

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Financial Statements

**For the Three and Nine Months Ended
December 31, 2021 and 2020
(Unaudited – in Canadian Dollars)**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements (the “interim financial statements”) of Australis Capital Inc. (the “Company”) for the interim period ended December 31, 2021, have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board and are the responsibility of the Company’s management.

The Company’s independent auditors have not performed a review of these interim financial statements.

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited – in Canadian Dollars)

	Notes	December 31, 2021	March 31, 2021
		\$	\$
Assets			
Current			
Cash and cash equivalents		655,597	3,531,357
Accounts receivable	4	3,803,803	1,696,656
Inventory		659,395	473,185
Prepaid expenses		418,273	470,479
Current portion of deposits		1,303,734	649,464
Current portion of annuity receivable - SubTerra		59,576	66,070
Loans receivable		2,386,414	-
Marketable securities held for sale	5	2,890,022	12,803,638
Land held for sale	6	-	4,151,551
		12,176,814	23,842,400
Non-current			
Investment in ALPS technology solution APIS	8	3,034,309	1,130,233
Property, plant, and equipment	9	2,122,250	298,258
Right-of-use assets	9	754,156	1,097,361
Intangible assets	11	13,287,857	14,227,461
Goodwill	11	15,057,796	15,057,796
Derivative financial instrument – NCI call option	8	7,320,630	7,320,630
Annuity receivable – SubTerra		679,492	672,998
Long-term deposits	10	3,219,387	4,130,168
Other assets – acquisition deposit	7	14,797,896	14,677,674
TOTAL ASSETS		72,450,587	82,454,979
Liabilities			
Current			
Accounts payable and accrued liabilities	15	5,448,113	5,915,674
Deferred revenue		8,858	17,813
Current portion of lease liability	12	438,641	459,895
Provisions	10	-	1,029,014
		5,895,612	7,422,396
Non-current			
Contingent consideration payable	8	3,698,980	3,698,980
Lease liability	12	369,991	686,191
Loan payable	15	-	747,115
Deferred tax liability		3,205,244	3,205,244
TOTAL LIABILITIES		13,169,827	15,759,926
Shareholders' equity			
Share capital	13	112,002,679	104,617,900
Treasury shares	7,13	(11,367,770)	(11,367,770)
Exchangeable shares reserve	13	10,383,426	11,114,175
Reserves	13	14,173,098	9,640,106
Accumulated other comprehensive income		323,717	234,035
Accumulated deficit		(71,303,420)	(52,937,270)
Equity attributable to owners of the Company		54,211,730	61,301,176
Non-controlling interest	8	5,069,030	5,393,877
TOTAL SHAREHOLDERS' EQUITY		59,280,760	66,695,053
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		72,450,587	82,454,979

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 19)

Subsequent Events (Note 20)

Approved on March 1, 2022

"Terry Booth"

Director

"Hanoz Kapadia"

Director

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

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited – in Canadian Dollars, except number of shares)

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2021	2020	2021	2020
Revenue		\$	\$	\$	\$
Revenue-Services		1,993,131	8,430	5,137,007	43,102
Revenue-Kiosks		94,522	35,181	315,787	71,510
Revenue-Consulting		283,565	46,767	918,617	143,368
		2,371,218	90,378	6,371,411	257,980
Cost of goods sold		(527,781)	(256,426)	(2,229,669)	(484,534)
Gross profit (loss)		1,843,437	(166,048)	4,141,742	(226,554)
Operating expenses					
Wages and benefits		1,183,865	3,451,617	3,825,604	5,097,118
Share-based payments	13	1,097,784	(1,263,126)	3,759,580	391,507
Selling, general and administrative	14	3,476,327	2,557,961	7,415,624	4,137,737
Depreciation and amortization	9,11	406,543	152,341	1,281,555	496,355
		6,164,519	4,898,793	16,282,363	10,122,717
Loss from operations		(4,321,082)	(5,064,841)	(12,140,621)	(10,349,271)
Other income (expense)					
Gain on asset disposal		(83,460)	82	(83,496)	138
Loss on investment in associate		-	(427,739)	-	(1,282,451)
Gain (loss) on sale of marketable securities		(142,217)	-	(180,880)	-
Loss on settlements		-	(3,000,000)	(237,338)	(4,025,477)
Loss on true-up provision		-	-	-	(1,615,835)
Loss on impairment - intangible assets		-	(7,684,824)	-	(7,684,824)
Loss on remeasurement of land held for sale		-	(2,250,241)	-	(2,250,241)
Net change on investment at fair value through profit or loss	5	(275,278)	(796,163)	(6,202,654)	(992,718)
Other income		-	70	-	483
Other expense – merger and acquisition costs		-	(118,311)	-	(286,846)
Foreign exchange gain (loss)		323,052	(88,989)	214,362	(87,192)
Income tax expense		(77,596)	-	(77,596)	-
Interest and other expense		(184,599)	(12,712)	(94,436)	(23,195)
Interest expense - leases		(4,616)	(4,880)	(33,670)	(38,685)
Interest income		62,259	26,460	145,332	86,120
		(382,455)	(14,357,247)	(6,550,376)	(18,200,723)
Net loss		(4,703,537)	(19,422,088)	(18,690,997)	(28,549,994)
Other comprehensive income (loss)					
Foreign currency translation		(175,046)	6,010	89,682	(247,153)
Share of OCI from investments in associates		-	144,441	-	(51,976)
Total comprehensive loss		(4,878,583)	(19,271,637)	(18,601,315)	(28,849,123)
Net loss attributable to:					
Shareholders of the Company		(4,714,729)	(19,422,088)	(18,366,150)	(28,549,994)
Non-controlling interest		11,192	-	(324,847)	-
Net loss		(4,703,537)	(19,422,088)	(18,690,997)	(28,549,994)
Total comprehensive loss attributable to:					
Shareholders of the Company		(4,889,775)	(19,271,637)	(18,276,468)	(28,849,123)
Non-controlling interest		11,192	-	(324,847)	-
Total comprehensive loss		(4,878,583)	(19,271,637)	(18,601,315)	(28,849,123)
Net loss per share attributable to shareholders of the Company					
Basic and diluted		(0.02)	(0.11)	(0.08)	(0.17)
Weighted average number of shares outstanding					
Basic and diluted		247,284,636	176,512,309	239,885,621	172,937,978

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

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited –in Canadian Dollars, except number of shares)

