

AUSTRALIS CAPITAL INC.

Consolidated Financial Statements

**For the years ended March 31, 2019 and 2018
(In Canadian Dollars)**

Independent Auditor's Report

To the Shareholders of Australis Capital Inc.:

Opinion

We have audited the consolidated financial statements of Australis Capital Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2019 and March 31, 2018, and the consolidated statements of comprehensive loss, changes in 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 March 31, 2019 and March 31, 2018, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had not achieved profitable operations and had an accumulated loss of \$4,334,232 as of March 31, 2019. In addition, it had used cash in operating activities of \$2,805,979 for the year ended March 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Early Adoption

We draw attention to the Note 2 of the consolidated financial statements, which describes the early adoption of the Amendments to IFRS 3 Business Combinations for the year ended March 31, 2019. Our opinion is not modified in respect of this matter.

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 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 Company'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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Andrea M. Brown.

Vancouver, British Columbia

July 31, 2019

MNP LLP
Chartered Professional Accountants

AUSTRALIS CAPITAL INC.
Consolidated Statements of Financial Position
March 31, 2019 and 2018

	Notes	March 31, 2019	March 31, 2018
		\$	\$
Assets			
Current			
Cash	16	5,576,170	-
Restricted cash	16	18,939,324	-
Interest Receivable		144,286	-
Accounts Receivable		101,651	-
GST receivable		27,733	-
Prepaid expenses		215,989	1,845
Deposits - S/T		53,205	-
Subscriptions receivable		2,195	-
Promissory note - SubTerra S/T	5	122,318	-
Convertible debt instruments - BaM	10	2,928,638	-
Loans receivable	16	-	3,008,556
		28,111,509	3,010,401
Noncurrent			
Marketable Securities - Wagner Dimas	9(a)	1,854,007	-
Marketable Securities - Quality Green	9(b)	1,781,818	-
Marketable Securities - Folium Biosciences	9(c)	3,980,811	-
Derivative financial instruments- Quality Green	9(b)	145,455	-
Derivative financial instruments- BaM	10	6,524,858	-
Loans receivable - BaM	10	5,330,754	-
Investments in associates - BaM	10	9,223,456	-
Equipment	11	120,479	-
Intangible assets		3,458,166	-
Goodwill	7	589,843	-
Land held for sale	6	2,773,635	-
Promissory note - SubTerra L/T	5	999,513	-
Due from a shareholder		-	100
Long-term deposits		157,082	-
TOTAL ASSETS		65,051,386	3,010,501
Liabilities			
Short-term			
Bank indebtedness		-	67
Accounts payable and accrued liabilities	16	558,725	36,295
Contingent consideration payable	7, 8	231,310	-
Royalty payable - S/T	8	69,555	-
Management Bonus Payable	16	413,717	-
Advances payable - Related Parties	15(b)	591,187	-
Loans payable	4	-	3,137,061
		1,864,494	3,173,423
Long-term			
Deferred Gain on Derivatives	10	2,282,141	-
Deferred Rent		17,787	-
Royalty payable - L/T	8	212,641	-
TOTAL LIABILITIES		4,377,063	3,173,423
Shareholders' equity (deficit)			
Share capital	12	56,305,201	100
Reserves	4, 5, 9, 12	8,373,736	-
Accumulated other comprehensive income		329,618	-
Accumulated income (deficit)		(4,334,232)	(163,022)
TOTAL SHAREHOLDERS' EQUITY		60,674,323	(162,922)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		65,051,386	3,010,501

Nature of Operations (Note 1)
Commitments and Contingencies (Note 18)
Subsequent Events (Note 19)

Approved on July 31, 2019

/s/ Roger Swainson

Director

/s/ John Dover

Director

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

AUSTRALIS CAPITAL INC.

Consolidated Statements of Comprehensive Loss
Twelve Month Periods Ending March 31, 2019 and 2018

		Twelve months ended March 31,	
	Notes	2019	2018
		\$	\$
Income			
Income-Services	20	28,134	-
Income-Royalties	20	101,625	-
		129,759	-
Expenses			
Consulting fees		(216,119)	(1,040)
Depreciation	11	(10,025)	-
Office and administration		(147,273)	-
Insurance		(40,989)	-
Management Fees	15	(2,339)	-
Bank Charges		(2,182)	(1)
Professional fees		(517,075)	-
Regulatory and transfer agent fees		(127,334)	-
Share-based payments	12(d)	(677,549)	-
Transaction costs		(408,405)	-
Travel and promotion		(635,926)	-
Wages and benefits		(1,638,936)	-
		(4,424,152)	(1,041)
Loss from operations		(4,294,393)	(1,041)
Loss on debt settlement	4	(2,112,590)	-
Impairment loss	4	(278,169)	-
Loss on dilution of investment	9a	(865,204)	-
Loss on investment in associate	10	(504,413)	-
Loss on remeasurement of land held for sale	6	(1,632,322)	-
Goodwill impairment	7	(1,055,000)	-
Dividend Income		50,249	-
Other Income		93,486	1,723
Foreign exchange loss		11,560	-
Net change on investment at fair value through profit and loss		5,183,773	-
Recognition of deferred gain		997,207	-
Interest and other expenses		(45,100)	(90,543)
Interest income		279,706	47,164
		123,183	(41,656)
Net loss for the year		(4,171,210)	(42,697)
Other comprehensive income			
Foreign currency translation		329,618	-
Comprehensive loss for the period		(3,841,592)	-
Net income (loss) per share			
Basic and diluted		\$ (0.03)	(427)
Weighted average number of shares outstanding			
Basic and diluted	12	94,372,433	100

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

AUSTRALIS CAPITAL INC.
Consolidated Statements of Changes in Equity
March 31, 2019 and 2018

	Notes	Common shares	Share capital	Reserves	AOCI	Deficit	Total
		#	\$	\$		\$	\$
Balance, March 31, 2017		100	100	-	-	(120,325)	(120,225)
Net loss for the period		-	-	-	-	(42,697)	(42,697)
Balance, March 31, 2018	12	100	100	-	-	(163,022)	(162,922)
Repurchase of shares		(100)	-	-	-	-	-
Units issued for debt settlement	12	18,567,070	3,713,414	906,463	-	-	4,619,877
Units issued for private placement	12	100,862,706	42,349,281	6,861,975	-	-	49,211,256
Share issuance costs		-	(463,067)	(119,559)	-	-	(582,626)
Shares issued for acquisition of SubTerra	12	8,235,294	1,647,059	402,055	-	-	2,049,114
Shares issued for acquisition of Rthm assets	12	1,742,601	2,840,440	-	-	-	2,840,440
Shares issued for acquisition of Mr. Natural assets	12	533,981	550,000	-	-	-	550,000
Units issued for acquisition of Wagner Dimas	12	738,916	1,093,596	125,616	-	-	1,219,212
Shares issued for transaction costs - spin-out	12	1,341,391	268,278	65,488	-	-	333,766
Restricted Back-in Right warrants - spin-out	12	-	-	500,000	-	-	500,000
Exercise of warrants	12	13,040,995	3,896,923	(636,674)	-	-	3,260,249
Share-based payments		-	409,177	268,372	-	-	677,549
Comprehensive income for the period		-	-	-	-	(4,171,210)	(4,171,210)
Other comprehensive income for the period		-	-	-	329,618	-	329,618
Balance, March 31, 2019	12	145,062,954	56,305,201	8,373,736	329,618	(4,334,232)	60,674,323

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

AUSTRALIS CAPITAL INC.
Consolidated Statements of Cash Flows
Twelve Month Periods Ending March 31, 2019 and 2018

	Notes	For the Twelve Months Ended	
		March 31, 2019	March 31, 2018
		\$	\$
Cash provided by (used in)			
<i>Operating activities</i>			
Net loss for the year		(4,171,210)	(42,697)
Adjustments for non-cash items:		-	-
Loss on debt settlement	4	2,112,590	-
Loss on dilution of investment	9(a)	865,204	-
Loss on investment in associates	10	504,413	-
loss in remeasurement of land held for sale	6	1,632,322	-
Goodwill impairment	7	1,055,000	-
Impairment of assets	4	278,169	-
Share-based payments	12(d)	677,549	-
Depreciation	11	10,025	-
Long-term deposits		(157,082)	-
Net gain on investments at fair value through profit and loss		(5,183,773)	-
Recognition of deferred gain		(997,207)	-
Accrued interest		(265,914)	-
Changes in non-cash working capital		-	-
Interest receivable		-	(47,164)
GST receivable		(27,733)	-
Prepaid expense and deposits		(255,561)	(1,845)
Accounts receivable and others		(236,575)	-
Accounts payable and accrued liabilities		1,336,017	544
Interest payable		-	90,543
Deferred rent		17,787	-
		(2,805,979)	(619)
<i>Investing activities</i>			
Contribution to restricted cash	3	(18,939,324)	-
Purchase of 50% interest in AHL	6	(657,739)	-
Net cash outflow from acquisition of Rthm	7	(454,332)	-
Net cash outflow from acquisition of Mr. Natural	8	(658,640)	-
Issuance of loan to BaM	10	(6,054,143)	-
Purchase of marketable securities	9	(7,480,811)	-
Purchase of derivative financial instruments		(1,957,647)	-
Purchase of interest in investment in associate	10	(7,964,481)	-
Purchase of equipment	11	(130,641)	-
		(44,297,758)	-
<i>Financing activities</i>			
Shares issued for cash, net of share issuance costs	12(b)	48,626,435	-
Issuance of Restricted Back-In Right warrants	12(b)	500,000	-
Bank indebtedness		-	67
Exercise of warrants		3,260,249	-
		52,386,684	-
Effect of foreign exchange on cash and cash equivalents		293,223	-
Increase (decrease) in cash		5,576,170	(552)
Cash (bank indebtedness), beginning of period		-	552
Cash and restricted cash, end of period		5,576,170	-

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

AUSTRALIS CAPITAL INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

1. Nature and Continuation 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 376 East Warm Springs Road, Suite 190, 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 Company identifies, acquires, invests in, and operates cannabis companies in the United States and abroad, synthesizing decades of relevant expertise, strategic alignments, and capital investment to identify, acquire, and partner with companies setting the high-quality standards required to meet the growing market demand. Investments include equity, debt, or other securities of both public and private companies; financings in exchange for royalties or other distribution streams; and control share acquisitions. Acquisitions and investments are reviewed on an ongoing basis to determine the appropriateness of their weighting within the overall portfolio to provide optimal returns and grow shareholder value.

