

AUSTRALIS CAPITAL INC.

Management's Discussion and Analysis

**For the three months ended June 30, 2020
(In Canadian Dollars)**

AUSTRALIS CAPITAL INC.

Management's Discussion & Analysis For the three months ended June 30, 2020

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 OTCQB® 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 months ended June 30, 2020 and is prepared as of August 26, 2020. The MD&A should be read in conjunction with the Company's unaudited, condensed interim consolidated financial statements for the three months ended June 30, 2020 and 2019 and with the Company's audited consolidated financial statements and accompanying notes for the year ended March 31, 2020 (and related MD&A).

The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the periods ended June 30, 2020 and 2019. This MD&A has been prepared by reference to the MD&A disclosure requirements as established under National Instrument 51-102, *Continuous Disclosure Obligations* ("NI 51-102"), of the Canadian Securities Administrators.

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," "is expected," "budget," "scheduled," "estimates," "forecasts," "intends," "anticipates," 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, without limitation, information regarding:

- The future financial and operating performance of the Company;
- Statements related to operational and investment objectives;
- Adequacy of financial resources;
- Expectations of market size and growth in the United States and globally;

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- Expectations of the business and regulatory environment in which the Company operates, and for the cannabis industry in general; and,
- Management's belief regarding the anticipated impact of COVID-19 on financial and operating results.

BUSINESS OVERVIEW

Australis Capital Inc. invests in, operates, and builds transformative, differentiated companies operating in the cannabis space. The Company focuses on the technology facet of the industry and is wrapping up initial development of Cocoon Technology™, a cloud-based, self-service fulfillment platform for dispensaries, and Cocoon Rewards™, a mobile loyalty application that networks dispensaries into a single customer platform (collectively, the “Cocoon Platform” or the “Platform”). The purpose-built platform features data analytics, privacy, security and regulatory compliance to drive enhanced consumer experience and generate incremental revenue for dispensary owners. The Company's assets also include Body and Mind Inc., Quality Green, Folium Biosciences, and Paytron, LLC.

The Platform includes hardware, embedded software, maintenance services and an integrated mobile application. The hardware is comprised of the CocoonPod, a self-service kiosk that provides dispensaries with the means to facilitate contactless transactions. The CocoonPod securely accepts and manages cash transactions and facilitates ID verification by analyzing customer identification. Combined with the functionality of the embedded software, the Platform is expected to assist dispensaries with enhancing operational efficiency through integration with dispensary enterprise resource planning (“ERP”) systems to keep inventory stock up to date, streamline customer order fulfillment and increase customer throughput. The embedded software provides dispensaries with real-time sales data and analytical insights into customer interests and purchasing behavior to predict and prepare for sales patterns and future inventory needs. The platform is also expected to improve customer satisfaction and loyalty through the rewards program, CocoonRewards®, and through convenient, user-friendly kiosk and mobile application interfaces.

The mobile application is a complementary element of the Platform that provides advertising and brand/MSO loyalty features to dispensaries and their customer base, reaching beyond the in-store kiosks to users' mobile devices. The mobile application educates users on various product offerings at dispensary locations and provides intelligent product recommendations. Dispensaries can offer exclusive, tailored discounts to match customers' needs through the mobile application. CocoonRewards® integrates with existing dispensary loyalty and rewards programs so that customers can earn, collect, and redeem rewards, all through one, centralized mobile application.

The Company has established sourcing relationships for the kiosks through its vendor agreement with RAPIDCASH ATM, Ltd., entered into on December 14, 2019, in which \$2,749,178 in Body and Mind common stock was prepaid for the future purchase of retail kiosks. Additionally, the Company has a strong software development team through its acquisition of Rthm Technologies and supplemented by the addition of new developers with backgrounds in the highly regulated gaming industry. The Company has integrated the Platform with Flowhub, a leading cannabis retail management platform, and is pursuing integrations with additional cannabis industry ERP systems.

In connection with the four-year Kiosk Purchase and Service agreement entered into between the Company and THRIVE Cannabis Marketplace on December 9, 2019, the Company expects to launch the first CocoonPod kiosks at a THRIVE dispensaries in September 2020. Launch of the mobile application is expected in the upcoming quarter.

The Platform is expected to provide recurring Platform-as-a-Service revenues, recurring maintenance revenues and one-time revenues associated with the sale and installation of the kiosk hardware at dispensaries.