	Notes	Common shares	Share capital	Treasury shares	Exchangeable shares reserve	Share-based reserves	Warrant reserves	Accumulated other comprehensive income	Accumulated deficit	Non- controlling Interest	Total equity
		#	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, March 31, 2020		169,943,997	74,650,429	-	-	2,895,969	7,368,032	527,974	(27,676,380)	-	57,766,024
Shares issued for acquisition of Paytron, LLC assets	13	949,926	170,717	-	-	-	-	-	-	-	170,717
Return of shares relating to the disposal of Mr. Natural assets	13	(533,981)	-	(101,456)	-	-	-	-	-	-	(101,456)
Shares issued pursuant to the agreements with Passport Technology Inc. and the Company's former CEO	13	4,250,000	595,000	-	-	-	-	-	-	-	595,000
Vesting of RSUs, net of withholding	13	2,148,509	(149,681)	-	-	-	-	-	-	-	(149,681)
Share-based payments, net of forfeitures and cancellations	13	-	1,493,735	-	-	(1,093,489)	-	-	-	-	400,246
Warrant forfeitures		-	323,048	-	-	-	(323,048)	-	-	-	-
Net loss		-	-	-	-	-	-	-	(28,549,994)	-	(28,549,994)
Other comprehensive loss		-	-	-	-	-	-	(299,129)	-	-	(299,129)
Balance, December 31, 2020		176,758,451	77,083,248	(101,456)	-	1,802,480	7,044,984	228,845	(56,226,374)	-	29,831,727
Return of shares relating to the settlement of the GT transaction	7	(11,417,376)	909,436	(11,266,314)	-	-	-	-	-	-	(10,356,878)
Shares issued pursuant to revised GT Transaction	7	-	-	-	14,662,500	-	-	-	-	-	14,662,500
Subsidiary shares exchanged relating to the GT Transaction	7	9,075,000	3,548,325	-	(3,548,325)	-	-	-	-	-	-
Shares issued pursuant to ALPS Transaction	8	50,000,000	22,500,000	-	-	-	-	-	-	-	22,500,000
Vesting of RSUs, net of withholding	13	50,144	4,331	-	-	-	-	-	-	-	4,331
Share-based payments, net of forfeitures and cancellations	13	-	80,888	-	-	822,765	-	-	-	-	903,653
Shares issued on transactions, settlement, and as signing bonus	13	1,323,148	419,280	-	-	-	-	-	-	-	419,280
Stock option exercise, net of withholding	13	255,069	72,392	-	-	(30,123)	-	-	-	-	42,269
Non-controlling interest on ALPS Transaction	8	-	-	-	-	-	-	-	-	5,592,298	5,592,298
Net loss		-	-	-	-	-	-	-	3,289,104	(198,421)	3,090,683
Other comprehensive income		-	-	-	-	-	-	5,190	-	-	5,190
Balance, March 31, 2021		226,044,436	104,617,900	(11,367,770)	11,114,175	2,595,122	7,044,984	234,035	(52,937,270)	5,393,877	66,695,053
Subsidiary shares exchanged relating to the GT Transaction	13	1,868,924	730,749	-	(730,749)	-	-	-	-	-	-
Shares issued on transactions, settlement, and as signing bonus	13	15,092,309	4,486,533	-	-	-	-	-	-	-	4,486,533
Shares issued for private placement		17,840,349	2,148,893	-	-	-	817,976	-	-	-	2,966,869
Stock option exercise, net of withholding	13	44,444	11,238	-	-	(11,238)	-	-	-	-	-
Vesting of RSUs, net of withholding	13	22,042	7,366	-	-	-	-	-	-	-	7,366
Share-based payments, net of forfeitures and cancellations	13	-	-	-	-	3,726,254	-	-	-	-	3,726,254
Net loss		-	-	-	-	-	-	-	(18,366,150)	(324,847)	(18,690,997)
Other comprehensive loss		-	-	-	-	-	-	89,682	-	-	89,682
Balance, December 31, 2021		260,912,504	112,002,679	(11,367,770)	10,383,426	6,310,138	7,862,960	323,717	(71,303,420)	5,069,030	59,280,760

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

AUSTRALIS CAPITAL INC.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited – in Canadian Dollars)

	Nine months ended December 31,	
	2021	2020
	\$	\$
Cash provided by (used in)		
<i>Operating activities</i>		
Net loss for the period	(18,690,997)	(28,549,994)
Adjustments for non-cash items:		
Depreciation	38,484	85,784
Depreciation – right of use assets	120,700	119,328
Interest income – leases	89,512	57,274
Amortization of intangibles	1,122,371	460,940
Share-based payments	4,545,845	391,507
Impairment loss - intangible assets	83,496	-
Loss on remeasurement of land held for sale	-	7,684,824
Loss on settlements	-	2,250,241
Loss on remeasurement of land held for sale	248,476	4,025,477
Loss on true-up provision	-	1,615,835
Loss on investment in associate	-	1,282,451
Realized loss on sale of marketable securities	180,880	-
Net change on investment at fair value through profit or loss	6,202,654	992,718
Accrued interest expense	(151,388)	-
Unrealized foreign exchange (gain) loss	(31,400)	71,596
Changes in non-cash working capital		
Accounts receivable and others	(1,954,809)	185,401
Prepaid expenses and deposits	476,506	548,688
Inventory	(600,413)	(778,893)
Accounts payable and accrued liabilities	(467,561)	1,407,817
Deferred revenue	(8,955)	8,276
Liabilities associated with assets held for sale – Mr. Natural	-	(12,664)
Net cash used in operating activities	(8,796,599)	(8,153,394)
<i>Investing activities</i>		
Investment in ALPS technology solution APIS	(1,682,344)	-
Purchase of property, plant and equipment	(34,921)	(1,166,622)
Purchase of intangible assets	(100,000)	-
Loan receivable advances	(2,356,566)	-
Proceeds from land held for sale, net	4,108,161	-
Proceeds from sale of property, plant and equipment	-	5,617
Proceeds from sale of investments and marketable securities	3,530,082	469,978
Net cash provided by (used in) investing activities	3,464,412	(691,027)
<i>Financing activities</i>		
Repayments of lease liability	(427,135)	(148,829)
Proceeds from private placement, net of share issue cost	2,966,869	-
Payment of tax withholdings upon settlement of options and restricted stock unit awards	(2,279)	(149,681)
Net cash provided by (used in) financing activities	2,537,455	(298,510)
Effect of foreign exchange on cash and restricted cash	(81,028)	395,652
Decrease in cash and cash equivalents and restricted cash	(2,875,760)	(8,747,279)
Cash and cash equivalents and restricted cash, beginning of period	3,531,357	16,332,500
Cash and cash equivalents and restricted cash, end of period	655,597	7,585,221
<i>Supplementary information</i>		
Cash paid for interest - leases	89,512	42,677
Cash received for interest	124,343	12,250

Supplemental cashflow information (Note 16)

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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2021

(Unaudited – in Canadian Dollars, except where noted)

1. Nature of Operations and Going Concern

Australis Capital Inc. (the “Company” or “ACI”) was incorporated under the *Business Corporations Act (Alberta)*.

The head office and principal address of the Company is 376 East Warm Springs Road, Suite 190, Las Vegas, Nevada, USA 89119. The Company’s registered and records office address is Suite 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7. The Company is involved in the cannabis and horticultural industries in the United States and abroad. As a multi-state operator in the cannabis industry in the US, the Company is focused on strong brands and attractive cannabis licenses in states with favorable economics. As an engineering consulting firm, the Company advises on large scale greenhouse design, build and operations throughout the world in cannabis and horticulture.

As at December 31, 2021, the Company had a deficit of \$71,303,420 (March 31, 2021 - \$52,937,270) since inception and negative operating cash flows. The continuing operations of the Company are dependent upon generating profitable operations and obtaining funding, as required, to allow the Company to achieve its business objectives. These circumstances represent a material uncertainty that cast substantial doubt on the Company’s ability to continue as a going concern.

2. Basis of Presentation

(a) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended March 31, 2022.

These financial statements were approved and authorized for issue by the Board of Directors of the Company on March 1, 2022.

