AUSTRALIS CAPITAL INC.

Financial Statements

For the three months ended June 30, 2018 and 2017
(Unaudited - In Canadian Dollars)

AUSTRALIS CAPITAL INC.

(the “Company”)

CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended June 30, 2018 and 2017

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared by management and approved by the Company’s Audit Committee and Board of Directors.

The Company’s independent auditors have not performed a review of these condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

August 31, 2017

AUSTRALIS CAPITAL INC.

Statements of Financial Position
June 30, 2018 and March 31, 2018

	Notes	June 30, 2018	March 31, 2018 (Audited)
		$	$
Assets			
Current			
Cash		638	-
Prepaid expenses		1,845	1,845
Loans receivable	3	3,020,410	3,008,556
		3,022,893	3,010,401
Due from a shareholder	8	100	100
Investment in SubTerra assets	4, 5	1,400,000	-
Investment in a joint venture	3	-	-
		4,422,993	3,010,501
Liabilities			
Current			
Bank indebtedness		-	67
Accounts payable and accrued liabilities	4(b), 8	262,905	36,295
Loans payable	6	-	3,137,061
		262,905	3,173,423
Shareholders' equity (deficit)			
Share capital	7	5,360,573	100
Reserves	7	667,180	-
Deficit		(1,867,665)	(163,022)
		4,160,088	(162,922)
		4,422,993	3,010,501

Nature of Operations (Note 1)
Subsequent Events (Notes 3, 4 and 11)

Approved on August 31, 2018

"Scott Dowty"
Director

"Roger Swainson"
Director

The accompanying notes are an integral part of these Financial Statements.

AUSTRALIS CAPITAL INC.

Statements of Comprehensive Loss

Three months ended June 30, 2018 and 2017

	Notes	**2018**	**2017**
		$	$
Expenses			
Bank charges		2	1
Interest expense	6	19,341	22,495
Regulatory fees		24,097	-
Transaction costs	4(b)	200,000	-
		(243,440)	(22,496)
Other items			
Loss on acquisition of SubTerra assets	5	(452,057)	-
Loss on settlement of loans	6	(1,019,194)	-
Interest income	8	11,854	10,252
		(1,461,203)	10,252
Net loss for the period		(1,704,643)	(12,244)
Net loss per share			
Basic and diluted		(0.06)	(122.44)
Weighted average number of shares outstanding			
Basic and diluted		26,802,364	100

The accompanying notes are an integral part of these Financial Statements.

AUSTRALIS CAPITAL INC.

Statements of Changes in Equity
Three months ended June 30, 2018 and 2017

	Number of common shares	Share capital	Reserves	Deficit	Total
		$	$	$	$
Balance, March 31, 2017	100	100	-	(120,325)	(120,225)
Net loss for the period	-	-	-	(12,244)	(12,244)
Balance, June 30, 2017	100	100	-	(132,569)	(132,469)
Net loss for the period	-	-	-	(30,453)	(30,453)
Balance, March 31, 2018	100	100	-	(163,022)	(162,922)
Shares for loans	18,567,070	3,713,414	462,182	-	4,175,596
Repurchase of shares	(100)	-	-	-	-
Shares for SubTerra	8,253,294	1,647,059	204,998	-	1,852,057
Net loss for the period	-	-	-	(1,704,643)	(1,704,643)
Balance, June 30, 2018	26,802,364	5,360,573	667,180	(1,867,665)	4,160,088

The accompanying notes are an integral part of these Financial Statements.

AUSTRALIS CAPITAL INC.

Statements of Cash Flows
Three months ended June 30, 2018 and 2017

	2018	2017
	$	$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,704,643)	(12,244)
Adjustments for non-cash items:		
Loss on acquisition of SubTerra assets	452,057	
Loss on settlement of debt	1,019,194	-
Changes in non-cash working capital		
Interest receivable	(11,854)	(10,252)
Accounts payable and accrued liabilities	226,610	12
Interest payable	19,341	22,495
	705	11
Increase in cash	705	11
Cash (bank indebtedness), beginning of period	(67)	552
Cash, end of period	638	563

The accompanying notes are an integral part of these Financial Statements.

1. Nature of Operations

Australis Capital Inc. (the "Company" or "ACI") was incorporated under the *Business Corporations Act* (Alberta).

The head office and principal address of the Company is Suite 900 – 510 Seymour Street, Vancouver, BC, Canada, V6B 1V5. The Company's registered and records office address is Suite 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7.

