

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended December 31, 2019 and 2018
(Unaudited -- In Canadian Dollars)

AUSTRALIS CAPITAL INC.
(the “Company”)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended December 31, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

February 27, 2020

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Financial Position

As at December 31, 2019 and March 31, 2019

(Unaudited – in Canadian Dollars)

	Notes	December 31, 2019	March 31, 2019
		\$	\$
Assets			
Current			
Cash	19	6,803,077	5,576,170
Restricted cash	19	12,666,393	18,939,324
Interest receivable		74,611	144,286
Accounts receivable		111,619	101,651
GST receivable		39,083	27,733
Prepaid expenses		527,584	215,989
Current portion of deposits		76,098	53,205
Subscriptions receivable		6,667	2,195
Current portion of annuity receivable - SubTerra	5	87,833	122,318
Convertible debt instruments - BaM	13	1,851,644	2,928,638
		22,244,609	28,111,509
Non-current			
Marketable securities - Wagner Dimas	12(a)	1,854,007	1,854,007
Marketable securities - Quality Green	12(b)	1,781,818	1,781,818
Marketable securities - Folium Biosciences	12(c)	1,990,406	3,980,811
Derivative financial instrument - Quality Green	12(b)	-	145,455
Derivative financial instrument - BaM	13	-	6,524,858
Loans receivable - BaM	13	-	5,330,754
Investment in associates - BaM	13	11,500,074	9,223,456
Investment in Green Therapeutics	9	10,888,640	-
Equipment	14	145,122	120,479
Construction in progress		592,327	-
Intangible assets	7, 8, 10, 15	8,491,704	3,458,166
Goodwill	7, 15	589,843	589,843
Land	9, 14	3,944,073	-
Land held for sale	6, 14	2,695,799	2,773,635
Annuity receivable - SubTerra	5	704,315	999,513
Long-term deposits	11	6,466,292	157,082
Right-of-use asset	21	725,087	-
TOTAL ASSETS		74,614,116	65,051,386
Liabilities			
Current			
Accounts payable and accrued liabilities	19	2,492,670	972,442
Current portion of royalty payable	8	87,822	69,555
Advances payable - related Parties	18	579,315	591,187
Current portion of lease liability	21	111,487	-
		3,271,294	1,633,184
Non-Current			
Deferred gain on derivatives	13	-	2,282,141
Contingent consideration payable	7, 8, 9	2,325,936	231,310
Lease liability	21	599,069	17,787
Royalty payable	8	214,592	212,641
TOTAL LIABILITIES		6,410,891	4,377,063
Shareholders' equity (deficit)			
Share capital	16	75,504,354	56,305,201
Reserves	4, 16	9,522,626	8,373,736
Accumulated other comprehensive income		301,251	329,618
Accumulated deficit		(17,125,006)	(4,334,232)
TOTAL SHAREHOLDERS' EQUITY		68,203,225	60,674,323
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		74,614,116	65,051,386

Nature of Operations (Note 1)

Commitments and Contingencies (Note 21)

Subsequent Events (Note 22)

Approved on February 27, 2020

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

/Roger Swainson/

Director

/John Dover/

Director

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Comprehensive Loss
Three and Nine Month Periods Ended December 31, 2019 and 2018
(Unaudited – in Canadian Dollars, except share amounts)

	Notes	Three months ended		Nine months ended	
		December 31,		December 31,	
		2019	2018	2019	2018
Income					
Income-Services		2,014	9,346	15,282	9,346
Income-Consulting		47,765	122,542	155,065	122,542
		49,779	131,888	170,347	131,888
Expenses					
Consulting fees		(182,710)	(45,029)	(426,030)	(55,604)
Depreciation	14	(10,564)	(2,548)	(26,809)	(3,759)
Depreciation - leases	21	(44,788)	-	(133,701)	-
Amortization - intangibles	7, 15	(90,507)	-	(421,359)	-
Advertising and promotion		(73,885)	(252,766)	(282,577)	(252,766)
Office and administration		(54,243)	(21,887)	(132,380)	(71,477)
Insurance		(167,565)	(39,962)	(387,504)	(39,962)
Management fees		8,285	(2,339)	(336,265)	(2,339)
Professional fees		(146,461)	(175,538)	(706,295)	(188,431)
Regulatory and transfer agent fees		(116,980)	(16,900)	(192,482)	(76,100)
Share-based payments	16(d), 16(e)	(2,042,979)	(645,401)	(4,210,958)	(723,539)
Transaction costs		-	-	-	(342,917)
Travel and entertainment		(74,173)	(69,673)	(255,006)	(135,320)
Wages and benefits		(1,238,825)	(742,768)	(3,240,675)	(905,169)
		(4,235,395)	(2,014,811)	(10,752,041)	(2,797,383)
Loss from operations		(4,185,616)	(1,882,923)	(10,581,694)	(2,665,495)
Other items					
Deferred tax recovery		-	1,282,499	-	1,332,225
Loss on debt settlement	4	-	-	-	(1,463,476)
Loss on acquisition of SubTerra assets	4, 5	-	-	-	(649,114)
Gain (loss) on asset disposal		(2,016)	-	(3,824)	-
Loss on investment in associate	13	(378,985)	(606,323)	(2,018,399)	(606,323)
Gain (loss) on Sale of Investment in Associate	13	1,501,147	-	1,501,147	-
Loss on remeasurement of land held for sale	6	-	-	-	(1,632,322)
Dividend income		-	-	24,675	-
Other income		175	-	289,671	-
Other expense - M&A	12(c)	(935,924)	-	(1,223,573)	-
Foreign exchange gain (loss)		13,877	185	86,393	(9,215)
Unrealized foreign exchange gain (loss)		(129,525)	-	(254,153)	-
Net change on investment at fair value through profit and loss	12, 13	(3,060,507)	-	(3,203,608)	-
Recognition of deferred gain	13	266,200	-	2,282,141	-
Interest and other expenses		(50,919)	(38,932)	(93,104)	(60,273)
Interest expense - leases		(18,683)	-	(58,981)	-
Interest income		86,710	181,703	892,438	200,256
		(2,708,450)	819,132	(1,779,177)	(2,888,242)
Net loss for the period		(6,894,066)	(1,063,791)	(12,360,871)	(5,553,737)
Other comprehensive income					
Foreign currency translation		20,846	233,379	(160,481)	441,822
Share of OCI from investment in associates	13	43,850	-	132,115	-
Comprehensive loss for the period		(6,829,370)	(830,412)	(12,389,237)	(5,111,915)
Net loss per share					
Basic and diluted		(0.04)	(0.01)	(0.08)	(0.04)
Weighted average number of shares outstanding					
Basic and diluted		167,871,441	142,726,746	159,852,460	142,726,746

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Changes in Equity Nine Month Periods Ended December 31, 2019 and 2018 (Unaudited – in Canadian Dollars, except share amounts)

	Notes	Common shares	Share capital	Reserves	Accumulated Other Comprehensive Loss	Deficit	Total Equity
		#	\$	\$	\$	\$	\$
Balance, March 31, 2018		100	100	-	-	(163,022)	(162,922)
Repurchase of shares		(100)	-	-	-	-	-
Units issued for debt settlement		18,567,070	3,713,414	906,463	-	-	4,619,877
Shares issued for private placement		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		8,235,294	1,647,059	402,055	-	-	2,049,114
Units issued for transaction costs - spin-out		1,341,391	268,278	65,488	-	-	333,766
Restricted Back-in Right warrants - spin-out		-	-	500,000	-	-	500,000
Shares issued for acquisition of Rthm assets		1,742,601	2,840,440	-	-	-	2,840,440
Units issued for acquisition of Wagner Dimas		738,916	1,093,596	125,616	-	-	1,219,212
Exercise of warrants		11,238,768	3,358,380	(548,688)	-	-	2,809,692
Share-based payments		-	388,678	334,861	-	-	723,539
Net loss for the period		-	-	-	-	(5,553,737)	(5,553,737)
Other comprehensive loss for the period		-	-	-	441,822	-	441,822
Balance, December 31, 2018		142,726,746	55,196,159	8,528,211	441,822	(5,716,759)	58,449,433
Shares issued for acquisition of Mr. Natural assets		533,981	550,000	-	-	-	550,000
Exercise of warrants		1,802,227	538,543	(87,987)	-	-	450,556
Share-based payments		-	20,499	(66,488)	-	-	(45,989)
Net loss for the period		-	-	-	-	1,382,527	1,382,527
Other comprehensive loss for the period		-	-	-	(112,204)	-	(112,204)
Balance, March 31, 2019		145,062,954	56,305,201	8,373,736	329,618	(4,334,232)	60,674,323
Shares issued for acquisition of Green Therapeutics, LLC assets	9	7,831,855	8,615,041	-	-	-	8,615,041
Shares issued for acquisition of land	9	3,585,521	3,944,073	-	-	-	3,944,073
Finders fees	9	109,090	119,999	-	-	-	119,999
Shares issued for acquisition of Intangible Asset Passport License	10	1,829,219	1,058,626	-	-	-	1,058,626
Exercise of warrants	16(c)	9,999,838	2,988,162	(488,202)	-	-	2,499,960
Warrant forfeitures	16(c)	-	249,130	(249,130)	-	-	-
Exercise of stock options, net of withholding	16(d)	876,686	20,520	(121,133)	-	-	(100,613)
Vesting of RSUs	16(e)	614,167	-	-	-	-	-
Share-based payments	16(d), 16(e)	-	2,203,602	2,007,355	-	-	4,210,957
Prior period adjustments	5	-	-	-	-	(429,903)	(429,903)
Net loss for the period		-	-	-	-	(12,360,871)	(12,360,871)
Other comprehensive loss for the period		-	-	-	(28,367)	-	(28,367)
Balance, December 31, 2019		169,909,330	75,504,354	9,522,626	301,251	(17,125,006)	68,203,225