(b) Basis of measurement

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

(c) Basis of consolidation

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

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2021

(Unaudited – in Canadian Dollars, except where noted)

2. Basis of Presentation (continued)

As of March 31, 2021, the Company has investments in the following entities with respective percentage ownership alongside:

Entity	Location	Functional currency	Percentage ownership
Australis Capital (Nevada) Inc. (ACN)	Nevada (USA)	U.S. Dollar	100%
Australis Holdings LLP (AHL)	Washington (USA)	U.S. Dollar	100%
Rthm Technologies Inc.	Ontario (Canada)	Canadian Dollar	100%
Audacious WR LLC*	Nevada (USA)	U.S. Dollar	100%
Australis CA LLC*	Nevada (USA)	U.S. Dollar	100%
Audacious New Mexico LLC*	New Mexico (USA)	U.S. Dollar	100%
Australis NJ LLC*	New Jersey (USA)	U.S. Dollar	100%
Australis NY LLC*	Nevada (USA)	U.S. Dollar	100%
Australis Ohio LLC*	Nevada (USA)	U.S. Dollar	100%
Australis Perennial LLC	Nevada (USA)	U.S. Dollar	100%
Australis Prosper LLC	Nevada (USA)	U.S. Dollar	100%
Australis Terrain LLC	Nevada (USA)	U.S. Dollar	100%
Cocoon Technology LLC	Nevada (USA)	U.S. Dollar	100%
GT Acquisition LLC (GTA)	Nevada (USA)	U.S. Dollar	100%
GT Intellectual Property LLP (GTIP)	Nevada (USA)	U.S. Dollar	100%
2750176 Ontario Inc. (ALPS)	Ontario (Canada)	Canadian Dollar	51%
ALPS Empco Inc.*	Ontario (Canada)	Canadian Dollar	51%
Larssen Ltd. (LAR)	Ontario (Canada)	Canadian Dollar	51%
ALPS (Ontario) Inc.	Ontario (Canada)	Canadian Dollar	51%
ALPS B.V. (ALPSBV)	Netherlands	Euro	51%
Larssen GC Ltd.	Ontario (Canada)	Canadian Dollar	51%
APIS Inc.*	Ontario (Canada)	Canadian Dollar	51%
ALPS USA, Inc.*	Nevada (USA)	U.S. Dollar	51%

*Incorporated during the nine months ended December 31, 2021

Non-controlling interest ("NCI") represents the portion of equity ownership in subsidiaries not attributable to the Company's shareholders. NCI is initially measured as the proportionate share of its interest in the acquiree's identifiable net assets as at the date of acquisition and subsequently adjusted for the proportionate share of net earnings and other comprehensive income (loss) attributable to the NCI, as well as any dividends or distributions paid to the NCI. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of comprehensive loss, respectively. Changes in the parent company's ownership interest that do not result in a change of control are accounted for as equity transactions.

(d) Functional and presentation currency

All amounts in the consolidated financial statements are presented in Canadian dollars, unless otherwise noted. The functional currencies of the Company and its subsidiaries are noted in the above table (Note 2(c)).

3. Significant Accounting Policies and Estimates

In preparing these financial statements, judgments are made in applying the Company's accounting policies. The areas of policy judgment are consistent with those reported in the most recent annual financial statements. In addition, the Company makes assumptions about the future in deriving estimates used in preparing the financial statements.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2021

(Unaudited – in Canadian Dollars, except where noted)

4. Accounts Receivable

Accounts receivable consists of the following:

	December 31, 2021	March 31, 2021
	\$	\$
Trade accounts receivable	3,543,809	1,602,739
Interest receivable	227,779	75,107
Goods and services tax recoverable	32,215	18,810
	3,803,803	1,696,656

5. Marketable Securities (including Held for Sale)

Marketable securities consist of the following:

	December 31, 2021	March 31, 2021
	\$	\$
Body and Mind, Inc. (held for sale)	2,890,022	12,803,638

During the nine months ended December 31, 2021, the Company sold 11,436,564 shares of Body and Mind, Inc (“BaM”) stock at an average net price of \$0.31 per share. The Company is in the process of selling its remaining investment in BaM comprising 7,506,549 marketable securities with a \$2,890,022 fair value, noting that the Company has an agreement with a third party to acquire the remaining BaM shares over the balance of fiscal 2022. Accordingly, this investment has been classified as held for sale.

6. Land Held for Sale

	Whatcom Property	Meridian Property	Total
	\$	\$	\$
March 31, 2020	2,977,532	-	2,977,532
Transfer from asset held for use (Note 9)	-	5,977,635	5,977,635
Additions	-	43,215	43,215
Revised GT Transaction (Note 7)	-	(3,755,550)	(3,755,550)
Impairment loss	(758,049)	-	(758,049)
Foreign currency translation	(333,232)	-	(333,232)
March 31, 2021	1,886,251	2,265,300	4,151,551
Gross proceeds	(1,867,800)	(2,240,361)	(4,108,161)
Foreign currency translation	(18,451)	(24,939)	(43,390)
December 31, 2021	-	-	-

On April 30, 2021, the Meridian Property was sold, the Company received proceeds of \$2,240,361 (USD \$1,801,432). No gain or loss was realized on the transaction close as the land was adjusted to its recoverable value at March 31, 2021. The Whatcom Property is valued at its expected net realizable value at December 31, 2021.

On November 5, 2021, the Whatcom Property was sold, the Company received net proceeds of \$1,867,800 (USD \$1,500,000) being the US dollar carrying value of the asset following the impairment recognized during the year ended 31 March 2021. An \$83,496 (USD \$ 66,538) loss was recognized on sale of the property in relation to \$42,246 (USD \$33,521) of sale transaction costs and \$41,250 (USD \$33,017) on write off of other assets on the property.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2021

(Unaudited – in Canadian Dollars, except where noted)

7. Green Therapeutics, LLC – Asset Acquisition and Revised Transaction

Asset Acquisition

On May 21, 2019, the Company entered into an asset purchase agreement (the “Original GT Transaction”) with Green Therapeutics, LLC (“GT”) to acquire its Tsunami, Provisions, and GT Flowers cannabis brands, certain operating assets, intellectual property and the right to assume and complete the construction of a planned cultivation and production facility.

Consideration provided for the Original GT Transaction, consisted of 7,831,855 common shares of the Company valued at \$1.10 per share (based on the market price of the shares on May 17, 2019 as defined in the agreement). Additional consideration was to be provided upon completion of the following milestones:

- (i) USD \$800,000 in common shares would be issued when the new cultivation and production facility is fully licensed and operational; and
- (ii) USD \$800,000 in common shares would be issued if and when total operating income of USD \$800,000 is achieved before the start of the first harvest at the new production facility, after the facility is fully operational.

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

Measurement

The Company accounted for the Original GT Transaction as an asset acquisition. As the consideration provided was in the form of the Company’s shares, in accordance with IFRS 2, the value of the equity issued is measured directly at the fair value of the assets received. The Company engaged an independent valuation firm to assess the fair value of the assets acquired and allocate the consideration provided based on their relative fair values. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of the assets acquired. To the extent possible, the Company utilized observable inputs, such as market prices for assets comparable to those acquired, however certain inputs and assumptions were based upon unobservable inputs, such as future revenue projections, and required significant judgment based on the best information available to management. Results of the independent valuation and allocation of consideration to assets acquired is outlined below.

The contingent consideration was measured on the date of acquisition at fair value of \$1,286,776 (\$956,000 USD), based on management’s judgment of the probability and timing of when the milestones would be completed, considering factors such as the Company’s degree of control over achievement of the milestone, activities undertaken at or around time of acquisition to progress achievement of the milestone and historical experience and results.

Total consideration for the assets acquired was \$8,711,008:

Consideration	\$
Common shares issued (inclusive of finder's fee)	7,424,232
Contingent consideration	1,286,776
Total consideration provided	8,711,008

The consideration provided was allocated to the assets acquired as follows:

Net assets acquired	\$
Other current assets	673,000
Production equipment	200,370
Intangible asset – brands	3,799,638
Intangible asset – cultivation and production licenses	4,038,000
Total net assets acquired	8,711,008

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

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7. Green Therapeutics, LLC – Asset Acquisition and Revised Transaction (continued)

Contingent consideration

Prior to the settlement of the Original GT Transaction (see below), as at March 31, 2020, the Company reassessed the carrying amount of the GT contingent obligations to ensure that it reflected management's best estimate of the expected outflow required to settle the obligation as of the year then ended. During the year ended March 31, 2020, the Company recorded an increase to the contingent obligation of USD \$65,000 for a total contingent obligation of USD \$1,021,000 (\$1,448,493 revalued using the year end spot rate) based on management's judgement of the updated probabilities and timing of when the milestones will be completed.