On June 19, 2018, ACI's parent company, Aurora Cannabis Inc. ("ACB"), filed a preliminary prospectus, as amended pursuant to a final prospectus filed on August 16, 2018 for the spin-out of the Company and applied for ACI's listing on the Canadian Stock Exchange ("CSE"). See Note 4.

2. Basis of Presentation and Significant Accounting Policies

(a) Basis of presentation

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standards 34, "*Interim Financial Reporting*" ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the three months ended June 30, 2018 and 2017.

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in these condensed interim financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended March 31, 2018, with the exception of new accounting standards and policies adopted effective April 1, 2018 as disclosed in Note 2(c).

These condensed interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 31, 2018.

The financial statements have been prepared on a historical cost basis except for certain financial instruments, which were measured at fair value.

(b) Functional and presentation of foreign currency

All amounts on the financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company.

2. Significant Accounting Policies (Continued)

(c) New or amended standards adopted

The Company adopted the following new or amended IFRS standards for the annual period beginning April 1, 2018.

(i) 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. There was no material impact on adoption.

(ii) IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39.

Under IFRS 9, financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit and loss ("FVTPL"), transaction costs. Financial assets are subsequently measured at:

FVTPL;
Amortized cost;
Debt measured at fair value through other comprehensive income ("FVOCI");
Equity investments designated at FVOCI; or
Financial instruments designated at FVTPL.

The classification is based on whether the contractual cash flow characteristics represent "solely payments of principal and interest" (the "SPPI test") as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The assessment of the Company's business models for managing the financial assets was made as of the date of initial application of April 1, 2018.

2. Significant Accounting Policies (Continued)

(c) New or amended standards adopted (continued)

(ii) IFRS 9, Financial Instruments (continued)

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

	IAS 39 Classification	IFRS 9 Classification
Financial assets		
Cash	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Due from shareholder	Loans and receivables	Amortized cost
Investment in SubTerra assets	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Other liabilities

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in futures years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date.

There was no material impact on adoption of IFRS 9.

(iii) IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18 *Revenue*, in its entirety with IFRS 15 *Revenue from Contracts with Customers*. 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. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. There was no impact to the financial statements on adoption.

2. Significant Accounting Policies (Continued)

(d) Recent accounting pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16.

3. Investment in a Joint Venture

On April 7, 2015, the Company entered into a Limited Liability Partnership Agreement (“LLP Agreement”) with AJR Builders Group LLC and formed Australis Holdings LLP (“AHL”), a Washington Limited Liability Partnership. Each of the Company and AJR holds a 50% interest in AHL. Pursuant to the LLP Agreement, the Company contributed US$500 to AHL as its initial capital contribution offset by the Company’s share of AHL’s loss. As of June 30, 2018, the investment balance in AHL was $nil (March 31, 2018 - $nil).

AHL purchased two parcels of land in 2015 totaling approximately 24.5 acres (the “Property”) in Whatcom county, Washington for USD$2,300,000, with the initial intention to construct a new cannabis production and processing facility. The Company subsequently decided not to move forward with US cannabis production and listed the land for sale.

Pursuant to a promissory note dated April 10, 2015, the Company loaned $1,644,831 to AHL to fund the purchase of the Property. The note bears interest at a rate of 5% per annum and matures on October 31, 2018. In the event of a default, interest will be charged at 12% per annum. The note is secured by a first mortgage on one parcel of land purchased by AHL and a second mortgage on the other title as well as a general security agreement granting the Company security over all present and after-acquired property of AHL. During the three months ended June 30, 2018, the Company accrued interest of $11,854 (2017 - $10,252) related to this loan.

On October 31, 2017, the Company further loaned $1,235,221 to AHL. The loan is due on demand, unsecured and bears no interest. The loan proceeds were used by AHL to fully repay the remaining loan on the Property.

On July 20, 2018, the Company, through its wholly-owned subsidiary, Australis Nevada, acquired the remaining 50% joint venture interest in AHL for US$500,000, resulting in the Company holding a 100% interest in the Property (Note 4).