In addition to the Cocoon Technology Platform, the Company has a strong portfolio of cannabis cultivation and production assets and investments, namely our investment in Body and Mind, Inc., a multi-state operator with dispensary, cultivation and manufacturing/production operations in California, Nevada, Ohio and Arkansas; and our production and cultivation assets comprised largely of the high profile brand names Tsunami™, Provisions™, and

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GT Flowers, and cultivation and production licenses acquired from Green Therapeutics, LLC (“GT”) a licensed cultivator and producer of high-end medicinal and recreational marijuana in the state of Nevada. Transfer of the acquired production and cultivation licenses from GT to Australis is pending approval from the State of Nevada Cannabis Compliance Board.

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 1.3% ownership interest and ACI holds the remaining 98.7% 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;
- 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; and
- Paytron LLC (“Paytron”), a limited liability company organized under the laws of Nevada, in which ACI holds 100% ownership interest.

KEY DEVELOPMENTS DURING THE FIRST FISCAL QUARTER 2021

- On April 1, 2020, the Company completed the acquisition of all of the equity interest of Paytron, LLC (“Paytron”), a merchant service provider and registered independent sales organization for certain payment processors, offering merchant service solutions that include credit and debit card processing, secure gateway processing, point of sale hardware, card terminals and business loans. The acquisition includes all active merchant accounts of Paytron, established relationships with large payment processors, and the existing management and agent workforce of Paytron. In addition to maintaining the current operations of Paytron, the acquisition is intended to enhance the Company’s Cocoon technology platform, and provide the Company with the ability to support credit and debit card payment processing in dispensaries internationally and upon legalization in United States.

Consideration consisted of 949,926 common shares of the Company valued at \$0.18 per share based on the market price of the shares at the date of the transaction. Additionally, under the terms of the agreement, if Paytron achieves USD \$30,000 in net income for three consecutive months (the “Earnout Threshold”), on or before the 2nd anniversary of the transaction, the Company will issue up to USD \$1,000,000 in Australis Capital Inc. common shares. The contingent consideration was measured on the date of acquisition at a fair value of \$49,169 based on management’s judgment as to the probability and timing of achievement of the Earnout Threshold. Total consideration for the acquisition was \$219,886.

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- In February 2019, the Company acquired certain intangible assets from Mr. Natural Productions, Inc. and Robert Luciano (collectively, the “Natural Parties”). The assets included the rights to the Mr. Natural brand, the life story right of Robert Luciano and all related intellectual property (collectively, “the acquired assets”) in exchange for cash consideration, common shares of the Issuer and royalty payments based on future performance. On April 25, 2020 the Company entered into a Modification, Settlement, Assignment and Consent Agreement with the Natural Parties and a third party (the “Assignee”), to assign and transfer all rights to the acquired assets, and any and all obligations arising from royalty payments based on future performance of the acquired assets, to the Assignee with the consent of the Natural Parties. In addition, the Natural Parties agreed to return to the Company the 533,981 common shares of the Company issued to the Natural Parties at time of acquisition. The shares were returned to the Company on April 30, 2020 at a value of \$101,456 based on the market price of the Company’s shares at close on the day prior to execution of the agreement, or \$0.19 per share.
- On June 29, 2020 the Company was served with a lawsuit naming the Company that has been filed, under seal, in Clark County, Nevada by Meridian Companies, LLC and Green Therapeutics, LLC. The lawsuit alleges, among other things, breach of contract by the Company with respect to certain obligations outlined in the Company’s asset purchase agreement with Green Therapeutics entered into on May 21, 2019. The Company believes the lawsuit to be without merit and intends to vigorously defend the case.

The outcomes of legal proceedings are inherently unpredictable and subject to significant uncertainties. The lawsuit is in preliminary stages and based on management’s assessment of the underlying claims of the lawsuit, the probability of a negative outcome and the related loss exposure is minimal. As such, no provision has been recognized as of June 30, 2020.

RECENT DEVELOPMENTS (SUBSEQUENT TO JUNE 30, 2020)

The following events occurred subsequent to June 30, 2020:

- On July 1, 2020, the Company converted its unsecured convertible debentures of Body and Mind Inc. in the principal amount of \$1,600,000, to acquire 2,909,091 common shares of Body and Mind at a price of \$0.55 per common share.
- On July 7, 2020, the Company entered into a non-binding letter of intent (“LOI”) for the sale of its 8.9-acre parcel of land in North Las Vegas. The terms of the LOI are such that completion of the sale is subject to, among other customary closing conditions, execution of a formal Purchase and Sale agreement, and the pending outcome of the lawsuit filed by Green Therapeutics, LLC and Meridian Companies, LLC against the Company and involving in part, the North Las Vegas land. Closing will occur no earlier than October 15, 2020. Prior to the execution of this LOI, the Company was not soliciting offers for, nor committed to the sale of the North Las Vegas land. Proceeds from the sale of the land will be used to provide additional cash flows for operations.
- On August 2, 2020, the Company received a letter from Passport Technology, Inc. (“Passport”) purporting to assert a right to terminate the pending acquisition agreement previously announced on June 25, 2020. The terms of the acquisition agreement require Passport to pay a break fee of USD \$500,000 in the form of shares and the Company’s demonstrated expenses
- The Company continues to monitor guidance issued by state and federal authorities in response to the novel coronavirus, “COVID-19” pandemic. The Company implemented “social distancing” measures in the prior fiscal quarter, as recommended by these authorities and the Centers for Disease Control, by restricting non-