Settlement of the Original GT Transaction

Revised Transaction

On January 4, 2021, the Company entered into a non-binding term sheet with GT and the holders of the issued and outstanding membership interests of GT setting forth the terms of a proposed revised transaction while also settling a previously announced legal dispute which settled the Original GT Transaction including the required sale of the Meridian Property (Note 6). The Company determined that the settlement of the Original GT Transaction and the Revised GT Transaction were separate transactions as the settlement was not dependent on concluding a Revised GT Transaction, and there were different assets, benefits, and cash-flows being acquired including that the Original GT Transaction was evaluated to be an asset acquisition and that the Revised GT Transaction was evaluated to be a business combination.

In relation to the Revised GT Transaction, the Original GT Transaction (including the required disposal of the Meridian Property – Note 6) was settled with the following impacts, noting that the \$10,356,878 fair value of shares returned included the \$11,266,314 original fair value of the shares issued for both the Original GT Transaction and the Meridian Land was recorded to treasury shares, while the \$909,436 difference was recorded to share capital (Note 13):

	\$
Reduction of assets:	
Land held for sale	(3,755,550)
Other current assets	(673,000)
Property, plant and equipment, net	(81,505)
Intangible assets	(7,225,815)
Reversal of consideration and shares	
Contingent consideration payable	1,378,992
Return of shares (allocated share capital)	(909,436)
Return of shares (allocated to treasury shares)	11,266,314
Net settlement	-

Pursuant to the Revised GT Transaction as negotiated by the new board and management on March 23, 2021, the Company's wholly owned subsidiary GTA issued 37,500,000 exchangeable shares ("Exchangeable Shares" – see Note 13) to members of GT with a \$14,662,500 fair value recorded as Exchangeable Shares Reserve with an offset to acquisition deposit on the Consolidated Statement of Financial Position. Each Exchangeable Share is exchangeable into one common share of the Company with exchange subject to certain free-trading restrictions and milestones. In addition to the consideration shares, there is a \$500,000 indemnity holdback and \$2,000,000 in contingent consideration payable which may be paid in cash or shares, at the Company's discretion, noting that \$1,000,000 will be contingently payable in 12 months, \$500,000 in 18 months, and \$1,000,000 in 24 months.

In addition, pursuant to the Revised GT Transaction, GT contracted with GTIP to provide consulting, accounting, administrative and other management services to GT, while GT still retains final say on business decisions and overall control of its business until regulatory approval is granted transferring control of GT over to the Company.

AUSTRALIS CAPITAL INC.

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7. Green Therapeutics, LLC – Asset Acquisition and Revised Transaction (continued)

Measurement

The Revised GT Transaction was determined to be a business combination under IFRS 3. Due to the delayed and uncertain timing of regulatory approval, which is a required step for the acquisition to culminate, it was determined that the acquisition date would be the date that regulatory approval was attained or reasonably certain, and as such the fair value of the consideration provided was recorded as an acquisition deposit. The Company engaged an independent valuation firm to assess the fair value of the consideration provided and will utilize the same valuation firm to determine the fair value of the assets, liabilities, and intangibles at the date of acquisition. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of the assets acquired. To the extent possible, the Company utilizes observable inputs, such as market prices for assets comparable to those acquired, however certain inputs and assumptions may be based upon unobservable inputs, such as future revenue projections, and require significant judgment based on the best information available to management. Results of the independent valuation and allocation of consideration to assets acquired will be outlined once the acquisition is complete. Customer relationships and brands acquired will be assigned a useful life and will be amortized straight-line from the date of acquisition. The goodwill value, as applicable, will arise from the remaining value in the business and is not deductible for tax purposes.

Once control of GT is transferred to the Company, and in the event that certain holders of the Exchangeable Shares don't convert their Exchangeable Shares into common shares of the Company, then the Company will recognize a non-controlling interest for the portion of GT owned by holders of Exchangeable Shares.

Total consideration for the assets acquired, which is recorded as an acquisition deposit, is as follows:

Consideration	\$
Exchangeable Shares issued	14,662,500

As at December 31, 2021, the GT acquisition deposit was remeasured to \$14,797,896 (March 31, 2021 - \$14,667,674) with the \$120,222 difference (\$15,174 for the period ending March 31, 2021) recorded to other comprehensive income (loss).

Consideration fair value

The Company determined that the Exchangeable Shares had a \$14,662,500 fair value based on a \$17,250,000 market value (\$0.46 market price on closing) less a \$2,587,500 discount for lack of marketability relating to free-trading restrictions whereby 25% of the shares become free trading on issuance and 25% at each six-month interval thereafter. The 37,500,000 Exchangeable Shares were determined based on \$7,500,000 consideration per the Revised GT Transaction agreement amount at \$0.20 per Exchangeable Share (consistent with the quoted price of Australis shares at the time of entering into the non-binding term sheet in January 2021).

AUSTRALIS CAPITAL INC.

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8. ALPS - Acquisition

On January 5, 2021, the Company and ALPS announced that they, along with the holders of the outstanding shares of ALPS, entered into a non-binding term sheet setting forth the terms on which the Company was to acquire 51% of the issued and outstanding shares of ALPS, with an option to purchase the remaining 49%. On February 24, 2021, the Company announced it has reached a definitive agreement with ALPS and their shareholders and closed the ALPS Acquisition on March 8, 2021.

Measurement

The ALPS acquisition was determined to be a business combination under IFRS 3. The Company engaged an independent valuation firm to assess the fair value of the assets acquired, the NCI Purchase Call Option acquired (see below), and allocate the consideration provided based on their relative fair values. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of the assets acquired. To the extent possible, the Company utilized observable inputs, such as market prices for assets comparable to those acquired, however certain inputs and assumptions were based upon unobservable inputs, such as future revenue projections, and required significant judgment based on the best information available to management. Results of the independent valuation and allocation of consideration to assets acquired is outlined below. The customer relationships and brands acquired have been assigned a useful life of ten years and will be amortized straight-line from the date of acquisition. The goodwill value arises from the remaining value and assemble workforce in the business and is not deductible for tax purposes.

Total consideration for ALPS acquisition is as follows:

Consideration	\$
Cash	2,000,000
Common shares issued	22,500,000
Contingent consideration	3,698,980
Total consideration provided	28,198,980

The consideration provided was allocated to the assets acquired as follows:

Net assets acquired	\$
Cash	49,469
Accounts receivable	1,623,441
Prepaid expenses	49,963
Other current assets	70,682
Property, plant, and equipment	193,845
Other investment – ALPS technology solution APIS	986,520
Intangible asset - brands	601,000
Intangible asset - customer relationships	13,662,000
Accounts payable and accrued liabilities	(747,860)
Advances payable - related parties	(1,045,695)
Loans	(747,115)
Deferred tax liability	(3,283,398)
Subtotal, net assets acquired	11,412,852
Goodwill	15,057,796
Non-controlling interest	(5,592,298)
NCI Purchase Call Option	7,320,630
Total net assets acquired	28,198,980

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited – in Canadian Dollars, except where noted)

8. ALPS – Acquisition (continued)

The other investment represents development costs in a new service line which is being launched in the first quarter of fiscal year 2022. APIS is a proprietary suite of services designed to provide critical post-handover facility operational control and savings which allows ALPS to generate monthly recurring revenues from horticultural and cannabis greenhouse facilities already in operation. The consideration will be paid based on various milestones and adjustments as set out below, noting that the \$3,698,980 contingent consideration comprises the \$1,609,000 fair value of the indemnity holdback and the \$2,089,980 fair value of the Milestone Payments (defined below). The remaining 49% of ALPS is included as a non-controlling interest.