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Cash Flows Nine Month Periods Ended December 31, 2019 and 2018 (Unaudited – in Canadian Dollars)

	Notes	For the Nine Months Ended	
		December 31, 2019	December 31, 2018
Cash provided by (used in)			
<i>Operating activities</i>			
Net loss for the period		(12,360,871)	(5,553,737)
Adjustments for non-cash items:			
Loss on acquisition of SubTerra assets	4(c), 5	-	649,114
Loss on debt settlement	4(a)	-	1,463,476
Loss on remeasurement of land held for sale	6	-	1,632,322
Depreciation		26,809	3,759
Gain (loss) on asset disposal		3,824	-
Depreciation - leases		133,701	-
Interest income - leases		(13,849)	-
Amortization of intangibles	7, 15	421,359	-
Share-based payments	16(d), 16(e)	4,210,958	723,539
Net gain on investments at fair value through profit and loss	12, 13	3,203,608	-
Loss on investment in associates	13	2,018,399	606,323
Recognition of deferred gain	13	(2,282,141)	-
Gain on sale of investments in associates	13	(1,501,147)	-
Deferred tax recovery		-	(1,332,225)
Unrealized foreign currency gain/loss		254,153	-
Changes in non-cash working capital			
Interest receivable		41,002	(111,541)
Accounts receivable and others		(106,115)	(60,088)
GST receivable		(11,350)	-
Annuity receivable - SubTerra		47,294	-
Prepaid expenses and deposits		(336,770)	(600,659)
Accounts payable and accrued liabilities		1,136,434	849,105
Payments of royalty - Mr. Natural		(81,995)	-
Convertible Debt - BaM		-	-
Interest payable		-	-
		(5,196,697)	(1,730,612)
<i>Investing activities</i>			
Use of (contribution to) restricted cash		6,272,932	(24,541,997)
Net cash outflow from acquisition of Rthm		-	(494,998)
Issuance of Convertible Note to BaM	13	-	(1,600,000)
Issuance of BaM loan	13	5,340,000	(5,340,000)
Acquisition of assets - AHL	6	-	(661,400)
Purchase of interest in investment in associate	13	(6,396,920)	(11,503,080)
Purchase of property, plant and equipment		(661,972)	(99,982)
Acquisition of License Agreement with Passport Technology	10	(493,264)	-
		4,060,776	(44,241,457)
<i>Financing activities</i>			
Lease liability (principal)		(106,814)	-
Shares issued for cash, net of share issuance costs		-	48,628,631
Issuance of Restricted Back-in Right warrants		-	500,000
Exercise of warrants	16(c)	2,502,156	2,809,372
Exercise of stock options	16(d)	180,000	-
		2,575,342	51,938,003
Effect of foreign exchange on cash and cash equivalents			
		(212,515)	85,129
Increase (decrease) in cash		1,226,907	6,051,063
Cash (non-restricted), beginning of period		5,576,170	-
Cash (non-restricted), end of period		6,803,077	6,051,063
<i>Supplementary Information:</i>			
Cash paid for Interest - leases		78,758	
Cash received for interest		817,827	
Cash received for dividends		24,675	

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 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 companies in the cannabis industry in the United States and abroad, with a specific focus on technology, 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 and control share acquisitions.

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.” As of September 18, 2019, the Company upgraded to OTCQX®, ceasing trading on the OTCQB and commencing trading of its common shares on the OTCQX® on the same date.

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 22, 2019, the Company formed Australis Perennial, LLC (“Perennial”) in the State of Nevada. On May 15, 2019, the Company formed Australis Prosper, LLC (“Prosper”) and Australis Terrain, LLC (“Terrain”) in the State of Nevada. On November 8, 2019, the Company formed Cocoon Technology, LLC (“Cocoon”) in the State of Nevada.

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 December 31, 2019 the Company had not achieved profitable operations and had an accumulated loss of \$17,125,006 as of that date (March 31, 2019: \$4,334,232). In addition, it had used cash in operating activities of \$5,196,697 for the nine months ended December 31, 2019 (\$1,730,612 for the nine months ended December 31, 2018). 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 is 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 December 31, 2019 of \$19,469,470 (March 31, 2019: \$24,515,494 including restricted cash) as well as a favorable equity-to-total-assets percentage of 91.4% as of that same date (March 31, 2019: 93.3%). 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 (a) as at December 31, 2019 and March 31, 2019 and (b) for the three and nine months ended December 31, 2019 and 2018.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on February 27, 2020.

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.

(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 December 31, 2019, the Company has 100% control over the following entities, with Australis Capital, Inc., as the parent entity:

Entity	Location	Functional Currency
Australis Capital Inc. (ACI)	Nevada (USA)	Canadian Dollar
Australis Capital (Nevada) Inc. (ACN)	Nevada (USA)	U.S. Dollar
Australis Holdings LLP (AHL)	Washington (USA)	U.S. Dollar
Rthm Technologies Inc.	Ontario (Canada)	Canadian Dollar
Australis Perennial LLC	Nevada (USA)	U.S. Dollar
Australis Prosper LLC	Nevada (USA)	U.S. Dollar
Australis Terrain LLC	Nevada (USA)	U.S. Dollar
Cocoon Technology LLC	Nevada (USA)	U.S. Dollar

(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 noted in the above table (Note 2.b).

(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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(e) Cash and cash equivalents

Cash and cash equivalents are financial assets that are measured at amortized cost. 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 (“FVTPL”) 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 recorded in profit or loss. Directly attributable transaction costs on acquisition are expensed as incurred.

The Company applies the residual method in allocating the investment cost of unit private placements to the underlying common share and warrant (derivative) 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. Subsequent changes in fair value are recognized in profit or loss for the period.

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. At initial recognition, the investment is recognized at fair value. If the transaction price does not equal fair value, management measures the fair value 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. Subsequent changes in fair value are recognized in profit or loss for the period.

(g) Convertible debentures

Convertible debenture investments are hybrid instruments which are classified as financial assets at fair value through profit or loss. The convertible note can be converted into equity. 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.

(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 Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 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 and impairment losses, if any. 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:

Asset Class	Estimated Useful Life
Computer Equipment	3 years
Furniture and Fixtures	5 years
Leasehold Improvements	Concurrent with Lease Term

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, exclusive of 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 is 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 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

Impairment of investments in associates

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:

Intangible	Estimated Useful Life
Software	5 years
License	10 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 development costs, if any, 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 (Note 7), and all indefinite life intangibles are allocated to the Mr. Naturals CGU (Note 8). The goodwill at December 31, 2019 was \$589,843 (March 31, 2019: \$589,843). The indefinite life intangible assets at December 31, 2019 were \$1,648,385 (March 31, 2019: \$1,648,385). 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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

goodwill, pro rata with the carrying amount of those assets. In allocating a reversal of an impairment loss, 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 periods. Impairment losses on goodwill are not subsequently reversed.

(l) Share capital

Share capital issued as 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 Company issues share purchase warrants and options and uses the Black-Scholes valuation model to determine the grant-date fair value of the instrument issued. The fair value of options and warrants issued is recorded to reserves. 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 at exercise.

(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 three and nine months ended December 31, 2019 and December 31, 2018.

(n) Revenue recognition

Revenue consists of consulting fees and application download and subscription fees, which arise from contracts in which services are typically provided over time. The company recognizes revenue in accordance with IFRS 15, *Revenue from contracts with customers*, measured based on the consideration to which the Company expects to be entitled 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:

- (i) The costs of obtaining the contract are incremental or explicitly chargeable to the customer;
- (ii) 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

(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. The Company uses the Black-Scholes valuation model to determine the grant date fair value of options granted.

Fair value is measured at grant date and is recognized on a graded-vesting basis over the period in which the instruments 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 and share capital.

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 along with proceeds received from exercise. For those stock options 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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 IFRS 9, *Financial Instruments*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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 acquire, 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 has two operating segments: Cannabis (ACI, AHL, ACN, Perennial, Terrain and Prosper) and Technology (RTHM and Cocoon). The cannabis segment involves expenditures incurred to develop a strong production and cultivation operation, including acquisition of premium brand names and intellectual property, construction of a cultivation and manufacturing facility, and minority investments in other cannabis operators. Technology encompasses operations of the Company's wholly owned subsidiaries, RTHM Technologies, Inc and Cocoon Technology, LLC.