The Company filed a preliminary prospectus dated June 19, 2018 and filed a final prospectus dated August 14, 2018, for the spin-out of the Company by Aurora Cannabis Inc. (“ACB”), its former parent company. On August 16, 2018, the Company received a receipt for its final prospectus, and on September 19, 2018, ACB completed a distribution of the Company’s shares and warrants. The Company’s shares and warrants commenced trading on the Canadian Securities Exchange (the “CSE”) on September 19, 2018 under the trading symbol “AUSA” (Note 4). On February 6, 2019, the Company’s common shares commenced trading on the OTCQB® Venture Market under the ticker symbol “AUSAF.”

On July 12, 2018, the Company incorporated Australis Capital (Nevada) Inc. (“ACN”) in the State of Nevada. On July 17, 2018, the Company, through ACN, acquired the remaining 50% interest in Australis Holdings LLP (“AHL”) from its joint venture partner, AJR Builders Group LLC (“AJR”) (Note 6). On November 2, 2018, the Company completed the acquisition of all of the issued and outstanding shares of Rthm Technologies Inc. (“Rthm”) (Note 7). On February 26, 2019, the Company acquired 100% of Mr. Natural Productions, Inc. (“Mr. Natural”) (Note 8).

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at March 31, 2019 the Company had not achieved profitable operations and had an accumulated loss of \$4,334,232 as of that date (2018 - \$163,022). In addition, it had used cash in operating activities of \$2,805,979 for the year ended March 31, 2019 (2018 - \$619). The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in raising the necessary funding to continue operations in the past, there no indication that it will continue to be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company’s ability to continue as a going concern. Mitigating factors to this are the positive cash position as of March 31, 2019 of \$24,515,494 (2018 - \$0) including restricted cash as well as a favorable equity-to-total-assets percentage of 93.2% as of that same date (2018 – 5.4%). These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

2. Basis of Presentation and Significant Accounting Policies

(a) Basis of presentation and measurement

The consolidated financial statements of the Company 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”) in effect for the years ended March 31, 2019 and 2018.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on July 30, 2019.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets held at fair value through profit or loss or fair value through other comprehensive income.

AUSTRALIS CAPITAL INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (as described below) with intercompany balances and transactions eliminated on consolidation. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and can use its power to affect its returns. As of March 31, 2019, the Company has 100% control over AHL, ACN, and RTHM.

Entity	Location	Purpose
Australis Capital (ACI)	Nevada (USA)	Parent Company
Australis Capital (Nevada) Inc. (ACN)	Nevada (USA)	Subsidiary that holds 50% of AHL
Australis Holdings LLP (AHL)	Washington (USA)	Land Holding Company 50% owned by ACN and 50% owned by ACI
Rthm Technologies Inc.	Ontario (Canada)	Subsidiary holding Intellectual Property Rights

(c) Functional and presentation of foreign currency

All amounts on the consolidated financial statements are presented in Canadian dollars, unless otherwise noted. The functional currencies of the Company and its subsidiaries are as follows:

ACI is the Canadian dollar;
Rthm is the Canadian dollar; and
AHL and ACN are the U.S. dollar.

(d) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the statements of comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollar as follows: all asset and liability accounts are translated at the balance sheet exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to the income statement and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Canadian dollars at the balance sheet rate.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

AUSTRALIS CAPITAL INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

(e) Cash and cash equivalents

Cash and cash equivalents are classified as loans and receivable financial assets and are measured initially at fair value and subsequently on an amortized cost basis. Cash and cash equivalents include restricted cash, cash deposits in financial institutions and other deposits that are readily convertible into cash.

(f) Marketable securities

The Company classifies investments in marketable securities as fair value through profit and loss financial assets. Marketable securities are financial assets that are non-derivative financial assets. They are initially and subsequently measured at fair value and the changes in fair value are measured in profit or loss.

The Company applies the residual method in allocating the investment cost of unit private placements to the underlying common share and warrant components, unless the transaction price does not approximate fair value. In such cases, each component of the investment is measured at fair value with the difference between fair value at initial recognition and the transaction price recognized in either profit or loss or deferred, depending on whether the valuation inputs are based on observable market data. The resulting unrealized gain at inception on the share component is recognized in profit and loss and subsequent changes in fair value recognized in other comprehensive income.

Impairment on marketable securities

The Company reviews these investments for other-than-temporary declines in fair value. When there is a significant or prolonged decline in the value of an investment, the decline is recognized in profit or loss.

Derivatives

The Company classifies derivative investments as financial assets at fair value through profit or loss ("FVTPL"). At initial recognition, the investment is recognized at fair value. If the transaction price does not equal to fair value, management measures the fair value of each component of the investment and any unrealized gains or losses at inception is either recognized in profit or loss or deferred, depending on whether the valuation inputs are based on observable market data. The resulting unrealized gain or loss at inception and subsequent changes in fair value are recognized in profit or loss for the period. Directly attributable transaction costs on acquisition are expensed as incurred.

(g) Convertible debentures

Convertible debenture investments are hybrid instruments which are classified as financial assets at fair value through profit or loss. Upon initial recognition, the investment is recognized at fair value with directly attributable transaction costs expensed as incurred. If the transaction price does not equal fair value, management measures the fair value of each component of the investment and any unrealized gains or losses at inception is either recognized in profit or loss or deferred and recognized over the term of the financial instrument, depending on whether the valuation inputs are based on observable market data. Subsequent changes in fair value are recognized in profit or loss.

The convertible note can be converted into equity. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized in profit or loss.

(h) Assets held for sale

Non-current assets held for sale are presented separately in the current section of the balance sheet when management is committed to selling the asset or disposal group in its present condition, and this sale is highly probable and expected to be completed within one year. Immediately before the initial classification of the assets and disposal groups as held for sale or for distribution, the carrying amounts of the assets, or all the assets and liabilities in the disposal groups, are measured in accordance with the applicable accounting policy.

AUSTRALIS CAPITAL INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

Assets held for sale and disposal groups are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are no longer amortized or depreciated.

(i) Equipment

Equipment is measured at cost less accumulated depreciation, residual values and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Computer equipment	3 years
Furniture and fixtures	5 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Impairment of property, plant and equipment

The Company assesses impairment on property, plant and equipment when an indication of impairment occurs, such as evidence of obsolescence or physical damage. In assessing impairment, the Company compares the carrying amount to the recoverable amount which is determined as the higher of the asset's fair values less costs of disposal and its value in use. Value in use is assessed based on the estimated future cash flows, 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. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded in the consolidated statements of comprehensive income (loss).

(j) Investments in associates

Associates are companies over which the Company has significant influence and are accounted for under the equity method. Significant influence is assumed when the Company has 20% - 49% ownership interest, unless qualitative factors overcome this assumption. In assessing significant influence, potential voting rights that are currently exercisable are taken into account.

Investments in associates are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance common shares and inclusive of transaction costs. When the Company holds derivative financial assets and subsequently obtains significant influence in that investee, the fair value of the financial instruments are reclassified to investments in associates as the deemed cost with the cumulative unrealized gains or losses in other comprehensive income (loss), if any, transferred to deficit. For each additional acquisition of ownership interest within the investment in associate classification and prior to obtaining control, the difference between the cost of the incremental investment acquired and the investee's fair value of identifiable net assets is allocated to goodwill. The carrying amount of goodwill arising from the acquisition of associates is included in the carrying amount of the investments in associates.

The consolidated financial statements include the Company's share of the income and expenses and equity movement of equity accounted investees. In accordance with IFRS, the investee's most recent available financial statements are used in the application of the equity method. Where the investee's reporting period differs from the Company's, the investee prepares financial information as of the same period end as the Company, unless it is impracticable to do so. Otherwise, the Company will adjust for its share of income and expenses and equity movement based on the investee's

AUSTRALIS CAPITAL INC.

Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018

most recently completed financial statements, adjusted for the effects of significant transactions. The Company does not recognize losses exceeding the carrying value of its interest in the associate.

Impairment

The entire carrying amount of the investment is assessed for indicators of impairment annually. An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates or a significant or prolonged decline in the fair value of the investment below its carrying amount. An impairment loss is recorded when the recoverable amount becomes lower than the carrying amount.

(k) Intangible assets and goodwill

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 of definite life intangibles is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Software: 3-5 years
Brands: Indefinite life

The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization. The Company's indefinite life intangible asset is comprised of a brand.

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as research and development expenses on the consolidated statement of comprehensive income (loss) as incurred. Capitalized deferred development costs are internally generated intangible assets. Intangible assets with finite lives are amortized when available for use.

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination.

Impairment of intangible assets and goodwill

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested when there is an indication of impairment.

For the purpose of impairment testing, goodwill and indefinite life intangible assets have been allocated to CGUs representing the lowest level that the assets are monitored for internal reporting purposes. All goodwill is allocated to the Rthm CGU, and all indefinite life intangibles are allocated to the Mr Naturals CGU. The goodwill at March 31, 2019 was \$589,843. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an impairment loss for a CGU is allocated to the assets of the unit, except for goodwill, pro rata with the carrying amount of those assets. In allocating a reversal of an impairment loss,

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the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior period. Impairment losses on goodwill are not subsequently reversed.

(l) Share capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital.

The Company issues share purchase warrants and determines the fair value using the Black Scholes model. The fair value of broker warrants are recognized as share issue costs and recorded to reserves.

(m) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options and warrants. Stock options and warrants are dilutive when the Company has income from operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants. As the stock options and warrants would be anti-dilutive, they have been excluded from the diluted loss per share calculations for the years ended March 31, 2019 and March 31, 2018.

(n) Revenue recognition

Revenue consists of consulting fees which arise from contracts in which services are typically provided over time. The company recognizes in accordance with IFRS 15 and it is measured based on the consideration the Company expects to be entitled to in exchange for providing the services to its customers. The Company's service contracts generally impose single performance obligations, each consisting of similar related services for each customer. Revenue is recorded as performance obligations are satisfied over time as the services are performed, measured using an output method.

