

May 20, 2020



Ayr Strategies Reports First Quarter 2020 Financial Results

Q1 Revenue Increased to \$33.6 Million Despite COVID-19 Challenges in March

Generated \$7.4 Million Cash from Operations, Increasing Cash on Balance Sheet to \$9.9 Million

Increase in Cultivation Capacity Expected to Drive Gross Margin Expansion in NV and MA; Total Adjusted EBITDA Expected to Return to Q1 Levels in June

TORONTO, May 20, 2020 (GLOBE NEWSWIRE) -- Ayr Strategies Inc. (CSE: AYR.A, OTCQX: AYRSF) ("Ayr"), a vertically-integrated cannabis multi-state operator (MSO), is reporting financial results for the three months ended March 31, 2020. Unless otherwise noted, all results are presented in U.S. dollars.

"Our results in 2020 have continued to demonstrate the strength of our business and the superior capabilities of our team," said Jonathan Sandelman, CEO of Ayr Strategies.

"Although cannabis has been deemed an 'essential business', the regulators in Massachusetts and Nevada, where we currently operate, were among the few nationwide to place material restrictions on cannabis sales. So unlike many cannabis companies in the U.S., our business faced headwinds."

"Despite these limitations, in the first quarter we produced sequentially higher revenue and substantial adjusted EBITDA, and added material cash from operations to our balance sheet," continued Sandelman. "Since then, we have successfully accelerated our digital transformation initiatives, and we expect to exit the challenges presented by COVID a materially stronger business, as evidenced by the rebound in ticket size, transaction volume and retail margins we are seeing thus far in May."

"However, given the disruption caused by COVID, and the uncertainty around the pandemic's ultimate impact on our markets and the regulatory environment, our prior revenue and adjusted EBITDA guidance for 2020 can no longer apply. Even though COVID has delayed some of our initiatives, we are confident that we will deliver strong revenue and adjusted EBITDA growth over the prior year."

Q1 Financial Highlights

- **Revenue:** Total revenue increased 4% to \$33.6 million compared to \$32.3 million in Q4 2019, driven through early March by higher retail sales in Nevada and higher

wholesale revenues in Massachusetts. Revenues declined beginning in mid-March due to COVID-related closures and began to rebound in Q2

- **Gross Profit¹:** Gross profit increased 10% to \$16.6 million compared to \$15.1 million in Q4 2019
- **Adjusted EBITDA:** Adjusted EBITDA was \$8.4 million compared to \$9.2 million in Q4 2019, as March expenses decreased at a slower pace than revenues, which declined due to COVID-related closures
- **Loss from Operations:** Loss from operations improved to \$4.9 million compared to \$16.9 million in Q4 2019
- **Cash Flow from Operations:** Cash generated by operating activities increased 85% to \$7.4 million compared to \$4.0 million in Q4 2019
- **Balance Sheet:** At March 31, 2020, cash and cash equivalents was \$9.9 million, an 18% increase compared to \$8.4 million of cash and cash equivalents at December 31, 2019

“Through early March, our business was performing well above the record pace we set in the fourth quarter of 2019,” continued Sandelman. “Had regulators not restricted our businesses in mid-March, total revenue and adjusted EBITDA would have been up nearly 16% and 10% quarter-over-quarter, respectively.

“In Q2, we are pleased to have continued to produce positive adjusted EBITDA and cash flow from operations in both April and May to date, despite the COVID shutdowns. In fact, because of the improvements made to our business model in April, for those business areas currently open (only our Massachusetts wholesale business is closed) May is pacing to produce more adjusted EBITDA than our prior monthly records in January and February 2020. Given that regulators announced on Monday that Massachusetts adult use sales can commence again next week, we anticipate returning to Q1 levels of adjusted EBITDA or better beginning in June.”

Operational Highlights

As a reminder, Nevada regulators limited all cannabis sales to delivery-only beginning March 21, 2020, with curbside pick-up approved on May 1st and in-store sales on May 9th. In Massachusetts, regulators restricted adult use cannabis sales beginning March 24, 2020, with adult use curbside pick-up scheduled to re-commence on May 25th.

