, whether fixed or variable (if any), or the method by which such rate or rates shall be determined, whether such interest shall be payable in cash or additional Securities of the same series or shall accrue and increase the aggregate principal amount outstanding of such series, the date or dates from which such interest shall accrue, or the method by which such date or dates shall be determined, the Interest Payment Dates on which such interest shall be payable and the Regular Record Date, if any, for the interest payable on any Registered Security on any Interest Payment Date, or the method by which such date or dates shall be determined, and the basis upon which interest shall be calculated if other than on the basis of a 360-day year of twelve 30-day months;

- (7) the place or places, if any, other than or in addition to the Borough of Manhattan, The City of New York, where the principal of, premium (if any) and interest (if any) on Securities of the series shall be payable, where any Registered Securities of the series may be surrendered for registration of transfer, where Securities of the series may be surrendered for exchange, where Securities of the series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable and, if different than the location specified in Section 1.06, the place or places where notices or demands to or upon the Company in respect of the Securities of the series and this Indenture may be served;
- (8) the period or periods within which, the date or dates on which, the price or prices at which, the Currency in which, and other terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company, if the Company is to have that option;
- (9) the obligation, if any, of the Company to redeem, repay or purchase Securities of the series pursuant to any sinking fund, amortization or analogous provisions or at the option of a Holder thereof, and the period or periods within which, the price or prices at which, the Currency in which, and other terms and conditions upon which Securities of the series shall be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;
- (10) if other than denominations of \$1,000 and any integral multiple thereof, the denomination or denominations in which any Registered Securities of the series shall be issuable and, if other than denominations of \$5,000, the denomination or denominations in which any Bearer Securities of the series shall be issuable;
- (11) the identity of each Security Registrar and/or Paying Agent;
- (12) if other than the principal amount thereof, the portion of the principal amount of Securities of the series that shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 5.02 or the method by which such portion shall be determined;
- (13) if other than Dollars, the Foreign Currency in which payment of the principal of, premium (if any) or interest (if any) on the Securities of the series shall be payable or in which the Securities of the series shall be denominated and the particular provisions applicable thereto in accordance with, in addition to or in lieu of any of the provisions of Section 3.12;
- (14) whether the amount of payments of principal of, premium (if any) or interest (if any) on the Securities of the series may be determined with reference to an index, formula or other method (which index, formula or method may be based, without limitation, on one or more Currencies, commodities, equity indices or other indices), and the manner in which such amounts shall be determined;
- (15) whether the principal of, premium (if any) or interest (if any) on the Securities of the series are to be payable, at the election of the Company or a Holder thereof, in a Currency other than that in which such Securities are denominated or stated to be payable, the period or periods within which (including the Election Date), and the terms and conditions upon which, such election may be made, and the time and manner of determining the exchange rate between the Currency in which such Securities are denominated or stated to be payable and the Currency in which such Securities are to be so payable, in each case in accordance with, in addition to or in lieu of any of the provisions of Section 3.12;

- (16) the designation of the initial Exchange Rate Agent, if any;
- (17) the applicability, if any, of Sections 14.02 and/or 14.03 to the Securities of the series and any provisions in modification of, in addition to or in lieu of any of the provisions of Article Fourteen that shall be applicable to the Securities of the series;
- (18) provisions, if any, granting special rights to the Holders of Securities of the series upon the occurrence of such events as may be specified;
- (19) any deletions from, modifications of or additions to the Events of Default or covenants (including any deletions from, modifications of or additions to Section 10.09) of the Company with respect to Securities of the series, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein;
- (20) whether Securities of the series are to be issuable as Registered Securities, Bearer Securities (with or without coupons) or both, any restrictions applicable to the offer, sale or delivery of Securities of the series, whether any Securities of the series are to be issuable initially in temporary global form and whether any Securities of the series are to be issuable in permanent global form with or without coupons and, if so, whether beneficial owners of interests in any such permanent global Security may exchange such interests for Securities of such series and of like tenor of any authorized form and denomination and the circumstances under which any such exchanges may occur, if other than in the manner provided in Section 3.05, whether Registered Securities of the series may be exchanged for Bearer Securities of the series (if permitted by applicable laws and regulations), whether Bearer Securities of the series may be exchanged for Registered Securities of such series, and the circumstances under which and the place or places where any such exchanges may be made and, if Securities of the series are to be issuable in global form, the designation of any Depositary therefor;
- (21) the date as of which any Bearer Securities of the series and any temporary global Security of the series shall be dated if other than the date of original issuance of the first Security of the series to be issued;
- (22) the Person to whom any interest on any Registered Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, the manner in which, or the Person to whom, any interest on any Bearer Security of the series shall be payable, if otherwise than upon presentation and surrender of the coupons appertaining thereto as they severally mature, and the extent to which, or the manner in which, any interest payable on a temporary global Security on an Interest Payment Date will be paid if other than in the manner provided in Section 3.04;
- (23) if Securities of the series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, the form and/or terms of such certificates, documents or conditions;

- (24) if the Securities of the series are to be issued upon the exercise of warrants or subscription receipts, the time, manner and place for such Securities to be authenticated and delivered;
- (25) if the Securities of the series are to be convertible into or exchangeable for any securities or property of any Person (including the Company), the terms and conditions upon which such Securities will be so convertible or exchangeable, and any additions or changes to permit or facilitate such conversion or exchange;
- (26) provisions as to modification, amendment or variation of any rights or terms attaching to the Securities;
- (27) whether the Securities will be secured or unsecured and the nature and priority of any security; and
- (28) any other terms, conditions, rights and preferences (or limitations on such rights and preferences) relating to the series (which terms shall not be inconsistent with the requirements of Trust Indenture Legislation or the provisions of this Indenture).

All Securities of any one series and the coupons appertaining to any Bearer Securities of such series shall be substantially identical except, in the case of Registered Securities, as to denomination and except as may otherwise be provided in or pursuant to such Board Resolution (subject to Section 3.03) and set forth in such Officer's Certificate or in any such indenture supplemental hereto. Not all Securities of any one series need be issued at the same time, and, unless otherwise provided, a series may be reopened for issuances of additional Securities of such series.

If any of the terms of the series are established by action taken pursuant to one or more Board Resolutions, such Board Resolutions shall be delivered to the Trustees at or prior to the delivery of the Officer's Certificate setting forth the terms of the series.

### **SECTION 3.02            Denominations.**

The Securities of each series shall be issuable in such denominations as shall be specified as contemplated by Section 3.01. With respect to Securities of any series denominated in Dollars, in the absence of any such provisions, the Registered Securities of such series, other than Registered Securities issued in global form (which may be of any denomination), shall be issuable in denominations of \$1,000 and any integral multiple thereof and the Bearer Securities of such series, other than the Bearer Securities issued in global form (which may be of any denomination), shall be issuable in a denomination of \$5,000 and any integral multiples thereof.

### **SECTION 3.03            Execution, Authentication, Delivery and Dating.**

The Securities and any coupons appertaining thereto shall be executed on behalf of the Company by an Officer. The signature of an Officer on the Securities or coupons may be the manual or facsimile signatures of the present or any future such authorized officer and may be imprinted or otherwise reproduced on the Securities.

Securities or coupons bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities or coupons.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series together with any coupons appertaining thereto, executed by the Company to the applicable Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the applicable Trustee in accordance with such Company Order shall authenticate and deliver such Securities; *provided, however*, that, in connection with its original issuance, no Bearer Security shall be mailed or otherwise delivered to any location in the United States; *provided further* that, unless otherwise specified with respect to any series of Securities pursuant to Section 3.01, a Bearer Security may be delivered in connection with its original issuance only if the Person entitled to receive such Bearer Security shall have furnished a certificate in the form set forth in Exhibit A-1 to this Indenture, dated no earlier than 15 days prior to the earlier of the date on which such Bearer Security is delivered and the date on which any temporary Security first becomes exchangeable for such Bearer Security in accordance with the terms of such temporary Security and this Indenture. If any Security shall be represented by a permanent global Bearer Security, then, for purposes of this Section 3.03 and Section 3.04, the notation of a beneficial owner's interest therein upon original issuance of such Security or upon exchange of a portion of a temporary global Security shall be deemed to be delivery in connection with its original issuance of such beneficial owner's interest in such permanent global Security. Except as permitted by Section 3.06, the Trustees shall not authenticate and deliver any Bearer Security unless all appurtenant coupons for interest then matured have been detached and cancelled. If not all the Securities of any series are to be issued at one time and if the Board Resolution or supplemental indenture establishing such series shall so permit, such Company Order may set forth procedures acceptable to the Trustees for the issuance of such Securities and determining terms of particular Securities of such series such as interest rate, Stated Maturity, date of issuance and date from which interest shall accrue.

In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustees shall be entitled to receive, and (subject to Trust Indenture Legislation, including TIA Sections 315(a) through 315(d)) shall be fully protected in relying upon, an Opinion of Counsel stating:

- (a) that the form or forms of such Securities and any coupons have been established in conformity with the provisions of this Indenture;
- (b) that the terms of such Securities and any coupons have been established in conformity with the provisions of this Indenture;
- (c) that such Securities, together with any coupons appertaining thereto, when completed by appropriate insertions and executed and delivered by the Company to the applicable Trustee for authentication in accordance with this Indenture, authenticated and delivered by the applicable Trustee in accordance with this Indenture and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute the legal, valid and binding obligations of the Company, enforceable in accordance with their terms;
- (d) the execution and delivery by the Company of such Securities, any coupons and any supplemental indenture will not contravene the articles of incorporation or continuance, or such other constating documents then in effect, if any, or the by-laws of the Company, or violate applicable laws; and
- (e) that the Company has the corporate power to issue such Securities and any coupons, and has duly taken all necessary corporate action with respect to such issuance.

Notwithstanding the provisions of Section 3.01 and of the preceding two paragraphs, if not all the Securities of any series are to be issued at one time, it shall not be necessary to deliver the Officer's Certificate otherwise required pursuant to Section 3.01 or the Company Order and Opinion of Counsel otherwise required pursuant to the preceding two paragraphs prior to or at the time of issuance of each Security, but such documents shall be delivered prior to or at the time of issuance of the first Security of such series.

The Trustees shall not be required to authenticate and deliver any such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustees' own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustees.

Each Registered Security shall be dated the date of its authentication and each Bearer Security shall be dated as of the date specified as contemplated by Section 3.01.

No Security or coupon shall entitle a Holder to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the applicable Trustee by manual signature of an authorized officer thereof, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustees for cancellation as provided in Section 3.10 together with a written statement (which need not comply with Section 1.03 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never entitle a Holder to the benefits of this Indenture.

#### **SECTION 3.04            Temporary Securities.**

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the applicable Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form or, if authorized, in bearer form with one or more coupons or without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the Officer executing such Securities may determine, as conclusively evidenced by their execution of such Securities. Such temporary Securities may be in global form.

Except in the case of temporary Securities in global form (which shall be exchanged in accordance with the provisions of the following paragraphs), if temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series (accompanied by any unmatured coupons appertaining thereto), the Company shall execute and the applicable Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of the same series of authorized denominations and of like tenor and evidencing the same indebtedness; *provided, however*, that no definitive Bearer Security shall be delivered in exchange for a temporary Registered Security *provided further* that a definitive Bearer Security shall be delivered in exchange for a temporary Bearer Security only in compliance with the conditions set forth in Section 3.03. Until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

If temporary Securities of any series are issued in global form, any such temporary global Security shall, unless otherwise provided therein, be delivered to the office of the Depositary for credit to the respective accounts of the beneficial owners of such Securities (or to such other accounts as they may direct).

Without unnecessary delay, but in any event not later than the date specified in, or determined pursuant to the terms of, any such temporary global Security (the “**Exchange Date**”), the Company shall deliver to the Trustees definitive Securities, in aggregate principal amount equal to the principal amount of such temporary global Security and of like tenor and evidencing the same indebtedness, executed by the Company. On or after the Exchange Date, such temporary global Security shall be surrendered by the Depositary to the Trustees, as the Company’s agent for such purpose, to be exchanged, in whole or from time to time in part, for definitive Securities without charge and the applicable Trustee shall authenticate and deliver, in exchange for each portion of such temporary global Security, an equal aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor and evidencing the same indebtedness as the portion of such temporary global Security to be exchanged. The definitive Securities to be delivered in exchange for any such temporary global Security shall be in bearer form, registered form, permanent global bearer form or permanent global registered form, or any combination thereof, as specified as contemplated by Section 3.01, and, if any combination thereof is so specified, as requested by the beneficial owner thereof; *provided, however*, that, unless otherwise specified in such temporary global Security, upon such presentation by the Depositary, such temporary global Security is accompanied by a certificate dated the Exchange Date or a subsequent date and signed by the Depositary as to the portion of such temporary global Security held for its account then to be exchanged and a certificate dated the Exchange Date or a subsequent date, each in the form set forth in Exhibit A-2 to this Indenture (or in such other form as may be established pursuant to Section 3.01); *provided further* that definitive Bearer Securities shall be delivered in exchange for a portion of a temporary global Security only in compliance with the requirements of Section 3.03.

Unless otherwise specified in such temporary global Security, the interest of a beneficial owner of Securities of a series in a temporary global Security shall be exchanged for definitive Securities of the same series and of like tenor and evidencing the same indebtedness following the Exchange Date when the account holder instructs the Depositary to request such exchange on his behalf and delivers to the Depositary a certificate in the form set forth in Exhibit A-1 to this Indenture (or in such other form as may be established pursuant to Section 3.01), dated no earlier than 15 days prior to the Exchange Date, copies of which certificate shall be available from the offices of the Depositary, the Trustees, any Authenticating Agent appointed for such series of Securities and each Paying Agent. Unless otherwise specified in such temporary global Security, any such exchange shall be made free of charge to the beneficial owners of such temporary global Security, except that a Person receiving definitive Securities must bear the cost of insurance, postage, transportation and the like in the event that such Person does not take delivery of such definitive Securities in person at the offices of the Depositary. Definitive Securities in bearer form to be delivered in exchange for any portion of a temporary global Security shall be delivered only outside the United States and Canada.

Until exchanged in full as hereinabove provided, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of the same series and of like tenor and evidencing the same indebtedness authenticated and delivered hereunder, except that, unless otherwise specified as contemplated by Section 3.01, interest payable on a temporary global Security on an Interest Payment Date for Securities of such series occurring prior to the applicable Exchange Date shall be payable to the Depositary on such Interest Payment Date upon delivery by the Depositary to the Trustees of a certificate or certificates in the form set forth in Exhibit A-2 to this Indenture (or in such other form as may be established pursuant to Section 3.01), for credit without further interest thereon on or after such Interest Payment Date to the respective accounts of the Persons who are the beneficial owners of such temporary global Security on such Interest Payment Date and who have each delivered to the Depositary a certificate dated no earlier than 15 days prior to the Interest Payment Date occurring prior to such Exchange Date in the form set forth in Exhibit A-1 to this Indenture (or in such other form as may be established pursuant to Section 3.01). Notwithstanding anything to the contrary herein contained, the certifications made pursuant to this paragraph shall satisfy the certification requirements of the preceding two paragraphs of this Section 3.04 and of the third paragraph of Section 3.03 and the interests of the Persons who are the beneficial owners of the temporary global Security with respect to which such certification was made will be exchanged for definitive Securities of the same series and of like tenor and evidencing the same indebtedness on the Exchange Date or the date of certification if such date occurs after the Exchange Date, without further act or deed by such beneficial owners. Except as otherwise provided in this paragraph, no payments of principal of, premium (if any) or interest (if any) owing with respect to a beneficial interest in a temporary global Security will be made unless and until such interest in such temporary global Security shall have been exchanged for an interest in a definitive Security. Any interest so received by the Depositary and not paid as herein provided shall be returned to the Trustees immediately prior to the expiration of two years after such Interest Payment Date in order to be repaid to the Company in accordance with Section 10.03.