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essential travel by employees and permitting staff to work remotely, who have the ability to do so. These measures will remain in effect until such time as otherwise directed by appropriate authorities.

In connection with Nevada State Directives, beginning March 20, 2020, dispensaries in the state of Nevada were limited to delivery only services, with curbside pick-up available beginning May 1, 2020 and reopening later in May, subject to the dispensaries submitting and receiving approval from the state, a plan to address social distancing guidelines for in-store sales. The Company is in the process of establishing operations, most significantly through its Cocoon Platform, and originally anticipated deployment in early calendar quarter two of 2020. As a result of state directives, the Company experienced a delay in deploying the initial round of Cocoon kiosks to local dispensaries, consequently delaying the related revenues derived from these kiosks. Deployment of the first kiosks is anticipated to occur in September 2020. Although deployment was delayed, the Company believes the use of kiosks in dispensaries will be a benefit to both consumers and dispensaries as it facilitates dispensary transactions while limiting personal interactions and promoting social distancing. As the state and country work towards recovery from the pandemic, the Company anticipates that intermediaries such as self-service kiosks may be relied upon.

As of the date of issuance of these financial statements, there have been no changes to capital investment plans nor corporate objectives of the Company, as a result of the pandemic.

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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
June 30, 2020 ⁽¹⁾	62,802	(3,312,725)	(0.02)
March 31, 2020 ⁽²⁾	52,348	(10,557,488)	(0.06)
December 31, 2019 ⁽³⁾	49,779	(5,829,397)	(0.03)
September 30, 2019 ⁽⁴⁾	52,926	(5,663,527)	(0.04)
June 30, 2019 ⁽⁵⁾	66,429	(1,291,736)	(0.01)
March 31, 2019 ⁽⁶⁾	(2,129)	1,382,525	0.01
December 31, 2018 ⁽⁷⁾	131,888	(1,063,791)	(0.01)
September 30, 2018 ⁽⁸⁾	-	(2,145,768)	(0.03)

Summary of Quarter-over-Quarter Changes

⁽¹⁾ Net Loss for the quarter ended June 30, 2020 decreased when compared to the prior quarter, primarily due to a decrease in share based compensation and wages and benefits in the amount of \$640k, a decrease of \$2.6M in fair value adjustments related to the Company's investments, and non-recurring losses recognized in the quarter ended March 31, 2020 relating to the disposal of marketable securities in Wagner Dimas of \$1.4M and an impairment on intangible assets held for sale - Mr. Natural of \$1.3M.

⁽²⁾ Net Loss for the quarter ended March 31, 2020 increased when compared to the prior quarter, primarily due to loss on disposal of marketable securities in Wagner Dimas of \$1.4M, an impairment loss on intangible assets held for sale - Mr. Natural of \$1.3M, and fair value adjustments related to the Company's investments (namely Folium Biosciences - \$1.2M and Quality Green - \$1.3M), partially offset by a decrease in professional fees of \$500k.

⁽³⁾ Net Loss for the quarter ended December 31, 2019 increased when compared to the prior quarter, primarily due to fair value adjustments related to the Company's investments (namely Body and Mind - \$1M and Folium Biosciences - \$2M), partially offset by a gain on sale of investment in associate of \$1.5M and a reduction in loss on investment in associate of \$1M.

⁽⁴⁾ Net Loss for the quarter ended September 30, 2019 increased when compared to the prior quarter, primarily due to management fees of \$340k, largely related to the Company's Annual General Meeting held in September 2019, professional fees of \$800k largely related to the Company's due diligence activities in relation to the contingent merger agreement signed with Folium Biosciences, an increase in loss on investment in associate of \$1M, and a reduction in deferred gain and interest income related to the Company's investment in and loan to Body and Mind of \$2.6M

⁽⁵⁾ Net Loss for the quarter ended June 30, 2019 is primarily due to share based compensation of \$1.8M due in part to accelerated vesting of a former Director's stock options and RSU's, and wages and benefits of \$1.1M, offset by a gain of \$2.6M on deferred fair value adjustments and accelerated interest income and prepayment penalty related to the Company's investments in and loan to Body and Mind.

