AUSTRALIS CAPITAL INC.

Management's Discussion and Analysis

For the three and six months ended September 30, 2018 and 2017
(In Canadian Dollars)

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 376 East Warm Springs Road, Las Vegas, Nevada, USA 89119. The Company's registered and records office address is Suite 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7. The common shares of the Company trade on the Canadian Securities Exchange (the "CSE") under the symbol "AUSA".

This Management's Discussion and Analysis ("MD&A") reports on the financial condition and operating results of the Company for the three and six months ended September 30, 2018, and is prepared as of November 28, 2018. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2018 and notes thereto (the "Financial Statements") and the audited consolidated financial statements for the year ended March 31, 2018 and the related MD&As.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars, except for share and per share amounts, and where indicated otherwise.

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. This MD&A should be read in conjunction with the risk factors set out below and as set out under "Risk Factors" in the Company's final prospectus dated August 14, 2018. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Certain forward-looking statements in this MD&A include, but are not limited to the following:

- Statements related to the completion of the Distribution and the events related thereto and contingent thereon;
- Information with respect to future financial and operating performance;
- Statements related to investment objectives; and
- Adequacy of financial resources.

BUSINESS OVERVIEW

ACI is an investment company which may invest in a broad range of industries, primarily focusing on investments in the cannabis industry predominately in the United States. The Company's investments may include the acquisition of equity, debt or other securities of publicly traded or private companies or other entities, financing in exchange for pre-determined royalties or distributions and the acquisition of all or part of one or more businesses, portfolios or other assets, in each case that the Company believes will enhance value for the shareholders of the Company in the long term.

As of the date of the MD&A, the Company has the following subsidiaries:

- Australis Capital (Nevada) Inc. ("ACN"), a corporation organized under the laws of Nevada, in which ACI holds a 100% ownership interest;

- Australis Holdings LLP ("AHL"), a limited liability partnership in the State of Washington, in which ACN holds a 100% ownership interest; and

- Rthm Technologies Inc., a corporation organized under the laws of Canada, in which ACI holds a 100% ownership interest.

KEY DEVELOPMENTS DURING THE SECOND FISCAL QUARTER 2019

Spin-out Transaction

The Company filed a preliminary prospectus dated June 19, 2018 and filed a final prospectus dated August 14, 2018, with the securities regulatory authorities in each of the provinces and territories in Canada for the spin-out of the Company by ACB, and applied for its listing on the CSE (the "Spin-out Transaction").

On August 16, 2018, the Company received a receipt for its final prospectus and on September 19, 2018, ACB completed a distribution to holders of its common shares, as of the record date of August 24, 2018, as a return of capital, units of the Company (the "Distribution"). Each unit consisted of one common share and one warrant exercisable at $0.25 per share for a period of one year expiring September 19, 2019. The Distribution was paid on the basis of one unit for every thirty four shares of ACB outstanding as of the record date.

In connection with the Distribution, a series of intercorporate transactions were completed, consisting of a debt settlement (See "*Australis Holdings LLP*" below) and an acquisition of U.S. assets (See "*Investment in SubTerra Assets*" below), resulting in ACI issuing an aggregate of 26,802,364 units to ACB. Each consisted of one common share and one warrant of the Company exercisable 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.

The Company also entered into a Funding Agreement with ACB pursuant to which ACB advanced $500,000 to the Company in consideration for which the Company provided ACB with the following share purchase warrants (collectively, the "Restricted Back-in Right"):

(a) 22,628,751 warrants exercisable at a price of $0.20 per share expiring September 19, 2028, and

(b) a warrant to purchase 20% of the issued and outstanding shares of the Company as of the date of exercise, which will be exercisable for a period of ten years from the date of issuance at an exercise price equal to the five-day volume weighted average trading price of the Company's shares.

ACB will be prohibited from exercising the Restricted Back-in Right unless all of the Company's business operations in the U.S. are legal under applicable federal and state laws and ACB has obtained the required consents of the TSX and other exchanges on which it may be listed.