3. Investment in a Joint Venture (Continued)

The following table summarizes the financial information of AHL:

Australis Holdings LLP

Statement of Financial Position:

	June 30, 2018	March 31, 2018
	US$	US$
Current assets	6,183	1,341
Non-current assets	2,300,000	2,300,000
Current liabilities	(2,813,361)	(2,769,624)
Non-current liabilities	-	-
Net liability (100%)	(507,178)	(468,283)

Statement of Loss and Comprehensive Loss

Net loss and comprehensive loss (100%)	38,908	190,374

4. Spin-out Transaction

On June 19, 2018, ACB filed a preliminary prospectus, as amended per final prospectus filed August 16, 2018, with the securities regulatory authorities in each of the provinces and territories in Canada for the spin-out of the Company and applied for its listing on the CSE (the "Spin-out Transaction"). ACB will distribute to holders of its common shares as of the record date, as a return of capital (the "Distribution"), units of the Company. Each unit will consist of one common share and one warrant exercisable for a period of one year at a price of $0.25 per share. The Distribution will be paid on the basis of one unit for every thirty four shares of ACB which are outstanding on the record date.

(a) In connection with the Distribution, the Company completed the following transactions:

(i) The Company issued 18,567,070 units to one of ACB's wholly-owned subsidiaries, Aurora Marijuana Inc. ("AMI") at a deemed price of $0.17 per unit in settlement of the outstanding loans of $3,156,402 as of June 13, 2018 (Note 6).

(ii) The Company repurchased the 100 issued and outstanding shares of the Company which were cancelled and returned to treasury.

(iii) The Company acquired certain assets ("SubTerra Assets") from Prairie Plant Systems Inc. ("PPS"), a wholly-owned subsidiary of ACB (Note 5).

(iv) The Company issued 8,235,294 units at a deemed price of $0.17 per unit in settlement of the $1,400,000 promissory note.

All of the units issued above consist of one common share and one warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of $0.25 per share for a period of one year from the date of the Company's listing on the CSE.

4. Spin-out Transaction (Continued)

(b) On June 14, 2018, the Company entered into a Funding Agreement with ACB pursuant to which ACB has advanced $500,000 to the Company in consideration for which the Company will provide ACB with a Restricted Back-in Right, by issuing to ACB:

- a warrant to purchase 20% of the issued and outstanding shares of the Company as of the date on which its shares commence trading on the CSE, exercisable at a price of $0.20 per share for a period of ten years; and
- a warrant to purchase 20% of the issued and outstanding shares of the Company as of the date of exercise, exercisable for a period of ten years at a price equal to the five-day volume weighted average trading price of the Company's shares on the CSE, or if the shares are not then listed on a stock exchange, at the fair market value of the shares at the time of exercise.

The exercise of the Restricted Back-in Right is subject to all of the Company's business operations in the U.S. being legal under applicable federal and state laws and approval of the TSX and other exchanges where ACB may be listed.

Pursuant to the terms of the Funding Agreement, ACB will also fund the Company's spin-out transaction costs of $200,000 in consideration for the Company issuing 1,176,470 units to ACB at a price of $0.17 per unit. ACB will also purchase additional units of the Company, at a price of $0.17 per unit, which would result in Aurora holding a sufficient number of shares to pay out the Distribution.

On August 3, 2018, the Company completed a private placement of 85,000,000 common shares at $0.20 per share for gross proceeds of $17,000,000 (Note 11). The prospectus does not qualify the distribution of these shares and the shares are subject to a four-month statutory hold period.

5. Investment in SubTerra Assets

In connection with the Spin-out Transaction, on June 19, 2018 (Note 4), the Company acquired the assets of SubTerra, which consist of:

(i) a 5% royalty on gross revenues of SubTerra earned annually from the sale of cannabis and cannabis-based products during the period commencing June 1, 2018 and ending May 31, 2018;

(ii) an annual payment of $150,000 from SubTerra during the period commencing June 1, 2018 and ending May 31, 2018; and

(iii) a two-year option to purchase a parcel of land in Michigan, United States, for US$3,000.

In consideration for the SubTerra assets, the Company issued a promissory note of $1,400,000 payable to PPS, which was settled through the issuance of 8,235,294 units in the Company at a fair value of $1,852,057.

SubTerra is a limited liability company organized under the laws of the State of Michigan. SubTerra operates a research facility located in White Pine, Michigan and has applied for a State of Michigan Class C Grower License and a State of Michigan Processor License for the production and processing of cannabis, respectively. SubTerra is currently not engaged in the production or processing of cannabis.

6. Loans Payable

On April 10, 2015, the Company entered into a promissory note with ACB, in the principal amount of $1,644,831. The note bears interest at 5% per annum and matures on October 31, 2018. The note is secured by a general security agreement granting ACB security over all present and after-acquired property of the Company. During the three months ended June 30, 2018, the Company accrued $19,341 (2017 - $22,495) in interest expense.