⁽⁶⁾ Net Gain for the quarter ended March 31, 2019 is primarily due to fair value adjustments of \$5.1M related to the Company's investments (namely in Body and Mind), offset by Goodwill Impairment of \$1M from the acquisition of RTHM, reversal of the deferred tax recovery estimate of \$1.3M and loss on dilution of the Company's investment in Wagner Dimas of \$865k.

⁽⁷⁾ Net Loss for the quarter ended December 31, 2018 is largely driven by an increase in wages and benefits and share-based compensation of \$1.1M due to the hiring of additional members of the executive management team as well as a loss on investment in associates of \$600k, offset by a deferred tax recovery of \$1.2M

⁽⁸⁾ Net Loss for the quarter ended September 30, 2018 is largely driven by a loss on acquisition of AHL - namely the remeasurement of land acquired - of \$1.6M

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RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2020 and 2019

The Company reported net loss of \$3,312,725 during the three months ended June 30, 2020 compared to a net loss of \$1,291,736 during the same period in the prior year.

The Company recorded loss from operations of \$2,522,794 during the three months ended June 30, 2020, resulting in an overall decrease of \$932,208 when compared to the same period in the prior year. The decrease was primary driven by a \$944,405 decrease in share-based compensation expense due to the accelerated vesting of a former Director's stock options and RSU's recorded in the three months ended June 30, 2019, forfeiture of certain stock option and RSU grants by former employees in the prior year, and a correction to prior year, 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 \$789,931 during the three months ended June 30, 2020, resulting in an overall change of \$2,953,197 when compared to the same period in the prior year. The change was primarily due to a non-recurring gain of \$2.6M recognized during the three months ended June 30, 2019 on deferred fair value adjustments and accelerated interest income and prepayment penalty related to the Company's investments in and loan to Body and Mind.

LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred operating losses over the past fiscal years and currently has limited sources of operating cash flow. 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, in excess of, the next twelve months. The Company is not exposed to any externally imposed capital requirements.

Working capital as of June 30, 2020 was \$19,124,394 as compared to \$19,840,126 at March 31, 2020 resulting in a decrease to working capital of \$715,732. The decrease was primarily attributable to a \$2,999,220 decrease in cash offset by a \$1,275,563 decrease in accounts payable and accrued liabilities and an \$855,423 decrease in provisions settled through issuance of Body and Mind, Inc. Common Shares. Changes in cash net of amounts payable are a result of additional spend for operating expenses to support developing operations and expenditures related to the construction of the Company's North Las Vegas facility, as further detailed below.

Operating Activities

During the three months ended June 30, 2020, cash flows used in operating activities were \$2,903,181 as compared to cash used in operating activities of \$650,823 for the three months ended June 30, 2019. Cash used in operations for the period ending June 30, 2020 resulted primarily from \$2,287,443 in wages and benefits, due in part to an increase in headcount to support the development of the Company's Cocoon Technology™ Platform and related operations.

Cash used in operating activities for the three months ended June 30, 2019 resulted primarily from \$1,122,775 in wages and benefits and \$182,622 in Consulting and Professional Fees, partially offset by a \$610,074 interest payment and a \$267,000 prepayment penalty, both related to the Company's investments in and loan to Body and Mind.

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Investing Activities

During the three months ended June 30, 2020, cash flows provided by investing activities were \$116,860 compared to cash used in investing activities of \$1,074,240 for the three months ended June 30, 2019. Cash provided by investing activities during the three months ended June 30, 2020 resulted from proceeds from the sale of a portion of the Company's investment in common shares of Body and Mind, Inc, in the amount of \$469,977, partially offset by \$353,117 in expenditures related to the purchase of property, plant and equipment, largely related to the Company's North Las Vegas facility.

Cash used in investing activities for the three months-ended June 30, 2019 resulted predominantly from the purchase of interest in the Company's investment in associate, Body and Mind, Inc., in the amount of \$6,396,920, partially offset by proceeds from repayment of the Company's loan to Body and Mind, Inc. of \$5,340,000.

Financing Activities

During the three months ended June 30, 2020, cash flows used in financing activities were \$59,036 compared to cash flows provided by financing activities of \$290,082 for the three months ended June 30, 2019. The cash used in financing activities during the three months ended June 30, 2020 resulted mainly from \$35,277 in principal payments made for the Company's lease obligations.