Pursuant to the terms of the Funding Agreement, ACB also funded 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 purchased an additional 164,921 units for $28,036 under the Funding Agreement in order to hold sufficient units for the Distribution.

Investment in SubTerra Assets

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. At present, SubTerra is not engaged in the production or processing of cannabis.

In connection with the Spin-out Transaction, the Company acquired the SubTerra Assets from an indirect wholly-owned subsidiary of ACB, Prairie Plant Systems Inc. ("PPS"), which consisted of (a) 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, 2028, (b) an annual payment of $150,000 from SubTerra during the period commencing June 1, 2018 and ending May 31, 2028, and (c) 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 to PPS and PPS subsequently transferred the promissory note to ACB. The promissory note was settled through the issuance of 8,235,294 units of the Company to ACB.

Financing

On July 5, 2018 and August 3, 2018, the Company closed a two-tranche private placement of 73,936,000 and 11,064,000 common shares at a price of $0.20 per share, respectively, for aggregate gross proceeds of $17,000,000.

Australis Holdings LLP ("AHL")

AHL is a Washington Limited Liability Partnership formed on April 7, 2015 when the Company entered into a Limited Liability Partnership Agreement with AJR Builders Group LLC ("AJR"). The principal place of business of Australis Holdings is 4222 Dumas Ave., Bellingham, Washington 98229.

In 2015, AHL purchased two parcels of land totaling 24.5 acres in Whatcom County, Washington (the "Property") for US$2,300,000 with the initial intention to construct a new cannabis production and processing facility. The parties subsequently decided not to move forward with U.S. 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 Washington Property. The note was secured, bore interest at a rate of 5% per annum and matured on October 31, 2018. The Company also advanced a further $1,235,221 to AHL as an interest free loan which was used to fully settle the loan on the Property.

On July 17, 2018, the Company, through ACN, bought out the 50% interest of its joint venture partner, AJR, for US$500,000, resulting in ACN holding a 100% interest in Australis Holdings. Additionally, above loans and interest totalling $3,274,471 were forgiven and formed part of the purchase price.

RECENT DEVELOPMENTS (SUBSEQUENT TO SEPTEMBER 30, 2018)

Financing

On October 25, 2018 and November 27, 2018, the Company completed a non-brokered private placement of 14,778,325 units and 1,084,451 units, respectively, at a price of $2.03 per unit for aggregate gross proceeds of $32,201,435. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant is exercisable at $2.64 per share for a period of two years from the date of closing of the private placement. The Company may accelerate the expiry of the warrants in the event that the daily volume weighted average trading price of the Company's common shares is greater than $3.43 for any ten consecutive trading days.

Strategic Investments

Body and Mind Inc. ("BaM")

On November 2, 2018, the Company completed its strategic investment in BaM for a total cost of $8,000,000, consisting of (a) 16,000,000 units of BaM at a price of $0.40 per unit for $6,400,000, where each unit consisted of one common share and one warrant exercisable at a price of $0.50 per share for a period of two years, and (b) $1,600,000 principal amount of 8% unsecured convertible debentures of BaM convertible at $0.55 per share until November 2, 2020.

BaM is a publicly traded company with years of experience as one of Nevada's first medical cultivators, producers and brands. BaM has recently expanded into Ohio and invests in high quality medical, recreational cannabis cultivation and production and retail.

Wagner Dimas Inc.

On November 14, 2018, the Company completed the purchase of common shares representing 15% of the outstanding capital of Wager Dimas Inc. from Cannroy Delaware Inc., a wholly-owned subsidiary of CannaRoyalty Corp. As consideration, the Company paid $1,500,000 and issued 748,916 units of the Company, with each unit issued on the same terms as the non-brokered private placement completed on October 25, 2018. Wagner Dimas predominately develops technology which is used in production scale rolling machines to mass manufacture hemp and cannabis pre-rolls and cones.