Consideration fair value

- (i) The 50,000,000 consideration shares were determined to have a \$22,500,000 fair value based on the \$0.45 market price at time of closing whereby pursuant to contractual (non-security) trading restrictions 25% of the shares become free trading on issuance and 25% at each six-month interval thereafter;
- (ii) The indemnity holdback was determined to have a \$1,609,000 fair value based on based on a 3.7% present value factor discount; and
- (iii) The Milestone Payments (defined below) were determined to have a \$2,089,980 fair value based on probability weighting of bear, base, and bull cash flow projections and likelihood of attaining the applicable EBITDA and revenue targets.

Initial consideration

- (i) \$10,000,000 paid through the issuance of shares of the Company with a deemed price of \$0.20 per share for a total 50,000,000 common shares of the Company (issued);
- (ii) \$2,000,000 paid in cash on closing (paid); and
- (iii) \$1,700,000 indemnity holdback, payable eighteen (18) months after closing, adjusted for any indemnity claim made by the Company pursuant to the terms of the purchase agreement. The indemnity holdback payment, if any, may be paid, at the election of Company in cash or the Company shares at a deemed price equal to the 10-day volume weighted average price calculated from the payment date.

Milestone consideration

The Company will also be responsible to pay to the ALPS vendors the following milestone-based payments:

- (i) The maximum milestone payments (the "Milestone Payments") that will payable, assuming full satisfaction of all milestones will be \$24,000,000, payable in six installments, commencing up to 90 days post June 30, 2022;
- (ii) Each Milestone Payment will be calculated against revenue (3 payments) and EBITDA (3 payments) targets, related to any 12-month timeframe chosen by the ALPS vendors, with the first timeframe between the 18-month period from July 1, 2021, to December 31, 2022. The second and third 18-month periods begin after the end of the first and second timeframes, respectively. The actual Milestone Payments are capped at \$8,000,000 per 12-month period, contingent on actual performance.
- (iii) The maximum Milestone Payments of \$24,000,000 are payable upon ALPS achieving cumulative revenues of \$108.7 million with cumulative EBITDA of \$48.9 million over three 12-month periods chosen by the ALPS vendors from July 2021 to December 2025 as defined above (with separate revenue and EBITDA thresholds for each 12-month period).

If a Milestone Payment becomes payable by the Company prior to the Company exercise of the option to acquire the remaining 49% of ALPS, such payment will be 51% of the applicable Milestone Payment. The number of the Company's shares to be issued by the Company in connection with the payment of the Milestone Payment or the Option Amount (as defined below) will be calculated by dividing the amount payable by an amount equal to the greater of (a) the volume-weighted average trading price of the Company's shares on the Canadian Securities Exchange for the ten trading days immediately prior to the applicable payment date and (b) the maximum allowable discount permitted by the applicable stock exchange rules to the closing price of the Company's shares on the trading day prior to this announcement.

AUSTRALIS CAPITAL INC.

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8. ALPS – Acquisition (continued)

NCI Purchase Call Option

The Company shall have the right to purchase the remaining 49% of the ALPS shares (the “NCI Purchase Call Option”) on the following terms:

- (i) The Company may elect to acquire the 49% of ALPS for an amount equal to \$14,300,000 plus any past Milestone Payment multiplied by that percentage of ALPS owned by the vendors at the time of the payment of such Milestone Payment (the “Option Amount”);
- (ii) The Company may exercise all or part of the NCI Purchase Call Option on a pro-rata basis at any time until the third anniversary of the closing of the initial purchase.

The Option Amount will be payable through either the issuance of the Company’s shares, or in cash, or a mixture of both at the election of the Company. In the event that the issuance of the Company’s shares would result in “change of control” (for the purposes of Canadian Securities Exchange rules), the Company will be prohibited from paying the Milestone Amount or the Option Amount in the Company’s shares and shall be required to make the payments in cash. The Company’s shares issued in connection with the transaction will be subject to certain contractual restrictions on transfer.

The Company determined that the NCI Purchase Call Option, a derivative financial instrument, had a \$7,320,630 fair value based on a multi-assumption valuation technique prepared by an independent valuation firm to assess the fair value of the call option.

9. Property, Plant and Equipment

Property, plant and equipment held for use and related accumulated depreciation and carrying value are as follows:

	Land	Computer equipment	Furniture and fixtures	Leasehold improvements	Production equipment	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
March 31, 2020	3,944,073	66,313	109,238	31,528	200,370	686,278	5,037,800
Additions	-	24,679	-	2,011	-	1,408,069	1,434,759
Disposals	-	(19,106)	-	-	-	-	(19,106)
Transferred	(3,944,073)	-	-	-	-	(2,033,562)	(5,977,635)
ALPS Acquisition (Note 8)	-	126,205	79,340	4,220	-	-	209,765
GT restructuring (Note 7)	-	-	-	-	(200,370)	-	(200,370)
Foreign currency translation	-	(6,068)	(11,041)	(3,581)	-	(60,785)	(81,475)
March 31, 2021	-	192,023	177,537	34,178	-	-	403,738
Additions	1,817,691	31,543	3,378	-	-	-	1,852,612
Disposals	-	-	(82,521)	(17,937)	-	-	(100,458)
Foreign currency translation	53,900	1,736	9,978	(35)	-	-	65,579
December 31, 2021	1,871,591	225,302	108,372	16,206	-	-	2,221,471
Accumulated depreciation							
March 31, 2020	-	18,060	25,736	5,340	57,641	-	106,777
Depreciation	-	29,414	21,340	6,703	61,224	-	118,681
Disposals	-	(5,857)	-	-	-	-	(5,857)
ALPS Acquisition (Note 8)	-	1,792	14,128	-	-	-	15,920
GT restructuring (Note 7)	-	-	-	-	(118,865)	-	(118,865)
Foreign currency translation	-	(5,572)	(4,723)	(881)	-	-	(11,176)
March 31, 2021	-	37,837	56,481	11,162	-	-	105,480
Depreciation	-	12,273	21,595	4,616	-	-	38,484
Disposals	-	-	(48,811)	(10,397)	-	-	(59,208)
Foreign currency translation	-	3,332	11,133	-	-	-	14,465
December 31, 2021	-	53,442	40,398	5,381	-	-	99,221
Carrying value							
March 31, 2021	-	154,186	121,056	23,016	-	-	298,258
December 31, 2021	1,871,591	171,860	67,974	10,825	-	-	2,122,250

AUSTRALIS CAPITAL INC.

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9. Property, Plant and Equipment (continued)

Depreciation expense was \$7,406 and \$38,484 for the three and nine months ended December 31, 2021 related to property, plant and equipment, respectively (\$29,279 and \$88,419 for the three and nine months ended December 31, 2020, respectively), which included \$1,481 and \$2,901 recognized to cost of goods sold for the three and nine months then ended (\$1,212 and \$2,635 for the three and nine months ended December 31, 2020, respectively).

On June 15, 2021, the Company acquired a 23-acre plot of land in Sandy Valley, Clark County, Nevada, for USD \$1,100,000 by issuing 4,516,207 common shares. GT acquired the water rights for the land for USD \$390,000. The Company paid for the water rights on behalf of GT by issuing 1,662,141 common shares. The payment was recorded as a receivable from GT (see Note 15). On June 30, 2021, GT assigned the water rights to the Company. The area is intended to become a hub for multiple operators from cultivation to extraction and manufacturing (subject to land use and regulatory approvals).

Key movements relating to the right-of-use assets was as follows:

	\$
March 31, 2020	744,502
Addition to leased assets	624,965
Depreciation expense	(160,093)
Foreign currency translation	(112,013)
March 31, 2021	1,097,361
Depreciation expense	(342,432)
Foreign currency translation	(773)
December 31, 2021	754,156

10. Deposits

Long-term deposits consist of the following:

	December 31, 2021	March 31, 2021
	\$	\$
Astound	2,993,701	3,427,933
Rapid Cash	-	623,988
Other	225,686	78,247
	3,219,387	4,130,168

(a) Astound

On November 20, 2019, the Company entered into a three-year contract with Astound Group (“Astound”), a global marketing and creative firm, to provide brand optimization and awareness services for the Company’s brands. For the three and nine months ended December 31, 2021, the Company used a total of \$309,039 and \$434,232, respectively, in services (\$1,401 and \$67,424 was used during the three and nine months ended December 31, 2020, respectively).