Cash provided by financing activities for the three months ended June 30, 2019 resulted from net proceeds of \$140,596 from the exercise of warrants and \$180,000 from the exercise of stock options, offset by \$30,514 in principal payments for the Company's lease obligations.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions

The Company incurred the following transactions with related parties during the three months ended June 30, 2020 and 2019:

	For the three months ended	
	June 30, 2020	June 30, 2019
	\$	\$
Wages and benefits ⁽¹⁾	319,576	664,194
Directors' fees ⁽²⁾	274,287	681,973
Share-based compensation to related parties ⁽³⁾	480,318	723,479

⁽¹⁾ The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consist of the Company's executive management team. The Company recorded an additional \$166k in bonus expense in FY2020, related to services performed in FY2019, of which \$137k pertains to bonuses for the Company's key management personnel.

⁽²⁾ The Company's directors' fees include share-based compensation for the directors during the periods presented.

⁽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 related party advances payable, provisions and in receivables as at June 30, 2020 and March 31, 2020:

	June 30, 2020	March 31, 2020
	\$	\$
Due to a former shareholder ⁽¹⁾	599,577	617,275
Other receivable ⁽²⁾	88,007	76,460
Due from officers	-	28,374
Provisions	-	855,423

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

(2) The amount is unsecured and includes advances of the employee portion of payroll taxes on RSU's exercised. The payroll taxes on RSU's exercised have 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 Board of Directors has control. The Company acquired an exclusive license to Passport's proprietary platform and technology for a term of 10 years in exchange for \$5,454,544, comprised of \$493,264 in cash, 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 as of June 13, 2020 (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 (the primary consideration of which is additional shares) in the amount up to the difference between the discounted share price at execution of the agreement and the True Up Share Price for 3,000,000 shares of Body and Mind Common stock. As of March 31, 2020, the Company recorded a provision in the amount of \$855,423 based on the above outlined true-up obligations of the agreement, and on June 25, 2020, the Company issued 1,802,542 shares of Body and Mind common stock to Passport in settlement of the provision.

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 and assumptions used in the Company's period end impairment assessments. The most significant judgments applied to the Company's consolidated financial statements as a whole 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 following IFRS standards have been recently issued by the IASB and are applicable for financial reporting periods commencing on or after April 1, 2020. Pronouncements that are not applicable or not expected to have a significant impact to the Company have been excluded.

(i) 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.

The following is a brief summary of the new standards issued but not yet effective:

(i) Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued, *Classification of Liabilities as Current or Non-current* (“*Amendments to IAS 1*”), to clarify the requirements for classifying liabilities as current or non-current. The amendments affect only the presentation of liabilities in the statement of financial position, and not the amount or timing of recognition of any asset, liability, income or expense, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The Company's financial instruments consist of cash, restricted cash, accounts receivable, annuity receivable, marketable securities, convertible instruments, accounts payable and accrued liabilities, contingent consideration payable, and advances payable. 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:

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- 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.

The carrying values of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values as at June 30, 2020 due to the relatively short-term maturity. The Company's annuity receivable carrying value at the effective interest rate approximates fair value. The Company's investments in marketable securities are in private companies where relevant observable inputs are not available and are classified as Level 3. The fair value of the Company's investment in convertible debentures includes a Level 2 input of market multiples applied to the underlying equity component of the instrument and derived from businesses and transactions similar to that of the debenture issuer. Fair value of contingent consideration payable is classified as Level 3 and is based upon management's best estimate of the probability and timing of achieving the milestones to which the obligation is tied.

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

The following table summarizes the Company's financial instruments as at June 30, 2020:

	Amortized cost	Fair Value through profit and loss	Total
	\$	\$	\$
Cash	4,647,699	-	4,647,699
Restricted cash	8,696,305	-	8,696,305
Accounts receivable	243,424	-	243,424
Annuity receivable - SubTerra	792,148	-	792,148
Convertible debt instruments - BaM	-	1,356,500	1,356,500
Marketable securities - Quality Green	-	500,678	500,678
Marketable securities - Folium Biosciences	-	796,163	796,163
Accounts payable and accrued liabilities	692,440	-	692,440
Contingent consideration payable	-	1,440,588	1,440,588
Advances payable - related parties	599,577	-	599,577

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 the carrying amounts of the Company's receivables 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.

