

AUSTRALIS CAPITAL INC.

Management's Discussion and Analysis

**For the three and nine months ended December 31, 2019 and 2018
(In Canadian Dollars)**

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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 common shares of the Company trade on the Canadian Securities Exchange (the "CSE") under the symbol "AUSA" and on the OTCQX® Venture Market (the "OTC") in the United States under the symbol "AUSAF."

This Management's Discussion and Analysis ("MD&A") reports on the financial condition and operating results of the Company for the three and nine months ended December 31, 2019 and is prepared as of February 27, 2020. The MD&A should be read in conjunction with (a) the Company's unaudited Financial Statements for the three and nine months ended December 31, 2019 and notes thereto (the "Financial Statements") and (b) the audited financial statements for the year ended March 31, 2019 (and the related MD&A).

All dollar amounts referred to in this MD&A are expressed in Canadian dollars, except as indicated otherwise.

FORWARD-LOOKING STATEMENTS

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

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

- Information with respect to future financial and operating performance;
- Statements related to operational and investment objectives; and
- Adequacy of financial resources.

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BUSINESS OVERVIEW

ACI focuses on acquisitions in the cannabis space and more specifically, in technology supporting the cannabis industry, with a view of developing the infrastructure required to meet the demands of the growing United States cannabis market. The Company's acquisitions may include cannabis brands and intellectual property, license rights, certain technology platforms and infrastructure, and other cannabis assets. From time to time, the Company may also make strategic investments in the securities of publicly traded or private companies.

The growth of the Company's portfolio of operating assets will further support the buildout of Cocoon Technology LLC, the Company's wholly-owned subsidiary focused on the development and deployment of a cloud-based, self-service fulfillment platform for dispensaries (discussed below). The platform, combined with the experience of the Company's wholly-owned subsidiary Rthm Technologies in the mobile application space, is expected to provide a robust, customer-facing, omni-commerce technology that maximizes operational efficiency for dispensaries through integration with dispensary ERP systems, and that improves customer satisfaction and loyalty through rewards programs and convenient, user-friendly kiosk and mobile application interfaces.

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

- Australis Capital (Nevada) Inc. ("ACN"), a corporation organized under the laws of Nevada, in which ACI holds a 100% ownership interest;
- Australis Holdings LLP ("AHL"), a limited liability partnership in the State of Washington, in which ACN holds a 50% ownership interest and ACI holds the remaining 50% ownership interest;
- Rthm Technologies Inc., a corporation organized under the laws of Ontario, Canada, in which ACI holds a 100% ownership interest; and
- Australis Perennial LLC ("Perennial"), a limited liability company organized under the laws of Nevada, in which ACI holds a 100% ownership interest;
- Australis Terrain LLC ("Terrain"), a limited liability company organized under the laws of Nevada, in which ACI holds 100% ownership interest; and
- Australis Prosper LLC ("Prosper"), a limited liability company organized under the laws of Nevada, in which ACI holds 100% ownership interest.
- Cocoon Technology LLC ("Cocoon Technology"), a limited liability company organized under the laws of Nevada, in which ACI holds 100% ownership interest.

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KEY DEVELOPMENTS DURING THE THIRD FISCAL QUARTER 2020

The Company focused efforts during the third fiscal quarter on enhancing its current portfolio of operating assets, specifically in the technology space. This included the launch of ACI's wholly-owned subsidiary, Cocoon Technology LLC, an entity engaged in the development of a cloud-based, self-service fulfillment platform designed to enhance customer experience and operational efficiency at cannabis dispensaries:

- On October 29, 2019, the Company entered into a License, Development and Services Agreement with Passport Technology, Inc. ("Passport") to secure the exclusive right for a period of 10 years, to use Passport's proprietary platform, technology, expertise, and cooperation to develop a self-service kiosk for the global cannabis dispensary market. The Company will be the exclusive owner of the customized technology during, and surviving, the term of the agreement. As consideration, the Company paid \$4,175,000 USD comprised of \$375,000 USD in cash; 5,000,000 shares of Body and Mind, Inc. common stock; and 1,829,219 shares of the Company's common stock.