Deferred contract costs

Contract costs are typically expensed as incurred. Contract costs are deferred if the costs are expected to be recoverable and if either of the following criteria is met:

- The costs of obtaining the contract are incremental or explicitly chargeable to the customer
- The fulfillment costs relate directly to the contract or an anticipated contract and generate or enhance the Company's resources that will be used in satisfying performance obligations in the future

(o) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(p) Share-based compensation

Equity-settled share-based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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Fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to stock options reserve.

Equity-settled share-based compensation transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

On exercise, the value originally recorded in stock option and warrant reserves is recorded in share capital with proceeds received. For those stock options and warrants that expire after vesting, the recorded value is transferred from stock option and warrant reserves to deficit.

(q) Income taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(r) Business combinations

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 given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company 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. Acquisition costs are expensed to profit or loss.

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 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 IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interest prior to obtaining control and the non-controlling interest in the acquiree, over the fair value of the identifiable net asset acquired, is recorded as goodwill.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

(s) Asset acquisitions

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

(t) Segment information

The Company operates primarily in two operating segments based on geographic segments: the U.S.A. and Canada.

The Company has identified its operating segment based on the financial information that is reviewed and used by executive management (collectively, the Chief Operating Decision Maker, or "CODM") in assessing performance and in determining the allocation of resources. The Company's CODM consists of CEO and CFO. The CODM considers the business from a single segment perspective and assesses the performance of the segment based on measures of profit and loss as well as assets and liabilities. These measures include revenue, operating expenditures, working capital, non-current assets and total debt. Financial information about the operating segment is reported to the CODM on at least a quarterly basis.

(u) Financial instruments

Financial Assets

(i) Classification

Financial assets are classified into three categories based on measurement:

- amortized cost;
- measurement at fair value through other comprehensive income ("OCI"); and
- measurement at fair value through profit and loss.

This classification depends on the Company's business model for managing its financial assets and contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

Furthermore, a financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding;

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Or

- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell;

Or

- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on their trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Equity investments: All equity investments, which are not considered to be investments in associates, are subsequently measured at fair value through comprehensive income (loss).

Convertible Debt instruments: These include investments that do not meet the SPPI test therefore are valued at fair value through profit or loss

Derivative financial instruments: Derivative Financial Instruments are initially and subsequently recorded at fair value through profit loss.

Expected Credit Losses pursuant to Accounts Receivable

The Company recognizes loss allowances for Expected Credit Losses (“ECLs”) on its accounts receivable measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset.

Financial liabilities

Financial assets are classified into two categories based on measurement:

- amortized cost; and
- measurement at fair value through profit and loss.

Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

Financial liability can be designated to be measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing

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the gains and losses on them on different bases, or the liability is part or a group of financial liabilities or financial assets and financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial liabilities are derecognized when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

(v) Significant accounting estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management has applied significant estimates and assumptions related to the following:

Estimated useful lives, impairment considerations and amortization of capital and intangible assets

Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Indefinite life intangible asset impairment testing requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether indefinite life intangible assets are impaired. Estimation is required with respect to determining the recoverable amount of indefinite life intangibles.

Impairment of definite long-lived assets is influenced by judgment in defining a cash generating unit (or "CGU") and determining the indicators of impairment, and estimates used to measure impairment losses.

Share-based compensation and warrants

The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option or warrant, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture options granted.

Taxes

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.

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that

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materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Expected credit losses

The Company measures expected credit losses in accordance with IFRS 9 – Financial instruments. Under this approach, the Company estimates the lifetime expected credit losses of financial instruments. In the case of an expected credit loss, the Company creates an impairment.

Financial instruments

The Company evaluates the fair value of investments at the end of each reporting period. In addition to investment-specific information, the Company considers general market trends, conditions and transactions. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable. Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

The fair value of investments may be adjusted if:

1. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place
2. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value
3. The investee company is placed into receivership or bankruptcy
4. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern
5. The investee company makes important positive/negative management changes that the Company's management believes will have a positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders

CGU Determination

The Company determines its cash-generating units ("CGUs") in accordance with IAS 36 – Impairment of Assets, defined as the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

Functional currency

The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

Business combination or asset acquisition

Classification of an acquisition as a business combination or asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. The most significant estimates for business combination or asset acquisition involve contingent consideration and

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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.

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities.

In an asset acquisition, all identifiable assets are recorded at their fair values. Management exercises judgement in applying the concentration test to determine whether substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The most significant estimates relate to contingent consideration and intangible assets. Management also exercises judgement 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.

For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date. This is not applicable for asset acquisitions.

(w) 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 to the Company upon 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.

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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.

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.

There was no change in the classification of loans receivable upon transition to IFRS 9 at April 1, 2018.

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 to the Company on adoption of IFRS 9.

(iii) IFRS 15, Revenue from Contracts with Customers

The IASB’s new revenue recognition standard IFRS 15 – Revenue from Contracts with Customers (IFRS 15) was adopted by the Company on April 1, 2018. 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. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Company has applied the modified retrospective approach and there was no material impact to the Company upon adoption.

(iv) Amendments to IFRS 3 Business Combinations

IASB has issued on October 22, 2018 amendments to IFRS 3, which relate to the definition of a business. The amendments are as follows:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption of this amendment is permitted. The Company has adopted the amendment as of April 1, 2018.

(x) Accounting Standards Issued But Not Yet Effective

(i) IFRS 16, Leases

IFRS 16 replaces the following standards and interpretations: IAS 17 Leases, IFRIC 4 Determination of whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives, SIC-27 Evaluation of the substance of transactions that involve the legal form of a leasing contract.

This new standard requires the lessee to recognize all leases in a similar way to how financial leases are currently recorded under IAS 17 Leases. The standard includes two exceptions for this recognition: (1) leases of low-value assets (e.g. personal computers) and (2) short-term contracts (term of less than 12 months). The lessee recognizes at lease inception, the asset that represents the right of use and the liability for the periodic payments that must be made. Interest expense is recorded separately from depreciation.

The recognition requirements for the lessor are not significantly different from IAS 17. Some of the impacts that could arise would be indicators of EBIT, debt covenants, debt and financing indicators, as well as the presentation of cash flows, which would be presented as financing and not operation activities.

The application date is for annual periods beginning on or after January 1, 2019. Substantially all of the Company's operating leases are real estate leases for office premises. As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis. 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.

The Company will adopt the standard on April 1, 2019 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at April 1, 2019, and no restatement of the comparative period. Under the modified retrospective approach, the Company will choose to measure the right-of-use assets equal to the lease liability.

IFRS 16 permits the use of exemptions and practical expedients. The Company expects to apply the following recognition exemptions and practical expedients:

- grandfather lease definition for existing contracts at the date of initial application;
- exclude low-value and short-term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

Based on the information currently available, as a result of the initial application of IFRS 16 as at March 31, 2019, management anticipates recognizing the present value of the operating lease commitments (described in note 18) as right-of-use assets and corresponding lease liabilities, on transition. The Company is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application.

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Any and all other new or amended accounting pronouncements are not deemed to be relevant to the Company.

3. Restricted Cash

- (a) On September 17, 2018, the Company entered into an escrow agreement with its transfer agent whereby the Company deposited into an interest bearing account \$12,000,000 (“Restricted Funds”) to be held and distributed upon written notice from the Company or in five years from the date of the escrow agreement. The terms of the escrow provide that in order for any funds to be released from escrow, the Company must certify to the escrow agent that such funds are being used for investments made in accordance with the Company’s investment policy and not in contravention of any of its investment restrictions including, but not limited to, the Company not investing in cannabis-related assets or securities of issuers involved in the U.S. cannabis industry that are in breach of applicable state or local cannabis regulatory framework. At year end \$12,088,339 was held in trust.
- (b) On October 25, 2018 and November 27, 2018, the Company completed a non-brokered private placement of 14,778,255 units and 1,084,451 units, respectively, at a price of \$2.03 per unit for aggregate gross proceeds of \$32,201,293 (net of an aggregate foreign exchange difference of \$9,964). The Company established an interest bearing trust account with McMillan LLP and deposited the proceeds to be held and released upon written notice from the Company. The funds are used for investments made in accordance with the Company’s investment policy and not in contravention of any of its investments restrictions including, but not limited to, the Company not investing in cannabis-related assets or securities of issuers involved in the U.S. (Refer to Note 12(b)(v).) At year end \$6,850,985 was held in trust.

4. 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.

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

- (i) 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. On October 31, 2017, the Company received a further \$1,235,221 loan from ACB. The maturity date of the loan was extended from October 31, 2017 to October 31, 2018. The loan was due on demand, unsecured and bears no interest. During the year ended March 31, 2019, the Company accrued \$19,347 (2018 - \$90,543) in interest expense.

During the year, ACB assigned its interest in these loans to its wholly-owned subsidiary, Aurora Marijuana Inc. (“AMI”). Refer to Note 10(b)(i). The Company issued 18,567,070 units to AMI at \$0.20 per unit in settlement of the outstanding loans of \$3,156,402 (Note 13(b)(i)) for a loss on settlement of \$1,463,476 recorded in the consolidated statement of comprehensive loss. Each unit consists of one common share and one warrant exercisable at \$0.25 per warrant 1 year from issuance, and were valued using a Black-Scholes option pricing model based on the following assumptions;

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Expected term: 1 year
Interest rate: 2.13%
Volatility: 80%
Exercise price: \$0.25
Share price: \$0.20

- (ii) The Company repurchased 100 of its shares of the Company from AMI for \$0.20 per share, which were cancelled and returned to treasury.
 - (iii) The Company acquired certain assets (“SubTerra Assets”) from Prairie Plant Systems Inc. (“PPS”), an indirect wholly-owned subsidiary of ACB (Note 4(c)) in exchange for a non-interest bearing promissory note of \$1,400,00, due on demand. Subsequently, the Company issued 8,235,294 units to ACB in settlement of the \$1,400,000 promissory note. This is further described in Notes 4(c) and 13(b)).
- (b) On June 14, 2018, the Company 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 (the “Restricted Back-in Right”):
- (i) 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 from the date of issuance (22,628,751 warrants issued on September 19, 2018); and
 - (ii) a warrant to purchase 20% of the issued and outstanding shares of the Company as of the date of exercise of the Restricted Back-in Right, 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 on the CSE or such other stock exchange on which the shares may then be listed at the time of exercise.