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(ii) Liquidity risk

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

As at June 30, 2020, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 - 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	692,440	692,440	-	-
Contingent consideration payable ⁽¹⁾	1,440,588	-	1,440,588	-
Advances payable - related parties	599,577	599,577	-	-
Lease liability	686,481	143,749	396,077	146,654

⁽¹⁾ Contingent consideration payable is outlined in Notes 9 and 10 of the Company's interim financial statements. The above reflects management's forecasted timing of achievement of the related milestones.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market related factors, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

a) Currency risk

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

At June 30, 2020, the Company held cash and other financial instruments denominated in Canadian and U.S. dollars. The Company's main risk is therefore associated with fluctuations in the U.S. dollar. Assets and liabilities are translated based on the Company's 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 \$3,185 (three months ended June 30, 2019 - \$21,545) to net loss and \$504,651 (three months ended June 30, 2019 - \$156,772) to comprehensive loss for the three months ended June 30, 2020.

At June 30, 2020, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

b) 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 Canada and U.S. cannabis and from derivatives linked with such. The Company manages this risk by routinely monitoring and assessing the performance and outlook of its investments; however, this still exposes the Company to a moderate amount of price risk. The Company has

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determined that a 10% increase or decrease in the fair value of these financial assets would result in an increase or decrease of approximately \$325,000 to net and comprehensive loss for the three months ended June 30, 2020.

(iv) Concentration risk

Concentration risk 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.

ISSUER'S INVOLVEMENT IN THE U.S. CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-532, below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently indirectly involved, through its investments, in the cannabis industry. The Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

The Company holds investments in entities, specifically our investment in Body and Mind, Inc., that cultivate and/or distribute marijuana in the states of Nevada, Ohio, Arkansas and California. In addition, the Company owns certain cannabis operating assets in the state of Nevada, including licenses, permits, brand names, and production equipment, for use in cultivating and producing marijuana, but has not itself commenced cultivation or distribution operations, pending approval of the license transfer by the State of Nevada, from Green Therapeutics, LLC ("GT") to the Company. The Cannabis industry has been legalized in certain states such as the above-listed four, but remains illegal under U.S. federal law, and enforcement of federal law remains a significant risk to operators in the industry. The Company, through its investments and ownership of certain cannabis assets, is exposed to risk of significant decline in investment and asset value as a result. The Company's current carrying value of its investment in Body and Mind is \$9,991,963 (inclusive of amounts held for sale) and the value of the Company's cannabis related assets as acquired from GT is \$8,223,228.

U.S. Federal Overview

In the U.S., thirty-three states have legalized medicinal marijuana and eleven have legalized recreational, or adult-use, marijuana. At the federal level however, marijuana remains classified as a Schedule I controlled substance under the U.S. Controlled Substances Act (the "CSA"). As a Schedule I drug, the Federal Drug Enforcement Agency ("DEA") considers marijuana to have a high potential for abuse; no currently accepted medical use in treatment in the U.S.; and a lack of accepted safety for use of the drug under medical supervision.

Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of cannabis under the Cannabis Act (Canada), cannabis is largely regulated at the state level in the United States. State laws regulating cannabis conflict with the CSA, which makes marijuana use and possession federally illegal. Although

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certain states and territories of the United States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal. The Company has confirmed that our investee is compliant with applicable state and local laws, however strict compliance with state and local laws with respect to cannabis may neither absolve operators of liability under United States federal law nor provide a defense to federal criminal charges that may be brought against them.

In the absence of a uniform federal policy, numerous United States Attorneys with state-legal marijuana programs within their jurisdictions have announced enforcement priorities for their respective offices. Unless and until the U.S. Congress amends the CSA with respect to cannabis, there is a risk that federal authorities may enforce current federal law.

State Law Overview

Nevada

Nevada's medicinal use cannabis program launched in June 2013 with the passing of Senate Bill 374, authorizing and regulating the registration of medical marijuana dispensaries in the state. In November 2016, adult-use cannabis was legalized when Nevada voters passed the Regulation and Taxation of Marijuana Act (Ballot Question 2), legalizing the purchase, possession and consumption of recreational marijuana for adults 21 years of age and older, subject to limits established by law. The Nevada market is divided into five license classes: dispensaries, cultivators, distribution, product manufacturing, and testing. The Nevada Division of Public and Behavioral Health (the "Division") licensed medical marijuana establishments until July 1, 2017, when the state's medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation ("DoT"). In June 2019, Nevada legislature passed Nevada Assembly Bill 533, which authorized the formation of the Cannabis Compliance Board (the "CCB") to be vested with the authority to license and regulate persons and establishments engaged in cannabis activities within Nevada. The CCB formed in July 2020.

Ohio

House Bill 523, effective in September 2016, legalized the use of medical marijuana in Ohio for people with certain medical conditions and who receive a recommendation from an Ohio-licensed physician certified by the State Medical Board. The Ohio Department of Commerce is responsible for overseeing cultivation, processing, and testing. The State of Ohio Board of Pharmacy is responsible for overseeing retail dispensaries. The State Medical Board of Ohio is responsible for certifying physicians to recommend medical marijuana. The first dispensaries opened in January 2019.