The Company has identified its operating segments 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. However, a start-up operation that has not yet earned revenues may be an operating segment. Further, operations which generate no revenues and are incidental to the business activities will not be separate operating segments. 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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:

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;

Or

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

At initial recognition, it is irrevocably designated as measured at FVTPL 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 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.

Subsequent measurement is as follows:

Equity investments: All equity investments, which are not considered to be investments in associates, are subsequently measured at fair value through profit and loss.

Convertible debt instruments: These include investments that do not meet the SPPI test and 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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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:

(i) Classification

Financial liabilities are classified into two categories based on measurement:

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

(ii) Recognition and derecognition

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.

(iii) Measurement

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 liabilities 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 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.

(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. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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 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 made at the initial grant date, such as the expected life of the option or warrant, the volatility of the Company's future share price, the risk-free rate of return, and the estimated rate of forfeiture for 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 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 reviews the fair value of investments at the end of each reporting period to determine if the fair value of the investment recorded, remains representative of the fair value at the reporting date. Annually, the Company utilizes an independent valuation firm to perform a fair value analysis, unless indicators of impairment are present, or conditions exist that could have caused significant increase in credit risk and require interim evaluation. 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

The fair value of investments may be adjusted if:

- (i) 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
- (ii) 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
- (iii) The investee company is placed into receivership or bankruptcy
- (iv) 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
- (v) 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 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 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. In an asset acquisition, all identifiable assets 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. 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).

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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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.

(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 FVTPL, transaction costs. Financial assets are subsequently measured at:

- FVTPL;
- Amortized cost;
- FVOCI;
- Equity investments designated at FVOCI; or
- Financial instruments designated at FVTPL.

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

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

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 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

(iii) IFRS 15, Revenue from Contracts with Customers

The IASB's new revenue recognition standard IFRS 15, *Revenue from Contracts with Customers* was adopted by the Company on April 1, 2018. The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15. 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.

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.

(v) 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. 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 lease asset is periodically assessed and adjusted for certain remeasurements of the lease liability and impairment losses, if any. The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. The recognition requirements for the lessor are not significantly different from IAS 17.

Areas that could be impacted include indicators of EBIT, debt covenants, debt and financing indicators, and the presentation of cash flows, for which principal lease payments would be presented as financing and not operation activities.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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, at or before the date of initial adoption of IFRS 16.

The Company adopted 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.

On transition to IFRS 16, the Company recognized a right-of-use asset of \$927,879 (USD \$709,008), a corresponding lease liability of \$867,565 (USD \$662,921 USD) and derecognized \$17,787 (USD \$13,311) of deferred rent. The lease liability was measured at the present value of outstanding lease payments, discounted using its incremental borrowing rate of 12.0%.

Management has recognized the present value of the operating lease commitments (described in Note 21) as right-of-use assets and corresponding lease liabilities.

- (x) Accounting standards issued but not yet effective

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. At December 31, 2019, \$12,244,049 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 (Refer to Note 16(b)(v).) At December 31, 2019, \$422,344 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. As of the date of expiration of the warrants, 23,040,833 were exercised and 5,102,922 were forfeited (Note 16(c)).

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

(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 bore interest at 5% per annum and matured on October 31, 2018. The note was 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 loan was due on demand, unsecured and bore no interest.

During the year ending March 31, 2019, ACB assigned its interest in these loans to its wholly owned subsidiary, Aurora Marijuana Inc. (“AMI”). 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 16(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;

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 in exchange for a non-interest-bearing promissory note of \$1,400,000, 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 16(b)(i).
- (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 instrument 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.

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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

Distribution. 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 31, 2028; and
 - (iii) a two-year option to purchase a parcel of land in Michigan, United States, for USD \$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 \$839,442 (Note 5). 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 16(b)(i)).

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, 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 \$839,442 was determined using an annual payment of \$150,000 for ten years, discounted at a market rate of 12.24% applicable to SubTerra based on a rating of CCC or less. As at March 31, 2019, the Company recognized this annuity stream as a USD receivable and therefore translated the \$839,442 fair value to the Company’s functional currency, \$1,121,831 CAD, using the USD to CAD spot rate as of the period then ended. Through review of the assignment agreement transferring rights to the annuity payments from PPS to the Company, the Company determined that the payments are to be settled in CAD and recorded an adjustment to fair value of \$282,389 to correct the annuity receivable balance during the period ended September 30, 2019. As at December 31, 2019, the short-term portion and long-term portion of the annuity receivable balances are \$87,833 and \$704,315, respectively, adjusted for the first payment received from SubTerra during the same period ended. Accretion for the nine months ended December 31, 2019

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

period was \$74,379 (\$24,362 for the three months then ended) with an interest receivable balance related to SubTerra of \$56,933 as at December 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 \$3,033,010, 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 is secured, bears interest at a rate of 5% per annum, and matures on October 31, 2019. The accrued intercompany interest between the Company and AHL was eliminated upon consolidation. The carrying value of this loan was \$2,011,252 on acquisition of AHL by the Company as described below (2018 - \$1,773,335). On October 31, 2017, the Company further loaned \$1,235,221 to AHL. The loan is due on demand, unsecured and bears no interest. The carrying value 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:

Consideration	\$
Cash paid (USD \$500,000)	661,400
Settlement of pre-existing relationship	3,274,471
Total Consideration Provided	3,935,871

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 at the date of acquisition is as follows:

Net Assets Acquired	\$
Cash	3,661
Prepays	2,637
Land	4,369,426
Accounts payable and accrued liabilities	(439,853)
Total Consideration Provided	3,935,871

The fair value of the land was determined by a third-party appraiser, based on an as-is market value of both parcels together, to be USD \$2,075,607 as at March 31, 2019 (\$2,695,799 CAD revalued using the spot rate as at December 31, 2019). No adjustment to fair value, apart from the translation adjustment of the USD asset to CAD, was recorded during the three or nine months ended December 31, 2019 (Note 14). As at December 31, 2019, the land is classified as an asset held for sale at its fair value less costs to sell.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

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 expects 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 note payable was measured at \$61,167 at acquisition, 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:

- (a) 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.
- (b) 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.

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. Milestone I was measured at \$nil and Milestone II was measured at \$58,974. Total consideration for the acquisition was \$3,760,581. No changes in fair value of the contingent consideration provided, were recorded for the three or nine months ended December 31, 2019

Consideration	\$
Cash paid	800,000
Common shares issued	2,840,440
Contingent consideration	120,141
Total Consideration Provided	3,760,581

Measurement

The transaction was determined to be a business combination under IFRS 3. As such, the initial purchase price is allocated based on the Company’s estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. 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:

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)
Total Consideration Provided	3,760,581

Amortization expense related to the RTHM Software intangible asset amounted to \$421,359 in the nine months ending December 31, 2019 (\$90,507 for the three months then ended).

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

Goodwill

The Company performs goodwill impairment testing annually and whenever impairment indicators arise. Based on the Company's impairment test performed at fiscal year-end March 31, 2019, it was noted that the carrying value of the RTHM CGU exceeded the recoverable amounts and an impairment of goodwill in the amount of \$1,055,000 was recognized in the period then ended. The Company will perform the next impairment test for the period ending March 31, 2020.

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 provided, consisted of \$658,640 in cash and 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 the following milestone, the Company will issue an aggregate \$500,000 in cash and \$550,000 in the Company's common stock:

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

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

- (a) USD \$7,500 per month beginning 2 months after the closing date until the earlier of (a) the royalty trigger date or (b) 36 months.
- (b) 2.5% of monthly Mr. Natural gross revenue after Australis records USD \$3,000,000 in aggregate Mr. Natural 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 overall purchase price was determined to be \$1,648,385.

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 fair value of the consideration provided at the date of acquisition is as follows:

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

Consideration	\$
<u>Acquisition of Mr. Natural Productions, Inc.</u>	
Common shares issued	550,000
Contingent consideration	52,195
<u>Subtotal - Mr. Natural Productions, Inc.</u>	<u>602,195</u>
<u>Acquisition of Mr. Natural Life Story Rights</u>	
Cash	658,640
Royalty payments	387,550
<u>Subtotal - Mr. Natural Life Story Rights</u>	<u>1,046,190</u>
Total Consideration Provided	1,648,385

As at December 31, 2019, no changes in fair value to the contingent consideration provided were recorded as no material changes in the business have occurred from the date of the acquisition to the period then ended. In accordance with Company policy, the Company will perform an annual impairment evaluation of the intangible asset acquired, for the period ended March 31, 2020.

For the nine months ended December 31, 2019, the Company paid \$89,262 in royalty payments, inclusive of \$7,267 of imputed interest.

9. Acquisition of Green Therapeutics

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 and complete the construction of a planned cultivation and production facility in North Las Vegas, Nevada.