On October 31, 2017, the Company received a further $1,235,221 loan from ACB. The loan is due on demand, unsecured and bears no interest.

In connection with the Spin-out Transaction on June 19, 2018, ACB assigned its interest in these loans to AMI. In consideration, the Company issued 18,567,070 units to AMI at a fair value of $4,175,596 to fully settle the aggregate loans of $3,156,402.

7. Share Capital

(a) Authorized

Unlimited number of common voting shares without par value; and
Unlimited number of preferred non-voting shares without par value.

(b) Issued and outstanding

As at June 30, 2018, there were 26,802,364 (March 31, 2018 – 100) issued and outstanding common shares.

On June 13, 2018, the Company issued the following securities:

(i) 8,235,294 units of the Company with a fair value of $1,852,057 in connection with the acquisition of the SubTerra assets (Notes 4 and 5). Each unit consists of one common share and one warrant exercisable at $0.25 per share for a period of one year.

(ii) 18,567,070 units of the Company with at fair value of $3,713,414 to settle loans of $3,156,402 (Notes 4 and 6). Each unit consists of one common share and one warrant exercisable at $0.25 per share for a period of one year (Note 6).

(iii) The Company repurchased 100 of its opening issued and outstanding common shares in connection with the spin-out of the Spin-out transaction (Note 4).

(c) Share purchase warrants

As at June 30, 2018, the Company has 26,802,364 (March 31, 2018 – Nil) warrants outstanding at a weighted average exercise price of $0.25 per share.
During the three months ended June 30, 2018, the Company issued 26,802,364 warrants (Notes 4 and 7(b)) and recorded $667,180 in reserves for these warrants related to the Spin-out Transaction .

8. Related Party Transactions

(a) Transactions

The Company incurred the following transactions with related parties during the three months ended June 30, 2018 and 2017:

	2018	2017
	$	$
Interest income from a 50% owned company (Note 3)	11,854	10,252
Interest expense accrued to a company with common directors and officers (Note 6)	19,341	22,495

(b) Related party balances

The following related party amounts were included in (i) due from a shareholder, (ii) note receivable, (iii) & (v) accounts payable and accrued liabilities; and (iv) note payable as at June 30, 2018 and 2017:

		2018	2017
		$	$
(i)	Due from a shareholder	100	100
(ii)	Loan to AHL (Note 3)	3,020,410	1,736,423
(iii)	Payable to AHL (1)	624	624
(iv)	Loan from ACB (Note 6)	-	1,833,792
(v)	Advances from companies with common directors and officers (1)	62,456	33,101

(1) The amount is unsecured, non-interest-bearing and has no fixed repayment terms.

9. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash, loans receivable, due from shareholder, accounts payable and accrued liabilities, bank indebtedness and loans payable. The carrying values of these financial instruments approximate their fair values as at June 30, 2018.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the period.

9. Financial Instruments and Risk Management (Continued)

(c) Fair value of financial instruments (continued)

The following table summarizes the Company's financial instruments as at June 30, 2018:

	Amortized cost	Other financial liabilities	Total
	$	$	$
Financial Assets			
Cash	638	-	638
Loans receivable	3,020,410	-	3,020,410
Due from shareholder	100	-	100
Investment in SubTerra assets	1,400,000	-	1,400,000
Financial Liabilities			
Accounts payable and accrued liabilities	-	262,905	262,905

(b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

(i) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its note receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. Credit risk from the note receivable arises from the possibility that principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

As at June 30, 2018, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 - 5 years
	$	$	$	$
Accounts payable and accrued liabilities	262,905	262,905	-	-
	262,905	262,905	-	-

9. Financial Instruments and Risk Management (Continued)

(b) Financial instruments risk (continued)

(iii) Market risk

a) Currency risk

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

At June 30, 2018, the Company has loans receivable, due from a shareholder, bank indebtedness, accounts payables and accrued liabilities and loans payable in Canadian dollars. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

b) 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's loans receivable and loans payable have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

10. Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products to fund operations and expansion activities.

As at June 30, 2018, the Company is not subject to externally imposed capital requirements.

11. Subsequent Events

On August 13, 2018, the Company granted 7,200,000 stock options to directors, officers and consultants of the Company, exercisable at $0.20 per share and expiring August 13, 2023.