California

California was the first state to legalize medical marijuana when voters passed the Proposition 215 ballot initiative in 1996, allowing patients with a valid doctor's recommendation to possess and cultivate cannabis for personal medical use. In October 2015, the Medical Cannabis Regulation and Safety Act ("MCRSA") was signed into law, providing a regulatory framework around the medical cannabis industry. In November 2016, voters approved Proposition 64, the Adult Use of Marijuana Act ("AUMA"), which legalized adult-use cannabis in the state. The Medicinal and Recreational Cannabis Regulation and Safety Act, an integration of MCRSA and AUMA passed in June 2017, creates the general framework for the regulation of commercial medicinal and adult-use cannabis in California. Three state agencies are responsible for licensing and regulating each aspect of the industry: the Bureau of Cannabis Control regulates retailers, distributors, testing labs, microbusinesses, and temporary cannabis events; the Manufactured Cannabis Safety Branch, a division of the California Department of Public Health, regulates manufacturers of

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commercial cannabis for both medical and nonmedical use; and CalCannabis Cultivation Licensing, a division of the California Department of Food and Agriculture, regulates cultivators of medicinal and adult-use cannabis.

Arkansas

Arkansas voters approved the Arkansas Medical Marijuana Amendment (“AMMA”) in November 2016, allowing seriously ill patients to obtain and consume medical marijuana with a doctor’s approval and establishing licenses for state cultivation facilities and dispensaries. The state’s medical marijuana program is regulated by the Arkansas Department of Health (“ADH”), which issues medical marijuana cards for patients and caregivers. The Alcoholic Beverage Control Division (“ABCD”) regulates dispensaries and issues regulations for dispensing and cultivation activities. The Arkansas Medical Marijuana Commission regulates licensing of dispensaries and cultivation facilities and supports the ABCD in implementing regulations.

Ability to Access Capital and Restricted Access to Banking

Although the Company is currently, only indirectly involved in the cannabis industry, the Company is still impacted by certain restrictions placed on capital access and banking in the cannabis industry. Given the current laws regarding cannabis at the federal level in the United States, traditional bank financing is typically not available to United States cannabis companies. Specifically, as financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under anti-money laundering statutes, the unlicensed money transmitter statute and the Bank Secrecy Act, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Banks who do accept deposits from cannabis-related businesses in the United States must do so in compliance with Financial Crimes Enforcement Network (“FinCEN”) guidance and do so at their own risk.

On September 26, 2019, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking Act of 2019 (commonly known as the “SAFE Banking Act”), which aims to provide safe harbor and guidance to financial institutions that work with legal U.S. cannabis businesses. The SAFE Banking Act is currently being reviewed by the U.S. Senate Banking Committee.

The Company has established banking relationships for deposits and making payments to its vendors and employees, however, as the FinCEN guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice or other federal regulators, many banks in the U.S. do not appear to be comfortable providing banking services to cannabis-related businesses, and the Company’s existing relationships may be rescinded as a result. The limitation in the Company’s ability to open or maintain bank accounts may make it difficult for the Company to operate and conduct its business efficiently.

With respect to access to capital, the Company has relied upon private placement equity capital raise to support the development and growth of our business in the past. The Company does not plan to rely upon traditional bank financing in the near-term, and instead expects to rely on both private and public capital markets as needed, as well as funds from future revenues, to support growth and expansion of company operations going forward.

RISK FACTORS

The following list of risks and uncertainties relate to the business of Australis. The list is not exhaustive and additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company, may also adversely affect the Company’s business. These risks and uncertainties should be carefully considered in conjunction with all of the other information included in the Company’s condensed, interim consolidated financial statements, this management’s discussion and analysis (“MD&A”), and the Company’s consolidated annual financial statements and related MD&A. Management takes those actions necessary to mitigate these risks to the extent possible.

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Risks Related to the Company's Business

The Company is in the start-up phase of the business life cycle and expects to launch operations, specifically in the technology segment, in the third calendar quarter of 2020. The Company expects to continue to develop and refine its technology product offering after deployment, based on the feedback of dispensaries and end-consumers, which will require additional expenditures, potentially in excess of revenues generated by the product in the early periods of deployment.