#### **SECTION 3.05                      Registration, Registration of Transfer and Exchange.**

So long as required by Trust Indenture Legislation, the Company shall cause to be kept at the Corporate Trust Offices of the Trustees a register for each series of Securities (the registers maintained in the Corporate Trust Offices of the Trustees and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the “**Security Register**”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of the Holders of Registered Securities and of transfers of Registered Securities. The Security Register shall be in written form or any other form capable of being converted into written form within a reasonable time. At all reasonable times, the Security Register shall be open to inspection by the Trustees. The Trustees are hereby initially appointed as security registrar (the “**Security Registrar**”) for the purpose of registering Registered Securities and transfers of Registered Securities as herein provided. The Company shall have the right to remove and replace from time to time the Security Registrar for any series of Securities; provided, however, that, no such removal or replacement shall be effective until a successor Security Registrar with respect to such series of Registered Securities shall have been appointed by the Company and shall have accepted such appointment by the Company. In the event that the Trustees shall not be or shall cease to be the Securities Registrar with respect to a series of Securities, they shall have the right to examine the Security Register for such series at all reasonable times. There shall be only one Securities Register for such series of Securities.

Upon surrender for registration of transfer of any Registered Security of any series at the office or agency in a Place of Payment for that series, the Company shall execute, and the applicable Trustee shall authenticate and deliver, in the name of the designated transferee, one or more new Registered Securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor and evidencing the same indebtedness.

For Canadian Securities, the Security must be duly endorsed for transfer or in a duly endorsed transferable form as applicable and must comply with the current industry practice in accordance with the Securities Transfer Association of Canada.



At the option of the Holder, Registered Securities of any series may be exchanged for other Registered Securities of the same series, of any authorized denomination and of a like aggregate principal amount and tenor and evidencing the same indebtedness, upon surrender of the Registered Securities to be exchanged at such office or agency. Whenever any Registered Securities are so surrendered for exchange, the Company shall execute, and the applicable Trustee shall authenticate and deliver, the Registered Securities which the Holder making the exchange is entitled to receive. Unless otherwise specified with respect to any series of Securities as contemplated by Section 3.01, Bearer Securities may not be issued in exchange for Registered Securities.

If (but only if) expressly permitted in or pursuant to the applicable Board Resolution and (subject to Section 3.03) set forth in the applicable Officer's Certificate, or in any indenture supplemental hereto, delivered as contemplated by Section 3.01, at the option of the Holder, Bearer Securities of any series may be exchanged for Registered Securities of the same series of any authorized denomination and of a like aggregate principal amount and tenor and evidencing the same indebtedness, upon surrender of the Bearer Securities to be exchanged at the office of the applicable Trustee, with all unmatured coupons and all matured coupons in default thereto appertaining. If the Holder of a Bearer Security is unable to produce any such unmatured coupon or coupons or matured coupon or coupons in default, any such permitted exchange may be effected if the Bearer Securities are accompanied by payment in funds acceptable to the Company in an amount equal to the face amount of such missing coupon or coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustees if there is furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to any Paying Agent any such missing coupon in respect of which such a payment shall have been made, such Holder shall be entitled to receive the amount of such payment; *provided, however*, that, except as otherwise provided in Section 10.02, interest represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside the United States. Notwithstanding the foregoing, in case a Bearer Security of any series is surrendered at any such office or agency in a permitted exchange for a Registered Security of the same series and like tenor after the close of business at such office or agency on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date or proposed date for payment, as the case may be, and interest or Defaulted Interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

Whenever any Securities are so surrendered for exchange, the Company shall execute, and the applicable Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

Notwithstanding the foregoing, except as otherwise specified as contemplated by Section 3.01, any permanent global Security shall be exchangeable only as provided in this Section. If any beneficial owner of an interest in a permanent global Security is entitled to exchange such interest for Securities of such series and of like tenor and principal amount of another authorized form and denomination, as contemplated by Section 3.01 and provided that any applicable notice provided in the permanent global Security shall have been given to the Company, the Trustees and the Depositary, then without unnecessary delay but in any event not later than the earliest date on which such interest may be so exchanged, the Company shall deliver to the applicable Trustee definitive Securities in aggregate principal amount equal to the principal amount of such beneficial owner's interest in such permanent global Security, executed by the Company. On or after the earliest date on which such interests may be so exchanged, such permanent global Security shall be surrendered by the Depositary or such other depositary as shall be specified in the Company Order with respect thereto to the applicable Trustee, as the Company's agent for such purpose, to be exchanged in whole or from time to time in part, for definitive Securities without charge, and the applicable Trustee shall authenticate and deliver, in exchange for each portion of such permanent global Security, an equal aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor as the portion of such permanent global Security to be exchanged which, unless the Securities of the series are not issuable both as Bearer Securities and as Registered Securities, as specified as contemplated by Section 3.01, shall be in the form of Bearer Securities or Registered Securities, or any combination thereof, as shall be specified by the beneficial owner thereof. No Bearer Security delivered in exchange for a portion of a permanent global Security shall be mailed or otherwise delivered to any location in the United States or Canada. If a Registered Security is issued in exchange for any portion of a permanent global Security after the close of business at the office or agency where such exchange occurs on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest, interest or Defaulted Interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Security, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such permanent global Security is payable in accordance with the provisions of this Indenture.

Transfers of global Securities shall be limited to transfers in whole, but not in part, to the Depositary, its successors or their respective nominees. If at any time the Depositary for Securities of a series notifies the Company that it is unwilling, unable or no longer qualifies to continue as Depositary for Securities of such series or if at any time the Depositary for such series shall no longer be registered or in good standing under the Exchange Act, or other applicable statute or regulation, the Company shall appoint a successor Depositary for the Securities of such series. If a successor to the Depositary for Securities of such series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, the Company's election pursuant to Section 3.01 shall no longer be effective with respect to the Securities for such series and the Company will execute, and the applicable Trustee, upon receipt of a Company Order for the authentication and delivery of definitive Securities of such series, will authenticate and deliver Securities of such series in definitive, registered form, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the global Security or Securities representing such series and evidencing the same indebtedness in exchange for such global Security or Securities.

The Company may at any time and in its sole discretion determine that the Securities of any series issued in the form of one or more global Securities shall no longer be represented by such global Security or Securities. In such event the Company will execute, and the applicable Trustee, upon receipt of a Company Order for the authentication and delivery of definitive Securities of such series, will authenticate and deliver Securities of such series in definitive, registered form, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the global Security or Securities representing such series and evidencing the same indebtedness in exchange for such global Security or Securities.

Upon the exchange of a global Security for Securities in definitive registered form, such global Security shall be cancelled by the applicable Trustee. Securities issued in exchange for a global Security pursuant to this Section 3.05 shall be registered in such names and in such authorized denominations as the Depositary for such global Security, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the applicable Trustee in writing. The applicable Trustee shall deliver such Securities to the Persons in whose names such Securities are so registered.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Security Registrar or applicable securities transfer industry practices) be duly endorsed, or be accompanied by a written instrument of transfer, in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing.

Any registration of transfer or exchange of Securities may be subject to service charges by the Securities Registrar and the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.04, 9.06, 11.07 or 13.05 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange Securities of any series in definitive form during a period beginning at the opening of business 15 days before the day of the selection for redemption of Securities of that series under Section 11.03 or 12.03 and ending at the close of business on (A) if Securities of the series are issuable only as Registered Securities, the day of the mailing of the relevant notice of redemption and (B) if Securities of the series are issuable as Bearer Securities, the day of the first publication of the relevant notice of redemption or, (C) if Securities of the series are also issuable as Registered Securities and there is no publication, the mailing of the relevant notice of redemption, or (ii) to register the transfer of or exchange any Registered Security in definitive form so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part, or (iii) to exchange any Bearer Security so selected for redemption except that such a Bearer Security may be exchanged for a Registered Security of that series and like tenor; *provided* that such Registered Security shall be simultaneously surrendered for redemption, or (iv) to issue, register the transfer of or exchange any Security in definitive form which has been surrendered for repayment at the option of the Holder, except the portion, if any, of such Security not to be so repaid.

#### **SECTION 3.06 Mutilated, Destroyed, Lost and Stolen Securities.**

If any mutilated Security or a Security with a mutilated coupon appertaining to it is surrendered to the applicable Trustee, the Company shall execute and the applicable Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and evidencing the same indebtedness and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security, or, in case any such mutilated Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security, pay such Security or coupon. If there shall be delivered to the Company and to the Trustees (i) evidence to their satisfaction of the destruction, loss or theft of any Security or coupon and (ii) such security (or surety in the case of the Canadian Trustee) or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustees that such Security or coupon has been acquired by a bona fide purchaser, the Company shall execute and upon Company Order the applicable Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security or in exchange for the Security for which a destroyed, lost or stolen coupon appertains (with all appurtenant coupons not destroyed, lost or stolen), a new Security of the same series and of like tenor and principal amount and evidencing the same indebtedness and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to such destroyed, lost or stolen Security or to the Security to which such destroyed, lost or stolen coupon appertains.

Notwithstanding the provisions of the previous two paragraphs, in case any such mutilated, destroyed, lost or stolen Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, with coupons corresponding to the coupons, if any, appertaining to such mutilated, destroyed, lost or stolen Security or to the Security to which such mutilated, destroyed, lost or stolen coupon appertains, pay such Security or coupon; *provided, however,* that payment of principal of, premium (if any) and interest (if any) on Bearer Securities shall, except as otherwise provided in Section 10.02, be payable only at an office or agency located outside the United States and Canada and, unless otherwise specified as contemplated by Section 3.01, any interest on Bearer Securities shall be payable only upon presentation and surrender of the coupons appertaining thereto.

Upon the issuance of any new Security under this Section 3.06, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustees) connected therewith.

Every new Security of any series with its coupons, if any, issued pursuant to this Section 3.06 in lieu of any mutilated, destroyed, lost or stolen Security or in exchange for a Security to which a mutilated, destroyed, lost or stolen coupon appertains, shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security and its coupons, if any, or the mutilated, destroyed, lost or stolen coupon shall be at any time enforceable by anyone, and the Holders of such Security shall be entitled to all the benefits of this Indenture equally and proportionately with the Holders of any and all other Securities of that series and their coupons, if any, duly issued hereunder.

The provisions of this Section 3.06 as amended or supplemented pursuant to this Indenture with respect to a particular series of Securities or generally are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons.

**SECTION 3.07                      Payment of Principal, Premium and Interest; Interest Rights Preserved; Optional Interest Reset.**

(a) Unless otherwise provided as contemplated by Section 3.01 with respect to any series of Securities, interest (if any) on any Registered Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid by the Paying Agent to the Person in whose name such Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 10.02; *provided, however,* that each installment of interest (if any) on any Registered Security may at the Company's option be paid by (i) mailing a check for such interest, payable to or upon the written order of the Person entitled thereto pursuant to Section 3.09, to the address of such Person as it appears on the Security Register or (ii) wire transfer to an account located in the United States maintained by the Person entitled to such payment as specified in the Security Register. Unless otherwise provided as contemplated by Section 3.01 with respect to any series of Securities, principal and premium (if any) paid in relation to any Security shall be paid to the Holder of such Security only upon presentation and surrender of such Security at the office or agency of the Company maintained for such purpose pursuant to Section 10.02.

Unless otherwise provided as contemplated by Section 3.01 with respect to the Securities of any series, payment of interest (if any) may be made, in the case of a Bearer Security, by transfer to an account located outside the United States and Canada maintained by the payee.

Unless otherwise provided as contemplated by Section 3.01, every permanent global Security will provide that interest (if any) payable on any Interest Payment Date will be paid to the Depositary with respect to that portion of such permanent global Security held for its account by the Depositary, for the purpose of permitting the Depositary to credit the interest (if any) received by it in respect of such permanent global Security to the accounts of the beneficial owners thereof.

Any interest on any Registered Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such defaulted interest and, if applicable, interest on such defaulted interest (to the extent lawful) at the rate specified in the Securities of such series (such defaulted interest and, if applicable, interest thereon herein collectively called “**Defaulted Interest**”) must be paid by the Company as provided for in either clause (1) or (2), at the Company’s election:

- (1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustees in writing of the amount of Defaulted Interest proposed to be paid on each Registered Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the applicable Trustee an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustees for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustees shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustees of the notice of the proposed payment. The Trustees shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given in the manner provided in Section 1.07, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so given, such Defaulted Interest shall be paid to the Persons in whose name the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).
- (2) The Company may make payment of any Defaulted Interest on the Registered Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and, upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustees of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustees.

(b) The provisions of this Section 3.07(b) may be made applicable to any series of Securities pursuant to Section 3.01 (with such modifications, additions or substitutions as may be specified pursuant to such Section 3.01). The interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) on any Security of such series may be reset by the Company on the date or dates specified on the face of such Security (each an “**Optional Reset Date**”). The Company may exercise such option with respect to such Security by notifying the Trustees of such exercise at least 50 but not more than 60 days prior to an Optional Reset Date for such Security. Not later than 40 days prior to each Optional Reset Date, the Trustees shall transmit, in the manner provided for in Section 1.07, to the Holder of any such Security a notice (the “**Reset Notice**”) indicating whether the Company has elected to reset the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable), and if so (i) such new interest rate (or such new spread or spread multiplier, if applicable) and (ii) the provisions, if any, for redemption during the period from such Optional Reset Date to the next Optional Reset Date or if there is no such next Optional Reset Date, to the Stated Maturity of such Security (each such period a “**Subsequent Interest Period**”), including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during the Subsequent Interest Period.

Notwithstanding the foregoing, not later than 20 days prior to the Optional Reset Date, the Company may, at its option, revoke the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) provided for in the Reset Notice and establish an interest rate (or the spread or spread multiplier, if applicable) that is higher than the interest rate (or the spread or spread multiplier, if applicable) provided for in the Reset Notice, for the Subsequent Interest Period by causing the Trustees to transmit, in the manner provided for in Section 1.07, notice of such higher interest rate (or such higher spread or spread multiplier, if applicable) to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) is reset on an Optional Reset Date, and with respect to which the Holders of such Securities have not tendered such Securities for repayment (or have validly revoked any such tender) pursuant to the next succeeding paragraph, will bear such higher interest rate (or such higher spread or spread multiplier, if applicable).

The Holder of any such Security will have the option to elect repayment by the Company of the principal of such Security on each Optional Reset Date at a price equal to the principal amount thereof plus interest accrued to such Optional Reset Date. In order to obtain repayment on an Optional Reset Date, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders except that the period for delivery or notification to the Trustees shall be at least 25 but not more than 35 days prior to such Optional Reset Date and except that, if the Holder has tendered any Security for repayment pursuant to the Reset Notice, the Holder may, by written notice to the Trustees, revoke such tender or repayment until the close of business on the tenth day before such Optional Reset Date.

Subject to the foregoing provisions of this Section 3.07 and Section 3.05, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

**SECTION 3.08****Optional Extension of Stated Maturity.**

The provisions of this Section 3.08 may be made applicable to any series of Securities pursuant to Section 3.01 (with such modifications, additions or substitutions as may be specified pursuant to such Section 3.01). The Stated Maturity of any Security of such series may be extended at the option of the Company for the period or periods specified on the face of such Security (each an “**Extension Period**”) up to but not beyond the date (the “**Final Maturity**”) set forth on the face of such Security. The Company may exercise such option with respect to any Security by notifying the Trustees of such exercise at least 50 but not more than 60 days prior to the Stated Maturity of such Security in effect prior to the exercise of such option (the “**Original Stated Maturity**”). If the Company exercises such option, the Trustees shall transmit, in the manner provided for in Section 1.07, to the Holder of such Security not later than 40 days prior to the Original Stated Maturity a notice (the “**Extension Notice**”) indicating (i) the election of the Company to extend the Stated Maturity, (ii) the new Stated Maturity, (iii) the interest rate (if any) applicable to the Extension Period and (iv) the provisions, if any, for redemption during such Extension Period. Upon the Trustees’ transmittal of the Extension Notice, the Stated Maturity of such Security shall be extended automatically and, except as modified by the Extension Notice and as described in the next paragraph, such Security will have the same terms as prior to the transmittal of such Extension Notice.