On February 1, 2021, Astound served the Company with notice to make a contractually defined true-up payment. On April 16, 2021, the Company and Astound reached agreement whereby 3,166,198 common shares of the Company with a \$1,029,014 fair value (market price of \$0.325 per share on that date) were issued to Astound. The \$1,029,014 amount was included in provisions on the statement of financial position at March 31, 2021.

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10. Deposits (continued)

(b) Rapid Cash

On December 14, 2019, the Company entered into a vendor agreement with RapidCash ATM Ltd. (“Rapid Cash”), a provider of ATM products and software solutions, for the purchase of retail kiosks to be used in conjunction with the Company’s Cocoon Technology solution.

On February 1, 2021, Rapid Cash served the Company with notice of termination of the agreement due to material breach and representation. On May 25, 2021, the Company and Rapid Cash reached a mutually agreeable solution to settle the dispute whereby Rapid Cash agreed to return 2,262,000 BaM shares to the Company, which the Company had previously transferred to Rapid Cash as an advance on future purchases of kiosks for the Company’s Cocoon project, and the Company agreed to return kiosks to Rapid Cash. On August 13, 2021, the Company and Rapid Cash amended their settlement agreement so that Rapid Cash would retain the 2,262,000 common shares of BaM and would instead compensate the Company by a cash payment of \$791,700 (based on a valuation of \$0.35 per share).

11. Intangibles and Goodwill

Identifiable intangible assets, and the related reconciliation of beginning and ending balances, are as follows:

	Software	Brands	Intellectual property	Customer relationships	Licenses and Permits	Total
	\$	\$	\$	\$	\$	\$
Cost						
March 31, 2020	1,810,135	3,799,638	5,454,544	-	4,038,000	15,102,317
Additions	-	-	-	105,345	-	105,345
Impairment	(1,810,135)	-	(5,454,544)	-	-	(7,264,679)
Disposals	-	-	-	(105,345)	-	(105,345)
ALPS acquisition (Note 8)	-	601,000	-	13,662,000	-	14,263,000
GT settlement (Note 7)	-	(3,799,638)	-	-	(4,038,000)	(7,837,638)
March 31, 2021	-	601,000	-	13,662,000	-	14,263,000
Additions	-	-	182,767	-	-	182,767
December 31, 2021	-	601,000	182,767	13,662,000	-	14,445,767
Accumulated amortization						
March 31, 2020	-	326,851	-	-	-	326,851
Amortization	-	284,972	169,697	41,810	-	496,479
Impairment	-	-	(169,697)	-	-	(169,697)
Disposals	-	-	-	(6,271)	-	(6,271)
GT settlement (Note 7)	-	(611,823)	-	-	-	(611,823)
March 31, 2021	-	-	-	35,539	-	35,539
Amortization	-	48,791	-	1,073,580	-	1,122,371
December 31, 2021	-	48,791	-	1,109,119	-	1,157,910
Carrying value						
March 31, 2021	-	601,000	-	13,626,461	-	14,227,461
December 31, 2021	-	552,209	182,767	12,552,881	-	13,287,857

Amortization expense for the three and nine months ended December 31, 2021 was \$356,575 and \$1,112,371, respectively (\$231,355 and \$460,940 for the three and nine months ended December 31, 2020, respectively).

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11. Intangibles and Goodwill (continued)

During the nine months ended December 31, 2021, the Company acquired intellectual property related to the Mr. Natural brand for \$182,767 through the issuance of 533,981 shares with a market value of \$82,767 and \$100,000 cash consideration.

Goodwill from the ALPS acquisition (Note 8) was \$15,057,796 as at December 31, 2021 and March 31, 2021.

12. Lease Liabilities

The following table provides a reconciliation of the Company's lease liability:

	\$
March 31, 2020	751,913
Addition to lease liability	624,965
Lease payments	(201,890)
Interest expense	73,747
Foreign translation adjustment	(102,649)
March 31, 2021	1,146,086
Lease payments	(427,135)
Interest expense	89,512
Foreign translation adjustment	169
December 31, 2021	808,632
Current portion	438,641
Long-term portion	369,991
Lease liability	808,632

The total interest expense on lease liabilities for the three and nine months ended December 31, 2021 was \$26,515 and \$89,512, respectively (\$17,802 and \$57,723 for the three and nine months ended December 31, 2020, respectively). Total cash outflows for the three and nine months ended December 31, 2021 were \$142,792 and \$427,135, respectively (\$36,153 and \$150,045 for the three and nine months ended December 31, 2020, respectively).

13. Share Capital

(a) Authorized

Unlimited number of common voting shares without par value and unlimited number of preferred non-voting shares without par value.

(b) Issued and outstanding

As of December 31, 2021 there were 260,912,504 issued and outstanding common shares. As of March 31, 2021, there were 226,044,436 issued and outstanding common shares.

- (i) On April 1, 2020, the Company acquired 100% of the equity interest of Paytron, LLC, a merchant service provider. The Company issued 949,926 shares at a price of \$0.18 per share for a total fair value of \$170,717.
- (ii) On September 3, 2020, the Company issued 4,250,000 shares to its former CEO and Director in connection with his resignation from the Company and the formal termination and full and final settlement of the Company's proposed acquisition of Passport Technology, Inc. The shares were issued at a price of \$0.14 per share for a total fair value of \$595,000.

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13. Share Capital (continued)

- (iii) On March 3, 2021, pursuant to the ALPS Transaction, the Company issued 50,000,000 common shares with a fair value of \$22,500,000 based on the \$0.45 market price at time of closing. Pursuant to the acquisition agreement there are contractual trading restrictions in place whereby 25% of the shares shall be free trading on issuance and 25% at each six-month interval thereafter (Note 8).
- (iv) On March 23, 2021, pursuant to the Revised GT Transaction (Note 7), the Company's wholly owned subsidiary GTA issued 37,500,000 Exchangeable Shares to members of GT with a \$14,662,500 fair value based on a \$17,250,000 market value (\$0.46 market price on closing) less a \$2,587,500 discount for lack of marketability relating to free-trading restrictions per the securities. 9,075,000 Exchangeable Shares were converted to 9,075,000 common shares of the Company with a \$3,548,325 fair value by March 31, 2021. Each Exchangeable Share is exchangeable into one common share of the Company with exchange subject to certain restrictions and milestones. The Company recorded the obligation to convert the Exchangeable Shares into common shares of the Company as Exchangeable Share reserve (Note 13(d)).
- (v) During the year ended March 31, 2021, the Company issued an aggregate of 1,323,148 common shares with a fair value of \$419,280 including 237,000 shares issued pursuant to a settlement, 541,600 shares issued as part of a signing bonus pursuant to the ALPS Transaction (Note 8), and 544,548 shares issues as signing bonuses or shares for services.
- (vi) During the year ended March 31, 2021, the Company issued an aggregate of 255,069 common shares on the exercise of 283,676 stock options, net of 28,607 shares withheld for tax, for gross proceeds of \$50,572.
- (vii) During the year ended March 31, 2021, the Company issued an aggregate of 2,198,653 common shares, net of 1,149,373 shares withheld for tax, upon vesting of 3,348,026 RSUs.
- (viii) During the nine months ended December 31, 2021, 1,868,924 Exchangeable Shares were converted to 1,868,924 common shares of the Company with a \$730,749 fair value.
- (ix) During the nine months ended December 31, 2021, the Company issued an aggregate of 15,092,309 common shares with a fair value of \$4,486,533, including 7,499,947 shares issued pursuant to settlements, 6,178,348 shares issued to acquire property, plant and equipment, 533,981 to acquire intangible assets and 880,033 shares issued for signing bonuses and services.
- (x) During the nine months ended December 31, 2021, the Company raised gross proceeds of \$3,032,859 by issuing 17,840,349 units at a price of \$0.17 on closing of a private placement. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.35 and expires on December 8, 2023. The Company paid cash finders' fees of \$15,990, issued 94,058 broker warrants with a fair value of \$5,689 at the same terms of the placement, and incurred other fees of \$50,000 which have been recorded as share issue costs. The net proceeds were allocated between share capital and warrant reserves based on their relative fair values. The fair value of the shares was estimated using the quoted market price on the day of the grant and the fair value of warrants was estimated using the Black-Scholes option pricing model (see assumptions in Note 13 (e)).
- (xi) During the nine months ended December 31, 2021, the Company issued an aggregate of 44,444 common shares, net of shares withheld for both tax and payment of the exercise price, on the exercise of 100,000 stock options, which resulted in a \$11,238 transfer from share-based reserves to share capital.
- (xii) During the nine months ended December 31, 2021, the Company issued an aggregate of 22,042 common shares, net of shares withheld for tax, upon vesting of 30,751 RSUs.