Acquisition Rthm Technologies Inc. ("Rthm")

On November 2, 2018, the Company completed the acquisition of all of the issued and outstanding shares of Rthm, a private company that has developed a complete suite of proprietary technology including advanced heart rate tracking

and analysis algorithms and comprehensive circadian rhythm mapping techniques. Rthm is exceptionally positioned to leverage its proprietary biometric technologies to develop the world's most advanced cannabis curation, delivery and loyalty program.

Pursuant to the terms of the acquisition, the Company (i) paid $800,000, (ii) issued 1,742,611 common shares of the Company, and (iii) issued an aggregate of $200,000 in promissory notes payable upon certain patents being granted to Rthm. In addition, the Company will issue common shares of the Company with an aggregate value of $1,250,000 upon the achievement of certain milestones.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information from continuing operations for the most recent eight quarters:

Quarter ended	Revenue	Net Loss	Net Loss per share
	$	$	$
September 30, 2018	-	(2,143,963)	(0.03)
June 30, 2018 [1]	-	(233,393)	(0.01)
March 31, 2018	-	(5,485)	(54.85)
December 31, 2017	-	(12,485)	(12.49)
September 30, 2017	-	(12,483)	(12.48)
June 30, 2017	-	(12,244)	(12.24)
March 31, 2017	-	(11,457)	(11.46)
December 31, 2016	-	(16,435)	(16.44)
September 30, 2016	-	(11,402)	(11.40)

[1] During the three months ended June 30, 2018, a fair value loss on the acquisition of SubTerra assets of $452,057 and a loss on debt settlement of $1,019,194 from the issuance of 26,802,364 units of the Company were recorded in the condensed interim consolidated statement of comprehensive loss. The Company has since reclassified such amounts from comprehensive loss to reserves to appropriately recognize the settlement of related party loans.

Net loss for the quarter ended September 30, 2018 increased primarily due to a loss on acquisition in AHL.

Net loss for the quarter ended June 30, 2018 increased primarily due to transaction costs and regulatory fees paid or accrued for the Spin-out Transaction.

RESULTS OF OPERATIONS

The Company reported a net loss of $2,143,963 during the three months ended September 30, 2018 compared to a net loss of $9,682 during the same period in fiscal 2017. The significant increase in loss was due to the growth in the Company's operations and activities as a result of its reorganization and Spin-Out Transaction. The Company also acquired the remaining 50% interest in AHL resulting in a loss on acquisition of $1,632,322.

All operating expenses increased during the three and six months ended September 30, 2018, with the exception of interest and other expenses. Interest and other expenses decreased by $30,104 and $24,002, respectively, during the

three and six months ended September 30, 2018 compared to the same periods in fiscal 2017. The decreases were mainly due to the settlement of the loan in connection with the Spin-out Transaction.

Wages and benefits increased by $95,663 and $66,738, respectively, as a result of hiring of marketing and operations personnel as well as the appointment of a new CEO and CFO to support the Company's business objectives. During the same period in the prior fiscal year, no such expenses were incurred as the Company was inactive.

Transaction costs and regulatory fees increased by $59,200 and $342,918, respectively, during the six months ended September 30, 2018 compared to the same period in fiscal 2017. The increases were entirely due to spin-out transaction costs which included the initial listing fee on the CSE and professional fees.

During the three months ended June 30, 2018, the Company recorded a net loss of $1,704,643 primarily due to a loss on the acquisition of SubTerra assets of $452,057 and a loss on settlement of loans of $1,019,194. During the three months ended September 30, 2018, these losses were reclassified to reserves to appropriately recognize the settlement of related party loans and to conform with the presentation in the current period.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred operating losses over the past fiscal years and currently has no sources of operating cash flow.

Working capital as of September 30, 2018 was $17,571,704 as compared to a working deficit of $163,022 at March 31, 2018. The increase in working capital of $17,734,726 was primarily attributable to the issuance of common shares and warrants for $18,082,386 offset by the acquisition of the remaining 50% interest in AHL of $661,400 and cash used for operations during the period.

To date, the Company has financed its operations and met its capital requirements through shareholder loans and advances and equity financings. During the six months ended September 30, 2018, ACI filed a prospectus with the securities regulatory authorities in each of the provinces and territories in Canada for the spin-out of the Company by ACB. As part of the transaction, the Company fully settled its loans through the issuance of common shares and raised $17,000,000 pursuant to a private placement financing. See "*Spin-Out Transaction*" above.