Notwithstanding the foregoing, not later than 20 days before the Original Stated Maturity of such Security, the Company may, at its option, revoke the interest rate provided for in the Extension Notice and establish a higher interest rate for the Extension Period by causing the Trustees to transmit, in the manner provided for in Section 1.07, notice of such higher interest rate to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the Stated Maturity is extended will bear such higher interest rate.

If the Company extends the Maturity of any Security, the Holder will have the option to elect repayment of such Security by the Company on the Original Stated Maturity at a price equal to the principal amount thereof, plus interest accrued to such date. In order to obtain repayment on the Original Stated Maturity once the Company has extended the Maturity thereof, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders, except that the period for delivery or notification to the Trustees shall be at least 25 but not more than 35 days prior to the Original Stated Maturity and except that, if the Holder has tendered any Security for repayment pursuant to an Extension Notice, the Holder may by written notice to the Trustees revoke such tender for repayment until the close of business on the tenth day before the Original Stated Maturity.

**SECTION 3.09****Persons Deemed Owners.**

Prior to due presentment of a Registered Security for registration of transfer, the Company, the Trustees and any agent of the Company or the Trustees may treat the Person in whose name such Registered Security is registered as the owner of such Registered Security for the purpose of receiving payment of principal of, premium (if any) and (subject to Sections 3.05 and 3.07) interest (if any) on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and none of the Company, the Trustees or any agent of the Company or the Trustees shall be affected by notice to the contrary.

Title to any Bearer Security and any coupons appertaining thereto shall pass by delivery. The Company, the Trustees and any agent of the Company or the Trustees may treat the bearer of any Bearer Security and the bearer of any coupon as the absolute owner of such Security or coupon for the purpose of receiving payment thereof or on account thereof and for all other purposes whatsoever, whether or not such Security or coupons be overdue, and none of the Company, the Trustees or any agent of the Company or the Trustees shall be affected by notice to the contrary.

The Depositary for Securities may be treated by the Company, the Trustees, and any agent of the Company or the Trustees as the owner of such global Security for all purposes whatsoever. None of the Company, the Trustees, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Security in global form or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Notwithstanding the foregoing, with respect to any global Security, nothing herein shall prevent the Company, the Trustees, or any agent of the Company or the Trustees, from giving effect to any written certification, proxy or other authorization furnished by any Depositary, as a Holder, with respect to such global Security or impair, as between such Depositary and owners of beneficial interests in such global Security, the operation of customary practices governing the exercise of the rights of such Depositary (or its nominee) as Holder of such global Security.

**SECTION 3.10 Cancellation.**

All Securities and coupons surrendered for payment, redemption, repayment at the option of the Holder, registration of transfer or exchange or for credit against any current or future sinking fund payment shall, if surrendered to any Person other than a Trustee, be delivered to either Trustee. All Securities and coupons so delivered to either Trustee shall be promptly cancelled by such Trustee. The Company may at any time deliver to a Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to either Trustee (or to any other Person for delivery to such Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by such Trustee. If the Company shall so acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are surrendered to either Trustee for cancellation. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section 3.10, except as expressly permitted by this Indenture. All cancelled Securities held by either Trustee shall be disposed of by such Trustee in accordance with its customary procedures and certification of their disposal delivered to the Company unless by Company Order the Company shall direct that cancelled Securities be returned to it.

**SECTION 3.11 Computation of Interest.**

Except as otherwise specified as contemplated by Section 3.01 with respect to any Securities, interest (if any) on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months. For the purposes of disclosure under the Interest Act (Canada), the yearly rate of interest to which interest calculated under a Security for any period in any calendar year (the “**calculation period**”) is equivalent, is the rate payable under a Security in respect of the calculation period multiplied by a fraction the numerator of which is the actual number of days in such calendar year and the denominator of which is the actual number of days in the calculation period.

**SECTION 3.12 Currency and Manner of Payments in Respect of Securities.**

(a) With respect to Registered Securities of any series not permitting the election provided for in paragraph (b) below or the Holders of which have not made the election provided for in paragraph (b) below, and with respect to Bearer Securities of any series, except as provided in paragraph (d) below, payment of the principal of, premium (if any) and interest (if any) on such Registered Security or Bearer Security of such series will be made in the Currency in which such Registered Security or Bearer Security, as the case may be, is payable. The provisions of this Section 3.12 may be modified or superseded with respect to any Securities pursuant to Section 3.01.



(b) It may be provided pursuant to Section 3.01 with respect to Registered Securities of any series that Holders shall have the option, subject to paragraphs (d) and (e) below, to receive payments of principal of, premium (if any) or interest (if any) on such Registered Securities in any of the Currencies which may be designated for such election by delivering to the Trustees a written election with signature guarantees and in the applicable form established pursuant to Section 3.01, not later than the close of business on the Election Date immediately preceding the applicable payment date. If a Holder so elects to receive such payments in any such Currency, such election will remain in effect for such Holder or any transferee of such Holder until changed by such Holder or such transferee by written notice to the Trustees (but any such change must be made not later than the close of business on the Election Date immediately preceding the next payment date to be effective for the payment to be made on such payment date and no such change of election may be made with respect to payments to be made on any Registered Security of such series with respect to which an Event of Default has occurred or with respect to which the Company has deposited funds pursuant to Article Four or Fourteen or with respect to which a notice of redemption has been given by the Company or a notice of option to elect repayment has been sent by such Holder or such transferee). Any Holder of any such Registered Security who shall not have delivered any such election to the Trustees not later than the close of business on the applicable Election Date will be paid the amount due on the applicable payment date in the relevant Currency as provided in Section 3.12(a). The Trustees shall notify the Exchange Rate Agent as soon as practicable after the Election Date of the aggregate principal amount of Registered Securities for which Holders have made such written election.

(c) Unless otherwise specified pursuant to Section 3.01, if the election referred to in paragraph (b) above has been provided for pursuant to Section 3.01, then, unless otherwise specified pursuant to Section 3.01, not later than the fourth Business Day after the Election Date for each payment date for Registered Securities of any series, the Exchange Rate Agent will deliver to the Company a written notice specifying, in the Currency in which Registered Securities of such series are payable, the respective aggregate amounts of principal of, premium (if any) and interest (if any) on the Registered Securities to be paid on such payment date, specifying the amounts in such Currency so payable in respect of the Registered Securities as to which the Holders of Registered Securities of such series shall have elected to be paid in another Currency as provided in paragraph (b) above. If the election referred to in paragraph (b) above has been provided for pursuant to Section 3.01 and if at least one Holder has made such election, then, unless otherwise specified pursuant to Section 3.01, on the second Business Day preceding such payment date the Company will deliver to the Trustees for such series of Registered Securities an Exchange Rate Officer's Certificate in respect of the Dollar or Foreign Currency payments to be made on such payment date. Unless otherwise specified pursuant to Section 3.01, the Dollar or Foreign Currency amount receivable by Holders of Registered Securities who have elected payment in a Currency as provided in paragraph (b) above shall be determined by the Company on the basis of the applicable Market Exchange Rate in effect on the third Business Day (the "**Valuation Date**") immediately preceding each payment date, and such determination shall be conclusive and binding for all purposes, absent manifest error.

(d) If a Conversion Event occurs with respect to a Foreign Currency in which any of the Securities are denominated or payable other than pursuant to an election provided for pursuant to paragraph (b) above, then, with respect to each date for the payment of principal of, premium (if any) and interest (if any) on the applicable Securities denominated or payable in such Foreign Currency occurring after the last date on which such Foreign Currency was used (the "**Conversion Date**"), the Dollar shall be the Currency of payment for use on each such payment date. Unless otherwise specified pursuant to Section 3.01, the Dollar amount to be paid by the Company to the Trustees and by the Trustees or any Paying Agent to the Holders of such Securities with respect to such payment date shall be, in the case of a Foreign Currency other than a currency unit, the Dollar Equivalent of the Foreign Currency or, in the case of a currency unit, the Dollar Equivalent of the Currency Unit, in each case as determined by the Exchange Rate Agent in the manner provided in paragraph (f) or (g) below.

(e) Unless otherwise specified pursuant to Section 3.01, if the Holder of a Registered Security denominated in any Currency shall have elected to be paid in another Currency as provided in paragraph (b) above, and a Conversion Event occurs with respect to such elected Currency, such Holder shall receive payment in the Currency in which payment would have been made in the absence of such election; and if a Conversion Event occurs with respect to the Currency in which payment would have been made in the absence of such election, such Holder shall receive payment in Dollars as provided in paragraph (d) above.

(f) The “**Dollar Equivalent of the Foreign Currency**” shall be determined by the Exchange Rate Agent and shall be obtained for each subsequent payment date by converting the specified Foreign Currency into Dollars at the Market Exchange Rate on the Conversion Date.

(g) The “**Dollar Equivalent of the Currency Unit**” shall be determined by the Exchange Rate Agent and subject to the provisions of paragraph (h) below shall be the sum of each amount obtained by converting the Specified Amount of each Component Currency into Dollars at the Market Exchange Rate for such Component Currency on the Valuation Date with respect to each payment.

(h) For purposes of this Section 3.12 the following terms shall have the following meanings:

A “**Component Currency**” shall mean any Currency which, on the Conversion Date, was a component currency of the relevant currency unit, including, but not limited to, the Euro.

A “**Specified Amount**” of a Component Currency shall mean the number of units of such Component Currency or fractions thereof which were represented in the relevant currency unit, including, but not limited to, the Euro, on the Conversion Date. If after the Conversion Date the official unit of any Component Currency is altered by way of combination or subdivision, the Specified Amount of such Component Currency shall be divided or multiplied in the same proportion. If after the Conversion Date two or more Component Currencies are consolidated into a single currency, the respective Specified Amounts of such Component Currencies shall be replaced by an amount in such single Currency equal to the sum of the respective Specified Amounts of such consolidated Component Currencies expressed in such single Currency, and such amount shall thereafter be a Specified Amount and such single Currency shall thereafter be a Component Currency. If after the Conversion Date any Component Currency shall be divided into two or more currencies, the Specified Amount of such Component Currency shall be replaced by amounts of such two or more currencies, having an aggregate Dollar Equivalent value at the Market Exchange Rate on the date of such replacement equal to the Dollar Equivalent value of the Specified Amount of such former Component Currency at the Market Exchange Rate immediately before such division and such amounts shall thereafter be Specified Amounts and such currencies shall thereafter be Component Currencies. If, after the Conversion Date of the relevant currency unit, including, but not limited to, the Euro, a Conversion Event (other than any event referred to above in this definition of “**Specified Amount**”) occurs with respect to any Component Currency of such currency unit and is continuing on the applicable Valuation Date, the Specified Amount of such Component Currency shall, for purposes of calculating the Dollar Equivalent of the Currency Unit, be converted into Dollars at the Market Exchange Rate in effect on the Conversion Date of such Component Currency.

“**Election Date**” shall mean the date for any series of Registered Securities as specified pursuant to clause (15) of Section 3.01 by which the written election referred to in paragraph (b) above may be made.

All decisions and determinations of the Exchange Rate Agent regarding the Dollar Equivalent of the Foreign Currency, the Dollar Equivalent of the Currency Unit, the Market Exchange Rate and changes in the Specified Amounts as specified above shall be in its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and irrevocably binding upon the Company, the Trustees and all Holders of such Securities denominated or payable in the relevant Currency. The Exchange Rate Agent shall promptly give written notice to the Company and the Trustees of any such decision or determination.

In the event that the Company determines in good faith that a Conversion Event has occurred with respect to a Foreign Currency, the Company will immediately give written notice thereof to the Trustees and to the Exchange Rate Agent (and the Trustees will promptly thereafter give notice in the manner provided for in Section 1.07 to the affected Holders) specifying the Conversion Date. In the event the Company so determines that a Conversion Event has occurred with respect to the Euro or any other currency unit in which Securities are denominated or payable, the Company will immediately give written notice thereof to the Trustees and to the Exchange Rate Agent (and the Trustees will promptly thereafter give notice in the manner provided for in Section 1.07 to the affected Holders) specifying the Conversion Date and the Specified Amount of each Component Currency on the Conversion Date. In the event the Company determines in good faith that any subsequent change in any Component Currency as set forth in the definition of Specified Amount above has occurred, the Company will similarly give written notice to the Trustees and the Exchange Rate Agent.

The Trustees shall be fully justified and protected in relying and acting upon information received by it from the Company and the Exchange Rate Agent and shall not otherwise have any duty or obligation to determine the accuracy or validity of such information independent of the Company or the Exchange Rate Agent.

### **SECTION 3.13                      Appointment and Resignation of Successor Exchange Rate Agent.**

(a) Unless otherwise specified pursuant to Section 3.01, if and so long as the Securities of any series (i) are denominated in a Currency other than Dollars or (ii) may be payable in a Currency other than Dollars, or so long as it is required under any other provision of this Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent. The Company will cause the Exchange Rate Agent to make the necessary foreign exchange determinations at the time and in the manner specified pursuant to Section 3.01 for the purpose of determining the applicable rate of exchange and, if applicable, for the purpose of converting the issued Currency into the applicable payment Currency for the payment of principal, premium (if any) and interest (if any) pursuant to Section 3.12.

(b) The Company shall have the right to remove and replace from time to time the Exchange Rate Agent for any series of Securities. No resignation of the Exchange Rate Agent and no appointment of a successor Exchange Rate Agent pursuant to this Section 3.13 shall become effective until the acceptance of appointment by the successor Exchange Rate Agent as evidenced by a written instrument delivered to the Company and the Trustees.

(c) If the Exchange Rate Agent shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Exchange Rate Agent for any cause with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolution, shall promptly appoint a successor Exchange Rate Agent or Exchange Rate Agents with respect to the Securities of that or those series (it being understood that any such successor Exchange Rate Agent may be appointed with respect to the Securities of one or more or all of such series and that, unless otherwise specified pursuant to Section 3.01, at any time there shall only be one Exchange Rate Agent with respect to the Securities of any particular series that are originally issued by the Company on the same date and that are initially denominated and/or payable in the same Currency).

**ARTICLE FOUR**  
**SATISFACTION AND DISCHARGE**

**SECTION 4.01            Satisfaction and Discharge of Indenture.**

This Indenture shall upon Company Request cease to be of further effect with respect to any series of Securities specified in such Company Request (except as to any surviving rights of registration of transfer or exchange of Securities of such series expressly provided for herein or pursuant hereto and the rights of Holders of such series of Securities and any related coupons to receive, solely from the trust fund described in subclause (b) of clause (1) of this Section 4.01, payments in respect of the principal of, premium (if any) and interest (if any) on such Securities and any related coupons when such payments are due and except as provided in the last paragraph of this Section 4.01) and the Trustees, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture as to such series when

(1)        either

(a)        all Securities of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to Bearer Securities surrendered for exchange for Registered Securities and maturing after such exchange, whose surrender is not required or has been waived as provided in Section 3.05, (ii) Securities and coupons of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.06, (iii) coupons appertaining to Securities called for redemption and maturing after the relevant Redemption Date, whose surrender has been waived as provided in Section 11.06, and (iv) Securities and coupons of such series for whose payment money has theretofore been deposited in trust with either Trustee or any Paying Agent or segregated and held in trust by the Company and thereafter repaid to the Company, as provided in Section 10.03) have been delivered to either Trustee for cancellation; or

(b)        all Securities of such series and, in the case of (i) or (ii) below, any coupons appertaining thereto not theretofore delivered to either Trustee for cancellation

(i)        have become due and payable, or

(ii)       will become due and payable at their Stated Maturity within one year, or

(iii)      if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the Trustees for the giving of notice of redemption by the Trustees in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with either Trustee as trust funds in trust for such purpose an amount in the Currency in which the Securities of such series are payable, sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to such Trustee for cancellation, for principal, premium (if any) and interest (if any) to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

- (2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and
- (3) the Company has delivered to the Trustees an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustees under Section 6.07, the obligations of the Trustees to any Authenticating Agent under Section 6.12 and, if money shall have been deposited with the Trustees pursuant to subclause (b) of clause (1) of this Section 4.01, the obligations of the Trustees under Section 4.02 and the last paragraph of Section 10.03 shall survive.