ACB is 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 at that time. The warrant described in (i) above meets the classification of an equity and was initially recorded in reserves for the proceeds received of \$500,000. The warrant described in (ii) above meets the classification of a derivative liability instrument, however it is assigned a fair value of nil. Since the exercise price approximates the trading price, there is no value assigned to the warrant.

- (i) Pursuant to the terms of the Funding Agreement, ACB also funded the Company’s spin-out transaction costs of \$235,294 in consideration for the Company issuing 1,176,470 units to ACB at a price of \$0.20 per unit. ACB purchased an additional 164,921 units for \$32,984 under the Funding Agreement in order to hold sufficient units for the Distribution. The Company reimbursed additional transaction costs of \$77,621 overpaid by ACB. Each unit consists of one common share and one warrant exercisable at \$0.25 per warrant 1 year from issuance, and were valued using a Black-Scholes option pricing model based on the following assumptions:
 - Expected term: 1 year
 - Interest rate: 2.13%
 - Volatility: 80%
 - Exercise price: \$0.25
 - Share price: \$0.20
- (c) In connection with the Spin-out Transaction, the Company acquired the SubTerra Assets from Prairie Plant Systems Inc. (“PPS”), which consisted 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, 2028;
 - (ii) an annual payment of \$150,000 from SubTerra during the period commencing June 1, 2018 and ending May

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31, 2028; and

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

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.

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 SubTerra Assets recognized included the fair value of the annuity receivable of \$1,121,831, and a royalty investment of \$278,169, which was impaired during the year ended March 31, 2019. Accretion for the period was \$113,933.

Subsequently, the promissory note was settled through the issuance of 8,235,294 units of the Company to ACB which had a fair value of \$2,049,114 (Note 12(b)(i)). The Company recorded a \$649,114 loss on settlement related to the difference between fair value of the units issued and the carrying amount of the loan settled.

- (ii) All of the units issued above 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. Each unit consists of one common share and one warrant exercisable at \$0.25 per warrant 1 year from issuance, and were valued using a Black-Scholes option pricing model based on the following assumptions;

- Expected term: 1 year
- Interest rate: 2.13%
- Volatility: 80%
- Exercise price: \$0.25
- Share price: \$0.20

5. SubTerra Note Receivable

The fair value of the annuity receivable of \$1,121,831 was determined based on a market discount rate of 12.24% applicable to SubTerra based on a rating of CCC or less. The short term portion and long term portion were \$122,318, and \$999,513 respectively at March 31, 2019.

6. Acquisition of AHL

On April 7, 2015, the Company entered into a Limited Liability Partnership Agreement ("LLP Agreement") with AJR and formed AHL, a Washington Limited Liability Partnership. Each of the Company and AJR held a 50% interest in AHL. Pursuant to the LLP Agreement, the Company contributed \$624 (USD \$500) to AHL as its initial capital contribution offset by the Company's share of AHL's loss. As of March 31, 2018, the investment balance in AHL was \$nil.

AHL purchased two parcels of land in 2015 totaling approximately 24.5 acres (the "Property") in Whatcom County, Washington for \$3,073,490, with the initial intention to construct a new cannabis production and processing facility. The Company 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 Property. The note was secured, bore interest at a rate of 5% per annum, and was to be matured on October 31, 2018. For the year ended March 31, 2019, the Company accrued interest of \$81,154 (2018 - \$47,164) related to this loan. The carrying value of this loan was \$2,011,252 on acquisition (2018 - \$1,773,335). The accrued intercompany interest between the Company and AHL was eliminated upon consolidation. On October 31, 2017, the Company further loaned \$1,235,221 to AHL. The loan was due on demand, unsecured and bore no interest. The carrying value

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of this loan was \$1,263,219 on acquisition (2018 - \$1,235,221). The loan was used by AHL to fully settle the remaining loan on the property.

On July 17, 2018, the Company acquired the remaining 50% interest in AHL from AJR resulting in the Company holding a 100% of the net assets of AHL. The transaction was accounted for as an asset acquisition.

The Company acquired the remaining 50% interest in AHL for a total consideration of \$3,935,871 consisting of:

<i>Consideration</i>	\$
Cash paid (US\$500,000)	661,400
Settlement of pre-existing relationship	3,274,471
	<u>\$3,935,871</u>

The pre-existing relationship was made up of current balances for cash advanced to AHL and was measured at face value. As a result, fair value is deemed to be equivalent to the carrying value of the current balances.

The allocation of the consideration to the fair value of the net assets acquired and liabilities assumed at the date of acquisition is as follows:

Cash	3,661
Prepays	2,637
Land	4,369,426
	<u>4,375,724</u>
Accounts payable and accrued liabilities	(439,853)
	<u>\$3,935,871</u>

The fair value of the land was determined by a third-party appraiser based on an as-is market value of both parcels together.

As at March 31, 2019, the land was classified as an asset held for sale, and was measured at \$2,773,635, which is its fair value less costs to sell as assessed by updating the initial appraisal to the measurement date. As a result, an impairment loss of \$1,632,322 was recognized.

7. Acquisition of Rthm Technologies, Inc.

On November 2, 2018, the Company completed the acquisition of all of the issued and outstanding shares of Rthm Technologies Inc. ("Rthm"), a private company that has developed a suite of proprietary technology comprising advanced heart rate tracking and analysis algorithms, and comprehensive circadian rhythm mapping techniques. Rthm expected to generate revenue through its mobile cannabis app. Consideration consisted of \$800,000 in cash, the issuance of 1,742,601 Australis Capital Inc. common shares valued at \$1.63 per share (based on the market price of the shares at the date of the transaction), and the issuance of an aggregate of \$200,000 in promissory notes payable upon certain patents being granted to Rthm. The promissory notes payable was measured at \$61,167 based on management's assessment of the probability and timing of if and when the patents will be granted.

Additionally, under the terms of the agreement, if RTHM is able to meet certain milestones, the Company will issue an aggregate value of \$1,250,000 in Australis Capital Inc. common shares:

- Milestone I means an aggregate of 1,000,000 downloads of Rthm's Apple and Android digital application at any time within 2.5 years of the Closing Date. The value of Milestone I is \$625,000.
- Milestone II means the Corporation has earned \$5,000,000 in aggregate Gross Revenue at any time within 2.5 years of the closing date. The value of Milestone II is \$625,000.

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The contingent consideration was measured on the date of acquisition at fair value of \$58,974, based on management's judgment on the probability and timing of when the milestones will be completed. As of the year ended March 31, 2019, Milestone I was measured at \$nil and Milestone II was measured at \$58,974. Total consideration for the acquisition was \$3,760,581.

Measurement

The transaction was determined as a business acquisition through under IFRS 3. Management is in the process of gathering the relevant information to determine and finalize the fair value of the net identifiable assets acquired. As such, the initial purchase price has been provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. The values assigned are, therefore, preliminary and subject to change. Management continues to refine and finalize its purchase price allocation based on the fair values of identifiable intangible assets and goodwill. The goodwill value arises from the business synergies and assembled workforce, and is not deductible for tax purposes.

The allocation of the consideration to the fair value of the net assets acquired and liabilities assumed at the date of acquisition is as follows:

Consideration	\$
Cash paid	800,000
Common shares issued	2,840,440
Contingent consideration	120,141
	<u>\$3,760,581</u>
Net assets acquired	\$
Cash	345,668
Accounts Receivable	9,262
Prepays	9,151
Software	1,810,135
Goodwill	1,644,843
Accounts payable and accrued liabilities	(58,478)
	<u>\$3,760,581</u>

During the year ended March 31, 2019, RTHM accounted for \$155,052 in net loss since November 2, 2018. This amount included revenues of \$28,133. Total costs related to the acquisition in the amount of \$40,850 were expensed in the current year. If the acquisition had been completed at beginning of the year, the Company estimated it would have recorded an increase of \$142,373 in revenue and \$384,008 in net loss for the year-ended March 31, 2019.

Goodwill

Balance, March 31, 2018	\$ -
Additions	1,644,843
Impairment	(1,055,000)
Balance, March 31, 2019	<u>\$589,843</u>

The Company performs goodwill impairment testing at least at each reporting period and whenever impairment indicators are identified. Based on the Company's impairment test, it was noted that the carrying value of the CGU exceeded the recoverable amounts.

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The recoverable amount of the CGU was \$2,417,715 as at March 31, 2019, which has been determined based on a value in use calculation using cash flow projections covering a 5-year period based on management's best estimates. The value in use is calculated by discounting the future cash flow projections and terminal value of the CGU. The terminal value is determined using a 2% growth rate which represents expected future inflation. The recoverable amount includes the expected cash flows generated from Rthm's software. It was concluded that the recoverable amount of the CGU was estimated to be less than its carrying amount. Therefore, the Company recognized an impairment loss of \$1,055,000 which reduced the carrying value of goodwill.

The following is the key assumption and judgement included in the goodwill impairment test at March 31, 2019.

Discount rate

The discount rate applied is a rate which reflects the time value of money and risk associated with the business. The discount rate calculation is based on the specific circumstances of the Company and its CGUs and is derived from its weighted average cost of capital. Management utilized a discount rate of 63.4% for the CGU. A 5% increase in the discount rate would result in approximately \$300,000 further impairment of the CGU.

Growth Rate

The growth rates applied to the CGU are based on published industry research on marijuana, software and technology industries. A decrease in the growth rates by 5% will result in approximately \$770,000 further impairment of the CGU.

8. Acquisition of Mr. Natural Productions, Inc.

On February 26, 2019, the Company acquired 100% of Mr. Natural Productions, Inc., a multiple award-winning medical and recreational cannabis brand created in California. Mr. Natural Productions, Inc, prior to this transaction, had merged with Mr. Natural, Inc., a California corporation, with Mr. Natural Productions, Inc being the surviving corporation in the merger. The agreement between Mr. Natural Productions, Inc and the Company was adopted as a plan of reorganization and liquidation within the meaning of Sections 368(a)(1)(C) and 368(a)(2)(C) of the United States Internal Revenue Code of 1986 and the Regulations thereunder.

This acquisition includes the rights to the Mr. Natural brand, the life story right of Robert Luciano and all related intellectual property, including proprietary processes.