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13. Share Capital (continued)

(c) Treasury shares

Pursuant to the terms of the Modification, Settlement, Assignment and Consent Agreement entered into by the Company, Mr. Natural Productions, Inc. and Robert Luciano (collectively, the “Natural Parties”) and a third-party assignee, on April 30, 2020, the Natural Parties returned to the Company 533,981 common shares of the Company. The fair value of the shares returned is \$0.19 per share, for a total of \$101,456 based on the market price of the Company shares at close on the day prior to execution of the agreement. The amount is reflected as treasury shares in the consolidated statement of financial position.

In the Revised GT Transaction (Note 7), the settlement of the Original GT Transaction included the return to treasury of 11,417,376 shares at the original fair value of \$11,266,314 on March 23, 2021.

(d) Exchangeable share reserve

Pursuant to the Revised GT Transaction there were 37,500,000 Exchangeable Shares issued from GTA with a fair value of \$14,662,500 (Note 7), which are included as Exchangeable Share reserve in the consolidated statement of financial position. During the year ended March 31, 2021, 9,075,000 Exchangeable Shares converted to common shares of the Company transferring \$3,548,325 from Exchangeable Share reserve to share capital. During the nine months ended December 31, 2021, 1,868,924 Exchangeable Shares converted to common shares of the Company transferring \$730,749 from Exchangeable Share reserve to share capital.

(e) Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding follows:

	Warrants	Weighted average exercise price
	#	\$
Balance March 31 2020	30,929,562	0.85
Forfeited	(8,300,811)	2.64
Balance March 31, 2021	22,628,751	0.20
Granted	17,934,407	0.17
Balance December 31, 2021	40,563,158	0.19

The following table summarizes the warrants that remain outstanding at December 31, 2021:

Exercise price	Warrants	Expiry date
\$	#	
0.20	22,628,751	September 19, 2028
0.17	17,934,407	December 8 2023
	40,563,158	

The weighted average contractual life remaining of the warrants as at December 31, 2021 was 4.6 years. The fair value of warrants granted in the period was estimated using the Black-Scholes option pricing model with the following assumptions: annualized volatility – 107%, expected life – 2 years, dividend rate – 0%, and risk-free rate – 1.16%.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended December 31, 2021

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13. Share Capital (continued)

(f) Stock options

On June 15, 2018, the Board adopted a Share Option Plan which provides that the Board may from time to time, in its discretion, and in accordance with exchange requirements, grant to directors, officers, employees, and consultants, non-transferable stock options to purchase common shares of the Company. Each option granted under the Share Option Plan carries a five-year life and vests over a term of three years such that one-third vests in year one, one-third vests in year two and the final third vests in year three, unless otherwise designated below. At the shareholder's meeting on November 17, 2020, the shareholders of the Company did not approve the ratification of the Share Option Plan. As a result, the options outstanding under such plan continue to exist, but no new options are able to be granted under such plan.

Effective on December 1, 2020, the Board adopted a new Share Option Plan that is essentially identical to the former plan but with a reduced cap on the maximum number of options that can be granted (reduced from 15% of the issued and outstanding shares to 10% of the issued and outstanding shares). Options have been granted under the new Share Option Plan, but all such grants were conditional on receipt of shareholder approval of the new Share Option Plan, which was approved at the Company's annual meeting of shareholders on December 17, 2021.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average inputs were used in determining the fair value of options granted during the nine months ended December 31, 2021, and year ended March 31, 2021:

	Nine months ended December 31, 2021	Year ended March 31, 2021
Expected volatility	107% - 112%	101%
Expected option life	5 years	2.6 years
Expected dividends	-	-
Risk free rate	0.78%- 1.56%	0.70%

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

A summary of the status of stock options outstanding follows:

	Stock options	Weighted average exercise price
	#	\$
Balance March 31, 2020	18,965,263	0.57
Granted	35,479,467	0.36
Exercised	(283,676)	0.20
Forfeited	(26,495,108)	0.44
Balance March 31, 2021	27,665,946	0.43
Granted	7,475,000	0.28
Forfeited	(798,142)	0.37
Exercised	(100,000)	0.20
Balance December 31, 2021	34,242,804	0.40

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13. Share Capital (continued)

The following table summarizes the stock options that remain outstanding as at December 31, 2021:

Exercise price	Outstanding options	Expiry date	Exercisable options
\$	#		#
0.20	67,000	August 13, 2023	67,000
0.20	130,000	September 11, 2023	130,000
0.98	80,000	April 13, 2024	53,333
0.65	39,375	October 2, 2024	26,250
0.18	287,929	March 11, 2022	95,974
0.18	73,500	May 11, 2025	24,499
0.19	3,850,000	December 7, 2025	3,850,000
0.20	2,000,000	December 30, 2025	1,000,000
0.50	16,040,000	March 8, 2026	3,875,000
0.50	3,900,000	March 11, 2026	975,000
0.50	600,000	March 15, 2026	-
0.30	1,800,000	May 17, 2026	450,000
0.25	350,000	June 21, 2026	-
0.25	1,000,000	June 28, 2026	-
0.29	125,000	July 7, 2026	125,000
0.29	1,000,000	July 12, 2026	125,000
0.29	600,000	July 19, 2026	-
0.29	150,000	September 7, 2026	-
0.29	700,000	October 14, 2026	-
0.29	450,000	November 22, 2026	-
0.29	1,000,000	November 29, 2026	-
	34,242,804		10,797,056

During the three and nine months ended December 31, 2021, the Company recorded a share-based payment expense of \$1,000,595 and \$3,726,254, respectively, in connection with the vesting and forfeiture of stock options (reversal of \$894,400 and \$553,180 for the three and nine months ended December 30, 2020, respectively). Of the total share-based payments, during the nine months ended the Company recorded \$6,319 to consulting fees (\$36,392 for the nine months ended December 31, 2021).

(g) Restricted Share Units

On November 13, 2018, the Board adopted a Restricted Share Unit Plan which provides that the Board may from time to time, in its discretion, and in accordance with exchange requirements, grant to directors, officers, employees, and consultants, non-transferable restricted share units of the Company (“RSU”). Each RSU granted under the Restricted Share Unit Plan vests over a term of three years such that one-third vests in year one, one-third vests in year two and the final third vests in year three. RSUs are granted based on the closing price on the date prior to the grant date.