Nevada May to Date Retail

- Average daily revenues are currently over \$200k; daily transaction volumes over 2,400, with average ticket of \$84 per transaction; estimated gross margin levels just under 60%
- We have retooled our technology, rapidly implemented new software and an e-commerce oriented website, and launched digital marketing campaigns to support online sales
- As a result of these business initiatives, May adjusted EBITDA in the state is tracking 3% above the record months of January and February 2020 despite lower revenues

Massachusetts May to Date Retail

- Average daily revenues are currently over \$59k; daily transaction volumes over 300,

with average ticket of \$186 per transaction; estimated gross margin levels in the low 60% range

- We successfully redirected wholesale capacity into our retail stores, increased available inventory and average spend, promoted incentive programs to increase penetration of medical cards and increased medical patient count
- As a result, May dispensary revenues are tracking to over \$1.8 million, 90% above January and February 2020 levels

Cultivation Expansions

- In Massachusetts, we have completed four harvests to date from our cultivation expansion, resulting in strong inventories available to address pent-up demand when adult use sales are expected to resume May 25
- Massachusetts cultivation expansion is expected to double wholesale capacity from the \$2.5 million monthly average in Q1 and is expected to improve gross margins in the state from the low 60% range in Q1 to approximately 70% in Q2 and beyond
- In Nevada, product from our cultivation expansion is expected to arrive in stores in June, allowing for internally sourced product to increase from 25% in Q1 up to 50% in Q2
- Nevada gross margin is expected to increase as a result, from 45% in Q1 to approximately 60% in Q2

“Over the weeks following the COVID closures, we streamlined and improved our business. In Nevada, prior to COVID, growth from our existing dispensary footprint was limited by transaction capacity. Today, with Ayr generating higher levels of adjusted EBITDA on fewer transactions, we estimate our adjusted EBITDA capacity has increased 35% in the state, assuming we can reach pre-COVID revenue at these margin levels,” said Mr. Sandelman.

“In Massachusetts, the excellent results being generated from our newest cultivation facility put us in a position to address the wholesale market with more than double our prior capacity. In terms of our Massachusetts retail operations, we entered 2020 expecting one of our current medical dispensaries to open for adult use sales in May, and two more in September; and in supplement to these, in February we secured an alternate adult-use license in a favorable greater Boston town. However, COVID has closed local governments in Massachusetts and delayed approvals for these adult use dispensary conversions by several months, if not more. While we are disappointed at the COVID-related delays in converting to adult-use sales in our dispensaries, we are confident that our high density, high traffic greater Boston locations will result in persistently strong retail sales opportunities when our stores convert to adult use.

“As a management team, we work tirelessly to exceed expectations on what we can control, and to mitigate what we can’t. We will continue to execute on our strategy and seek to operate at the highest levels, and the strong foundation and culture we have created at Ayr is expected to pay off as we further expand in 2020.

“I want to highlight how impressively the men and women on our team have pulled together to reshape our company through COVID. Looking forward, it is this strong culture that we believe will differentiate us from our competitors.”

¹ Q1 2020 gross profit is compared to “adjusted gross profit” in Q4 2019, refer to the “Definition and Reconciliation of Non-IFRS Measures” section below for additional information.

Conference Call

Ayr CEO Jonathan Sandelman, COO Jennifer Drake and CFO Brad Asher will host a conference call, followed by a question and answer period.

Conference Call Date: Thursday, May 21, 2020

Time: 8:30 a.m. Eastern time

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

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

Conference ID: 9793158

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

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

A telephonic replay of the conference call will also be available after 11:30 a.m. Eastern time on the same day through May 28, 2020.

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

International replay number: (404) 537-3406

Replay ID: 9793158

Financial Statements

Certain financial information reported in this news release is extracted from Ayr’s financial statements as at and for the three month period ended March 31, 2020. These results presented herein are preliminary and subject to change. Ayr will file its interim financial statements on SEDAR shortly. All such financial information contained in this news release is qualified in its entirety by reference to such financial statements.

Definition and Reconciliation of Non-IFRS Measures

The Company reports certain non-IFRS measures that are used to evaluate the performance of 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 regulators require such measures to be clearly defined and reconciled with their most comparable IFRS measure.

The Company references non-IFRS measures and cannabis industry metrics in this document and elsewhere. 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 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 Company's businesses include "adjusted EBITDA" and "adjusted gross profit".