Consideration consisted of \$658,640 in cash, the issuance of 533,981 Australis Capital Inc. common shares valued at \$1.03 per share which was the fair value of the shares at the date of the transaction, as per the agreement.

Additionally, under the terms of the agreement, if Mr. Natural is able to meet a milestone, the Company will issue an aggregate \$500,000 in cash and \$550,000 in the Company's common stock:

- Milestone: Mr. Natural surpassing \$4,008,900 (\$3,000,000 USD) in gross revenue attributable to Australis (royalty trigger date).

Australis will pay Mr. Naturals certain royalties in relation to the Milestones mentioned above. The royalties shall be paid as follows:

- \$7,500 USD per month beginning 3 months after the closing date until the earlier of (a) the royalty trigger date or (b) 36 months.
- 2.5% of monthly Mr. Naturals gross revenue after Australis records \$3,000,000 USD in aggregate Mr. Naturals revenue.

The contingent consideration was measured on the date of acquisition at fair value of \$52,195, based on management's judgment on the probability and timing of when the milestones will be completed. The fair value of the purchase price

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was determined to be \$1,648,385. As at March 31, 2019 no changes in fair value were recorded as no material changes have occurred from the date of the acquisition to the year then ended.

Measurement

The transaction was determined to be an asset acquisition under the Amendments to IFRS 3 Business Combinations. The purchase price has been allocated entirely to the Mr. Natural brand as substantially all of the fair value of the assets acquired is related to Mr. Natural brand.

The allocation of the consideration to the fair value of the assets acquired at the date of acquisition is as follows:

Fair Value of the Consideration

<u>Acquisition of Mr. Natural Productions, Inc.</u>	
Shares	550,000
Contingent Consideration	52,195
<hr/> Subtotal	<hr/> 602,195
 <u>Acquisition of Mr. Natural Life Story Rights</u>	
Initial Payment	658,640
Royalty payments	282,196
Royalty payments (contingent consideration)	105,354
<hr/> Subtotal	<hr/> 1,046,190
Total fair value of consideration	\$1,648,385

9. Marketable Securities

(a) Investment in Wagner Dimas Inc.

Effective November 14, 2018, the Company completed the purchase of 2,200,000 common shares representing 22% 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 in cash and issued 738,916 units of the Company, with each unit issued on the same terms as the non-brokered private placement completed on October 25, 2018 (Note 12(b)(v)). In line with the contribution agreement, the Company returned 700,000 Class A shares back to Wagner Dimas, for nil proceeds. The Company recognized a loss on dilution of \$865,204 from the return of shares, which resulted in ownership being reduced to 15%.

The units consist of one common share and one-half of a warrant of the Company exercisable at a price of \$2.64 for a period of two years. The Company determined the fair value of the common share component of the units to be \$1,093,596 and the warrant component to be \$125,616 on the date of issuance using a variant of the Black-Scholes option pricing model which includes a knock-out based on the following assumptions:

Expected term: 2 years
Interest rate: 2.21%
Volatility: 80%
Barrier price: \$3.43
Rebate: \$0.79
Exercise price: \$2.64
Share price: \$1.48

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Total consideration paid for the investment was \$2,719,211.

Measurement

The investment in Wagner Dimas Inc. is accounted for at fair value through profit or loss. The Company, in this case, is investing in a private company that is not quoted in an active market. Transactions in such investments do not occur on a regular basis and are classified as Level 3. The fair value of the investment at March 31, 2019 was \$1,854,007.

(b) Investment in Quality Green

On December 3, 2018, the Company entered into a subscription agreement with Quality Green Inc. (“Quality Green”) to purchase units of the latter in connection with Quality Green’s proposed going public transaction. Quality Green was incorporated under the jurisdiction of the Province of Ontario on July 16, 2013 and is domiciled in Canada. Quality Green is in the process of creating a business of growing, marketing, selling and distributing cannabis for medical and recreational uses. Pursuant to the terms of the subscription agreement, the Company acquired 3,636,364 units of Quality Green at a purchase price of \$0.55 per unit for total cash consideration of \$2,000,000. Each unit is comprised of one common share and one common share purchase warrant of Quality Green exercisable at \$1.00 per common share for a period of one year from the date of closing.

Measurement

The investment in Quality Green is split between the shares and warrants. The consideration was allocated to the shares and warrants based on their relative fair values upon initial recognition.

The fair value of the warrants at the date of issuance was \$218,182, and \$1,781,818 is allocated to the shares in investments. This was determined using the Black-Scholes option pricing model on the following assumption:

Expected term: 1 year
Interest rate: 1.68%
Volatility: 82.5%
Exercise price: \$1.00
Share price: \$0.49

At March 31, 2019, the derivative assets had a fair value of \$145,455 and a loss of \$72,727. This was determined using the Black-Scholes option pricing model on the following assumption:

Expected term: 0.68 years
Interest rate: 1.68%
Volatility: 82.5%
Exercise price: \$1.00
Share price: \$0.49

The Company, in this case, is investing in a private company where relevant observable inputs are not available. Transactions in such investments do not occur on a regular basis and are classified as Level 3. The fair value of the investment at March 31, 2019 is \$1,781,818, based on a subsequent capital raise by the investee.

(c) Investment in Folium Biosciences

On January 14, 2019, the Company entered into a subscription agreement with Folium Biosciences, the largest vertically integrated producer, manufacturer, and distributor of hemp derived phytocannabinoids in the United States. Folium is nearing the completion of the largest phytocannabinoid extraction and purification facility in the United States, with plans for a new pharmaceutical division and the completion of their Canadian facility in 2020. The Company acquired the amount of \$3,988,200 (USD \$3,000,000) a Class A non-restricted membership interest at a price of USD \$1 per unit of membership interest. The cash represents the total consideration paid.

Measurement

The investment in Folium Biosciences is accounted for at fair value through profit or loss.

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The fair value of the investment at March 31, 2019 is \$3,988,200. The Company is investing in a private company where relevant observable inputs are not available. Transactions in such investments do not occur on a regular basis and are classified as Level 3. The Company values investments in unlisted equity instruments at cost for a limited period after the date of acquisition if the purchase price remains representative of fair value at the reporting date. Management determined that there were no significant changes in the investee that would indicate a fair value different from the purchase price on a per share basis. As a result, the fair value of the investment as at March 31, 2019 is \$3,980,811. During the year ended March 31, 2019, the Company did not recognize changes in fair value of the investment. The difference was due to foreign currency translation of the consideration paid in the US dollar.

10. Investment in Associates – Body and Mind, Inc.

On November 2, 2018, the Company completed an investment in Body and Mind Inc. (“BaM”) pursuant to an investment agreement dated October 30, 2018, and acquired a 25% ownership interest in BaM as follows:

- (i) 16,000,000 units of BaM at a price of \$0.40 per unit for gross proceeds of \$6,400,000. Each unit consisted of one common share and one share purchase warrant exercisable at a price of \$0.50 per share for a period of two years, subject to acceleration if the closing price of the common shares of BaM is equal to or greater than \$1.20 for 30 consecutive trading days; and
- (ii) \$1,600,000 principal amount of 8% unsecured convertible debentures of BaM convertible at \$0.55 per share until November 2, 2020, subject to acceleration if the closing price of the common shares of BaM is equal to or greater than \$1.65 for 20 consecutive trading days.

In addition, under the terms of the investment agreement:

- (i) the parties will negotiate in good faith a license agreement whereby BaM will grant the Company an exclusive and assignable license to use the BaM brand outside the U.S. on commercially reasonable terms;
- (ii) BaM entered into a commercial advisory agreement with the Company pursuant to which BaM will pay the Company USD \$10,000 per month for advisory and consulting services for a term ending on the earlier of five years from the closing date, and the date the Company ceases to hold 10% of the issued and outstanding shares of BaM; and
- (iii) for as long as the Company owns 10% of the issued and outstanding shares of BaM, the Company will be entitled to nominate 1 director to the board of BaM and 1 more director if the Company exercises all of the warrants and converts all of its debentures in BaM. The Company will be entitled to maintain 2 directors on the board of BaM if it maintains at least a 25% ownership interest in BaM. On November 2, 2018, the Company nominated 1 director to the board of BaM.

Measurement

The Company measured the hybrid instrument at \$2,088,076. The key inputs included a discount rate of 18.5% which is the estimate of the observable market rate for similar convertible debentures combined with the volatility based on similar comparable companies operating in the cannabis industry. Additionally, the following inputs were also considered:

Expected term: 2 years
Interest rate: 2.268%
Volatility: 80%
Exercise price: \$0.55
Share price: \$0.59

The difference between consideration paid and fair value of \$488,256 was recognised as a deferred gain, which shall be recognized in subsequent periods as a gain only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing such asset.. At March 31, 2019, the hybrid

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instrument was carried at \$2,928,638. The Company recognized an unrealized gain of \$840,382. Deferred gain recognized for the period was \$99,657, balance at March 31, 2019 was \$388,598. The fair value at year end was determined using Black-Scholes option pricing model the following assumptions:

Expected term: 1.58 years
 Interest rate: 1.608%
 Volatility: 80%
 Exercise price: \$0.55
 Share price: \$0.95

Upon initial recognition the consideration of \$6,400,000 was allocated between investment in shares and warrants based on their relative fair values. This resulted in a difference of \$2,202,353 between the transaction price and the fair value of the warrants, which was recognized as a deferred gain, and will be recognized in subsequent periods as a gain only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing such asset. At March 31, 2019, the warrants had a fair value of \$6,524,858 and a deferred gain of \$1,404,003. The Company determined the fair value of the warrant using a variant of the Black-Scholes option pricing model which includes a knock-out based on the following assumptions:

<i>Initial recognition</i>	<i>At 31 March, 2019</i>
Expected term: 2 years	Expected term: 1.58 years
Interest rate: 2.268%	Interest rate: 1.608%
Volatility: 80%	Volatility: 80%
Barrier price: \$1.20	Barrier price: \$1.20
Rebate: \$0.70	Rebate: \$0.70
Exercise price: \$0.50	Exercise price: \$0.50
Share price: \$0.59	Share price: \$0.95

	Warrants continuity		
	\$ FV/ warrant	# Warrants	\$ Warrants
Opening Balance 01/04/2018	-	-	-
Additions 30/10/2018	0.12	16,000,000	4,160,000
Fair value at trade date	\$ 0.26	16,000,000	4,160,000
Gain (loss)			4,640,000
Exercised warrants	-	3,206,160	1,763,388
Fair value at 30/11/2018	0.55	16,000,000	7,036,612
Gain (loss)			511,754
Fair value at 31/03/2019	0.51	16,000,000	6,524,858

On November 28, 2018, the Company executed a loan agreement with BaM: Net proceeds from the loan along with net proceeds from certain warrants in BaM exercised by the Company were used by BaM to fund its investment in Green Light District Holdings, the owner of the ShowGrow dispensary brand.