The Company will operate in this market under its wholly owned subsidiary Cocoon Technology LLC, which was created on November 8, 2019. The Company intends to utilize Cocoon's Platform-as-a-Service model to, among other options, sell or lease the kiosks to dispensaries and sublicense the use of the technology on the kiosks for a monthly, recurring revenue fee. Further, the Company plans to develop a related mobile application for end-consumer use, that will interface with the technology on the dispensary kiosks to facilitate employee assisted self-service transactions. Subsequent to deployment of the kiosks at dispensary locations, the Company will include as a cost to the dispensaries, annual maintenance fees for the hardware and software components of the kiosks. Revenue generated from these maintenance fees will be shared by the Company and Passport at an allocation of 40% and 60% respectively.

- 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. NaturalTM, TsunamiTM, ProvisionTM, GT FlowersTM and CocoonRewardsTM, 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 over the term of the agreement.
- On December 9, 2019, the Company entered into a four-year agreement with THRIVE Cannabis Marketplace ("THRIVE"), a Southern-Nevada based cannabis dispensary, to install kiosks in THRIVE's eight existing facilities and newly approved locations and deploy the Company's Cocoon TechnologyTM solution. The Company anticipates deployment of the Cocoon platform at THRIVE locations in early second quarter of 2020, resulting in one-time fees for the sale of the kiosks and recurring revenue related to THRIVE's subscription to the Company's technology platform.
- 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 TechnologyTM solution. 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.

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RECENT DEVELOPMENTS (SUBSEQUENT TO DECEMBER 31, 2019)

The following events occurred subsequent to December 31, 2019:

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.

SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	Revenue	Net Loss	Net Loss per share
December 31, 2019 ⁽¹⁾	49,779	(6,894,066)	(0.04)
September 30, 2019 ⁽²⁾	52,926	(5,207,489)	(0.03)
June 30, 2019 ⁽³⁾	67,642	(259,316)	(0.00)
March 31, 2019 ⁽⁴⁾	(2,129)	1,382,525	0.01
December 31, 2018 ⁽⁵⁾	131,888	(1,063,791)	(0.01)
September 30, 2018	-	(2,145,768)	(0.03)
June 30, 2018	-	(2,344,176)	(0.01)
March 31, 2019	-	(5,485)	(54.85)

⁽¹⁾ Net Loss for the quarter ended December 31, 2019 increased when compared to the previous quarter, primarily due to professional fees incurred in relation to the contingent merger agreement signed with Folium Biosciences, an increase in wages and share based compensation, and fair value adjustments related to the Company's investments (namely Body and Mind - \$1.1M and Folium Biosciences - \$2M), partially offset by a gain on sale of investment in associate of \$1.5M.

⁽²⁾ The increase in Net Loss for the quarter ended September 30, 2019 is primarily due to management fees incurred with respect to the Company's Annual General Meeting held in September 2019, an increase in professional fees, an increase in wages and share based compensation, an increase in loss on investment in associate, and an offsetting \$2.6M gain recognized in the quarter ended June 30, 2019 related to recognition of deferred gain and interest income from Body and Mind.

⁽³⁾ Net Loss for the quarter ended June 30, 2019 is primarily due to accelerated vesting of a former Director's stock options and RSU's and an increase in wages and bonuses when compared to the previous quarter, due in part to increased headcount, offset by a \$2.6M recognized gain on deferred fair value adjustments related to the Company's investments (namely, Body and Mind).

⁽⁴⁾ Net Gain for the quarter ended March 31, 2019 is primarily due to fair value adjustments related to the Company's investments (namely Body and Mind).

⁽⁵⁾ Net Loss for the quarter ended December 31, 2018 is primarily due to an increase in wages and benefits and share-based payments related to an increase in headcount when compared to the previous quarter, and a loss on investment in associates.