Consideration provided for the asset acquisition, consisted of 7,831,855 shares of the Company valued at \$1.10 per share (based on the market price of the shares on May 17, 2019 as defined in the agreement). Additional consideration will be provided in accordance with the following milestones:

- (a) USD \$800,000 (\$1,076,800 CAD) in shares will be issued when the new cultivation and production facility in North Las Vegas is fully licensed and operational; and
- (b) USD \$800,000 (\$1,076,800 CAD) in shares will be issued if and when total operating income of \$800,000 is achieved before the start of the first harvest at the new production facility, after the facility is fully operational.

The Company also issued 109,090 shares as a finder’s fee related to the above acquisition.

In a separate transaction, the Company acquired from Meridian Companies LLC, an 8.9-acre parcel of land in North Las Vegas. This property will house the planned cultivation and production facility and provides the Company with up to six acres of improvable/vacant land in North Las Vegas that will be held for potential future expansion opportunities. This property has the potential to support a 400,000 square foot cultivation and production facility which would be built to the industry recognized Aurora Cannabis standard. Consideration provided, consisted of 3,585,521 shares of the Company valued at \$1.10 per share (based on the market price of the shares on May 17, 2019 in accordance with the agreement).

Measurement

The Company accounted for the transaction as an asset acquisition. Management is in the process of gathering the relevant information to determine and finalize the purchase price allocation for the assets acquired. Currently, the Company has recorded the acquisition of the assets of Green Therapeutics at cost, using the level 1 fair value input of the observed market

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

price of the Company's shares on date of issuance, plus contingent consideration and the capitalized finder's fee. Contingent consideration will be valued up to an amount equal to the full consideration contemplated in the agreement with GT, based on managements' judgment on the probability and timing of when the milestones will be achieved;

Consideration	Shares Issued	Price per Share	\$
Initial Investment	7,831,855	1.10	8,615,041
Milestone I (USD \$800,000) ⁽¹⁾	TBD	TBD	1,076,800
Milestone II (USD \$800,000) ⁽¹⁾	TBD	TBD	1,076,800
Finder's Fee	109,090	1.10	119,999
Total Consideration Provided			10,888,640

(1) The quantity of shares issued shall be calculated by dividing the total amount of consideration due (USD \$800,000) by the price per share (converted to USD) as of market close on the day before the stock is required to be issued pursuant to achievement of the above milestones.

Acquisition of the land is recorded at cost, based on the fair value of consideration provided using the level 1 fair value input of the observed market price of the Company's shares on date of issuance, or \$3,944,073.

10. License Agreement with Passport Technology Canada Ltd.

On October 29, 2019, the Company entered into a License, Development and Services Agreement with Passport Technology, Inc. ("Passport"), to acquire an exclusive license to Passport's proprietary platform and technology for a term of 10 years. Passport is a developer of technology-based products and services for highly regulated payments, gaming and financial services markets. The Company will utilize the license right to customize the technology and develop a cloud-based, self-service fulfillment platform for use in cannabis dispensaries. At conclusion of the contract term, the Company will own the customized technology. As consideration for the license right, the Company paid USD \$4,175,000 (\$5,450,880 CAD) comprised of USD \$375,000 (\$493,264 CAD), 5,000,000 shares of Body and Mind, Inc. common stock, and 1,829,219 shares of the Company's common stock.

The fair value of the Body and Mind shares issued is based on a level 1 input of a quoted market price in an active market but is discounted for certain restrictions placed on the trading of said shares. The discount applied to the quoted market price represents a level 3 input and is managements' best estimate of the inherent risk associated with the requirement to hold the shares for a defined period of time. In accordance with IFRS 13, *Fair Value Measurement*, an entity shall not make an adjustment to a Level 1 input except when a quoted price in an active market does not represent fair value at the measurement date. It is the Company's position that the restrictions placed on the sale or trade of Body and Mind shares following the Company's transfer of the shares to Passport, represent an increased risk to the acquiree when compared to the freely trading shares in the active market, and as such, an adjustment to the quoted, market price best reflects the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The Company assigned a fair value per share of USD \$0.598 (\$0.781 CAD) for a total of USD \$2,989,165 (\$3,902,654 CAD).

The fair value of the Company's shares is based on the level 1 fair value input of the observed market price of the Company's shares as of the transaction date, USD \$0.44 (\$0.58 CAD) per share, or USD \$810,835 (\$1,058,626 CAD) for all shares issued.

Additionally, under the terms of the agreement, the Company will reimburse Passport if 270 days following execution of the contract (the "True Up Date"), the 30 day volume-weighted average share price of the Body and Mind common shares on the CSE for the 30 trading days preceding the True Up Date (the "True Up Share Price") is less than 95% of the undiscounted share price at execution of the agreement. The Company will make a one-time payment to Passport (in U.S. currency, the Company's shares or a combination of the two) in the amount up to the difference between the discounted share price at execution of the agreement and the True Up Share Price for each share held by Passport up to the lesser of (i) the total number of remaining Body and Mind consideration shares held by Passport; or (ii) 3,000,000 shares.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, this constitutes a possible obligation arising from a prior event, the probability of which is based on movement of Body and Mind's share price, an input not within the control of the Company. The Company treats this true-up as a contingent obligation and has therefore not recognized an obligation as of the period ended December 31, 2019. The Company will assess the probability of the obligation at each reporting period to determine if a provisional obligation should be recorded.

The Company accounted for the license agreement as a finite life, intangible asset, and recorded the asset at cost based on the cash paid plus the fair value of the remaining consideration provided. The Company assigned a useful life of 10 years to the intangible and will amortize the cost straight-line over the 10 year term, beginning in the period in which the asset is ready for intended use. As of the period ended December 31, 2019, amortization has not commenced. The carrying amount of the intangible asset for the same period ended, equals the consideration provided under the agreement, or \$5,454,544:

Consideration	Shares Issued	Price per Share (CAD)	\$ (CAD)
Cash	N/A	N/A	493,264
Body and Mind Common Shares	5,000,000	0.781	3,902,654
Australis Common Shares	1,829,219	0.579	1,058,626
Total Consideration Provided			5,454,544

This arrangement falls within the scope of a related party transaction as a member of key management for the Company has significant influence over Passport.

11. Long-Term Deposits

(a) ASTOUND

On November 20, 2019, the Company entered into a three-year contract with ASTOUND GROUP ("ASTOUND"), a global marketing and creative firm, to provide brand optimization and awareness services for the Company's house of brands, including Mr. Natural™, Tsunami™, Provision™, GT Flowers™ and CocoonRewards™, as well as for any new, future brands. As consideration, the Company issued 5,000,000 shares of Body and Mind, Inc. common stock to ASTOUND, as advanced payment for the services to be provided.

The fair value of the Body and Mind shares issued is based on a level 1 input of a quoted market price in an active market but is discounted for certain restrictions placed on the trading of said shares. The discount applied to the quoted market price represents a level 3 input and is managements' best estimate of the inherent risk associated with the requirement to hold the shares for a defined period of time. In accordance with IFRS 13, *Fair Value Measurement*, an entity shall not make an adjustment to a Level 1 input except when a quoted price in an active market does not represent fair value at the measurement date. It is the Company's position that the restrictions placed on the sale or trade of Body and Mind shares following the Company's transfer of the shares to ASTOUND, represent an increased risk to the acquiree when compared to the freely trading shares in the active market, and as such, an adjustment to the quoted, market price best reflects the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The Company assigned a fair value per share of USD \$0.545 (\$0.721 CAD) for a total of USD \$2,725,838 (\$3,608,192 CAD).

The Company accounts for this transaction as a prepayment for future services. As services are rendered over the contract term, the Company will reduce the deposit balance in an amount equal to the value of the services provided based on ASTOUND's standard billing rates, until the balance is depleted. If at conclusion of the three-year term, the value of services rendered is less than the value of the Body and Mind common shares transferred (or \$3,608,192), ASTOUND will reimburse the Company for the difference in full.

Additionally, under the terms of the agreement, the Company will reimburse ASTOUND if on the first anniversary of the transaction (the "True Up Date"), the 30 day volume-weighted average share price of the Body and Mind common shares

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

on the CSE for the 30 trading days preceding the True Up Date (the “True Up Share Price”) is less than discounted share price at execution of the agreement. The Company will make a one-time payment to ASTOUND (in cash, the Company’s shares or a combination of the two) in the amount up to the difference between the discounted share price and the True Up Share Price for each Body and Mind share held by ASTOUND as a result of this transaction, as of the True-up Date.

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, this constitutes a possible obligation arising from a prior event, the probability of which is based on movement of Body and Mind’s share price, an input not within the control of the Company. The Company treats this true-up as a contingent obligation and has therefore not recognized an obligation as of the period ended December 31, 2019. The Company will assess the probability of the obligation at each reporting period to determine if a provisional obligation should be recorded.

As of the period ended December 31, 2019, the Company has used \$1,275 in services and the ASTOUND deposit balance is \$3,606,917.