- (i) the Company advanced the principal amount of \$5,340,000 (USD \$4,000,000) at a rate of 15% per annum accruing and payable at the end of each six month period following the date of the agreement in arrears either in cash or in kind. BaM will maintain prepayment rights at any time, in any amount, unless it is within the first year in which case BaM will be required to pay a 5% prepayment penalty on the amount repaid;
- (ii) BaM paid a finance fee to the Company in the amount of 1,105,083 shares at a deemed price of \$0.72 per share; and
- (iii) BaM increased its monthly advisory and consulting services fee payable to the Company by USD \$6,500 effective December 1, 2018.

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On November 30, 2018, the Company exercised certain warrants pursuant to an investment agreement dated October 30, 2018 and the Company paid \$1,603,080 (USD \$1,200,000) to BaM. Proceeds from the loan as well as the warrant exercise were used by BaM to finance the acquisition of ShowGrow. Terms of the loan are shown below;

Measurement

The loan receivable is measured at fair value through profit or loss. The fair value of the loan receivable at November 28, 2018 is \$5,042,881. This was determined by calculating a present value of the loan using a fair market interest rate of 18.5%. A deferred gain of \$588,739 was recorded to reflect the difference between the transaction price paid and the fair value. It will be recognized in subsequent periods as a gain only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing such asset. The balance at March 31, 2019 for the deferred gain was \$489,540 and the fair value of the loan receivable was \$5,330,754 with changes in fair value recognized at \$287,872. This fair value was determined using the present value of the loan receivable using a fair market interest rate of 18.5%.

In connection with the loan receivable, on November 28, 2019 the Company acquired additional 1,105,083 shares from BaM measured at \$885,857.

The 3,206,160 warrants were exercised for a cost of \$0.50 per warrant exercised and totaled a cash payment of \$1,603,080.

On February 1, 2019, Body and Mind announced a retail acquisition in Ohio by entering into a definitive agreement. Australis and BaM entered into a concurrent investment agreement pursuant to which the Company purchased 1,768,545 common shares of BaM at a price of \$0.585 per share for an aggregate purchase price of \$1,034,599. Pursuant to its investment agreement dated October 30, 2018 with the Company, BaM granted Australis anti-dilution participation rights which included certain discount rates.

As of March 31, 2019, the Company's ownership percentage in BaM's issued and outstanding common stock was 30.4%.

The Company has invested on BaM for capital appreciation and cash inflows on the interest income. The investment is governed by the Investment Agreement and the Company has significant influence on BaM. As of March 31, 2019, the Company's ownership percentage in BaM's issued and outstanding common stock was 30.4%. The Company has accounted its 30.4% investment in BaM as an investment in associate using the equity method of accounting.

Body and Mind, incorporated in the State of Delaware, United States and is publicly listed in the United States. The Company has been using the public Financial Information available to account for the value of invested entity. The value of the investment at March 31, 2019 is \$9,223,456 based on the quoted market price of BaM. During the year ended March 31, 2019, the Company recognized the proportional loss on investment of \$504,413.

Body and Mind's summarized balance sheet as at March 31, 2019 is included below. The numbers are as per March 31, 2019 as this is the period end for the invested entity. As BaM has its currency in U.S. Dollars the amounts are translated to Canadian Dollars based on the foreign exchange rate as at March 31, 2019.

	As at March 31, 2019	
	USD	CAD
Current assets	5,160,236	6,895,623
Non-current assets	22,354,867	29,872,809
Current liabilities	6,197,445	8,281,646
Non-current liabilities	2,873,418	3,839,748

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Body and Mind's summarized income statement for the period from November 1, 2018 to March 31, 2019 is included below. As BaM has its currency in U.S. Dollars the amounts are translated to Canadian Dollars based on the average foreign exchange rate.

	Pro-rated as at March 31, 2019	
	USD	CAD
Revenue	1,401,644	1,863,847
Net Loss for the Period Before Income Tax	- 1,010,955 -	1,344,325
Net Loss for the Period After Income Tax	- 1,205,033 -	1,602,402
Other Comprehensive Income (Loss)	- 9,327 -	12,402
Comprehensive Loss for the Period	- 1,214,360 -	1,614,805

The investment in Body and Mind during the year can be summarized below:

Opening Balance 01/04/2018	-
Additions:	
30/10/2018	4,442,353
30/11/2018	3,365,060
28/11/2018	885,857
01/02/2019	1,034,599
	9,727,869
Proportional loss recognized	(504,413)
Balance at 31/03/2019	9,223,456

11. Property and Equipment

	Computer/		Total
	Land	Equipment	
	\$	\$	\$
Cost			
Balance, March 31, 2018	-	-	-
Addition	-	130,641	130,641
Addition from acquisition (Note 6)	4,369,426	-	4,369,426
Loss on remeasurement (Note 6)	(1,632,322)	-	(1,632,322)
Foreign currency translation	36,531	(137)	36,394
Balance, March 31, 2019	2,773,635	130,504	2,904,139
Accumulated depreciation			
Balance, March 31, 2018	-	-	-
Depreciation	-	10,025	10,025
Balance, March 31, 2019	-	10,025	10,025
Net book value			
March 31, 2018	-	-	-
March 31, 2019	2,773,635	120,479	2,894,114

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<i>Accumulated depreciation</i>			
Balance, March 31, 2018	-	-	-
Depreciation	-	10,025	10,025
Balance, March 31, 2019	-	10,025	10,025

<i>Net book value</i>			
March 31, 2018	-	-	-
March 31, 2019	2,773,635	120,479	2,894,114

12. 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 of March 31, 2019, there were 145,062,954 issued and outstanding common shares. As of March 31, 2018, there were 100 issued and outstanding common shares.

- (i) On June 13, 2018, the Company issued and repurchased the following securities of the Company in connection with the Spin-out Transaction:
- 8,235,294 units of the Company with a fair value of \$2,049,114 to settle a promissory note of \$1,400,000 in connection with the acquisition of the SubTerra Assets (Notes 4 and 5) pursuant to the settlement of a promissory note in the amount of \$1,400,000. Each unit consisted of one common share and one share purchase warrant of the Company exercisable at \$0.25 per share until September 19, 2019.
 - 18,567,070 units of the Company with a fair value of \$4,619,877 to settle loans of \$3,156,402 (Note 4). Each unit consisted of one common share and one share purchase warrant exercisable at \$0.25 per share until September 19, 2019.
 - The Company repurchased 100 of its opening issued and outstanding common shares (Note 4).
- (ii) On June 14, 2018, the Company 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 (the "Restricted Back-in Right"):
- A warrant to purchase 20% of the issued and outstanding shares of the Company as of the date on which its shares commenced trading on the CSE, exercisable at a price of \$0.20 per share for a period of ten years from the date of issuance (22,628,751 warrants were issued on September 19, 2018).
- (iii) On July 5, 2018 and August 3, 2018, the Company completed a two-tranche private placement of 73,936,000 and 11,064,000 shares at a price of \$0.20 per share, respectively, for aggregate gross proceeds of \$17,000,000. Total share issuance costs amounted to \$20,764 which consisted of legal fees.
- (iv) On September 17, 2018, the Company issued an aggregate of 1,341,391 units in consideration of \$333,766 in transaction costs. The breakdown of this \$333,766 was \$268,278 in common shares and \$65,488 in warrants. The common shares were issued at \$0.20; the warrants are each exercisable at \$0.25.

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- (v) On October 25, 2018 and November 27, 2018, the Company completed a non-brokered private placement of 14,778,255 units and 1,084,451 units, respectively, at a price of \$2.03 per unit for aggregate gross proceeds of \$32,201,293 (net of an aggregate foreign exchange difference of \$9,964). Each unit consisted of one common share and one-half of a share purchase warrant (“fractional 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. \$25,349,282 was allocated to shares and \$6,852,011 to reserves. In connection with the private placement, the Company paid aggregate finders’ fees of \$561,863 (\$119,559 in warrant reserves and the balance of \$442,304 in transaction costs).
- (vi) On November 2, 2018, the Company completed the acquisition of all of the issued and outstanding shares of Rthm. Pursuant to the terms of the acquisition, the Company paid cash of \$800,000 and issued 1,742,601 common shares of the Company. 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.
- (vii) Effective November 14, 2018, the Company completed the purchase of common shares representing 15% of the outstanding capital of Wagner Dimas Inc. from Cannroy Delaware Inc., a wholly-owned subsidiary of CannaRoyalty Corp. As consideration, the Company paid \$1,500,000 and issued 738,916 units of the Company (representing an additional \$1,500,000), with each unit issued on the same “fractional warrant” terms as the non-brokered private placement completed on October 25, 2018.
- (viii) On February 26, 2019, the Company acquired 100% of Mr. Natural Productions, Inc., a multiple award-winning medical and recreational cannabis brand based in California. This acquisition includes the rights to the Mr. Natural brand, the life story right of Robert Luciano and all related intellectual property, including proprietary processes. The deal was valued for \$1,648,385 and royalty payments based on future performance incentives. The Company issued 533,981 shares at a price of \$1.03 per share for a total of \$550,000; the remainder was in cash. In addition, if Mr. Natural is able to meet certain milestones, the Company will issue an aggregate \$500,000 and \$550,000 in the Company’s common stock.
- (ix) The Company issued an aggregate of 13,040,995 common shares on the exercise of 13,040,995 warrants for gross proceeds of \$3,896,923.
- (c) Share purchase warrants

Except as noted above, each warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding follows:

	Warrants	Weighted average exercise price
	#	\$
Balance, March 31, 2018	-	-
Issued	59,073,317	0.57
Exercised	(13,040,995)	0.25
Balance, March 31, 2019	46,032,322	0.66

During the twelve months ended March 31, 2019, the Company recorded \$906,463 in reserves for warrants related to the Spin-out Transaction (Note 4(a)) and \$500,000 in reserves for 22,628,751 warrants related to ACB’s Restricted Back-in Right (Note 4(b)).