Subsequent to September 30, 2018, the Company raised an aggregate of $32,201,435 through a non-brokered private placement of units.

The Company believes that it has sufficient cash and resources to fund its business objectives for the next twelve months. The Company is not exposed to any externally imposed capital requirements.

Operating Activities

During the six months ended September 30, 2018, cash flows used in operating activities were $650,615 compared to cash provided by operating activities of $12 for the six months ended September 30, 2017. During the six months ended September 30, 2018, cash used in operations resulted primarily from net loss of $2,377,356, offset by $1,661,945 in non-cash adjustments and $64,796 related to changes in non-cash working capital items.

Investing Activities

During the six months ended September 30, 2018, cash flows used in investing activities were $674,609 compared to cash flows of $nil for the six months ended September 30, 2017. The cash used in investing activities during the six months ended September 30, 2018 resulted from the purchase of equipment for $13,209 and the acquisition of the remaining 50% interest in AHL for $661,400.

Financing Activities

During the six months ended September 30, 2018, cash flows provided by financing activities were $18,082,386 compared to cash flows of $nil for the six months ended September 30, 2017. The cash provided by financing activities during the six months ended September 30, 2018, resulted from net proceeds of $16,979,236 from the issuance of common shares and warrants and proceeds of $500,000 from the issuance of Restricted Back-In Right warrants. See "*Spin-Out Transaction*" above.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions

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

	For the three months ended		For the six months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	$	$	$	$
Interest income from AHL at 50% ownership from loans receivable [1]	2,084	10,365	13,938	20,617
Interest expense accrued to ACB for loans payable	-	22,848	19,341	45,343
Wages and benefits	95,663	-	95,663	-
Directors' fees	9,473	-	9,473	-

[1] The Company eliminated all interest income earned from AHL post-acquisition upon consolidation.

Related party balances

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

		2018	2017
		$	$
(i)	Due from a former shareholder	618,195	33,201
(ii)	Loan to AHL	-	1,746,788
(iii)	Payable to AHL [(1)]	-	624
(iv)	Loan from ACB	-	1,856,640

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

OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results may differ from those estimates. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements include the fair value measurements for financial instruments. The most significant judgments in applying the Company's consolidated financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

NEW ACCOUNTING PRONOUNCEMENTS

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 payment 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.

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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 September 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.

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

	Amortized cost	Other financial liabilities	Total
	$	$	$
Financial Assets			
Cash	4,753,516	-	4,753,516
Restricted cash	12,000,000	-	12,000,000
Subscriptions receivable	1,107,174	-	1,107,174
Investment in SubTerra assets	1,400,000	-	1,400,000
Financial Liabilities			
Accounts payable and accrued liabilities	-	656,330	656,330

Financial instruments risks

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:

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 loan receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. Credit risk from the loans 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.

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 September 30, 2018, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 -5 years
	$	$	$	$
Accounts payable and accrued liabilities	656,330	656,330	-	-

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 September 30, 2018, the Company held cash in Canadian and U.S. dollars. The Company's main risk is associated with fluctuations in U.S. dollars. Assets and liabilities are translated based on the foreign currency translation policy. The Company has determined that a 10% increase or decrease in the U.S. dollar against the Canadian dollar on financial assets and liabilities would result in an increase or decrease of approximately $145,808 (2017 - $nil) to net and comprehensive loss for the six months ended September 30, 2018.

At September 30, 2018, 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. Cash bear interest at market rates. The Company's loan receivable and loan payable have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

OUTSTANDING SHARE DATA

As of the date of this report, the Company had the following securities issued and outstanding:

Securities	November 28, 2018
	#
Issued and outstanding shares	140,615,794
Warrants	47,949,472
Options	8,297,500

ADDITIONAL INFORMATION

The Company's continuous disclosure documents and additional information are available on SEDAR at www.sedar.com.