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 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, and further adjusted to remove acquisition related costs.

Adjusted Gross Profit

"Adjusted gross profit" represents the 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.

A reconciliation of how Ayr calculates adjusted EBITDA is provided below. Additional reconciliations of adjusted EBITDA and other disclosures concerning non-IFRS measures will be provided in our MD&A for the 3 months ended March 31, 2020. For a reconciliation of how Ayr calculates adjusted gross profit refer to the MD&A for the three months and year-end December 31, 2019. As well, the Company reminds you that adjusted EBITDA and adjusted gross profit are non-IFRS measures.

Forward-Looking Statements

Certain information contained in this news release may be forward-looking statements within the meaning of applicable securities laws. Forward-looking statements are often, but not always, identified by the use of words such as "target", "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "outlook", "intend", "plan", "seek", "will", "may", "tracking", "pacing" and "should" and similar expressions or words suggesting future outcomes. This news release includes forward-looking information and statements pertaining to, among other things, Ayr's future growth plans. Numerous risks and uncertainties could cause the actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: anticipated strategic, operational and competitive benefits may not be realized; events or series of events may cause business interruptions; required regulatory approvals may not be obtained; acquisitions may not be able to be completed on satisfactory terms or at all; and Ayr may not be able to raise additional capital. Among other

things, Ayr has assumed that its businesses will operate as anticipated, that it will be able to complete acquisitions on reasonable terms, and that all required regulatory approvals will be obtained on satisfactory terms and within expected time frames.

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

Assumptions

Forward-looking information in this subject to the assumptions and risks as described in our MD&A for March 31, 2020. For more information about the Company's 2020 operations and outlook, please view Ayr's corporate presentation posted in the Investors section of the Company's website at www.ayrstrategies.com. As well, we remind you that adjusted EBITDA and adjusted gross profit are non-IFRS measures. Additional reconciliations and other disclosures concerning non-IFRS measures will be provided in our MD&A for the 3 months ended March 31, 2020.

About Ayr Strategies Inc.

Ayr Strategies ("Ayr") is an expanding vertically integrated, U.S. multi-state cannabis operator, focusing on high-growth markets. With anchor operations in Massachusetts and Nevada, the company cultivates and manufactures branded cannabis products for distribution through its network of retail outlets and through third-party stores. Ayr strives to enrich and enliven consumers' experience every day – helping them to live their best lives, elevated.

Ayr's leadership team brings proven expertise in growing successful businesses through disciplined operational and financial management, and is committed to driving positive impact for customers, employees and the communities they touch. For more information, please visit www.ayrstrategies.com.

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

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in United States Dollars)

	As at	
	March 31, 2020	December 31, 2019
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	9,935,245	8,403,196
Accounts receivable	493,730	2,621,239
Due from related parties	85,000	85,000
Inventory	17,831,232	13,718,840
Biological assets	6,131,439	2,935,144
Prepaid expenses and other current assets	2,325,204	2,163,329
	36,801,850	29,926,748
Non-current		
Property, plant and equipment	39,747,420	37,152,861
Intangible assets	186,423,469	189,802,136
Right-of-use assets	11,857,489	12,315,417
Goodwill	84,837,304	84,837,304
Equity investments	412,274	427,399
Other assets	698,395	638,394
Total assets	360,778,201	355,100,259
LIABILITIES		
Current		
Trade payables	7,677,778	6,806,053
Accrued liabilities	4,352,751	5,123,865
Lease obligations - current portion	1,014,632	1,087,835
Purchase consideration payable	10,630,993	9,831,700
Income tax payable	9,246,939	5,202,943
Debts payable - current portion	7,399,151	6,628,843
	40,322,244	34,681,239
Non-current		
Deferred tax liabilities	41,686,448	41,077,761
Warrant liability	22,192,412	36,874,124
Lease obligations - non-current portion	12,823,044	13,033,310
Contingent consideration	23,013,758	22,656,980
Debts payable - non-current portion	35,790,023	37,366,818
Accrued interest payable	1,187,211	815,662
Total liabilities	177,015,140	186,505,894
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	382,210,006	382,210,006
Treasury stock	(552,911)	(245,469)
Contributed surplus	41,024,527	28,879,225
Accumulated other comprehensive income	5,041,378	3,265,610
Deficit	(243,959,939)	(245,515,007)
Total shareholders' equity (deficiency)	183,763,061	168,594,365
Total liabilities and shareholders' equity	360,778,201	355,100,259