The following table summarizes the warrants that remain outstanding as at March 31, 2019:

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Exercise price	Warrants	Expiry date
\$	#	
0.25	15,102,760	September 19, 2019
0.20	22,628,751	September 19, 2028
2.64	7,389,127	October 25, 2020
2.64	369,458	November 14, 2020
2.64	542,226	November 27, 2020
	46,032,322	

(d) Stock options

On June 15, 2018, the Board adopted a Share Option Plan which provides that the Board may from time to time, in its discretion, and in accordance with exchange requirements, grant to directors, officers, employees, and consultants, non-transferable stock options to purchase common shares of the Company. A summary of the status of stock options outstanding follows:

	Stock options	Weighted average exercise price
	#	\$
Balance, March 31, 2018	-	-
Issued	8,597,500	0.27
Balance, March 31, 2019	8,597,500	0.27

The following table summarizes the stock options that remain outstanding as at March 31, 2019:

Exercise price	Options outstanding	Expiry date	Options exercisable
\$	#		#
0.20	7,500,000	August 13, 2023	-
0.20	310,000	September 11, 2023	-
1.62	40,000	November 13, 2023	-
1.04	552,500	November 26, 2023	-
0.69	195,000	December 17, 2023	-
	8,597,500		-

During the twelve months ended March 31, 2019, the Company recorded aggregate share-based payments of \$268,372 (twelve months ended March 31, 2018- \$nil) for all stock options granted. There was also \$409,177 recorded for Restricted Stock Units (noted in Note 12(f) below).

(d) During the year ended March 31, 2019 the Company granted the following stock options:

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- 7,500,000 stock options at an exercise price of \$0.20 per share expiring August 13, 2023
- 310,000 stock options at an exercise price of \$0.20 per share expiring September 11, 2023
- 40,000 stock options at an exercise price of \$1.62 per share expiring November 13, 2023;
- 552,500 stock options at an exercise price of \$1.04 per share expiring November 26, 2023; and
- 195,000 stock options at an exercise price of \$0.69 per share expiring December 17, 2023

These were valued using the Black-Scholes option pricing model on the following assumption:

Expected term: 5 years

Interest rate: 2.22%

Volatility: 80%

Exercise price: \$0.20

Share price: \$0.20

(f) Restricted Share Units

The following tables represent the Company's Restricted Share Units during the period:

Quarterly vesting over 3 years				Cumulative	
Grant Date 13/11/2018	# RSUs Vest			SBC Expense	
31/12/2018	78,667	100%	\$1.62	\$	127,440.00
31/03/2019	147,500	100%	\$1.62	\$	366,390.00
30/06/2019	147,500	0%	\$1.62	\$	605,340.00
30/09/2019	147,500	0%	\$1.62	\$	844,290.00
31/12/2019	147,500	0%	\$1.62	\$	1,083,240.00
31/03/2020	147,500	0%	\$1.62	\$	1,322,190.00
30/06/2020	147,500	0%	\$1.62	\$	1,561,140.00
30/09/2020	147,500	0%	\$1.62	\$	1,800,090.00
31/12/2020	147,500	0%	\$1.62	\$	2,039,040.00
31/03/2021	147,500	0%	\$1.62	\$	2,277,990.00
30/06/2021	147,500	0%	\$1.62	\$	2,516,940.00
30/09/2021	147,500	0%	\$1.62	\$	2,755,890.00
13/11/2021	68,833.33	0%	\$1.62	\$	2,867,400.00
	1,770,000			\$	2,867,400.00

Quarterly vesting over 3 years				Cumulative	
Grant Date 26/11/2018	# RSUs Vest			SBC Expense	
31/12/2018	9,641	100%	\$1.04	\$	10,026.85
31/03/2019	24,792	100%	\$1.04	\$	35,810.19
30/06/2019	24,792	0%	\$1.04	\$	61,593.52
30/09/2019	24,792	0%	\$1.04	\$	87,376.85
31/12/2019	24,792	0%	\$1.04	\$	113,160.19
31/03/2020	24,792	0%	\$1.04	\$	138,943.52
30/06/2020	24,792	0%	\$1.04	\$	164,726.85
30/09/2020	24,792	0%	\$1.04	\$	190,510.19
31/12/2020	24,792	0%	\$1.04	\$	216,293.52
31/03/2021	24,792	0%	\$1.04	\$	242,076.85
30/06/2021	24,792	0%	\$1.04	\$	267,860.19
30/09/2021	24,792	0%	\$1.04	\$	293,643.52
26/11/2021	15,150	0%	\$1.04	\$	309,400.00
	297,503			\$	309,400.00

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Quarterly vesting over 3 years Grant Date 17/12/2018	# RSUs Vest				Cumulative SBC Expense
31/12/2018	1,361	100%	\$0.69	\$	939.17
31/03/2019	8,750	100%	\$0.69	\$	6,976.67
30/06/2019	8,750	0%	\$0.69	\$	13,014.17
30/09/2019	8,750	0%	\$0.69	\$	19,051.67
31/12/2019	8,750	0%	\$0.69	\$	25,089.17
31/03/2020	8,750	0%	\$0.69	\$	31,126.67
30/06/2020	8,750	0%	\$0.69	\$	37,164.17
30/09/2020	8,750	0%	\$0.69	\$	43,201.67
31/12/2020	8,750	0%	\$0.69	\$	49,239.17
31/03/2021	8,750	0%	\$0.69	\$	55,276.67
30/06/2021	8,750	0%	\$0.69	\$	61,314.17
30/09/2021	8,750	0%	\$0.69	\$	67,351.67
17/12/2021	7,389	0%	\$0.69	\$	72,450.00
	105,000			\$	72,450.00

The total effect on the Statement of Financial Position and the Statements of Comprehensive Loss was \$409,177. RSUs are granted based on the closing price on the date prior to the grant date.

13. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended March 31, 2019 and 2018:

	2019	2018
Income (Loss) Before Taxes	(4,171,210)	(42,697)
Statutory tax rate	27.00%	26.25%
Expected income tax (recovery)	(1,126,227)	(11,208)
Non-deductible items	392,857	(452)
Prior period adjustments and others	13,763	(7,596)
Foreign Tax Rate Difference	207,657	-
Change in tax rates	-	(628)
Share issuance cost	(255,398)	-
Change in Deferred tax asset not recognized	767,348	19,884
Total income tax expense (recovery)	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at March 31, 2019 and 2018 are comprised of the following:

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<u>Canada</u>	<u>2019</u>	<u>2018</u>
Non capital loss carryforwards- Canada	846,787	34,696
Prepaid Re. Royalty stream	75,106	
Financing Costs	204,319	
Note receivables	(0)	(34,696)
Fixed assets- Canada	711	-
Intangible Assets - Canada	(488,736)	
Scientific research and development expense	-	-
Investments	(638,185)	-
Net Deferred tax asset (liability)	-	-
<u>US</u>		
Non-capital losses	18,556	-
PPE	(18,556)	-
	-	-

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Property, plant and equipment- Canada	479	479
Non-capital losses Canada	735,982	2,307,572
Accrued loss on investment- US	1,243,990	-
Non-capital losses- US	1,893,469	-

As at March 31, 2019, the Company has non-capital loss carryforwards for Canadian tax purposes of approximately \$3,788,459 (2018 - \$208,828) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

<u>Expiration</u>	<u>Total</u>
2034	145,001
2035	209,760
2036	644,304
2037	864,813
2038	604,993
2039	1,319,588
<u>Total</u>	<u>3,788,459</u>

The deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that future taxable profit will be available against which the Company can utilize such deferred tax assets.

Further, as the Company operates in the cannabis industry, it is subject to the limitations 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. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

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14. Segmented Information

The Company operates primarily in two geographic segments: the U.S.A. and Canada. Set out below is segmented information on a geographic basis.

	USA	Canada	Total
	\$	\$	\$
<i>Twelve months ended March 31, 2019</i>			
Income (Loss) from operations	(1,739,085)	(2,555,308)	(4,294,393)
Net Income (Loss)	(2,126,925)	(2,044,285)	(4,171,210)
<hr/>			
<i>Twelve months ended March 31, 2018</i>			
Loss from operations	-	(1,041)	(1,041)
Net loss	-	(42,697)	(42,697)
<hr/>			
	USA	Canada	Total
	\$	\$	\$
<i>As at March 31, 2019</i>			
Non-current assets	3,040,615	33,899,262	36,939,877
Non-current liabilities	17,787	2,494,782	2,512,569
<hr/>			
<i>As at March 31, 2018</i>			
Non-current assets	-	100	100
Non-current liabilities	-	-	-
<hr/>			

15. Related Party Transactions

(a) Transactions

The Company incurred the following transactions with related parties during the twelve months ended March 31, 2019 and 2018:

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	For the twelve months ended	
	March 31, 2019	March 31, 2018
	\$	\$
Interest income from AHL at 50% ownership (1)	-	47,164
Interest expense accrued to a company with former common directors and officers	-	90,543
Wages and benefits (2)	771,292	-
Directors' fees (3)	2,339	-
Share-based compensation to related parties (4)	487,068	-
Conference fees (5)	2,624	-

(1) The Company eliminated all interest income earned post-acquisition upon consolidation (Note 6).

(2) The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team.

(3) The Company's director's fees include meeting fees.

(4) The Company's related parties included for share-based compensation include the executive management team, directors, and members of the Company's advisory committee during the year ended March 31, 2019.

(5) The Company co-sponsored the second annual HighTimes 100 awards ceremony with Aurora to honor top influencers in Cannabis on March 27, 2019.