#### **SECTION 4.02            Application of Trust Money.**

Subject to the provisions of the last paragraph of Section 10.03, all money deposited with the Trustees pursuant to Section 4.01 shall be held in trust and applied by it, in accordance with the provisions of the Securities, the coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustees may determine, to the Persons entitled thereto, of the principal, premium (if any) and interest (if any) for whose payment such money has been deposited with the Trustees; but such money need not be segregated from other funds except to the extent required by law.

### **ARTICLE FIVE REMEDIES**

#### **SECTION 5.01            Events of Default.**

"**Event of Default**," wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), unless such event is specifically deleted or modified in or pursuant to a supplemental indenture, Board Resolution or Officer's Certificate establishing the terms of such series pursuant to Section 3.01 of this Indenture:

- (1) default in the payment of any interest due on any Security of that series, or any related coupon, when such interest or coupon becomes due and payable, and continuance of such default for a period of 30 days; or
- (2) default in the payment of the principal or premium (if any) in respect of any Security of that series at its Maturity; or
- (3) default in the deposit of any sinking fund, amortization or analogous payment when due by the terms of any Security of that series and Article Twelve; or
- (4) default in the performance, or breach, of any covenant or agreement of the Company in this Indenture which affects or is applicable to the Securities of that series (other than a covenant or agreement, a default in whose performance or whose breach is elsewhere in this Section 5.01 specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given (and 120 days with respect to a default or breach under Section 7.05), by registered or certified mail, to the Company by the Trustees or to the Company and the Trustees by the Holders of at least 25% in principal amount of all Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

- (5) the entry of a decree or order by a court having jurisdiction in the premises adjudging the Company bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under or subject to the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada), the U.S. Federal Bankruptcy Code or any other federal, provincial, state or foreign bankruptcy, insolvency or analogous laws, or the issuance of a sequestration order or the (appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or in receipt of any substantial part of the property of the Company, and any such decree, order or appointment continues unstayed and in effect for a period of 90 consecutive days; or
- (6) the institution by the Company of proceedings to be adjudicated bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under or subject to the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada), the U.S. Federal Bankruptcy Code or any other federal, provincial, state or foreign bankruptcy, insolvency or analogous laws or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due or the taking by it of corporate action in furtherance of any of the aforesaid purposes; or
- (7) any other Event of Default provided with respect to Securities of that series.

## **SECTION 5.02                      Acceleration of Maturity; Rescission and Annulment.**

If an Event of Default described in clause (1), (2), (3), (4) or (7) of Section 5.01 with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case, either Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series, may declare the principal amount (or, if the Securities of that series are Original Issue Discount Securities or Indexed Securities, such portion of the principal amount as may be specified in the terms of that series) of all of the Securities of that series and all interest thereon to be due and payable immediately, by a notice in writing to the Company (and to the Trustees if given by Holders), and upon any such declaration such principal amount (or specified portion thereof) shall become immediately due and payable. If an Event of Default specified in clause (5) or (6) of Section 5.01 occurs and is continuing, then the principal amount of all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustees or any Holder.

At any time after such a declaration of acceleration with respect to Securities of any series (or of all series, as the case may be) has been made and before a judgment or decree for payment of the money due has been obtained by either Trustee as hereinafter provided in this Article Five, the Holders of a majority in principal amount of the Outstanding Securities of that series (or of all series, as the case may be), by written notice to the Company and the Trustees, may rescind and annul such declaration and its consequences if:

- (1) the Company has paid or deposited with either Trustee a sum sufficient to pay in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)),
  - (a) all overdue interest (if any) on all Outstanding Securities of that series (or of all series, as the case may be) and any related coupons,
  - (b) all unpaid principal of and premium (if any) on any Outstanding Securities of that series (or of all series, as the case may be) which has become due otherwise than by such declaration of acceleration, and interest on such unpaid principal and premium (if any) at the rate or rates prescribed therefor in such Securities,
  - (c) to the extent that payment of such interest is legally enforceable, interest on overdue interest at the rate or rates prescribed therefor in such Securities, and
  - (d) all sums paid or advanced by the Trustees hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustees, their agents and counsel; and
- (2) all Events of Default with respect to Securities of that series (or of all series, as the case may be), other than the non-payment of amounts of principal of, premium (if any) or interest (if any) on Securities of that series (or of all series, as the case may be) which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

#### **SECTION 5.03                      Collection of Debt and Suits for Enforcement by Trustees.**

The Company covenants that if

- (1) default is made in the payment of any installment of interest on any Security and any related coupon when such interest becomes due and payable and such default continues for a period of 30 days, or
- (2) default is made in the payment of the principal of or premium (if any) any Security at the Maturity thereof,

then the Company will, upon demand of the Trustees, pay to the applicable Trustee for the benefit of the Holders of such Securities and coupons, the whole amount then due and payable on such Securities and coupons for principal of, premium (if any) and interest (if any) and interest on any overdue principal, overdue premium (if any) and, to the extent lawful, overdue interest (if any), at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustees, their agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustees, in their own names as trustees of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series (or of all series, as the case may be) occurs and is continuing, either Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series (or of all series, as the case may be) by such appropriate judicial proceedings as such Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

**SECTION 5.04                      Trustees May File Proofs of Claim.**

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, each Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether either Trustee shall have made any demand on the Company for the payment of overdue principal, premium (if any) or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

- (i) to file and prove a claim for the whole amount of principal and premium (if any), or such portion of the principal amount of any series of Original Issue Discount Securities or Indexed Securities as may be specified in the terms of such series, and interest (if any) owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of such Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of such Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and
- (ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to such Trustee and, in the event that such Trustee shall consent to the making of such payments directly to the Holders, to pay to such Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of each Trustee, its agents and counsel, and any other amounts due to such Trustee under Section 6.07.

Nothing herein contained shall be deemed to authorize the Trustees to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustees to vote in respect of the claim of any Holder in any such proceeding.

**SECTION 5.05                      Trustees May Enforce Claims Without Possession of Securities.**

All rights of action and claims under this Indenture, the Securities or coupons may be prosecuted and enforced by the Trustees without the possession of any of the Securities or coupons or the production thereof in any proceeding relating thereto, and any such proceeding instituted by either Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of such Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities and coupons in respect of which such judgment has been recovered.



**SECTION 5.06                      Application of Money Collected.**

Any money collected by either Trustee pursuant to this Article Five shall be applied in the following order, at the date or dates fixed by the Trustees and, in case of the distribution of such money on account of principal of, premium (if any) or interest (if any) upon presentation of the Securities or coupons, or both, as the case may be, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: to the payment of all amounts due the Trustees under Section 6.07;

Second: to the payment of the amounts then due and unpaid for principal of, premium (if any) and interest (if any), on the Securities and coupons in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities and coupons for principal, premium (if any) and interest (if any), respectively; and

Third: the balance, if any, to the Person or Persons entitled thereto.

**SECTION 5.07                      Limitation on Suits.**

No Holder of any Security of any series or any related coupons shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture or the Securities, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

- (1) such Holder has previously given written notice to the Trustees of a continuing Event of Default with respect to the Securities of that series;
- (2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series in the case of any Event of Default described in clause (1), (2), (3), (4) or (7) of Section 5.01, or, in the case of any Event of Default described in clause (5) or (6) of Section 5.01, the Holders of not less than 25% in principal amount of all Outstanding Securities, shall have made written request to the Trustees to institute proceedings in respect of such Event of Default in their own names as Trustees hereunder;
- (3) such Holder or Holders have offered to the Trustees reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (4) the Trustees for 60 days after their receipt of such notice, request and offer of indemnity have failed to institute any such proceeding; and
- (5) no direction inconsistent with such written request has been given to the Trustees during such 60-day period by the Holders of a majority or more in principal amount of the Outstanding Securities of that series in the case of any Event of Default described in clause (1), (2), (3), (4) or (7) of Section 5.01, or in the case of any Event of Default described in clause (5) or (6) of Section 5.01, by the Holders of a majority or more in principal amount of all Outstanding Securities;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Securities of the same series, in the case of any Event of Default described in clause (1), (2), (3), (4) or (7) of Section 5.01, or of Holders of all Securities in the case of any Event of Default described in clause (5) or (6) of Section 5.01, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all Holders of Securities of the same series, in the case of any Event of Default described in clause (1), (2), (3), (4) or (7) of Section 5.01, or of Holders of all Securities in the case of any Event of Default described in clause (5) or (6) of Section 5.01.

**SECTION 5.08                      Unconditional Right of Holders to Receive Principal, Premium and Interest.**

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment, as provided herein (including, if applicable, Article Fourteen) and in such Security, of the principal of and premium (if any) and (subject to Section 3.07) interest (if any) on, such Security or payment of such coupon on the respective Stated Maturities expressed in such Security or coupon (or, in the case of redemption, on the Redemption Date or, in the case of repayment at the option of the Holder as contemplated by Article Twelve, on the Repayment Date) and subject to the limitations on a Holder's ability to institute suit contained Section 5.07, to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

**SECTION 5.09                      Restoration of Rights and Remedies.**

If either Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to such Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustees and the Holders of Securities and coupons shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustees and the Holders shall continue as though no such proceeding had been instituted.

**SECTION 5.10                      Rights and Remedies Cumulative.**

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons in the last paragraph of Section 3.06, no right or remedy herein conferred upon or reserved to the Trustees or to the Holders of Securities or coupons is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not, to the extent permitted by law, prevent the concurrent assertion or employment of any other appropriate right or remedy.

**SECTION 5.11                      Delay or Omission Not Waiver.**

No delay or omission of the Trustees or of any Holder of any Security or coupon to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Five or by law to the Trustees or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustees or by the Holders, as the case may be.

**SECTION 5.12 Control by Holders.**

With respect to the Securities of any series, the Holders of not less than a majority in principal amount of the Outstanding Securities of such series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustees, or exercising any trust or power conferred on the Trustees, relating to or arising under clause (1), (2), (3), (4) or (7) of Section 5.01, and, with respect to all Securities, the Holders of not less than a majority in principal amount of all Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustees, or exercising any trust or power conferred on the Trustees, not relating to or arising under clause (1), (2), (3), (4) or (7) of Section 5.01, *provided* that in each case

- (1) such direction shall not be in conflict with any rule of law or with this Indenture,
- (2) the Trustees may take any other action deemed proper by the Trustees which is not inconsistent with such direction, and
- (3) the Trustees need not take any action which might involve them in personal liability or be unjustly prejudicial to the Holders of Securities of such series not consenting.

**SECTION 5.13 Waiver of Past Defaults.**

Subject to Section 5.02, the Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past Default described in clause (1), (2), (3), (4) or (7) of Section 5.01 (or, in the case of a Default described in clause (5) or (6) of Section 5.01, the Holders of not less than a majority in principal amount of all Outstanding Securities may waive any such past Default), and its consequences, except a default

- (1) in respect of the payment of the principal of, premium (if any) or interest (if any) on any Security or any related coupon, or
- (2) in respect of a covenant or provision herein which under Article Nine cannot be modified or amended without the consent of the Holder of each outstanding Security of such series affected.

Upon any such waiver, any such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

**SECTION 5.14 Waiver of Stay or Extension Laws.**

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustees, but will suffer and permit the execution of every such power as though no such law had been enacted.

**SECTION 5.15                      Undertaking for Costs.**

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against either Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in Trust Indenture Legislation; *provided, however*, that neither this Section 5.15 nor the provisions of TIA Section 315(e) shall apply to any suit instituted by either Trustee or by any Holder or group of Holders holding more than 10% in principal amount of all Outstanding Securities or by any Holder of any Security on any suit for the enforcement of the right to receive the principal of and interest on any such Securities.

**ARTICLE SIX  
THE TRUSTEES**

**SECTION 6.01                      Notice of Defaults.**

Each Trustee shall promptly give the other Trustee notice of any Default or Event of Default known to it. Within a reasonable time, but no more than 30 days after either Trustee has knowledge of any Default hereunder with respect to the Securities of any series, one or both of the Trustees shall transmit in the manner and to the extent provided in Trust Indenture Legislation, including TIA Section 313(c), notice to the Holders of such Default hereunder known to either Trustee, unless such Default shall have been cured or waived (and, in the case where such Default shall have been cured, the Trustees shall notify the Holders in writing of such cure in writing within a reasonable time, but not exceeding 30 days, after the Trustees have become aware that the Default has been cured); *provided, however*, that, except in the case of a Default in the payment of the principal of, premium (if any) or interest (if any) on any Security of such series or in the payment of any sinking fund installment with respect to Securities of such series, the Trustees shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of each Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Securities of such series and any related coupons; *provided further* that in the case of any Default of the character specified in clause (4) of Section 5.01 with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof.

**SECTION 6.02                      Certain Duties and Responsibilities of Trustees.**

(a)            The Trustees, prior to the occurrence of an Event of Default and after the curing of all Events of Default that may have occurred, shall undertake to perform with respect to the Securities of any series such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants shall be read into this Indenture against the Trustees.

(b)            In all instances, in the exercise of the powers, rights, duties and discharge of obligations prescribed or conferred by the terms of this Indenture, each Trustee shall act honestly and in good faith with a view to the best interests of the Holders and exercise that degree of care, diligence and skill that a reasonably prudent trustee in respect of indentures for the purpose of issuing corporate debt obligations would exercise in comparable circumstances.

(c) No provision of this Indenture shall be construed to relieve each Trustee from liability for its own actions or failure to act in accordance with Subsection 6.02(b), except that:

- (i) prior to the occurrence of an Event of Default and after the curing or waiving of all such Events of Default that may have occurred:
  - (A) the duties and obligations of each Trustee with respect to the Securities of any series shall be determined solely by the express provisions of this Indenture, and the Trustees shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustees; and
  - (B) in the absence of bad faith on the part of either Trustee, such Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustees and conforming to the requirements of this Indenture and Trust Indenture Legislation; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustees, the Trustees shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture; *provided, however*, the Canadian Trustee shall not be required to determine whether the certificates or opinions presented to it conform to the Trust Indenture Act and the U.S. Trustee shall not be required to determine whether the certificates or opinions presented to it conform to Canadian Trust Indenture Legislation.
- (ii) the Trustees shall not be liable with respect to any action taken or omitted to be taken by them in good faith in accordance with the direction of the Holders of not less than a majority in principal amount of the Securities of any series at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustees, or exercising any trust or power conferred upon the Trustees under this Indenture;
- (iii) none of the provisions contained in this Indenture shall require either Trustee to expend or risk their own funds or otherwise incur personal or any financial liability in the performance of any of their duties or in the exercise of any of their rights or powers; and
- (iv) whether or not therein expressly so provided, except to the extent expressly provided herein to the contrary, every provision of this Indenture relating to the conduct or effecting the liability or affording protection to the Trustees shall be subject to the provisions of this Section 6.02.

(d) Notwithstanding the provisions of this Section 6.02 or any provision in this Indenture or in the Securities, the Trustees will not be charged with knowledge of the existence of any Event of Default or any other fact that would prohibit the making of any payment of monies to or by the Trustees, or the taking of any other action by the Trustees, unless and until the Trustees have received written notice thereof from the Company or any Holder.