RESULTS OF OPERATIONS

The Company reported net loss of \$6,894,066 during the three months ended December 31, 2019 compared to a net loss of \$1,063,791 during the same period in the prior year. The increase in loss was mainly due to expanded efforts to define and grow the operations of the Company during 2019, an increase in headcount to support Company growth, and fair value losses recorded in the current period related to the Company's passive investments.

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All operating expenses (excluding one-time items) increased during the three months ended December 31, 2019 when compared to the three months ended December 31, 2018. An increase of \$1,397,578 and \$496,057 in share based compensation and wages and benefits respectively, is a result of an expansion of the Company's management and operational teams as well as a correction to current and prior period, share-based compensation recognition to graded vesting, resulting in an acceleration of the compensation expense in earlier periods of the grant.

The Company recorded net non-operating loss of \$2,708,450 during the three months ended December 31, 2019, resulting in an overall change of \$3,527,582 when compared to the same period in the prior year. The change was primarily due to fair value adjustments in the current period related to the Company's passive investments of \$3,060,507 (namely Body and Mind for \$924,646 and Folium Biosciences of \$1,990,406). Further, one-time expenses for consulting, legal and other fees related to the proposed merger with Folium Biosciences amounted to \$935,924 during the current period. This is partially offset by a gain on sale of investment in associates in the current period of \$1,501,147, and the recognition of a deferred tax recovery of \$1,282,499 in the period ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred operating losses over the past fiscal years and currently has limited sources of operating cash flow.

Working capital as of December 31, 2019 was \$18,973,315 as compared to \$26,478,325 at March 31, 2019. The decrease in working capital of \$7,505,010 was primarily attributable to (a) a \$5,046,024 decrease in cash from use of cash in operations; and b) a \$1,520,227 increase in accounts payable and accrued liabilities. These changes are a result of additional spend in operating expenses to support growing operations and due diligence efforts related to future acquisitions, namely in wages and benefits and professional fees; expenses related to the construction of the Company's North Las Vegas facility; and, cash outflow related to the acquisition of the license right from Passport Technology Canada, Ltd, to support development of the Company's Cocoon Technology™ solution.

To date, the Company has financed its operations and met its capital requirements through equity financings. The Company believes that it has sufficient cash and resources to fund its business objectives for the next twelve months. The Company is not exposed to any externally imposed capital requirements.

Operating Activities

During the nine months ended December 31, 2019, cash flows used in operating activities were \$5,196,697 as compared to cash used in operating activities of \$1,730,612 for the nine months ended December 31, 2018. Cash used in operations for the period ending December 31, 2019 resulted primarily from an increase in operational spending to support the growth and expansion of the Company's operations and consisted predominantly of the following; \$2,558,000 in wages; \$683,000 in annual insurance fees; \$344,000 in fees incurred for the Company's Annual General Meeting held in September 2019; and \$1,414,000 in professional fees for legal and accounting services related to the Company's routine operations as well as to the Contingent Merger Agreement signed with Folium Biosciences.

Cash used in operating activities for the nine months ended December 31, 2018 resulted primarily from \$465,600 in wages and benefits, \$367,800 prepayment for Directors' and Officers' business insurance, \$206,700 in rent expense and security deposit for the Company's office space and \$297,500 in regulatory, legal and professional fees largely related to the Company's spinout from ACB.

Investing Activities

During the nine months ended December 31, 2019, cash flows provided by investing activities were \$4,060,776 compared to cash used in investing activities of \$44,241,457 for the nine months ended December 31, 2018. Cash provided by investing activities during the nine months ended December 31, 2019 resulted mainly from proceeds from repayment of a loan with Body and Mind, Inc. of \$5,340,000; this was partially offset by a) an increase of \$561,990

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in expenditures related to the purchase of property, plant and equipment, largely related to the Company's future, potential production and cultivation facility and b) additional spend in the amount of \$493,264 for the acquisition of the License Agreement with Passport Technology.

Cash spend for investing activities for the nine months-ended December 31, 2018 resulted predominantly from a \$24,541,997 contribution of cash used for operations to a restricted cash account designated for investing activities, combined with \$19,599,478 in spend related to the acquisition of, or investment in, Rthm Technology, Body and Mind, Inc. and AHL.