(b) Related party balances

The following related party amounts were included in (i) due from a shareholder, (ii) note receivable, (iii), (v), and (vi) accounts payable and accrued liabilities; (iv) note payable; and (vii) loan receivable as at March 31, 2019 and March 31, 2018:

	March 31, 2019	March 31, 2018
	\$	\$
(i) Due to a former shareholder (1)	591,187	100
(ii) Loan to AHL (2)	-	3,008,556
(iii) Payable to AHL (3)	-	624
(iv) Loan from ACB (4)	-	3,137,061
(v) Advances from companies with common directors and officers (5)	-	35,684
(vi) Payable to AJR	22,650	-
(vii) Loan receivable from Body and Mind	5,330,754	-

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

(2) The loan and advance to AHL was provided by ACB. The loan was unsecured, had no fixed repayment terms, and was non-interest bearing, and due on demand.

(3) The Company's advances to AHL were eliminated upon consolidation.

(4) The payable relates to a promissory note with ACB. The promissory note was issued on April 10, 2015 and will mature on October 31, 2019. Interest accrued at 5.0% per annum and was payable on the earlier of maturity date or the

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date on which revenues from the AHL land was sufficient to cover interest and operating cost. There were late fees of 10% if note was not paid within 5 days of the maturity date. The note was secured by two mortgages as well as a general security agreement granting ACI security over all present and after-acquired property of AHL.

⁽⁵⁾ The advance was to be used for daily operations. The amount was non-interest bearing, unsecured, and had no fixed repayment terms.

16. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash, restricted cash, interest receivable, accounts receivable, deposits, subscriptions receivable, promissory notes, loans receivable, marketable securities, derivative financial instruments, convertible instruments, due from shareholder accounts payable and accrued liabilities, bank indebtedness, management bonus payable, royalty payable, advances payable, promissory note payable and loans payable. The carrying values of these financial instruments approximate their fair values as at March 31, 2019.

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 March 31, 2019:

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	Amortized cost	Fair Value through profit and loss	Other financial assets and liabilities	Total
Cash	5,576,170			5,576,170
Restricted cash	18,939,324			18,939,324
Interest Receivable	144,286			144,286
Accounts Receivable	101,651			101,651
GST receivable	27,733			27,733
Prepaid expenses	215,989			215,989
Deposits - S/T	53,205			53,205
Subscriptions receivable	2,195			2,195
Promissory note - SubTerra S/T		122,318		122,318
Convertible debt instruments - BaM		2,928,638		2,928,638
Marketable Securities - Wagner Dimas	1,854,007			1,854,007
Marketable Securities - Quality Green	1,781,818			1,781,818
Marketable Securities - Folium Biosciences	3,980,811			3,980,811
Derivative financial instruments- Quality Green		145,455		145,455
Derivative financial instruments- BaM		6,524,858		6,524,858
Loans receivable - BaM		5,330,754		5,330,754
Investments in associates - BaM		9,223,456		9,223,456
Promissory note - SubTerra L/T		999,513		999,513
Long-term deposits		157,082		157,082
Current				
Accounts payable and accrued liabilities			558,725	558,725
Contingent consideration payable			231,310	231,310
Royalty payable - S/T			69,555	69,555
Management Bonus Payable			413,717	413,717
Advances payable - Related Parties			591,187	591,187

(b) Financial instruments risk

(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 accounts receivables, promissory note, convertible debt and loans 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.

From April 1, 2018, the Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial assets carried at amortized cost, the Company recognizes loss allowances for expected credit losses (“ECLs”). ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to twelve months of expected losses if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses if there is a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

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The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the financial assets carried at amortized cost to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

Significant increases in credit risk are assessed based on changes in probability of default of a financial asset subsequent to initial recognition. The Company uses past due information to determine whether credit risk has increased significantly since initial recognition. Financial assets are considered to have experienced a significant increase in credit risk and are reclassified to Stage 2 if a contractual payment is more than 30 days past due as at the reporting date.

The Company defines default as the earlier of when a contractual payment is more than 90 days past due or when a loan becomes insolvent as a result of customer bankruptcy. Financial assets that have experienced a default event are considered to be credit impaired and are reclassified as Stage 3 loans.

The Company measures ECL by considering the risk of default over the contract period and incorporates forward-looking information into its measurement. ECLs are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status and forward looking macro-economic factors in the measurement of the ECLs associated with its assets carried at amortized cost.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

(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 March 31, 2019, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 - 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	558,725	558,725		
Contingent consideration	231,310	231,310		
Royalty payable	282,196	69,555	212,641	
Management bonuses payable	413,717	413,717		
Advances payable (Aurora group)	591,187	591,187		
Deferred Rent			17,787	

(iii) Market risk

a) Currency risk

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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 March 31, 2019, the Company held cash in Canadian and U.S. dollars. The Company's main risk is associated with fluctuations in the U.S. dollar. 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 \$749,599 (2018 - \$nil) to net and comprehensive loss for the twelve months ended March 31, 2019.

At March 31, 2019, 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.

(iv) Concentration risk

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realize liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency.

The Company's investments in predominately U.S. cannabis expose the Company to a certain amount of concentration risk.

(v) Price risk

Price risk is the risk of unfavorable changes in the fair values of equity instruments or equity-linked derivatives as the result of changes in the value of individual shares. The equity price risk exposure arises from the Company's investments in exclusively U.S. cannabis and from derivatives linked with such. The Company manages this risk by investing in a variety of companies from a locational standpoint; however, this still exposes the Company to a material amount of price risk.

17. 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, 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.

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As at March 31, 2019, the Company is not subject to externally imposed capital requirements.

18. Commitments and Contingencies

Lease Commitment

The Company is committed to the following office rental payments as at March 31, 2019:

	<u>Rent Amount</u>
Less than 1 year	224,029
Greater than 1 and less than 5 years	912,327
Greater than 5 years	-
Total Commitment	<u>1,136,356</u>

19. Subsequent Events

The following events occurred subsequent to March 31, 2019:

- On April 17, 2019, the Company adopted amendments to the Company's stock option plan and restricted share unit plan. Under the amended plans, the Company may grant stock options and restricted share units that, in the aggregate, do not exceed a maximum of 15% of the issued and outstanding common shares of the Company. The Company also granted an aggregate of 6,942,000 stock options and 1,735,000 RSUs to directors, officers, employees, and consultants of the Company. Twenty percent (20%) of these stock options and RSUs were issued to a new director and three new employees who recently joined the Company. The stock options have an exercise price of \$0.98 and expire five years from the date of grant. The stock options and the RSUs vest over a three-year period with 1/3 of the stock options and RSUs vesting each year following the date of grant; this is consistent with earlier awards. Including the current grant, the Company has issued approximately 13.4% of its currently issued and outstanding common shares in options and RSUs.
- On May 21, 2019, the Company entered into an asset purchase agreement with Green Therapeutics, LLC ("GT") and affiliated companies to acquire its Tsunami, Provisions, and GT Flowers cannabis brands, certain operating assets, intellectual property and the right to assume, complete and expand the construction of a state-of-the-art 55,000 square foot cultivation and production facility in North Las Vegas, Nevada. The acquisition will include GT's experienced operating team. The Company will issue up to \$10,690,400 (\$8 million USD) of its common stock to complete this acquisition. The Company issued 7,831,855 shares valued at \$8,552,320 (\$6.4 million USD) upon the signing of a definitive agreement. An additional \$1,069,040 (\$800,000 USD) will be issued when the new cultivation and production facility in North Las Vegas is fully licensed and operational and an additional \$1,069,040 (\$800,000 USD) in shares will be issued if certain performance goals are reached utilizing the acquired assets within specified timeframes per the definitive agreement.

In a separate transaction, the Company acquired from Meridian Companies LLC an 8.9-acre parcel of land in North Las Vegas, where the new cultivation and production facility will be located. This property has the potential to support a 400,000 square foot cultivation and production facility which will be built to the industry recognized Aurora Cannabis standard. The consideration from the Company was \$3,915,359 (\$2.93 million USD) of its common stock, or 3,585,521 common shares of the Company. The new production and cultivation facility will feature indoor greenhouses; state-of-the-art control systems; and a modern manufacturing, production, and post-production facility. This industry-leading, precision level control will allow for superior cannabis flower to be produced utilizing the Mr. Natural methodology. This Transaction will also provide the Company with up to six acres of improvable/vacant land in North Las Vegas that will be held for potential future expansion opportunities. The Company expects the Transaction to close in late 2019 upon the

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successful transfer of GT's cultivation and manufacturing licenses to the Company and the new facility will be completed and operational in late 2020.

- On May 29, 2019, the Company acquired, through the exercise of 12,793,840 warrants of Body and Mind Inc., ownership of 12,793,840 common shares in the capital of Body and Mind Inc. The common shares were acquired pursuant to the exercise of the warrants acquired on a private placement basis on November 5, 2018. Prior to the Acquisition, the Company held 22,079,788 common shares, 12,793,840 warrants, and debentures in the principal amount of \$1,600,000 convertible into Common Shares at \$0.55 per common share.

The warrant proceeds were used, in part, to fully repay an outstanding senior secured note (the "Note") in the amount of USD \$4,495,890 owing to the Company. Payment of the Note included the principal amount of USD \$4,000,000 including accrued interest and an early repayment fee.

After this Acquisition, the Company holds 34,873,628 Common Shares and Debentures in the principal amount of \$1,600,000. Assuming the conversion of the Debentures, the Company would hold 37,782,719 common shares, which on a partially diluted basis is equal to approximately 37.7% of the issued and outstanding common shares of Body and Mind Inc. The Company paid \$6,396,920 to exercise the Warrants at a price of \$0.50 per share resulting in 12,793,840 Common Shares.

- On July 1, 2019, the Company agreed to convert all of its unsecured convertible debentures of Body and Mind Inc. in the principal amount of \$1,600,000 at a price of \$0.55 per common share on July 1, 2020, to acquire 2,909,091 common shares of Body and Mind Inc. The Debentures were acquired in a private placement on November 5, 2018.

Pursuant to a conversion agreement dated July 1, 2019, Australis will acquire the Common Shares pursuant to the conversion of the Debentures no later than July 1, 2020. In consideration for its agreement to convert the Debentures, Body and Mind Inc. paid to Australis \$148,340 as an advanced payment of interest payable under the Debentures for the period beginning November 2, 2018, and ending July 1, 2020.

The Common Shares will be issued by Body and Mind Inc. at the deemed value of \$0.55 per Common Share for the total consideration of \$1,600,000. The Common Shares will be issued as payment for the principal amount owing under the Debentures.