#### **SECTION 6.03            Certain Rights of Trustees.**

Subject to the provisions of TIA Sections 315(a) through 315(d):

- (1) the Trustees may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties;

- (2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;
- (3) whenever in the administration of this Indenture the Trustees shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, each Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;
- (4) the Trustees may consult with counsel and the written advice of such counsel or any opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by them hereunder in good faith and in reliance thereon;
- (5) the Trustees shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Securities of any series or any related coupons pursuant to this Indenture, unless such Holders shall have offered to the Trustees reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by them in compliance with such request or direction;
- (6) the Trustees shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustees, in their discretion, may make such further inquiry or investigation into such facts or matters as they may see fit, and, if the Trustees shall determine to make such further inquiry or investigation, they shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;
- (7) in an Event of Default, the Trustees' powers shall not be infringed upon so long as they act in accordance with Section 6.02(b);
- (8) the Trustees may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustees shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by them hereunder; and
- (9) the Trustees shall not be liable for any action taken, suffered or omitted by them in good faith and believed by them to be authorized or within the discretion or rights or powers conferred upon them by this Indenture, so long as they act in accordance with this Section 6.02(b).

**SECTION 6.04 Trustees Not Responsible for Recitals or Issuance of Securities.**

The recitals contained herein and in the Securities, except for a Trustee's certificate of authentication, and in any coupons shall be taken as the statements of the Company, and neither Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustees make no representations as to the validity or sufficiency of this Indenture or of the Securities or coupons, except that the Trustees represent that they are duly authorized to execute and deliver this Indenture, authenticate the Securities and perform their obligations hereunder and that the statements made by the U.S. Trustee in a Statement of Eligibility on Form T-1 supplied to the Company are true and accurate, subject to the qualifications set forth therein. Neither Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof. Nothing herein contained will impose on either Trustee any obligation to see to, or to require evidence of, the registration or filing (or renewal thereof) of this Indenture or any supplemental indenture. The Trustees shall not be bound to give notice to any person of the execution hereof.

**SECTION 6.05 May Hold Securities.**

The Trustees, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company or of the Trustees, in their individual or any other capacity, may become the owner or pledgee of Securities and coupons and, subject to TIA Sections 310(b) and 311, may otherwise deal with the Company, including, without limitation, as a creditor of the Company, with the same rights they would have if they were not Trustees, Authenticating Agent, Paying Agent, Security Registrar or such other agent. A Trustee that has resigned or is removed shall remain subject to TIA Section 311(a) to the extent provided therein.

**SECTION 6.06 Money Held in Trust.**

Money held by the Trustees in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustees shall be under no liability for interest on any money received by them hereunder except as otherwise agreed with the Company.

**SECTION 6.07 Compensation and Reimbursement.**

The Company agrees:

- (1) to pay to the Trustees from time to time reasonable compensation for all services rendered by them hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);
- (2) except as otherwise expressly provided herein, to reimburse the Trustees upon their request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of their agents and counsel), except any such expense, disbursement or advance as may be attributable to the U.S. Trustee's gross negligence or bad faith or the Canadian Trustee's gross negligence or willful misconduct, respectively; and
- (3) to indemnify the Trustees for, and to hold them and their directors, officers, agents, representatives, successors, assigns and employees harmless against, any loss, liability or expense incurred without gross negligence or bad faith on the part of the U.S. Trustee, or gross negligence or willful misconduct on the part of the Canadian Trustee, respectively, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including reasonable attorneys' fees and other reasonable costs and expenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their powers or duties hereunder.

The obligations of the Company under this Section 6.07 to compensate the Trustees, to pay or reimburse the Trustees for expenses, disbursements and advances and to indemnify and hold harmless the Trustees shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture and the resignation or removal of the Trustee. As security for the performance of such obligations of the Company, the Trustees shall have a claim prior to the Securities upon all property and funds held or collected by the Trustees as such, except funds held in trust for the payment of principal of, premium (if any) or interest (if any) on particular Securities or any coupons.

When the Trustees incur expenses or render services in connection with an Event of Default specified in clause (5) or (6) of Section 5.01, the expenses (including reasonable charges and expense of its counsel) of and the compensation for such services are intended to constitute expenses of administration under any applicable United States or Canadian federal, state or provincial bankruptcy, insolvency or other similar law.

The provisions of this Section 6.07 shall survive the termination of this Indenture.

**SECTION 6.08 Corporate Trustees Required; Eligibility.**

- (1) There shall be at all times a U.S. Trustee hereunder which shall be eligible to act as Trustee under TIA Section 310(a)(1) and, together with its immediate parent, shall have a combined capital and surplus of at least \$50,000,000. If the U.S. Trustee publishes reports of condition at least annually, pursuant to law or to the requirements of United States federal, state, territorial or District of Columbia supervising or examining authority, then for the purposes of this Section 6.08, the combined capital and surplus of U.S. Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the U.S. Trustee shall cease to be eligible in accordance with the provisions of this Section 6.08, it shall resign immediately in the manner and with the effect hereinafter specified in this Article Six.
- (2) For so long as required by Trust Indenture Legislation, there shall be a Canadian Trustee under this Indenture. The Canadian Trustee shall at all times be a resident or authorized to do business in the Province of [Ontario] and any other province in Canada where Holders may be resident from time to time. The Canadian Trustee represents and warrants that no material conflict of interest exists in the Canadian Trustee's role as a fiduciary hereunder and agrees that in the event of a material conflict of interest arising hereafter it will, within 30 days after ascertaining that it has such material conflict of interest, either eliminate the same or resign its trust hereunder. If any such material conflict of interests exists or hereafter shall exist, the validity and enforceability of this Indenture shall not be affected in any manner whatsoever by reason thereof.
- (3) The Trustees will not be required to give any bond or security in respect of the execution of the trusts and powers set out in this Indenture or otherwise in respect of the premises.
- (4) Neither Trustee nor any Affiliate of either Trustee shall be appointed a receiver or receiver and manager or liquidator of all or any part of the assets or undertaking of the Company.



**SECTION 6.09****Resignation and Removal; Appointment of Successor.**

- (1) No resignation or removal of either Trustee and no appointment of a successor Trustee pursuant to this Article Six shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.10.
- (2) Either Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 6.10 shall not have been delivered to such Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.
- (3) Either Trustee may be removed following 30 days notice at any time with respect to the Securities of any series by Act of the Holders of not less than a majority in principal amount of the Outstanding Securities of such series, delivered to such Trustee and to the Company.
- (4) If at any time:
  - (i) either Trustee shall acquire any conflicting interest as defined in TIA Section 310(b) and fail to comply with the provisions of TIA Section 310(b)(i), or
  - (ii) either Trustee shall fail to comply with the provisions of TIA Section 310(b) after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or
  - (iii) either Trustee shall cease to be eligible under Section 6.08 and shall fail to resign after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or
  - (iv) either Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of such Trustee or of its property shall be appointed or any public officer shall take charge or control of such Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company, by a Board Resolution, may remove such Trustee with respect to all Securities, or (ii) subject to TIA Section 315(e), any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of such Trustee with respect to all Securities of such series and the appointment of a successor Trustee or Trustees.

- (5) If either Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the U.S. Trustee or the Canadian Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series) *provided, however*, that the Company shall not be required to appoint a successor Trustee to the Canadian Trustee if the Canadian Trustee resigns or is removed and a Canadian Trustee under this Indenture is no longer required under Trust Indenture Legislation. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.
- (6) The Company shall give notice of each resignation and each removal of a Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to the Holders of Securities of such series in the manner provided for in Section 1.07. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.
- (7) If a Canadian Trustee under this Indenture is no longer required by Trust Indenture Legislation, then the Company by a Board Resolution may remove the Canadian Trustee.

**SECTION 6.10                      Acceptance of Appointment by Successor.**

- (1) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.
- (2) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates. Whenever there is a successor Trustee with respect to one or more (but less than all) series of Securities issued pursuant to this Indenture, the terms "Indenture" and "Securities" shall have the meanings specified in the provisos to the respective definitions of those terms in Section 1.01 which contemplate such situation.

- (3) Upon reasonable request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all rights, powers and trusts referred to in paragraph (1) or (2) of this Section 6.10, as the case may be.
- (4) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article Six.

**SECTION 6.11 Merger, Conversion, Consolidation or Succession to Business.**

Any corporation into which either Trustee or its corporate trust business may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which either Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of either Trustee, shall be the successor of such Trustee hereunder, *provided* such corporation shall be otherwise qualified and eligible under this Article Six, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by a Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities. In case any of the Securities shall not have been authenticated by such predecessor Trustee, any successor Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee. In all such cases such certificates shall have the full force and effect which this Indenture provides for the certificate of authentication of such Trustee; *provided, however*, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

**SECTION 6.12****Appointment of Authenticating Agent.**

At any time when any of the Securities remain outstanding, the Trustees may appoint an Authenticating Agent or Agents, with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustees to authenticate Securities of such series and the Trustees shall give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, in the manner provided for in Section 1.07. Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the applicable Trustee hereunder. Any such appointment shall be evidenced by an instrument in writing signed by a Responsible Officer of the Trustees, and a copy of such instrument shall be promptly furnished to the Company. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustees or either Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustees by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustees by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any state thereof or the District of Columbia or the laws of Canada or any province thereof, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by United States federal or state or Canadian federal or provincial authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 6.12, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 6.12, it shall resign immediately in the manner and with the effect specified in this Section 6.12.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, *provided* such corporation shall be otherwise eligible under this Section 6.12, without the execution or filing of any paper or any further act on the part of the Trustees or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustees and to the Company. The Trustees may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 6.12, the Trustees may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve, in the manner provided for in Section 1.07. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section 6.12.

The Trustees agree to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section 6.12, and the Trustees shall be entitled to be reimbursed for such payments, subject to the provisions of Section 6.07.

If an appointment with respect to one or more series is made pursuant to this Section 6.12, the Securities of such series may have endorsed thereon, in addition to either Trustee's certificate of authentication, an alternate certificate of authentication in the following form:

(Certificate of Authentication may be executed by either Trustee)

\_\_\_\_\_, as U.S. Trustee, certifies that this is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated: \_\_\_\_\_

\_\_\_\_\_  
as U.S. Trustee

By: \_\_\_\_\_  
As Authenticating Agent

By: \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_, as Canadian Trustee, certifies that this is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated: \_\_\_\_\_

\_\_\_\_\_  
as Canadian Trustee

By: \_\_\_\_\_  
As Authenticating Agent

By: \_\_\_\_\_  
Authorized Officer

#### SECTION 6.13 Joint Trustees.

The rights, powers, duties and obligations conferred and imposed upon the Trustees are conferred and imposed upon and shall be exercised and performed by the U.S. Trustee and the Canadian Trustee individually, except to the extent the Trustees are required under Trust Indenture Legislation to perform such acts jointly, and neither Trustee shall be liable or responsible for the acts or omissions of the other Trustee. If the U.S. Trustee and Canadian Trustee are unable to agree jointly to act or refrain from acting, the applicable Trustee shall make the decision in accordance with its applicable legislation. Unless the context implies or requires otherwise, any written notice, request, direction, certificate, instruction, opinion or other document (each such document, a “**Writing**”) delivered pursuant to any provision of this Indenture to any of the U.S. Trustee or the Canadian Trustee shall be deemed for all purposes of this Indenture as delivery of such Writing to the Trustee. Each such Trustee in receipt of such Writing shall notify such other Trustee of its receipt of such Writing within two Business Days of such receipt *provided, however*, that any failure of such trustee in receipt of such Writing to so notify such other Trustee shall not be deemed as a deficiency in the delivery of such Writing to the Trustee.

**SECTION 6.14****Other Rights of Trustees.**

Each Trustee shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, either Trustee, in its sole judgment, determines that such act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should either Trustee, in its sole judgment, determine at any time that its acting under this Indenture has resulted in its being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 10 days written notice to all parties provided (i) that such Trustee's written notice shall describe the circumstances of such non-compliance; and (ii) that if such circumstances are rectified to such Trustee's satisfaction within such 10 day period, then such resignation shall not be effective.

The parties hereto acknowledge that Canadian federal and provincial legislation addressing the protection of individuals' personal information (collectively, **"Privacy Laws"**) applies to obligations and activities under this Indenture. Despite any other provision of this Indenture, neither party shall take or direct any action that would contravene, or cause the other to contravene, applicable Privacy Laws. The Company, prior to transferring, or causing to be transferred, personal information to the Canadian Trustee, shall obtain and retain required consents of the relevant individuals to the collection, use and disclosure of their personal information, or shall have determined that such consents either have been previously given and can be relied on or are not required under Privacy Laws. The Canadian Trustee shall use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws. Specifically, the Trustee agrees to (i) have designated a chief privacy officer; (ii) maintain policies and procedures to protect personal information and to receive and respond to any privacy complaint or inquiry; (iii) use personal information solely for the purposes of providing its services under or ancillary to this Indenture and not to use it for any other purpose except with the consent and direction of the Company; (iv) not sell or otherwise improperly disclose personal information to any third party; and (v) use employee administrative, physical and technological safeguards to reasonably secure and protect personal information against loss, theft or unauthorized access, use or modification.

It is expressly acknowledged and agreed that the Canadian Trustee may, in the course of providing services hereunder, collect or receive, use and disclose financial and other personal information about such parties and/or their representatives, as individuals, or about other individuals related to the subject matter hereof, and use such information for the following purposes:

- (i) to provide the services required under this Indenture and other services that may be requested from time to time;
- (ii) to help the Canadian Trustee manage its servicing relationships with such individuals;
- (iii) to meet the Canadian Trustee's legal and regulatory requirements; and
- (iv) if social insurance numbers are collected by the Canadian Trustee, to perform tax reporting and to assist in verification of an individual's identity for security purposes.

Further, each party agrees that it shall not provide or cause to be provided to the Canadian Trustee any personal information relating to an individual who is not a party to this Indenture unless that party has assured itself that such individual understands and has consented to the aforementioned uses and disclosures. Notwithstanding anything to the contrary herein, the Company and the Trustees may, without liability, disclose information about the Holders and beneficial owners or potential Holders or potential beneficial owners of the Securities pursuant to subpoena or other order issued by a court of competent jurisdiction or when otherwise required by applicable law.

Each Trustee hereby accepts the trusts in this Indenture declared and provided for and agrees to perform the same upon the terms and conditions herein set forth and to hold all rights, privileges and benefits conferred hereby and by law in trust for the various persons who shall from time to time be holders, subject to all the terms and conditions herein set forth.

**ARTICLE SEVEN  
HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY**

**SECTION 7.01            Company to Furnish Trustees Names and Addresses of Holders.**

The Company will furnish or cause to be furnished to the Trustees (1) not more than 15 days after each Regular Record Date, or such lesser time as required by the Trustees, a list, in such form as the Trustees may reasonably require, of the names and addresses of Holders as of such Regular Record Date; *provided, however*, that the Company shall not be obligated to furnish or cause to be furnished such list at any time that the list shall not differ in any respect from the most recent list furnished to the Trustees by the Company or at such times as either Trustee is acting as Security Registrar for the applicable series of Securities and (2) at such other times as the Trustees may request in writing within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished.

**SECTION 7.02            Preservation of List of Names and Addresses of Holders.**

The Trustees shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Holders contained in the most recent list furnished to them as provided in Section 7.01 and as to the names and addresses of Holders received by either Trustee in its capacity as Security Registrar for the applicable series of Securities (if acting in such capacity).

The Trustees may destroy any list furnished as provided in Section 7.01 upon receipt of a new list so furnished.

Holders may communicate as provided in TIA Section 312(b) with other Holders with respect to their rights under this Indenture or under the Securities.

**SECTION 7.03            Disclosure of Names and Addresses of Holders.**

Every Holder of Securities or coupons, by receiving and holding the same, agrees with the Company and the Trustees that none of the Company or the Trustees or any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with TIA Section 312, regardless of the source from which such information was derived, and that the Trustees shall not be held accountable by reason of mailing any material pursuant to a request made under TIA Section 312(b).