(b) Rapid Cash

On December 14, 2019, the Company entered into a vendor agreement with RAPIDCASH ATM Ltd. (“Rapid Cash”), a provider of ATM products and software solutions, for the purchase of retail kiosks to be used in conjunction with the Company’s Cocoon Technology solution (Note 10). As consideration, the Company issued 5,000,000 shares of Body and Mind, Inc. common stock to Rapid Cash, as advanced payment for kiosks to be procured in future periods.

The fair value of the Body and Mind shares issued is based on a level 1 input of a quoted market price in an active market but is discounted for certain restrictions placed on the trading of said shares. The discount applied to the quoted market price represents a level 3 input and is managements’ best estimate of the inherent risk associated with the requirement to hold the shares for a defined period of time (the “Lock-up Period”). In accordance with IFRS 13, *Fair Value Measurement*, an entity shall not make an adjustment to a Level 1 input except when a quoted price in an active market does not represent fair value at the measurement date. It is the Company’s position that the restrictions placed on the sale or trade of Body and Mind shares following the Company’s transfer of the shares to Rapid Cash, represent an increased risk to the acquiree when compared to the freely trading shares in the active market, and as such, an adjustment to the quoted, market price best reflects the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The Company assigned a fair value per share of \$0.55 CAD for a total of \$2,749,178.

The Company accounts for this transaction as a prepayment for the procurement of retail kiosks in future periods. As the kiosks are procured, the Company will reduce the deposit balance in an amount equal to the value of the kiosks received, based on Rapid Cash’s standard pricing, until the balance is depleted. During the Lock-up Period, the Company will pay for the purchase of kiosks in cash. At completion of the Lock-up Period, the Company will begin depleting the prepaid balance.

Additionally, under the terms of the agreement, the Company will reimburse Rapid Cash if eighteen months following contract execution (the “True Up Date”), the 30 day volume-weighted average share price of the Body and Mind common shares on the CSE for the 30 trading days preceding the True Up Date (the “True Up Share Price”) is less than discounted share price at execution of the agreement. The Company will make a one-time payment to Rapid Cash (in cash, the Company’s shares or a combination of the two) in the amount up to the difference between the discounted share price and the True Up Share Price for each Body and Mind share held by Rapid Cash as a result of this transaction, as of the True-up Date. Further, if the proceeds received by Rapid Cash from the sale of Body and Mind shares during the 6 month period between the end of the Lock-up Period and 12 months following contract execution, do not exceed the value of kiosks sold to the Company during the same period, the Company will make a one-time, cash payment in the amount of the difference between the value of kiosks provided during the period and the proceeds from sale of Body and Mind Shares. Lastly, if Rapid Cash receives a profit from the sale of Body and Mind shares during the 6 month period following the anniversary of execution of the contract and the True Up Date, Rapid Cash will pay to the Company an amount equal to half of the profits received during the period.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, these constitute possible obligations and a possible asset arising from prior events, the probability of which is based in part, on movement of Body and Mind's share price and the activities of Rapid Cash with respect to the shares acquired, inputs not within the control of the Company. The Company treats these true ups as contingent obligations and a contingent asset and has therefore not recognized the obligations or asset as of the period ended December 31, 2019. The Company will assess the probability of the obligations and asset at each reporting period to determine if a provisional obligation or asset should be recorded.

As of the period ended December 31, 2019, the Lock-up Period has not expired and therefore the balance of the Rapid Cash deposit remains unchanged, \$2,749,178.

The remainder of the balance in Long-Term Deposits, \$110,198, pertains to the Company's real estate leases for office premises.

12. 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 16(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 for the year ending March 31, 2019 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

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 as at fiscal year-ended March 31, 2019 was \$1,854,007. The Company did not record an adjustment to fair value of the investment during the three or nine months ended December 31, 2019. In accordance with Company policy, the Company will engage an independent valuation firm to perform a fair value analysis of the investment, for the period ended March 31, 2020.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

(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 and is accounted for at fair value through profit or loss. 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 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. 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 fiscal year-ended March 31, 2019, the derivative assets had a fair value of \$145,455. 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 warrants procured under this investment were not exercised and expired on December 10, 2019. The Company therefore reversed the derivative asset as of December 31, 2019, resulting in the recognition of a loss in the amount of \$145,455. The Company did not record an adjustment to fair value of the share component during the three or nine months ended December 31, 2019. In accordance with Company policy, the Company will engage an independent valuation firm to perform a fair value analysis of the share component of the investment, for the period ended March 31, 2020.

(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 in the process of constructing one of the largest phytocannabinoid extraction and purification facilities in the United States, with plans for a new pharmaceutical division and the completion of their Canadian facility. The Company acquired the amount of \$3,988,200 (USD \$3,000,000) in Class A non-restricted membership interest at a price of USD \$1 per unit of membership interest. The cash represents the total consideration paid.

On December 10, 2019, the Company entered into an agreement and plan of merger by and among the Company and Folium, pursuant to which, the Company will acquire all of the outstanding Folium membership units not already owned

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

by the Company (the “Proposed Transaction”). The Company subsequently elected to walk away from the Proposed Transaction but continues to maintain the previously acquired ownership interest. One-time expenses for consulting, legal and other fees related to the Proposed Transaction amounted to \$1,223,573 for the nine months ended December 31, 2019 (\$935,924 for the three months then ended).

Measurement

The investment in Folium Biosciences is accounted for at fair value through profit or loss. 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 fair value of the investment as at fiscal year-ended March 31, 2019 was \$3,980,811.

Additional information was made available to the Company in connection with the Proposed Transaction and as a result of this information, as well as declining market conditions in the CBD space, namely decreases in the retail price of CBD and the uncertainty surrounding the Food and Drug Administrations’ (“FDA”) involvement in the CBD space, the Company reassessed the fair value of the investment balance recorded. The Company recognized a loss on investment of \$1,990,406 during the three and nine months ended December 31, 2019 resulting in an investment fair value of \$1,990,406 for the period then ended.

13. 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:

- (a) 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
- (b) \$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:

- (a) 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;
- (b) 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
- (c) 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

In accordance with IFRS 28, *Investment in Associates and Joint Ventures*, if an entity holds, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

demonstrated that this is not the case. The Company has concluded that the November 2, 2018 acquisition of the 25% ownership in BaM constitutes significant influence over the investee and as such, accounts for the purchase of voting-right share instruments under the equity method of accounting. Transactions involving the acquisition of derivative instruments, or other instruments that do not hold current voting rights, are accounted for under the appropriate IFRS guidance.

Initial recognition of the purchase of 16,000,000 units for \$6,400,000 was bifurcated between the investment in shares and warrants, based on their relative fair values, with the common shares to be recorded at cost in accordance with the equity method of accounting, and the derivative instrument recorded at fair value through profit and loss. A deferred gain of \$2,202,353 was recorded at time of acquisition as a result of the difference in consideration paid for the derivative instrument and the fair value at acquisition. A summary of the bifurcation and subsequent fair value adjustments related to this investment are outlined in the Warrant Continuity and Investment in Associates - BaM tables at the end of this footnote.

The Company measured the convertible debentures as a hybrid instrument at fair value through profit or loss. The fair value at acquisition was \$2,088,076. 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 comparable companies operating in the cannabis industry. Additionally, the following inputs were considered with respect to the conversion feature:

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 recorded as a deferred gain, to 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 fair value of the hybrid instrument at fiscal year-ended March 31, 2019 was \$2,928,638, resulting in the recognition of an additional unrealized gain of \$840,382 for the same period ended, and was determined using the Black-Scholes option pricing model with the following assumptions:

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

Pursuant to a conversion agreement executed 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 or before July 1, 2020, to acquire 2,909,091 common shares of Body and Mind Inc. In consideration for its agreement to convert the Debentures, Body and Mind Inc. paid to Australis \$148,340 as an advanced payment of interest on the debentures for the period beginning November 2, 2018 and ending July 1, 2020. Payment was received during the period ended June 30, 2019.

As at December 31, 2019, the instrument is carried at a fair value of \$1,851,644 based on the above assumptions, modified to reflect the current valuations of BaM share price and the remaining term of the convertible debenture as of the period then ended. An unrealized loss on investment of \$1,076,994 was recorded for the nine months ended December 31, 2019 (\$924,646 for the three months then ended). Further, the Company reversed the remaining balance of deferred gain related to the instrument, recognizing \$266,200 and \$388,598 for the three and nine months ended December 31, 2019.

On November 28, 2018, the Company executed a loan agreement with BaM. Terms of the agreement included the following:

- (a) 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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

(the “Note”). 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;

- (b) 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
- (c) BaM increased its monthly advisory and consulting services fee payable to the Company by USD \$6,500 effective December 1, 2018.