The extent to which the impacts of the COVID-19 pandemic will affect Company operations following deployment, is unknown. Although the Company sees the use of self-service kiosks as a possible intermediary for dispensaries and their customers to facilitate transactions while limiting personal interactions and promoting social distancing, potential impacts such as lesser foot traffic in dispensaries due to consumer decisions to remain home, as well as reduced spend in response to economic uncertainties and high unemployment, may result in less than expected growth of Company operations during and following global recovery from the pandemic. This may have a negative impact on the Company's plans for growth and expansion and further effect the Company's ability in the short-term, to cover additional development costs through revenues generated by the product.

Despite these potential risks, the Company believes that the current preference for contactless interactions by consumers, provides an opportunity for more wide-spread adoption of the Cocoon platform as dispensaries look to in-store kiosks and mobile solutions to facilitate contactless sales. Further, prior times of economic uncertainty have shown that products such as alcohol and tobacco are generally, not significantly impacted and demands remain strong. Cannabis, considered a comparable industry, is expected to show similar patterns in times of economic uncertainty.

With respect to the cannabis segment of the Company's business, approvals of new license issuances and license transfers were halted, pending the assembly of the Cannabis Control Board ("CCB") and transfer of regulatory responsibilities for the State of Nevada's cannabis industry from the Department of Taxation ("DoT") to the CCB. The CCB was formed in July 2020. The transfer of the Company's previously acquired cultivation and production licenses from GT to the Company is pending approval from the CCB. During the period in which the Company awaits approval of the license transfer, the Company cannot commence cultivation and production operations.

U.S. Cannabis Related Assets

The Company is currently engaged indirectly in the medical and adult-use cannabis industry in the United States, through its investment in Body and Mind, Inc. and through its holding of certain cannabis related assets, where only state law permits such activities. As such, the Company has an indirect exposure to the impacts of enforcement of federal law on the cannabis industry. Investors are cautioned that in the United States, cannabis is largely regulated at the state level. Although legal in each state in which the Company's investee operates and certain cannabis assets are held, cannabis continues to be categorized as a controlled substance under the Controlled Substance Act and as such, cultivation, distribution, sale and possession of cannabis violates federal law. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions and criminal charges, including, but not limited to, cessation of business activities or divestiture. Despite current protections under the Rohrabacher-Farr Amendment through September 2020, which prohibits the Department of Justice from expending any funds for the prosecution of medical cannabis businesses operating in compliance with state and local laws, there is no guarantee that the federal government will not seek to prosecute cases involving adult-use cannabis businesses, or medical use cannabis businesses following expiration of the current Amendment. The risks associated with operating in the U.S. cannabis industry, may have an indirect, material adverse effect on the Company's financial results through decline in its investment and asset values if strict enforcement of federal law occurs.

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Dependence on Key Personnel

The success of the Company depends on the expertise, abilities, judgment and good faith of its senior management team, as well as the Company's ability to attract and retain highly skilled and qualified personnel. Failure to attract and retain members of senior management, technical personnel, and sales and marketing personnel, could adversely affect the Company's business, results of operations and future growth.

Competition

The cannabis industry is relatively new to the United States, with the technology branch of the cannabis industry newer still, and has experienced significant growth and regulatory change in its years of existence. As the industry expands and more states permit the use of medicinal or adult-use cannabis, the Company will likely face increasing competition from other companies, some of which can be expected to have longer operating histories and more financial resources than the Company. Increased competition may hinder the Company's success in launching its product and service offerings and expanding operations in the future.

Financial Liquidity

The Company currently has limited sources of operating cash flow and has incurred operating losses over the past fiscal years. To date, the Company has financed its operations and met its capital requirements through equity financings and believes that it has sufficient cash and resources to fund its business objectives for the next twelve months. The Company expects to rely on future revenue streams upon deployment of operations, as well as additional equity financing if and when needed, to support on-going operations and capital expenditures for growth going forward. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable to management and shareholders.

Intellectual Property Risks

The Company's ability to compete in the future depends in part, on the superiority and value of its intellectual property and technology, including both internally developed technology and technology licensed from third parties in conjunction with its Cocoon Technology Platform. To the extent possible, the Company will rely on trademark, copyright and trade secret laws, and confidentiality agreements with its employees and third parties to protect the Company's intellectual property and technology. Any loss of intellectual property protection may have an adverse effect on the Company's business, results of operations or prospects.

Performance Not Indicative of Future Results

The Company has a limited operating history upon which investors may base an evaluation of potential, future performance. There can be no assurance that the historical investment and operational performance of the Company will be indicative of future performance.

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OUTSTANDING SHARE DATA

As of August 1, 2020, the Company had the following securities issued and outstanding:

Securities	Units Outstanding
Issued and outstanding shares	170,765,987
Options	19,073,763
Warrants	30,929,562
Restricted Stock Units	4,896,773

ADDITIONAL INFORMATION

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