**SECTION 7.04            Reports by Trustees.**

- (1) Within 60 days after May 15 of each year commencing with the first year after the first issuance of Securities pursuant to this Indenture, the U.S. Trustee shall transmit to the Holders of Securities, in the manner and to the extent provided in TIA Section 313(c), a brief report dated as of such reporting date, if required by TIA Section 313(a).

- (2) The U.S. Trustee shall comply with TIA Sections 313(b) and 313(c).
- (3) A copy of such report shall, at the time of such transmission to the Holders, be filed by the U.S. Trustee with the Company, with each securities exchange upon which any of the Securities are listed (if so listed) and also with the Commission. The Company agrees to notify the Trustees when the Securities become listed on any securities exchange.

**SECTION 7.05                      Reports by the Company.**

- (1) The Company will file with the Trustees, within 20 days after filing with or furnishing to the Commission, copies of its annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may by rules and regulations prescribe) which the Company is required to file or furnish with the Commission pursuant to Section 13 or 15(d) of the Exchange Act or, if the Company is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustees and the Commission, in accordance with rules and regulations prescribed by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act in respect of a security listed and registered on a national securities exchange as may be prescribed in such rules and regulations; *provided* that any such reports, information or documents filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval (EDGAR) system shall be deemed filed with the Trustees.
- (2) The Company will transmit to all Holders, in the manner and to the extent provided in TIA Section 313(c), within 30 days after the filing thereof with the Trustees, such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraph (1) of this Section 7.05 as may be required by rules and regulations prescribed from time to time by the Commission.
- (3) If at any time the Securities are guaranteed by a direct or indirect parent of the Company, and such parent has furnished the reports required by this Section 7.05 with respect to parent as required by this Section 7.05 as if parent were the Company (including any financial information required hereby), the Company shall be deemed to be in compliance with this Section 7.05.

**ARTICLE EIGHT  
CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE**

**SECTION 8.01                      Company May Consolidate, etc., only on Certain Terms.**

The Company shall not amalgamate or consolidate with or merge into or enter into any statutory arrangement with any other Person, or, directly or indirectly, convey, transfer or lease all or substantially all of its properties and assets to any Person, unless:

- (1) the Person formed by or continuing from such amalgamation or consolidation or into which the Company is merged or with which it enters into such statutory arrangement or the Person which acquires by operation of law or by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Company shall be a corporation, partnership or trust organized and validly existing under the laws of Canada or any province or territory thereof, the United States of America or any state thereof or the District of Columbia or, if such amalgamation, consolidation, merger, statutory arrangement or other transaction would not impair the rights of Holders, any other country, and, unless the Company is the continuing corporation, shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustees, in form satisfactory to the Trustees, the Company's obligation for the due and punctual payment of the principal of, premium (if any) and interest (if any) on all the Securities and the performance and observance of every covenant of this Indenture on the part of the Company to be performed or observed;



- (2) immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing; and
- (3) the Company or such Person shall have delivered to the Trustees an Officer's Certificate and an Opinion of Counsel, each stating that such amalgamation, consolidation, merger, statutory arrangement or other transaction and such supplemental indenture comply with this Article Eight and that all conditions precedent herein provided for relating to such transaction have been complied with.

Notwithstanding the above, the Company may consolidate with, amalgamate with, undergo an arrangement with, merge with or into an Affiliate of the Company solely for the purpose of reincorporating the Company in a state of the United States or the District of Columbia or in another province or territory of Canada.

This Section 8.01 shall only apply to a merger, consolidation or amalgamation in which the Company is not the surviving Person and to conveyances, leases and transfers by the Company as transferor or lessor.

#### **SECTION 8.02            Successor Person Substituted.**

Upon any amalgamation or consolidation by the Company with or merger by the Company into any other corporation or a statutory arrangement or any conveyance, transfer or lease of all or substantially all of the properties and assets of the Company to any Person in accordance with Section 8.01, the successor Person formed by such amalgamation or consolidation or into which the Company is merged or statutory arrangement, or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and in the event of any such conveyance or transfer, the Company (which term shall for this purpose mean the Person named as the "Company" in the first paragraph of this Indenture or any successor Person which shall theretofore become such in the manner described in Section 8.01), except in the case of a lease, shall be discharged of all obligations and covenants under this Indenture and the Securities and the coupons and may be dissolved and liquidated.

**ARTICLE NINE  
SUPPLEMENTAL INDENTURES**

**SECTION 9.01            Supplemental Indentures Without Consent of Holders.**

Notwithstanding Section 9.02, without the consent of any Holders, the Company, when authorized by or pursuant to a Board Resolution, and the Trustees, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustees, for any of the following purposes:

- (1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company contained herein and in the Securities; or
- (2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities and any related coupons (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or
- (3) to add any additional Events of Default (and if such Events of Default are to be for the benefit of less than all series of Securities, stating that such Events of Default are being included solely for the benefit of such series); or
- (4) to delete or modify any Events of Default with respect to all or any series of the Securities, the form and terms of which are being established pursuant to such supplemental indenture as permitted in Section 3.01 (and if such Events of Default are to be for the benefit of less than all series of Securities, stating that such Events of Default are being included solely for the benefit of such series, and to specify the rights and remedies of the Trustees and the Holders of such Securities in connection therewith); or
- (5) to add to or change any of the provisions of this Indenture to provide that Bearer Securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal of or any premium or interest on Bearer Securities, to permit Bearer Securities to be issued in exchange for Registered Securities, to permit Bearer Securities to be issued in exchange for Bearer Securities of other authorized denominations or to permit or facilitate the issuance of Securities in uncertificated form; *provided* that any such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect; or
- (6) to change or eliminate any of the provisions of this Indenture; *provided* that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision; or
- (7) to establish the form or terms of Securities of any series as permitted by Sections 2.01 and 3.01; or
- (8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 6.10; or

- (9) to close this Indenture with respect to the authentication and delivery of additional series of Securities; or
- (10) to cure any ambiguity or to correct or supplement any provision contained herein or in any indenture supplemental hereto which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture or to conform the terms hereof, as amended and supplemented, that are applicable to the Securities of any series to the description of the terms of such Securities in the offering memorandum, prospectus supplement or other offering document applicable to such Securities at the time of initial sale thereof; or
- (11) to make any change in any series of Securities that does not adversely affect in any material respect the rights of the Holders of such Securities; or
- (12) to add to or change or eliminate any provision of this Indenture as shall be necessary or desirable in accordance with any amendments to the Trust Indenture Act; or
- (13) to supplement any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Securities pursuant to Sections 4.01, 14.02 and 14.03; *provided* that any such action shall not adversely affect the interests of the Holders of Securities of such series and any related coupons or any other series of Securities in any material respect; or
- (14) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualifications of this Indenture under any applicable law of the United States and Canada or of any province or territory thereof to the extent they do not conflict with the applicable law of the United States heretofore or hereafter enacted.

#### **SECTION 9.02 Supplemental Indentures with Consent of Holders.**

Except as provided in Section 9.01 and this Section 9.02, with the consent of the Holders of not less than a majority in principal amount of all Outstanding Securities affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustees, the Company, when authorized by or pursuant to a Board Resolution, and the Trustees may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture which affect such series of Securities or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; *provided, however*, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security of such series,

- (1) change the Stated Maturity of the principal of, premium (if any) or any installment of interest (if any) on any Security of such series, or reduce the principal amount thereof, premium (if any) or the rate of interest (if any) thereon, or reduce the amount of the principal of an Original Issue Discount Security of such series that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02 or the amount thereof provable in bankruptcy pursuant to Section 5.04, or adversely affect any right of repayment at the option of any Holder of any Security of such series, or change any Place of Payment where, or the Currency in which, any Security of such series or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption or repayment at the option of the Holder, on or after the Redemption Date or Repayment Date, as the case may be), or adversely affect any right to convert or exchange any Security as may be provided pursuant to Section 3.01 herein, or

- (2) reduce the percentage in principal amount of the Outstanding Securities of such series required for any such supplemental indenture, or the consent of whose Holders is required for any waiver of compliance with certain provisions of this Indenture which affect such series or certain defaults applicable to such series hereunder and their consequences provided for in this Indenture, or reduce the requirements of Section 15.04 for quorum or voting with respect to Securities of such series, or
- (3) modify any of the provisions of this 9.02 Section, Section 5.13 or Section 10.09, except to increase any such percentage or to provide that certain other provisions of this Indenture which affect such series cannot be modified or waived without the consent of the Holder of each Outstanding Security of such series.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series. Any such supplemental indenture adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture, or modifying in any manner the rights of the Holders of Securities of such series, shall not affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this 9.02 Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

#### **SECTION 9.03                      Execution of Supplemental Indentures.**

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Nine or the modifications thereby of the trusts created by this Indenture, the Trustees shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. Each Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects such Trustee's own rights, duties or immunities under this Indenture or otherwise.

#### **SECTION 9.04                      Effect of Supplemental Indentures.**

Upon the execution of any supplemental indenture under this Article Nine, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

**SECTION 9.05**                    **Conformity with Trust Indenture Legislation.**

Every supplemental indenture executed pursuant to this Article Nine shall conform to the requirements of Trust Indenture Legislation as then in effect.

**SECTION 9.06**                    **Reference in Securities to Supplemental Indentures.**

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Nine may, and shall if required by the Trustees, bear a notation in form approved by the Trustees as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustees and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustees in exchange for outstanding Securities of such series.

**SECTION 9.07**                    **Notice of Supplemental Indentures.**

Promptly after the execution by the Company and the Trustees of any supplemental indenture pursuant to the provisions of Section 9.02, the Company shall give notice thereof to the Holders of each outstanding Security affected, in the manner provided for in Section 1.07, setting forth in general terms the substance of such supplemental indenture.

**ARTICLE TEN  
COVENANTS**

**SECTION 10.01**                    **Payment of Principal, Premium and Interest.**

The Company covenants and agrees for the benefit of the Holders of each series of Securities and any related coupons that it will duly and punctually pay the principal of, premium (if any) and interest (if any), on the Securities of that series in accordance with the terms of the Securities, any coupons appertaining thereto and this Indenture. Unless otherwise specified as contemplated by Section 3.01 with respect to any series of Securities, any interest installments due on Bearer Securities on or before Maturity shall be payable only upon presentation and surrender of the several coupons for such interest installments as are evidenced thereby as they severally mature.

**SECTION 10.02**                    **Maintenance of Office or Agency.**

- (1) If the Securities of a series are issuable as Registered Securities, the Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange, where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable, and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served and, if the Securities of a series are also issuable as Bearer Securities, where Bearer Securities of that series and related coupons may be presented or surrendered for payment in the circumstances described in Subsection 10.02(3).

- (2) If Securities of a series are issuable as Bearer Securities, the Company will maintain (A) subject to any laws or regulations applicable thereto, in a Place of Payment for that series which is located outside the United States, an office or agency where Securities of that series and related coupons may be presented and surrendered for payment; *provided, however*, that, if the Securities of that series are listed on any securities exchange located outside the United States and such securities exchange shall so require, the Company will maintain a Paying Agent for the Securities of that series in any required city located outside the United States so long as the Securities of that series are listed on such exchange and (B) subject to any laws or regulations applicable thereto, in a Place of Payment for that series located outside the United States an office or agency where any Registered Securities of that series may be surrendered for registration of transfer, where Securities of that series may be surrendered for exchange, where Securities of that series that are convertible and exchangeable may be surrendered for conversion or exchange, as applicable, and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served.
- (3) The Company will give prompt written notice to the Trustees of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustees with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Offices of the Trustees, except that Bearer Securities of any series and the related coupons may be presented and surrendered for payment at the offices specified in the Security and the Company hereby appoints the same as its agents to receive such respective presentations, surrenders, notices and demands.
- (4) Unless otherwise specified with respect to any Securities pursuant to Section 3.01, no payment of principal, premium or interest on Bearer Securities shall be made at any office or agency of the Company in the United States or by check mailed to any address in the United States or by transfer to an account maintained with a bank located in the United States; *provided, however*, that, if the Securities of a series are payable in Dollars, payment of principal of, premium (if any) and interest (if any), on any Bearer Security shall be made at the office of the Company's Paying Agent in The City of New York, if (but only if) payment in Dollars of the full amount of such principal, premium or interest, as the case may be, at all offices or agencies outside the United States maintained for such purpose by the Company in accordance with this Indenture is illegal or effectively precluded by exchange controls or other similar restrictions.
- (5) The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in accordance with the requirements set forth above for Securities of any series for such purposes. The Company will give prompt written notice to the Trustees of any such designation or rescission and of any change in the location of any such other office or agency. Unless otherwise specified with respect to any Securities as contemplated by Section 3.01 with respect to a series of Securities, the Company hereby initially appoints the U.S. Trustee at its Corporate Trust Office as Paying Agent in such city and as its agent to receive all such presentations, surrenders, notices and demands.
- (6) Unless otherwise specified with respect to any Securities pursuant to Section 3.01, if and so long as the Securities of any series (i) are denominated in a Currency other than Dollars or (ii) may be payable in a Currency other than Dollars, or so long as it is required under any other provision of the Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent.

**SECTION 10.03****Money for Securities Payments to Be Held in Trust.**

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities and any related coupons, it will, on or before each due date of the principal of, premium (if any) or interest (if any) on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the principal of, premium (if any) or interest (if any) on Securities of such series so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustees of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities and any related coupons, it will, prior to or on each due date of the principal of, premium (if any) or interest (if any) on any Securities of that series, deposit with a Paying Agent a sum (in the Currency described in the preceding paragraph) sufficient to pay the principal, premium (if any) or interest (if any) so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is a Trustee) the Company will promptly notify the Trustees of its action or failure so to act.

The Company will cause each Paying Agent (other than the Trustees) for any series of Securities to execute and deliver to the Trustees an instrument in which such Paying Agent shall agree with the Trustees, subject to the provisions of this 10.03 Section, that such Paying Agent will:

- (1) hold all sums held by it for the payment of the principal of, premium (if any) and interest (if any) on Securities of such series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustees notice of any default by the Company (or any other obligor upon the Securities of such series) in the making of any payment of principal of, premium (if any) or interest (if any) on the Securities of such series; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustees, forthwith pay to the Trustees all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustees all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustees upon the same trusts as those upon which sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustees, such Paying Agent shall be released from all further liability with respect to such sums.

Except as provided in the Securities of any series, any money deposited with the Trustees or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium (if any) or interest (if any) on any Security of any series, or any coupon appertaining thereto, and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security or coupon shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustees or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided, however*, that the Trustees or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

**SECTION 10.04 Statement as to Compliance.**

The Company shall deliver to the Trustees, on or before 120 days after the end of the Company's fiscal year, an Officer's Certificate stating that a review of the activities of the Company during such fiscal year has been made under the supervision of the signing Officer with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating, as to such Officer, that the Company has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred and is continuing, describing all such Defaults or Events of Default of which he or she may have knowledge and what action the Company is taking or propose to take with respect thereto). The Company shall deliver to the Trustees upon demand evidence in such form as the Trustees may require as to compliance by the Company with any condition or covenant of the Company set out herein relating to any action required or permitted to be taken by the Company under this Indenture or as a result of any obligation imposed by this Indenture. For purposes of this Section 10.04, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

**SECTION 10.05 Payment of Taxes and Other Claims.**

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all material taxes, assessments and governmental charges levied or imposed upon the Company or upon the income, profits or property of the Company, and (2) all material lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien upon any property or assets of the Company; *provided, however*, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

**SECTION 10.06 Corporate Existence.**

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the rights (charter and statutory) and franchises of the Company; *provided, however*, that the Company shall not be required to preserve any such right or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company.