On November 30, 2018, the Company exercised 3,206,160 warrants pursuant to the investment agreement dated October 30, 2018, to acquire the same in shares. The Company paid \$1,603,080 (USD \$1,200,000) to BaM upon exercise and recognized \$424,391 of the deferred gain balance, representing the proportion of deferred gain related to the number of warrants exercised. Net proceeds from the loan as well as the warrant exercise were used by BaM to fund its investment in Green Light District Holdings, the owner of the ShowGrow dispensary brand.

Measurement

Recognition of the loan receivable was bifurcated between the loan and the shares received as a finance fee for issuance of the loan, based on their relative fair values with the shares to be recorded at cost in accordance with the equity method of accounting, and the loan receivable recorded at fair value through profit or loss. The fair value of the loan receivable at March 31, 2019 was \$5,330,754. This was determined by calculating the present value of the loan using a fair market interest rate of 18.5%. A deferred gain of \$588,739 was recorded at issuance of the loan to reflect the difference between the transaction price paid and the fair value. A subsequent fair value adjustment in the amount of \$287,872 was recorded to the Company’s Statement of Comprehensive Loss as of fiscal year-ended March 31, 2019, to reflect the updated present value as adjusted for the remaining term of the loan. The deferred gain was amortized to \$489,540 as of the same period end. The 1,105,083 shares from BaM were measured at \$885,857.

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.

On May 22, 2019, the Company and Body and Mind amended the terms of the investment agreement, reducing monthly consulting fees payable by Body and Mind to the Company, to USD \$12,000 beginning June 1, 2019.

On May 29, 2019, the Company acquired, through the exercise of its remaining 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 warrants in accordance with the terms of the investment agreement dated October 30, 2018. The Company paid \$6,396,920 to exercise the Warrants at a price of \$0.50 per share. This transaction resulted in the recognition of the remaining deferred gain, as adjusted for prior period amortization, in the amount of \$1,404,003 during the three months ending June 30, 2019.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

Warrant Continuity	\$ FV/ warrant	# Warrants	\$ Warrants
Opening Balance	-	-	-
Additions October 31, 2018	0.12	16,000,000	1,957,647
Deferred Gain on Acquisition			2,202,353
Fair value at acquisition date	0.26	16,000,000	4,160,000
FVTPL Gain (loss)			4,640,000
Fair value at November 30, 2018	0.55	16,000,000	8,800,000
Exercised Warrants - November, 30, 2018		(3,206,160)	(1,763,388)
FVTPL Gain (loss)	-		(511,754)
Fair value at March 31, 2019	0.51	12,793,840	6,524,858
Exercised Warrants - May 29, 2019	-	(12,793,840)	(6,524,858)
Balance at December 31, 2019			-

The warrant proceeds were used, in part, to fully repay the 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, accrued interest on the Note through repayment date and an early repayment fee. This transaction led to a gain on settlement of the loan in the amount of \$81,428, due in large part to a foreign exchange gain of \$72,181; in addition, the remaining deferred gain on the loan receivable, in the amount of \$489,540, was recognized during the three months ending June 30, 2019. Interest in the amount of \$397,208 and Other Income related to the prepayment penalty in the amount of \$267,000 was also recognized during the three months ending June 30, 2019.

On October 29, 2019, the Company transferred to Passport Technology Canada, Ltd. 5,000,000 shares of Body and Mind common stock (Note 10), representing a 14.3% reduction in ownership held by the Company from 34,873,628 shares to 29,873,628 shares held. As a result of the transfer, the Company recorded a reduction to investment in associates in proportion to the reduction in ownership interest of the investee, or \$2,934,287 based on the carrying value of the investment at time of transfer. The Company recorded a gain on disposition of \$968,366 in the period ended December 31, 2019, representing the difference between the carrying value of the transferred interest and the consideration received in exchange for the transferred interest.

On November 20, 2019, the Company transferred to ASTOUND GROUP, 5,000,000 shares of Body and Mind common stock (Note 11(a)), representing a 16.7% reduction in ownership held by the Company from 29,873,628 shares to 24,873,628 shares held. As a result of the transfer, the Company recorded a reduction to investment in associates in proportion to the reduction in ownership interest of the investee, or \$2,920,498 based on the carrying value of the investment at time of transfer. The Company recorded a gain on disposition of \$687,694 in the period ended December 31, 2019, representing the difference between the carrying value of the transferred interest and the consideration received in exchange for the transferred interest.

On December 14, 2019, the Company transferred to RAPIDCASH ATM Ltd, 5,000,000 shares of Body and Mind common stock (Note 11(b)), representing a 20.1% reduction in ownership held by the Company from 24,873,628 shares to 19,873,628 shares held. As a result of the transfer, the Company recorded a reduction to investment in associates in proportion to the reduction in ownership interest of the investee, or \$2,904,092 based on the carrying value of the investment at time of transfer. The Company recorded a loss on disposition of \$154,913 in the period ended December 31, 2019, representing the difference between the carrying value of the transferred interest and the consideration received in exchange for the transferred interest.

As of December 31, 2019, the Company holds 19,873,628 Common Shares in BaM and Debentures in the principal amount of \$1,600,000. The Company’s ownership percentage in BaM’s issued and outstanding common stock is 19.5%. As the Company holds one seat on the Board of Directors of BaM and holds potential voting rights through the convertible debenture representing an additional 2.9% ownership interest in BaM, the Company continues to account for its voting right interest in BaM using the equity method of accounting.

Body and Mind incorporated in the State of Delaware, United States and is publicly listed in Canada. The reporting periods of Body and Mind, Inc. differ from that of the Company and the Company uses available public financial information to account for the value of the invested entity. The Company therefore utilized the most recently published financial statements

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

of Body and Mind, the period-ended October 31, 2019, to determine the proportional loss to be recorded in the Company's financials for the current period. The Company reviewed the significant activity of Body and Mind as communicated through press releases during the period of November 1, 2019 through December 31, 2019 and noted no significant events or changes in the activities of the entity that would materially affect the proportional loss recorded during the current quarter. Further, Management must make certain assumptions based on the limited, available information, to convert BaM's consolidated statement of operations from US GAAP to IFRS. The Company estimated an increase to net loss in the amount of \$138,000 for the three months ended October 31, 2019 based on the conversion from US GAAP to IFRS, specifically related to the adjustment for Biological Asset Transformation in accordance with IAS 41, *Agriculture*.

During the three and nine months-ended December 31, 2019, the Company recognized a proportional loss on investment of \$378,985 and \$2,018,400 respectively and a proportional other comprehensive gain of \$43,850 and \$132,115 for the three and nine months then ended. The carrying value of the investment at December 31, 2019 is \$11,500,074. Based on Body and Mind's closing stock price of \$0.55 as of December 31, 2019, the 19,873,628 common shares owned by the Company as of that same date, had a fair value of \$10,930,495.

The Company's investment in Body and Mind can be summarized below:

Investment in Associates - BaM		\$	# of Shares
Opening Balance, March 31, 2018			
Additions:			
Initial Investment	10/30/2018	4,442,352	16,000,000
Shares from Loan Receivable	11/28/2018	885,857	1,105,083
Warrant Exercise	11/30/2018	3,366,468	3,206,160
Share Purchase	2/1/2019	1,034,599	1,768,545
Proportional Loss			
Proportional Loss Recognized - FY2019		(505,820)	
Balance at March 31, 2019		9,223,456	22,079,788
Additions:			
Warrant Exercise	5/29/2019	12,921,778	12,793,840
Deletions:			
Share Issuance - Passport License Agreement	10/28/2019	(2,934,287)	(5,000,000)
Share Issuance - ASTOUND Service Agreement	11/19/2019	(2,920,498)	(5,000,000)
Share Issuance - Rapid Cash Kiosk Agreement	12/14/2019	(2,904,092)	(5,000,000)
Proportional Loss			
Proportional Loss Recognized - FY2020	12/31/2019	(2,018,400)	
Proportional OCI Recognized - FY2020 ⁽¹⁾	9/30/2019	132,115	
Balance at December 31, 2019		11,500,074	19,873,628

⁽¹⁾ Body and Mind OCI for the period following the Company's initial acquisition of common shares, 11/2/2018, through 6/30/2019, was immaterial and therefore not reflected in the Company's investment in associate, foreign currency translation nor AOCI balances (USD \$7,106)

The following is a summary of financial information for the Company's investment in Body and Mind based on the latest publicly available information, or October 31, 2019. The figures are presented in accordance with US GAAP as the investee does not prepare IFRS financial statements and it is impracticable for them to do so. BaM reports in U.S. Dollars and therefore, the below amounts are translated to Canadian Dollars based on the foreign exchange rate as at October 31, 2019 for summary information from their consolidated balance sheets and based on the 12 month average exchange rate as of that date, for summary information from their consolidated statement of operations.