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

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in United States Dollars)

	Three Months Ended	
	March 31, 2020	March 31, 2019 Restated
	\$	\$
Revenues, net of discounts	33,552,681	-
Cost of goods sold before biological asset adjustments	16,910,723	-
Gross profit before fair value adjustments	16,641,958	-
Fair value adjustment on sale of inventory	(7,003,489)	-
Unrealized gain on biological asset transformation	10,625,878	-
Gross profit	20,264,347	-
Expenses		
General and administrative	8,806,232	-
Sales and marketing	534,598	-
Depreciation	524,631	105,990
Amortization	2,998,666	-
Stock-based compensation	12,145,302	-
Acquisition expense	128,380	1,420,678
Total expenses	25,137,809	1,526,668
Loss from operations	(4,873,462)	(1,526,668)
Other (expense) income		
Share of loss on equity investments	(15,126)	-
Foreign exchange	(2,810)	16,715
Unrealized gain (loss) - changes to fair value of financial liabilities	11,749,873	(135,384,772)
Interest expense	(766,416)	(17,040)
Interest income	(573)	226,500
Other	116,265	-
Total other income (expense)	11,081,213	(135,158,597)
Income (Loss) before income tax	6,207,751	(136,685,265)
Current tax	(4,043,996)	-
Deferred tax	(608,687)	-
Net income (loss)	1,555,068	(136,685,265)
Foreign currency translation adjustment	1,775,768	(1,146,962)
Net income (loss) and comprehensive income (loss)	3,330,836	(137,832,227)
Basic earnings (loss) per share	0.06	(36.98)
Diluted earnings (loss) per share	0.05	(36.98)
Weighted average number of shares outstanding (basic)	26,889,923	3,696,486
Weighted average number of shares outstanding (diluted)	29,739,435	3,696,486

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

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Expressed in United States Dollars)

	Three Months Ended	
	March 31, 2020	March 31, 2019 Restated
	\$	\$
Operating activities		
Net income (loss)	1,555,068	(136,685,265)
Adjustments for:		
Net unrealized (gain) loss on changes in the fair value of financial liabilities	(11,749,873)	135,384,772
Stock-based compensation	12,145,302	-
Depreciation	889,510	105,990
Amortization on intangible assets	3,378,666	-
Share of loss on equity investments	15,126	-
Fair value adjustment on sale of inventory	7,003,489	-
Unrealized gain on biological asset transformation	(10,625,878)	-
Deferred tax expense	608,687	-
Interest accrued	371,549	-
Interest income	-	(226,500)
Changes in non-cash operations, net of business acquisition:		
Accounts receivable	2,127,509	-
Inventory and biological assets	(3,686,298)	-
Prepaid expenses and other assets	(221,876)	266,121
Trade payables	2,279,780	-
Accrued liabilities	(771,114)	1,112,379
Income tax payable	4,043,996	-
Cash provided by (used in) operating activities	7,363,643	(42,503)
Investing activities		
Purchase of property, plant and equipment	(4,434,196)	-
Advances from related corporation	-	66,875
Cash (used in) provided by investing activities	(4,434,196)	66,875
Financing activities		
Repayments of debts payable	(806,487)	-
Repayments of lease obligations (principal portion)	(283,469)	-
Repurchase of Subordinate Voting Shares	(307,442)	-
Cash used in financing activities	(1,397,398)	-
Net increase in cash	1,532,049	24,372
Effect of foreign currency translation	-	(97,978)
Cash and cash equivalents, beginning of the period	8,403,196	109,952
Cash and cash equivalents, end of the period	9,935,245	36,346
Supplemental disclosure of cash flow information:		
Interest paid during the period	607,288	-
Taxes paid during the period	-	-

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

Unaudited Condensed Interim Consolidated Adjusted EBITDA Reconciliation

(Expressed in United States Dollars)

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

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



Source: Ayr Strategies Inc.