**SECTION 10.07 Waiver of Certain Covenants.**

The Company may, with respect to any series of Securities, omit in any particular instance to comply with any term, provision or condition which affects such series set forth in Sections 10.06 and 10.07, or, as specified pursuant to Section 3.01(19) for Securities of such series, in any covenants of the Company added to this Article Ten pursuant to Section 3.01(19) in connection with Securities of such series, if before the time for such compliance the Holders of at least a majority in principal amount of all Outstanding Securities of any series, by Act of such Holders, waive such compliance in such instance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustees to Holders of Securities of such series in respect of any such term, provision or condition shall remain in full force and effect.



**ARTICLE ELEVEN  
REDEMPTION OF SECURITIES**

**SECTION 11.01           Applicability of Article.**

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with the terms of such Securities and (except as otherwise specified as contemplated by Section 3.01 for Securities of any series) in accordance with this Article Eleven.

**SECTION 11.02           Election to Redeem; Notice to Trustees.**

The election of the Company to redeem any Securities shall be evidenced by or pursuant to a Board Resolution. In case of any redemption at the election of the Company, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustees), notify the Trustees of such Redemption Date and of the principal amount of Securities of such series to be redeemed and shall deliver to the Trustees such documentation and records as shall enable the Trustees to select the Securities to be redeemed pursuant to Section 11.03. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish to the Trustees an Officer's Certificate evidencing compliance with such restriction.

**SECTION 11.03           Selection by Trustees of Securities to Be Redeemed.**

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustees, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustees shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal of Securities of such series; *provided, however*, that no such partial redemption shall reduce the portion of the principal amount of a Security not redeemed to less than the minimum authorized denomination for Securities of such series established pursuant to Section 3.01.

The Trustees shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

**SECTION 11.04           Notice of Redemption.**

Except as otherwise specified as contemplated by Section 3.01, notice of redemption shall be given in the manner provided for in Section 1.07 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed. Failure to give notice in the manner provided in Section 1.07 to the Holder of any Securities designated for redemption as a whole or in part, or any defect in the notice to any such Holder, shall not affect the validity of the proceedings for the redemption of any other Securities or portion thereof.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price and the amount of accrued interest to the Redemption Date payable as provided in Section 11.06, if any,
- (3) if less than all the Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed,
- (4) in case any Security is to be redeemed in part only, the notice which relates to such Security shall state that on and after the Redemption Date, upon surrender of such Security, the Holder will receive, without charge, a new Security or Securities of authorized denominations for the principal amount thereof remaining unredeemed,
- (5) that on the Redemption Date, the Redemption Price and accrued interest (if any) to the Redemption Date payable as provided in Section 11.06 will become due and payable upon each such Security, or the portion thereof, to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,
- (6) the Place or Places of Payment where such Securities, together in the case of Bearer Securities with all coupons appertaining thereto, if any, maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price and accrued interest (if any),
- (7) that the redemption is for a sinking fund, if such is the case,
- (8) that, unless otherwise specified in such notice, Bearer Securities of any series, if any, surrendered for redemption must be accompanied by all coupons maturing subsequent to the Redemption Date or the amount of any such missing coupon or coupons will be deducted from the Redemption Price unless security or indemnity satisfactory to the Company, the Trustees and any Paying Agent is furnished, and
- (9) if Bearer Securities of any series are to be redeemed and any Registered Securities of such series are not to be redeemed, and if such Bearer Securities may be exchanged for Registered Securities not subject to redemption on such Redemption Date pursuant to Section 3.05 or otherwise, the last date, as determined by the Company, on which such exchanges may be made.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustees in the name and at the expense of the Company.

**SECTION 11.05          Deposit of Redemption Price.**

Prior to any Redemption Date, the Company shall deposit with a Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.03) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the Redemption Price of, and accrued interest (if any) on, all the Securities which are to be redeemed on that date.

**SECTION 11.06          Securities Payable on Redemption Date.**

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) (together with accrued interest (if any) to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest (if any)) such Securities shall, if the same were interest-bearing, cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be redeemed, except to the extent provided below, shall be void. Upon surrender of any such Security for redemption in accordance with said notice, together with all coupons, if any, appertaining thereto maturing after the Redemption Date, such Security shall be paid by the Company at the Redemption Price, together with accrued interest (if any), to the Redemption Date; *provided, however*, that installments of interest on Bearer Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified as contemplated by Section 3.01, only upon presentation and surrender of coupons for such interest; *provided further* that installments of interest on Registered Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant record dates according to their terms and the provisions of Section 3.07.

If any Bearer Security surrendered for redemption shall not be accompanied by all appurtenant coupons maturing after the Redemption Date, such Security may be paid after deducting from the Redemption Price an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustees if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustees or any Paying Agent any such missing coupon in respect of which a deduction shall have been made from the Redemption Price, such Holder shall be entitled to receive the amount so deducted; *provided, however*, that interest represented by coupons shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified as contemplated by Section 3.01, only upon presentation and surrender of those coupons.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and premium (if any) shall, until paid, bear interest from the Redemption Date at the rate of interest or Yield to Maturity (in the case of Original Issue Discount Securities) set forth in such Security.

**SECTION 11.07          Securities Redeemed in Part.**

Any Security which is to be redeemed only in part (pursuant to the provisions of this Article Eleven or of Article Twelve) shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustees so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustees duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the applicable Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

## ARTICLE TWELVE SINKING FUNDS

### SECTION 12.01      **Applicability of Article.**

Retirements of Securities of any series pursuant to any sinking fund shall be made in accordance with the terms of such Securities and (except as otherwise specified as contemplated by Section 3.01 for Securities of any series) in accordance with this Article Twelve.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a **‘mandatory sinking fund payment,’** and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an **‘optional sinking fund payment’**. If provided for by the terms of Securities of any series, the cash amount of any mandatory sinking fund payment may be subject to reduction as provided in Section 12.02. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

### SECTION 12.02      **Satisfaction of Sinking Fund Payments with Securities.**

Subject to Section 12.03, in lieu of making all or any part of any mandatory sinking fund payment with respect to any Securities of a series in cash, the Company may at its option (1) deliver to the Trustees Outstanding Securities of a such series (other than any previously called for redemption) theretofore purchased or otherwise acquired by the Company together in the case of any Bearer Securities of such series with all un-matured coupons appertaining thereto, and/or (2) receive credit for the principal amount of Securities of such series which have been previously delivered to the Trustees by the Company or redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any mandatory sinking fund payment with respect to the Securities of the same series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; *provided, however*, that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustees at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

### SECTION 12.03      **Redemption of Securities for Sinking Fund.**

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustees an Officer’s Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) and the portion thereof, if any, which is to be satisfied by delivering or crediting Securities of that series pursuant to Section 12.02 (which Securities will, if not previously delivered, accompany such certificate) and whether the Company intends to exercise its right to make a permitted optional sinking fund payment with respect to such series.

Such certificate shall be irrevocable and upon its delivery the Company shall be obligated to make the cash payment or payments therein referred to, if any, on or before the next succeeding sinking fund payment date. In the case of the failure of the Company to deliver such certificate, the sinking fund payment due on the next succeeding sinking fund payment date for that series shall be paid entirely in cash and shall be sufficient to redeem the principal amount of such Securities subject to a mandatory sinking fund payment without the option to deliver or credit Securities as provided in Section 12.02 and without the right to make any optional sinking fund payment, if any, with respect to such series.

Not more than 60 days before each such sinking fund payment date the Trustees shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 11.03 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 11.04. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 11.06 and 11.07.

Prior to any sinking fund payment date, the Company shall pay to the Trustees or a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.03) in cash a sum equal to any interest that will accrue to the date fixed for redemption of Securities or portions thereof to be redeemed on such sinking fund payment date pursuant to this 12.03 Section.

Notwithstanding the foregoing, with respect to a sinking fund for any series of Securities, if at any time the amount of cash to be paid into such sinking fund on the next succeeding sinking fund payment date, together with any unused balance of any preceding sinking fund payment or payments for such series, does not exceed in the aggregate \$100,000, the Trustees, unless requested by the Company, shall not give the next succeeding notice of the redemption of Securities of such series through the operation of the sinking fund. Any such unused balance of moneys deposited in such sinking fund shall be added to the sinking fund payment for such series to be made in cash on the next succeeding sinking fund payment date or, at the request of the Company, shall be applied at any time or from time to time to the purchase of Securities of such series, by public or private purchase, in the open market or otherwise, at a purchase price for such Securities (excluding accrued interest and brokerage commissions, for which the Trustees or any Paying Agent will be reimbursed by the Company) not in excess of the principal amount thereof.

## **ARTICLE THIRTEEN REPAYMENT AT OPTION OF HOLDERS**

### **SECTION 13.01           Applicability of Article.**

Repayment of Securities of any series before their Stated Maturity at the option of Holders thereof shall be made in accordance with the terms of such Securities and (except as otherwise specified as contemplated by Section 3.01 for Securities of any series) in accordance with this Article Thirteen.

### **SECTION 13.02           Repayment of Securities.**

Securities of any series subject to repayment in whole or in part at the option of the Holders thereof will, unless otherwise provided in the terms of such Securities, be repaid at a price equal to the principal amount thereof, together with interest (if any) thereon accrued to the Repayment Date specified in or pursuant to the terms of such Securities. The Company covenants that, with respect to such Securities, on or before the Repayment Date it will deposit with a Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.03) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the principal (or, if so provided by the terms of the Securities of any series, a percentage of the principal) of and (except if the Repayment Date shall be an Interest Payment Date) accrued interest (if any) on, all the Securities or portions thereof, as the case may be, to be repaid on such date.

**SECTION 13.03****Exercise of Option.**

Securities of any series subject to repayment at the option of the Holders thereof will contain an "Option to Elect Repayment" form on the reverse of such Securities. To be repaid at the option of the Holder, any Security so providing for such repayment, with the "Option to Elect Repayment" form on the reverse of such Security duly completed by the Holder (or by the Holder's attorney duly authorized in writing), must be received by the Company at the Place of Payment therefor specified in the terms of such Security (or at such other place or places which the Company shall from time to time notify the Holders of such Securities) not earlier than 45 days nor later than 30 days prior to the Repayment Date. If less than the entire principal amount of such Security is to be repaid in accordance with the terms of such Security, the principal amount of such Security to be repaid, in increments of the minimum denomination for Securities of such series, and the denomination or denominations of the Security or Securities to be issued to the Holder for the portion of the principal amount of such Security surrendered that is not to be repaid, must be specified. The principal amount of any Security providing for repayment at the option of the Holder thereof may not be repaid in part if, following such repayment, the unpaid principal amount of such Security would be less than the minimum authorized denomination of Securities of the series of which such Security to be repaid is a part. Except as otherwise may be provided by the terms of any Security providing for repayment at the option of the Holder thereof, exercise of the repayment option by the Holder shall be irrevocable unless waived by the Company.

**SECTION 13.04****When Securities Presented for Repayment Become Due and Payable.**

If Securities of any series providing for repayment at the option of the Holders thereof shall have been surrendered as provided in this Article Thirteen and as provided by or pursuant to the terms of such Securities, such Securities or the portions thereof, as the case may be, to be repaid shall become due and payable and shall be paid by the Company on the Repayment Date therein specified, and on and after such Repayment Date (unless the Company shall default in the payment of such Securities on such Repayment Date) such Securities shall, if the same were interest-bearing, cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be repaid, except to the extent provided below, shall be void. Upon surrender of any such Security for repayment in accordance with such provisions, together with all coupons, if any, appertaining thereto maturing after the Repayment Date, the principal amount of such Security so to be repaid shall be paid by the Company, together with accrued interest (if any) to the Repayment Date; *provided, however*, that coupons whose Stated Maturity is on or prior to the Repayment Date shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified pursuant to Section 3.01, only upon presentation and surrender of such coupons; *provided further* that, in the case of Registered Securities, installments of interest (if any) whose Stated Maturity is on or prior to the Repayment Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.07.

If any Bearer Security surrendered for repayment shall not be accompanied by all appurtenant coupons maturing after the Repayment Date, such Security may be paid after deducting from the amount payable therefor as provided in Section 13.02 an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustees if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustees or any Paying Agent any such missing coupon in respect of which a deduction shall have been made as provided in the preceding sentence, such Holder shall be entitled to receive the amount so deducted; *provided, however*, that interest represented by coupons shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified as contemplated by Section 3.01, only upon presentation and surrender of those coupons.

If any Security surrendered for repayment shall not be so repaid upon surrender thereof for repayment, the principal amount and premium (if any) shall, until paid, bear interest from the Repayment Date at the rate of interest or Yield to Maturity (in the case of Original Issue Discount Securities) set forth in such Security.

**SECTION 13.05            Securities Repaid in Part.**

Upon surrender of any Registered Security which is to be repaid in part only, the Company shall execute and the applicable Trustee shall authenticate and deliver to the Holder of such Security, without service charge and at the expense of the Company, a new Registered Security or Securities of the same series, of any authorized denomination specified by the Holder, in an aggregate principal amount equal to and in exchange for the portion of the principal of such Security so surrendered which is not to be repaid.

**ARTICLE FOURTEEN  
DEFEASANCE AND COVENANT DEFEASANCE**

**SECTION 14.01            Company's Option to Effect Defeasance or Covenant Defeasance.**

Except as otherwise specified as contemplated by Section 3.01 for Securities of any series, the provisions of this Article Fourteen shall apply to each series of Securities, and the Company may, at its option, effect defeasance of the Securities of or within a series under Section 14.02, or covenant defeasance of or within a series under Section 14.03 in accordance with the terms of such Securities and in accordance with this Article Fourteen.

**SECTION 14.02            Defeasance and Discharge.**

Upon the Company's exercise of the above option applicable to this Section 14.02 with respect to any Securities of or within a series, the Company shall be deemed to have been discharged from its obligations with respect to such Securities and any related coupons on the date the conditions set forth in Section 14.04 are satisfied (hereinafter, "**defeasance**"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and any related coupons, which shall thereafter be deemed to be "Outstanding" only for the purposes of Section 14.05 and the other Sections of this Indenture referred to in (A) and (B) below, and to have satisfied all of its other obligations under such Securities and any related coupons and this Indenture insofar as such Securities and any related coupons are concerned (and the Trustees, at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the rights of Holders of such Securities and any related coupons to receive, solely from the trust fund described in Section 14.04 and as more fully set forth in such Section, payments in respect of the principal of, premium (if any) and interest (if any) on such Securities and any related coupons when such payments are due, (B) the Company's obligations with respect to such Securities under Sections 3.05, 3.06, 10.02 and 10.03, (C) the rights, powers, trusts, duties and immunities of the Trustees hereunder and (D) this Article Fourteen. Subject to compliance with this Article Fourteen, the Company may exercise its option under this Section 14.02 notwithstanding the prior exercise of its option under Section 14.03 with respect to such Securities and any related coupons.

**SECTION 14.03            Covenant Defeasance.**

Upon the Company's exercise of the above option applicable to this Section 14.03 with respect to any Securities of or within a series, the Company shall be released from its obligations under Sections 10.05 and 10.06, and, if specified pursuant to Section 3.01, its obligations under any other covenant, with respect to such Securities and any related coupons on and after the date the conditions set forth in Section 14.04 are satisfied (hereinafter, "**covenant defeasance**"), and such Securities and any related coupons shall thereafter be deemed not to be "Outstanding" for the purposes of any direction, waiver, consent or declaration or Act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "Outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to such Securities and any related coupons, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under clauses (4) or (7) of Section 5.01 or otherwise but, except as specified above, the remainder of this Indenture and such Securities and any related coupons shall be unaffected thereby.