	As at October 31, 2019	
	USD	CAD
Cash and cash equivalents	6,898,235	9,078,077
Current assets	9,614,308	12,652,429
Non-current assets	29,932,159	39,390,721
Current liabilities	1,325,541	1,744,412
Non-current liabilities	2,669,127	3,512,571

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

Three Months Ended October 31, 2019		
	USD	CAD
Revenue	1,441,626	1,915,344
Depreciation and amortization	(4,875)	(6,477)
Interest income	278,000	369,351
Net income (loss) from continued operations	(896,797)	(1,191,484)
Other comprehensive income (loss)	119,193	158,360
Total comprehensive income (loss)	(777,604)	(1,033,125)

14. Property and Equipment

Property and Equipment and related accumulated depreciation are as follows:

	March 31, 2019	Additions	Disposals	Foreign Currency Translation	December 31, 2019
Cost					
Balance, March 31, 2019					
Land	-	3,944,073	-	-	3,944,073
Land held for sale	2,773,635	-	-	(77,836)	2,695,799
Computer/Equipment	130,504	57,947	(4,519)	(3,368)	180,563
Construction in Progress	-	601,951	-	(9,624)	592,327
	2,904,139	4,603,971	(4,519)	(90,828)	7,412,762
Accumulated depreciation					
Computer/Equipment	10,025	26,456	(777)	(263)	35,441
	10,025	26,456	(777)	(263)	35,441
Net book value					
Land	-				3,944,073
Land held for sale	2,773,635				2,695,799
Computer/Equipment	120,479				145,122
Construction in Progress	-				592,327
	2,894,114	-	-	-	7,377,321

15. Goodwill and Intangible Assets

Identifiable intangible assets, and the related continuity schedule, are as follows:

Intangible	Note	March 31, 2019	Additions:			December 31, 2019
			Separately Acquired	Amortization	Impairment	
Brands	8	1,648,031	354	-	-	1,648,385
Software	7	1,810,135	-	(421,359)	-	1,388,776
License ⁽¹⁾	10	-	5,454,543	-	-	5,454,543
		3,458,166	5,454,897	(421,359)	-	8,491,704

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

The following is a continuity schedule of the Company's goodwill, comprised solely of the goodwill arising in the Company's acquisition of Rthm (Note 7):

Goodwill	RTHM <i>(Note 7)</i>
March 31, 2018	-
Additions	1,644,843
Impairment	(1,055,000)
March 31, 2019	589,843
Additions	-
Impairment	-
December 31, 2019	589,843

16. 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 December 31, 2019, there were 169,903,330 issued and outstanding common shares. As of March 31, 2019, there were 145,062,954 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") (Note 4):
 - 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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

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 (Note 4).

- (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 share 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 (Note 7).
- (vii) On 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 with each unit issued on the same “fractional warrant” terms as the non-brokered private placement completed on October 25, 2018 (Note 12(a)).
- (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. The Company paid cash of \$658,640 and issued 533,981 shares at a price of \$1.03 per share for a total of \$550,000. 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 (Note 8).
- (ix) 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 has issued approximately 14.1% of its currently issued and outstanding common shares in options and RSUs.
- (x) On May 21, 2019, the Company entered into an asset purchase agreement with Green Therapeutics, LLC and affiliated companies to acquire its Tsunami, Provisions, and GT Flowers cannabis brands, certain operating assets, intellectual property and the right to assume, and complete the construction of a cultivation and production facility in North Las Vegas, Nevada. The Company issued 7,831,855 shares at a price of \$1.10 per share for a total of \$8,615,041 (USD \$6,400,000) upon the signing of a definitive agreement. Upon achievement of certain milestones, the Company will issue an additional \$2,153,600 (USD \$1,600,000) in the Company’s common stock. A finder’s fee of 109,090 shares of the Company, at a price of \$1.10 per share for a total of \$119,999, was issued in conjunction with this transaction (Note 9).
- (xi) On May 21, 2019, the Company acquired from Meridian Companies LLC an 8.9-acre parcel of land in North Las Vegas. The Company issued 3,585,521 shares at a price of \$1.10 per share for a total of \$3,944,073 (USD \$2,930,000) of its common stock (Note 9).
- (xii) On October 29, 2019, the Company entered into a ten-year License, Development and Services Agreement with Passport Technology Canada Ltd to acquire an exclusive license to Passport’s proprietary platform and

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

technology for use in cannabis dispensaries. As consideration, the Company issued 1,829,219 shares at a price of \$0.58 per share for a total of \$1,058,626 of its common stock (Note 10).

(xiii) The Company issued an aggregate of 9,999,838 common shares on the exercise of 9,999,838 warrants for gross proceeds of \$2,499,960 for the nine months ended December 31, 2019.

(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, 2019	46,032,322	0.66
Issued	-	-
Forfeited	(5,102,922)	0.25
Exercised	(9,999,838)	0.25
Balance, December 31, 2019	30,929,562	0.85

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

Exercise Price	Warrants	Expiry Date
\$	#	
2.64	7,389,128	October 25, 2020
2.64	369,458	November 14, 2020
2.64	542,226	November 27, 2020
0.20	22,628,751	September 19, 2028
	30,929,562	

(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. Each option granted under the Share Option Plan carries a five-year life and vests over a term of three years such that one-third vests in year one, one-third vests in year two and the final third vests in year three.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average inputs were used in determining the fair value of options granted during the nine-months ended December 31, 2019:

	December 31, 2019 (9 months ended)	December 31, 2018 (9 months ended)
Fair Value at Grant Date	0.49	0.15
Share Price at Grant Date	0.87	0.27
Exercise Price	0.87	0.27
Expected Volatility	80%	80%
Expected Option Life	3.5 years	3.5 years
Expected Dividends	-	-
Risk-free interest rate	1.51%	2.22%
Forfeiture rate	8.33%	8.33%

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

As the Company's trading history is less than the expected life of the options granted, the Company uses an expected volatility estimate based on the historical volatility of comparable companies operating in the cannabis industry. The expected option life represents the period of time that the options granted are expected to be outstanding. Expected dividend yield is based on the fact that the Company has not paid cash dividends and does not expect to do so in the foreseeable future. The risk-free interest rate is determined by reference to the Canada government bonds with a remaining term equal to the expected life of the options.

A summary of the status of stock options outstanding follows:

	Stock Options	Weighted Average Exercise Price
	#	\$
Balance, March 31, 2019	8,597,500	0.27
Issued	11,629,488	0.88
Exercised	(933,000)	0.20
Forfeited	(22,625)	0.94
Balance December 31, 2019	19,271,363	0.64

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

Exercise Price	Outstanding Options	Expiry Date	Options Exercisable
\$	#		#
0.20	6,567,000	August 13, 2023	2,166,667
0.20	310,000	September 11, 2023	103,333
1.62	40,000	November 13, 2023	13,333
1.04	552,500	November 26, 2023	184,167
0.69	195,000	December 17, 2023	65,000
0.98	6,922,000	April 13, 2024	
1.05	620,000	June 3, 2024	
0.92	80,000	July 2, 2024	
1.25	⁽¹⁾ 200,000	July 26, 2021	200,000
0.84	20,000	August 19, 2024	
0.69	56,000	September 30, 2024	
0.65	3,708,863	October 2, 2024	
	19,271,363		

⁽¹⁾ 200,000 options were issued to a vendor of the Company as consideration for services provided. The options were issued pursuant to a service contract executed July 26, 2019 and the options vest in two tranches; 100,000 at contract execution and 100,000 three months following execution. The options are exercisable at a price of \$1.25 per share, for a period of 2 years from date of grant.

During the three and nine months ended December 31, 2019, the Company recorded aggregate share-based payments of \$819,702 and \$2,007,355 respectively (three and nine months ended December 31, 2018 – \$256,723 and \$334,861, respectively) for all stock options granted. These amounts include an adjustment in the current period, for prior year (fiscal year 2019) stock option share based compensation in the amount of \$100,911 and the equivalent adjustment to Equity - Reserves. The adjustment resulted from a change in the recognition pattern of share based compensation to graded vesting, and from a concurrent, retrospective update of assumptions applied to prior year option grants, related to the expected option life of options granted and forfeiture rate, to correct total share based compensation as of December 31, 2019. The updated assumptions and recognition pattern will continue to be used on a go-forward basis.

(e) Restricted Share Units

On November 13, 2018, the Board adopted a Restricted Share Unit 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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

consultants, non-transferable restricted share units of the Company (“RSU”). Each RSU granted under the Restricted Share Unit Plan vests over a term of three years such that one-third vests in year one, one-third vests in year two and the final third vests in year three. RSUs are granted based on the closing price on the date prior to the grant date.

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

Grant Date	RSU's Granted	Weighted Average Issue Price
	#	\$
Balance, March 31, 2019	2,172,500	1.50
Issued	3,530,138	0.83
Vested	(839,167)	1.55
Forfeited	(6,125)	0.92
Balance December 31, 2019	4,857,346	1.00

The following table summarized the RSUs that remain outstanding as at December 31, 2019:

Issue Price	RSU's Outstanding	Vesting Date ⁽¹⁾	RSU's Vested
\$	#		#
1.62	1,030,000	November 13, 2021	740,000
1.04	198,333	November 26, 2021	99,167
0.69	105,000	December 17, 2021 ⁽²⁾	
0.98	1,730,500	April 13, 2022	
1.05	155,000	June 3, 2022	
0.92	20,000	July 2, 2022	
0.84	5,000	August 19, 2022	
0.69	24,000	September 29, 2022	
0.65	1,589,513	October 2, 2022	
	4,857,346		

⁽¹⁾ RSU's vest ratably over a period of three years. Vesting Dates listed above, represent the end of the three-year term. At the end of each annual period from date of grant, one-third of the units granted, will vest.