Financing Activities

During the nine months ended December 31, 2019, cash flows provided by financing activities were \$2,575,342 compared to cash flows of \$51,938,003 for the nine months ended December 31, 2018. The cash provided by financing activities during the nine months ended December 31, 2019 resulted mainly from net proceeds of \$2,502,156 from the exercise of warrants, and \$180,000 from the exercise of stock options, offset by \$106,814 in principal payments for the Company's lease obligations.

Cash provided by financing activities for the nine months ended December 31, 2018 is mainly attributable to the Company's two private placements in July and August 2018 and October 2018 for net proceeds of \$48,618,700 coupled with proceeds from the exercise of warrants totalling \$2,809,372.

TRANSACTIONS WITH RELATED PARTIES

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.

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Related party balances

The following related party amounts were included in advances payable and 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. The Company acquired an exclusive license to Passport's proprietary platform and technology for a term of 10 years in exchange for 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. 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. The Company has not currently recorded a provision for this contingent liability as the occurrence of the obligation is based on factors outside of the control of the Company, namely, the stock price for Body and Mind common shares at time of true-up. The Company will continually monitor the likelihood and value of this contingent obligation.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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NEW ACCOUNTING PRONOUNCEMENTS

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

(i) IFRS 7 Financial Instruments: Disclosure

IFRS 7 *Financial instruments: Disclosure*, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. There was no material impact to the Company upon adoption.

(ii) IFRS 9, Financial Instruments

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

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

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

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

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

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

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

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

Impairment

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

There was no material impact to the Company on adoption of IFRS 9.

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(iii) IFRS 15, Revenue from Contracts with Customers

The IASB's new revenue recognition standard IFRS 15 – Revenue from Contracts with Customers (IFRS 15) was adopted by the Company on April 1, 2018. The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Company has applied the modified retrospective approach and there was no material impact to the Company upon adoption.

(iv) Amendments to IFRS 3 Business Combinations

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

The amendments are as follows:

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

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 Leases. The standard includes two exceptions for this recognition: (1) leases of low-value assets (e.g. personal computers) and (2) short-term contracts (term of less than 12 months). The lessee recognizes at lease inception, the asset that represents the right of use and the liability for the periodic payments that must be made. Interest expense is recorded separately from depreciation. The 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. Some of the impacts that could arise would be indicators of EBIT, debt covenants, debt and financing indicators, as well as the presentation of cash flows, which would be presented as financing and not operation activities.

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The application date is for annual periods beginning on or after January 1, 2019. Substantially all of the Company's operating leases are real estate leases for office premises. As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16.

The Company 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 (\$709,008 USD), a corresponding lease liability of \$867,565 (\$662,921 USD) and derecognized \$17,787 (\$13,311 USD) 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 17) as right-of-use assets and corresponding lease liabilities.

(vi) 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The Company's financial instruments consist of cash, restricted cash, 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.

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The following table summarizes the Company's financial instruments as of 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

Financial instruments risks

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

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 receivables. 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 amortised 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

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assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

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

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

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

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

(ii) Liquidity risk

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

As at 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

a) Currency risk

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

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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 \$479,304 to net and comprehensive loss for the nine months ended December 31, 2019 (nine months ended December 31, 2018: \$467,569).

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

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's loans receivable and loans payable have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(iv) Concentration risk

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

(v) Price risk

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

OUTSTANDING SHARE DATA

As of December 31, 2019, the Company had the following securities issued and outstanding:

Securities	Units Outstanding
Issued and outstanding shares	169,909,330
Options	19,271,363
Warrants	30,929,562
Restricted Stock Units ⁽¹⁾	4,857,346

(1) 35,000 RSU's vested during the period ended December 31, 2019 however, the common shares related to these vested units were not yet issued as of December 31, 2019; the 35,000 units are reflected as outstanding Restricted Stock Units

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ADDITIONAL INFORMATION

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