**SECTION 14.04            Conditions to Defeasance or Covenant Defeasance.**

The following shall be the conditions to application of either Section 14.02 or Section 14.03 to any Securities of or within a series and any related coupons:

- (1) The Company shall irrevocably have deposited or caused to be deposited with either Trustee (or another trustee satisfying the requirements of Section 6.08 who shall agree to comply with the provisions of this Article Fourteen applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities and any related coupons, (A) an amount (in such Currency in which such Securities and any related coupons are then specified as payable at Stated Maturity), or (B) Government Obligations applicable to such Securities (determined on the basis of the Currency in which such Securities are then specified as payable at Stated Maturity) which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment of principal of and premium (if any) and interest (if any) under such Securities and any related coupons, money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustees, to pay and discharge, and which shall be applied by the Trustees (or another trustee satisfying the requirements of Section 6.08 who shall agree to comply with the provisions of this Article Fourteen) to pay and discharge, (i) the principal of, premium (if any) and interest (if any) on such Securities and any related coupons on the Stated Maturity (or Redemption Date, if applicable) of such principal of, premium (if any) or installment of interest (if any), (ii) any mandatory sinking fund payments or analogous payments applicable to such Securities and any related coupons on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities and any related coupons, and (iii) all amounts due the Trustees under Section 6.07; *provided* that the Trustees shall have been irrevocably instructed to apply such money or the proceeds of such Government Obligations to said payments with respect to such Securities and any related coupons. Before such a deposit, the Company may give to the Trustees, in accordance with Section 11.02, a notice of its election to redeem all or any portion of such Securities at a future date in accordance with the terms of such Securities and Article Eleven hereof, which notice shall be irrevocable. Such irrevocable redemption notice, if given, shall be given effect in applying the foregoing.



- (2) No Default or Event of Default with respect to such Securities or any related coupons shall have occurred and be continuing on the date of such deposit or, insofar as clauses (5) and (6) of Section 5.01 are concerned, at any time during the period ending on the 91st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).
- (3) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a Default or an Event of Default under, this Indenture or any default under any material agreement or instrument to which the Company is a party or by which it is bound.
- (4) In the case of an election under Section 14.02, the Company shall have delivered to the Trustees an Opinion of Counsel in the United States stating that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (y) since the date of execution of this Indenture, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities and any related coupons will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.
- (5) In the case of an election under Section 14.03, the Company shall have delivered to the Trustees an Opinion of Counsel in the United States to the effect that the Holders of such Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of such covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.
- (6) The Company shall have delivered to the Trustees an Opinion of Counsel in Canada or a ruling from the Canada Revenue Agency to the effect that the Holders of such Securities will not recognize income, gain or loss for Canadian federal, provincial or territorial income tax or other tax purposes as a result of such defeasance or covenant defeasance, as applicable, and will be subject to Canadian federal, provincial or territorial income tax and other tax on the same amounts, in the same manner and at the same times as would have been the case had such defeasance or covenant defeasance, as applicable, not occurred (and for the purposes of such opinion, such Canadian counsel shall assume that Holders of such Securities include Holders who are not resident in Canada).
- (7) The Company is not an “insolvent person” within the meaning of the Bankruptcy and Insolvency Act (Canada) on the date of such deposit or at any time during the period ending on the 91st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).
- (8) Notwithstanding any other provisions of this Section 14.04, such defeasance or covenant defeasance shall be effected in compliance with any additional or substitute terms, conditions or limitations in connection therewith pursuant to Section 3.01.

- (9) The Company shall have delivered to the Trustees an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for, relating to either the defeasance under Section 14.02 or the covenant defeasance under Section 14.03 (as the case may be), have been complied with.

**SECTION 14.05      Deposited Money and Government Obligations to Be Held in Trust; Other Miscellaneous Provisions.**

Subject to the provisions of the last paragraph of Section 10.03, all money and Government Obligations (or other property as may be provided pursuant to Section 3.01) (including the proceeds thereof) deposited with a Trustee (or another trustee satisfying the requirements of Section 6.08 who shall agree to comply with the provisions of this Article Fourteen) pursuant to Section 14.04 in respect of such Securities and any related coupons shall be held in trust and applied by such Trustee, in accordance with the provisions of such Securities and any related coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent), to the Holders of such Securities and any related coupons of all sums due and to become due thereon in respect of principal, premium (if any) and interest (if any) on such Securities but such money need not be segregated from other funds except to the extent required by law.

Unless otherwise specified with respect to any Security pursuant to Section 3.01, if, after a deposit referred to in Section 14.04(1) has been made, (a) the Holder of a Security in respect of which such deposit was made is entitled to, and does, elect pursuant to Section 3.12(b) or the terms of such Security to receive payment in a Currency other than that in which the deposit pursuant to Section 14.04(1) has been made in respect of such Security, or (b) a Conversion Event occurs as contemplated in Section 3.12(d) or 3.12(e) or by the terms of any Security in respect of which the deposit pursuant to Section 14.04(1) has been made, the indebtedness represented by such Security and any related coupons shall be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of, premium (if any) and interest (if any) on such Security as they become due out of the proceeds yielded by converting (from time to time as specified below in the case of any such election) the amount or other property deposited in respect of such Security into the Currency in which such Security becomes payable as a result of such election or Conversion Event based on the applicable Market Exchange Rate for such Currency in effect on the third Business Day prior to each payment date, except, with respect to a Conversion Event, for such Currency in effect (as nearly as feasible) at the time of the Conversion Event.

The Company shall pay and indemnify such Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to Section 14.04 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of such Securities and any related coupons.

Anything in this Article Fourteen to the contrary notwithstanding, such Trustee shall deliver or pay to the Company from time to time upon Company Request any money or Government Obligations (or other property and any proceeds therefrom) held by it as provided in Section 14.04 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to such Trustee, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent defeasance or covenant defeasance, as applicable, in accordance with this Article Fourteen.

**SECTION 14.06 Reinstatement.**

If a Trustee or any Paying Agent is unable to apply any money in accordance with Section 14.05 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and such Securities and any related coupons shall be revived and reinstated as though no deposit had occurred pursuant to Section 14.02 or 14.03, as the case may be, until such time as such Trustee or Paying Agent is permitted to apply all such money in accordance with Section 14.05; *provided, however*, that if the Company makes any payment of principal of, premium (if any) or interest (if any) on any such Security or any related coupon following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities and any related coupons to receive such payment from the money held by such Trustee or Paying Agent.

**ARTICLE FIFTEEN  
MEETINGS OF HOLDERS OF SECURITIES**

**SECTION 15.01 Purposes for Which Meetings May Be Called.**

If Securities of a series are issuable as Bearer Securities, a meeting of Holders of Securities of such series may be called at any time and from time to time pursuant to this Article Fifteen to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

**SECTION 15.02 Call, Notice and Place of Meetings.**

- (1) The Trustees may at any time call a meeting of Holders of Securities of any series for any purpose specified in Section 15.01, to be held at such time and at such place in The City of New York, in Toronto or in London as the Trustees shall determine. Notice of every meeting of Holders of Securities of any series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided for in Section 1.07, not less than 21 nor more than 180 days prior to the date fixed for the meeting.
- (2) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the Outstanding Securities of any series shall have requested the Trustees to call a meeting of the Holders of Securities of such series for any purpose specified in Section 15.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustees shall not have made the first publication of the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in The City of New York, in Toronto or in London for such meeting and may call such meeting for such purposes by giving notice thereof as provided in paragraph (1) of this Section 15.02.

**SECTION 15.03 Persons Entitled to Vote at Meetings.**

To be entitled to vote at any meeting of Holders of Securities of any series, a Person shall be (1) a Holder of one or more Outstanding Securities of such series, or (2) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustees and their counsel and any representatives of the Company and its counsel.

**SECTION 15.04                      Quorum; Action.**

The Persons entitled to vote a majority in principal amount of the Outstanding Securities of a series shall constitute a quorum for a meeting of Holders of Securities of such series; *provided, however*, that, if any action is to be taken at such meeting with respect to a consent or waiver which this Indenture expressly provides may be given by the Holders of not less than a specified percentage in principal amount of the Outstanding Securities of a series, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the chair of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chair of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 15.02(a), except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of any adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Subject to the foregoing, at the reconvening of any meeting adjourned for lack of a quorum the Persons entitled to vote 25% in principal amount of the Outstanding Securities at the time shall constitute a quorum for the taking of any action set forth in the notice of the original meeting.

Except as limited by the proviso to Section 9.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the Holders of not less than a majority in principal amount of the Outstanding Securities of such series who have casted their votes; *provided, however*, that, except as limited by the proviso to Section 9.02, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of not less than such specified percentage in principal amount of the Outstanding Securities of such series.

Any resolution passed or decision taken at any meeting of Holders of Securities of any series duly held in accordance with this Section 15.04 shall be binding on all the Holders of Securities of such series and the related coupons, whether or not present or represented at the meeting.

Notwithstanding the foregoing provisions of this Section 15.04, if any action is to be taken at a meeting of Holders of Securities of any series with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage in principal amount of all Outstanding Securities affected thereby, or of the Holders of such series and one or more additional series:

- (i)            there shall be no minimum quorum requirement for such meeting; and

- (ii) the principal amount of the Outstanding Securities of such series that vote in favor of such request, demand, authorization, direction, notice, consent, waiver or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under this Indenture.

**SECTION 15.05                      Determination of Voting Rights; Conduct and Adjournment of Meetings.**

- (1) Notwithstanding any provisions of this Indenture, the Trustees may make such reasonable regulations as they may deem advisable for any meeting of Holders of Securities of a series in regard to proof of the holding of Securities of such series and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as they shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 1.05 and the appointment of any proxy shall be proved in the manner specified in Section 1.05 or by having the signature of the person executing the proxy witnessed or guaranteed by any trust company, bank or banker authorized by Section 1.05 to certify to the holding of Bearer Securities. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1.05 or other proof.
- (2) The Trustees shall, by an instrument in writing appoint a temporary chair of the meeting, unless the meeting shall have been called by the Company or by Holders of Securities as provided in Section 15.02(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may be, shall in like manner appoint a temporary chair. A permanent chair and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting.
- (3) At any meeting each Holder of a Security of such series or proxy shall be entitled to one vote for each \$1,000 principal amount of Outstanding Securities of such series held or represented by him (determined as specified in the definition of "Outstanding" in Section 1.01); *provided, however*, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chair of the meeting to be not Outstanding. The chair of the meeting shall have no right to vote, except as a Holder of a Security of such series or a proxy.
- (4) Any meeting of Holders of Securities of any series duly called pursuant to Section 15.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting; and the meeting may be held as so adjourned without further notice.

**SECTION 15.06                      Counting Votes and Recording Action of Meetings.**

The vote upon any resolution submitted to any meeting of Holders of Securities of any series shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities of such series or of their representatives by proxy and the principal amounts and serial numbers, if any, of the Outstanding Securities of such series held or represented by them. The permanent chair of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record, at least in duplicate, of the proceedings of each meeting of Holders of Securities of any series shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 15.02 and, if applicable, Section 15.04. Each copy shall be signed and verified by the affidavits of the permanent chair and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustees to be preserved by the Trustees, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the day and year first above written.

AYR WELLNESS INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_,  
as U.S. Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_,  
as Canadian Trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: Authorized Signing Officer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: Authorized Signing Officer

FORM OF CERTIFICATE TO BE GIVEN BY  
PERSON ENTITLED TO RECEIVE BEARER SECURITY  
OR TO OBTAIN INTEREST PAYABLE PRIOR  
TO THE EXCHANGE DATE

CERTIFICATE

AYR WELLNESS INC.

\_\_\_\_\_% Notes due \_\_\_\_\_

This is to certify that as of the date hereof, and except as set forth below, the above-captioned Securities held by you for our account (i) are owned by any person(s) that is not a citizen or resident of the United States; a corporation or partnership (including any entity treated as a corporation or partnership for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia unless, in the case of a partnership, United States Treasury Regulations provide otherwise; any estate whose income is subject to United States federal income tax regardless of its source; or a trust if (A) a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (B) it was in existence on August 20, 1996 and has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person ("United States persons(s)"), (ii) are owned by United States person(s) that are (a) foreign branches of United States financial institutions (financial institutions, as defined in United States. United States Treasury Regulation Section 1.165-12(c)(1)(iv) are herein referred to as "financial institutions") purchasing for their own account or for resale, or (b) United States person(s) who acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise Ayr Wellness Inc. or its agent that such financial institution will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the United States Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in United States Treasury Regulation Section 1.163-5(c)(2)(i)(D)(7)), and, in addition, if the owner is a United States or foreign financial institution described in clause (iii) above (whether or not also described in clause (i) or (ii)), this is to further certify that such financial institution has not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the states and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly in writing on or prior to the date on which you intend to submit your certification relating to the above-captioned Securities held by you for our account in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certificate excepts and does not relate to U.S. \$\_\_\_\_\_ of such interest in the above-captioned Securities in respect of which we are not able to certify and as to which we understand an exchange for an interest in a permanent global security or an exchange for and delivery of definitive Securities (or, if relevant, collection of any interest) cannot be made until we do so certify.



We understand that this certificate may be required in connection with certain tax legislation in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate or a copy thereof to any interested party in such proceedings.

Dated: \_\_\_\_\_

[To be dated no earlier than the 15th day prior to (i) the Exchange Date or (ii) the relevant Interest Payment Date occurring prior to the Exchange Date, as applicable]

[Name of Person Making Certification]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FORM OF CERTIFICATE TO BE GIVEN BY THE DEPOSITARY  
IN CONNECTION WITH THE EXCHANGE OF A PORTION OF A  
TEMPORARY GLOBAL SECURITY OR TO OBTAIN INTEREST  
PAYABLE PRIOR TO THE EXCHANGE DATE

CERTIFICATE

AYR WELLNESS INC.

\_\_\_\_\_ % Notes due \_\_\_\_\_

This is to certify that based solely on written certifications that we have received in writing or by electronic transmission from each of the persons appearing in our records as persons entitled to a portion of the principal amount set forth below (our "Member Organizations") substantially in the form attached hereto, as of the date hereof, U.S. \$\_\_\_\_\_ principal amount of the above-captioned Securities (i) is owned by any person(s) that is not a citizen or resident of the United States; a corporation or partnership (including any entity treated as a corporation or partnership for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia unless, in the case of a partnership, United States Treasury Regulations provide otherwise; any estate whose income is subject to United States federal income tax regardless of its source; or a trust if (A) a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (B) it was in existence on August 20, 1996 and has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person ("United States person(s)"), (ii) is owned by United States person(s) that are (a) foreign branches of United States financial institutions (financial institutions, as defined in United States Treasury Regulation Section 1.165-12(c)(1)(iv) are herein referred to as "financial institutions") purchasing for their own account or for resale, or (b) United States person(s) who acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (a) or (b), each such financial institution has agreed, on its own behalf or through its agent, that we may advise Ayr Wellness Inc. or its agent that such financial institution will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (iii) is owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in United States Treasury Regulation Section 1.163-5(c)(2)(i)(D)(7)) and, to the further effect, that financial institutions described in clause (iii) above (whether or not also described in clause (i) or (ii)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America (including the states and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We further certify that (i) we are not making available herewith for exchange (or, if relevant, collection of any interest) any portion of the temporary global Security representing the above-captioned Securities excepted in the above-referenced certificates of Member Organizations and (ii) as of the date hereof we have not received any notification from any of our Member Organizations to the effect that the statements made by such Member Organizations with respect to any portion of the part submitted herewith for exchange (or, if relevant, collection of any interest) are no longer true and cannot be relied upon as of the date hereof.

We understand that this certification is required in connection with certain tax legislation in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate or a copy thereof to any interested party in such proceedings.

Dated: \_\_\_\_\_  
[To be dated as of (i) the Exchange Date or (ii) the relevant Interest Payment Date occurring prior to the Exchange Date, as applicable]

[INSERT NAME OF DEPOSITARY]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_