⁽²⁾ 35,000 RSU's from the grant dated December 17, vested as of December 17, 2019. However, shares related to the vested RSU's were not issued as of December 31, 2019.

During the three and nine months ended December 31, 2019, the Company recorded aggregate share-based payments of \$877,152 and \$2,203,603 respectively (three and nine months ended December 31, 2018 – \$388,678 and \$388,678 respectively) for all RSU’s granted. These amounts include an adjustment in the current period, for prior year (fiscal year 2019) RSU share based compensation in the amount of \$245,214, and the equivalent adjustment to Share Capital. The adjustment resulted from a change in the recognition pattern of share based compensation to graded vesting, and from a concurrent, retrospective update of assumptions applied to prior year RSU’s, related to estimated forfeiture rate, to correct total share based compensation as of December 31, 2019. The updated assumptions and recognition pattern will continue to be used on a go-forward basis.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

17. Segmented Information

Set out below is segmented information based on the Company's operating segments:

	Cannabis	Technology	Total
	\$	\$	\$
<i>As at December 31, 2019</i>			
Non-current assets	42,186,346	10,183,161	52,369,507
Non-current liabilities	(3,139,597)	-	(3,139,597)
<i>As at March 31, 2019</i>			
Non-current assets	34,539,899	2,399,978	36,939,877
Non-current liabilities	(2,743,879)	-	(2,743,879)
	Cannabis	Technology	Total
	\$	\$	\$
<i>Three months ended December 31, 2019</i>			
Loss from operations	(3,975,137)	(210,480)	(4,185,616)
Net Loss	(6,681,896)	(212,170)	(6,894,066)
<i>Three months ended December 31, 2018</i>			
Loss from operations	(1,882,923)	-	(1,882,923)
Net loss	(1,063,791)	-	(1,063,791)
	Cannabis	Technology	Total
	\$	\$	\$
<i>Nine months ended December 31, 2019</i>			
Loss from operations	(9,863,559)	(718,135)	(10,581,694)
Net Loss	(11,639,565)	(721,306)	(12,360,871)
<i>Nine months ended December 31, 2018</i>			
Loss from Operations	(2,665,495)	-	(2,665,495)
Net Loss	(5,553,737)	-	(5,553,737)

18. Related Party Transactions

The Company incurred the following transactions with related parties during the three and nine months ended December 31, 2019 and 2018:

	For the three months ended		For the nine months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	\$	\$	\$	\$
Interest expense accrued to a company with former common directors and officers (Note 4(a))	-	-	-	19,341
Wages and benefits ⁽¹⁾	488,626	212,507	1,435,301	326,983
Directors' fees ⁽²⁾	458,056	134,925	1,619,027	158,815
Share-based compensation to related parties ⁽³⁾	208,161	247,260	1,928,485	285,307

⁽¹⁾ 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.

⁽²⁾ The Company's directors' fees include meeting fees and shared-based compensation for the directors.

⁽³⁾ The Company's related parties included for share-based compensation are the executive management team during the periods presented.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

The following related party amounts were included in related party advances-payable and in loan receivable as at December 31, 2019 and March 31, 2019:

	December 31, 2019	March 31, 2019
	\$	\$
Due to a former shareholder ⁽¹⁾	579,315	591,187
Other receivable ⁽²⁾	110,402	-
Payable to AJR	-	22,650
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 amount is unsecured and includes employee advances and advances of the employee portion of payroll taxes on RSU's exercised. The payroll taxes on RSU's exercised has a repayment term of six months.

Further, the Company entered into a License, Development and Services Agreement with Passport Technology Canada Ltd, an entity over which a member of the Company's key management personnel has significant influence (Note 10).

19. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash, restricted cash, amounts receivable, promissory notes, marketable securities, derivative financial instruments, convertible instruments, accounts payable and accrued liabilities, contingent consideration payable, royalty payable and advances payable. The carrying values of these financial instruments approximate their fair values as at December 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.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

The following table summarizes the Company's financial instruments as at December 31, 2019:

	Amortized cost	Fair Value through profit and loss	Fair Value through Other Comprehensive Income	Total
	\$	\$	\$	\$
Cash	6,803,077	-	-	6,803,077
Restricted cash	12,666,393	-	-	12,666,393
Accounts receivable	111,619	-	-	111,619
Annuity receivable - SubTerra	792,148	-	-	792,148
Convertible debt instruments - BaM	-	1,851,644	-	1,851,644
Marketable securities - Wagner Dimas	-	1,854,007	-	1,854,007
Marketable securities - Quality Green	-	1,781,818	-	1,781,818
Marketable securities - Folium Biosciences	-	1,990,406	-	1,990,406
Accounts payable and accrued liabilities	2,492,670	-	-	2,492,670
Contingent consideration payable	-	2,325,936	-	2,325,936
Royalty payable	302,414	-	-	302,414
Advances payable - related parties	579,315	-	-	579,315

(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 and promissory note. The risk exposure is limited to their carrying amounts at the statement of financial position date. Credit risk 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).

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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine months ended December 31, 2019 and 2018

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 December 31, 2019, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 - 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,492,670	2,492,670	-	-
Contingent consideration payable ⁽¹⁾	2,325,936	-	2,325,936	-
Royalty payable	302,414	87,822	214,592	-
Advances payable - related parties	579,315	579,315	-	-
Lease liability	710,556	111,487	578,172	20,897

(1) Timing of contingent consideration payable is outlined in the milestones in Notes 7, 8 and 9. The above reflects management's forecasted timing of achievement of the milestones.

(iii) Market risk

o Currency risk

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

At December 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 \$479,034 (nine months ended December 31, 2018 - \$467,569) to net and comprehensive loss for the nine months ended December 31, 2019.

At December 31, 2019, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

o 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 operations and investments in predominately U.S. cannabis expose the Company to a certain amount of concentration risk.

(iv) 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.

20. 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.

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

21. Commitments and Contingencies

Lease Commitment

The following table summarizes the Company's undiscounted lease payments as of December 31, 2019:

Commitment Period	\$
Less than 1 year	183,743
Greater than 1 and less than 5 years	721,126
Greater than 5 years	-
Total Commitment	904,870

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
Three and nine months ended December 31, 2019 and 2018

The following table provides a reconciliation of commitments at March 31, 2019 to the Company's lease liability as of April 1, 2019 and December 31, 2019:

	\$
Disclosed commitments as of March 31, 2019	1,136,355
Impact of discount	297,706
Principal Balance of Lease liability at April 1, 2019	838,649
Lease payments (Apr - Dec 2019)	(185,363)
Amortization of discount	78,550
Foreign Translation Adjustment	(21,280)
Lease liability at December 31, 2019	710,555
Current portion of lease liability at December 31, 2019	111,487
Long term portion of lease liability at December 31, 2019	599,069

The total interest expense on lease liabilities and the total cash outflow for the three months ended December 31, 2019 was \$22,770 and \$55,609, respectively (\$71,179 and \$185,363 for the nine months ended December 31, 2019).

The Company leases space for its office. Key movements relating to the right-of-use asset balances are presented below:

Carrying value of Right-of-use assets	\$
Carrying amount, April 1, 2019	880,306
Additions to leased assets	-
Depreciation expense	(133,329)
Foreign Currency Translation	(21,890)
Carrying amount, December 31, 2019	725,087

Other

The Company entered into the following transactions, all of which contain certain true-up conditions resulting in a possible obligation, whose occurrence or non-occurrence is not wholly within the control of the entity:

- (a) License, Development and Services Agreement with Passport Technology Canada, Ltd (Note 10)
- (b) Service Agreement with ASTOUND GROUP (Note 11(a))
- (c) Vendor Agreement with RAPIDCASH ATM, Ltd (Note 11(b))

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, a liability related to these transactions will be recorded in the period that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. As at December 31, 2019, no provision has been recorded as these true-up conditions do not meet the criteria for recognition under IAS 37. The Company will continue to monitor these contingent obligations at each reporting period to determine whether the obligation is probable at which point an estimate of the obligation will be recorded.

22. Subsequent Events

The following events occurred subsequent to December 31, 2019 but prior to authorization of issuance of these financial statements, or February 27, 2020:

On February 4, 2020, the Company entered into a non-binding letter of intent ("LOI") to acquire 100% of Paytron, LLC, a privately held omnichannel payment services provider. Paytron will continue its current operations as a wholly owned subsidiary of the Company and will support in the expansion of the Company's existing service offering, the Cocoon Technology™ platform. The LOI is non-binding and the completion of the acquisition is subject to customary closing conditions.