At the shareholder’s meeting held on November 17, 2020, the shareholders of the Company did not approve the ratification of the Restricted Share Unit Plan. As a result, the RSUs outstanding under such plan continue to exist but no new RSUs are able to be granted under such plan. Effective on December 1, 2020, the Board adopted a new Restricted Share Unit Plan that is essentially identical to the former plan but with a reduced cap on the maximum number of options that can be granted (reduced from 15% of the issued and outstanding shares to 10% of the issued and outstanding shares). Any RSUs granted under the new plan prior to receipt of shareholder approval are conditional grants subject to the shareholder approval of the new plan, which was approved at the Company’s annual meeting of shareholders on December 17, 2021.

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

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13. Share Capital (continued)

A summary of the status of RSUs outstanding follows:

	RSUs	Weighted average issue price
	#	\$
Non-vested balance March 31, 2020	5,378,440	0.75
Granted	342,796	0.14
Vested	(3,338,872)	0.82
Forfeited	(2,222,330)	0.59
Non-vested balance March 31, 2021	160,034	0.36
Forfeited	(13,352)	0.34
Vested	(30,751)	0.77
Non-vested balance December 31, 2021	115,931	0.25

The following table summarizes the RSUs that remain outstanding as at December 31, 2021:

Issue price	RSUs outstanding	Vesting date ⁽¹⁾
\$	#	
0.98	6,666	April 13, 2022
0.60	6,000	October 2, 2022
0.18	82,265	March 11, 2023
0.18	21,000	May 11, 2023
	115,931	

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

During the three and nine months ended December 31, 2021, the Company recorded a net share-based payment expense of \$3,217 and \$9,645, respectively, in connection with the vesting and forfeiture of RSUs (net reversal of share-based payments of \$368,726 and share-based payment expense of \$944,687 for the three and nine months ended December 30, 2020, respectively).

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Selling, general and administrative expenses:				
Professional fees	1,422,801	2,025,836	2,611,566	2,853,394
Advertising and promotion	1,115,332	115,687	1,922,071	261,157
Insurance	229,900	167,243	651,065	502,546
Consulting fees	86,166	98,253	651,923	132,613
Office and administration	401,910	55,365	731,012	148,394
Regulatory and transfer agent fees	56,469	70,124	113,073	120,825
Research and development	22,871	19,419	145,981	100,080
Travel and entertainment	140,878	6,034	588,933	18,728
Total selling, general and administrative expenses	3,476,327	2,557,961	7,415,624	4,137,737

AUSTRALIS CAPITAL INC.

Notes to the Condensed Interim Consolidated Financial Statements

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15. Related Party Transactions

The Company's key management personnel include executive management and directors of the Company who have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company incurred the following transactions with related parties:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Wages and benefits ⁽¹⁾	289,310	200,397	861,870	765,260
Directors' fees ⁽²⁾	89,831	(576,621)	229,926	302,850
Share-based compensation to related parties ⁽³⁾	209,340	(392,875)	849,895	260,307
Settlements	-	-	-	1,027,477

(1) Wages and benefits incurred for the Company's executive management team during the periods presented.

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

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

Related party payables and receivables included the following:

	December 31, 2021	March 31, 2021
	\$	\$
Due to officer and/or shareholder ⁽¹⁾	1,056,695	1,792,809
Other receivable ⁽²⁾	115,100	115,100

(1) Included in accounts payable and accrued liabilities. The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

(2) Included in accounts receivable

On May 18, 2021, the Company reached agreement with its CEO to payoff \$747,115 in funds advanced by the CEO (included as loan payable on the statement of financial position as at March 31, 2021) in exchange for 2,716,782 common shares of the Company with a fair value equal to the loan payable amount, resulting in no gain or loss.

16. Supplemental Cashflow Information

	Nine months ended December 31,	
	2021	2020
	\$	\$
Land purchased for shares	1,817,691	-
Loan payable settled in shares	747,115	-
Shares issued for settlements, services and signing bonuses	809,946	-
Provisions paid for in shares	1,029,014	-
Issuance of common shares on exchange of Exchangeable shares	730,749	-
Shares issued for acquisition of intangible assets	82,767	-
Shares issued for acquisitions	-	170,717
Shares returned to treasury	-	(101,456)
Shares issued pursuant to the agreements with Passport Technology Inc	-	595,000

AUSTRALIS CAPITAL INC.

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17. Financial Instruments and Risk Management

(a) Fair value of financial instruments

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

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, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the relatively short-term maturity. The carrying value of the Company's annuity receivable – SubTerra approximates its fair value. The Company's derivative financial instrument (NCI Purchase Call Option – Note 8) observable inputs are not available and are classified as Level 3. The Company's investment in marketable securities of BaM has a quoted market price in the public market (Note 5) and is classified as Level 1.

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

The following table summarizes the Company's financial instruments as at December 31, 2021:

	Amortized cost	Fair value through profit or loss	Total
Cash	\$ 655,597	\$ -	\$ 655,597
Accounts receivable	3,803,803	-	3,803,803
Annuity receivable – SubTerra	739,068	-	739,068
Loan receivable	2,386,414	-	2,386,414
Marketable securities – BaM	-	2,890,022	2,890,022
Derivative financial instrument – NCI call option	-	7,320,630	7,320,630
Accounts payable and accrued liabilities (excluding related parties)	4,391,418	-	4,391,418
Advances payable – related parties	1,056,695	-	1,056,695
Contingent consideration payable (Note 8)	-	3,698,980	3,698,980

(b) Financial instruments risk

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its accounts receivables and its annuity receivable. 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 to the extent possible, by managing and monitoring the underlying business relationships.

AUSTRALIS CAPITAL INC.

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17. Financial Instruments and Risk Management (continued)

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

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

Significant increases in credit risk are assessed based on changes in probability of default of a financial asset subsequent to initial recognition. The Company uses past due information to determine whether credit risk has increased significantly since initial recognition. Financial assets are considered to have experienced a significant 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. Based on the payment history of the Company’s annuity receivable, as well as the nature of the Company’s remaining receivables measured at amortized cost, there are currently no ECLs recognized with respect to such receivables as at December 31, 2021.

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.

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17. Financial Instruments and Risk Management (continued)

As at December 31, 2021, the Company has the following contractual obligations:

	Total	<1 year	1 – 3 years	3 – 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,391,418	4,391,418	-	-
Contingent consideration payable ⁽¹⁾	3,698,980	-	3,698,980	-
Advances payable – related parties	1,056,695	1,056,695	-	-
Lease liability	808,632	438,641	369,991	-

(1) Contingent consideration payable is outlined in Note 8. The above reflects management's forecasted timing of achievement of the related milestones.

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.

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.

As at December 31, 2021, 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 would not have a material impact to the net and to comprehensive loss for the nine months ended December 31, 2021.

As at December 31, 2021, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Price risk

Price risk is the risk of unfavorable changes in the fair values of equity instruments or equity-linked derivatives as a result of changes in the value of individual shares. Equity price risk exposure arises from the Company's investments in Canada and U.S. cannabis related assets, and from derivatives linked with such. The Company manages this risk by routinely monitoring and assessing the performance and outlook of its investments. The Company has determined that a 10% increase or decrease in the fair value of these financial assets would result in an increase or decrease of approximately \$280,000 to net and comprehensive loss for the nine months ended December 31, 2021.

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 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.

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17. Financial Instruments and Risk Management (continued)

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

18. Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity attributable to owners of the Company, which at December 31, 2021 is \$54,211,730 (\$61,301,176 at March 31, 2021). The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products and services to fund operations and expansion activities. The Company made no changes to its capital structure or management of its capital structure during the nine months ended December 31, 2021.

As at December 31, 2021, the Company is not subject to externally imposed capital requirements.

19. Commitments and Contingencies

On April 29, 2021, the Company settled a severance dispute with a former COO whereby 1,450,000 common shares of the Company with a \$529,250 fair value (market price of \$0.365 per share on that date) were issued to the former COO. The amount was included in accrued liabilities on the statement of financial position at March 31, 2021.

On June 25, 2021, in relation to a cannabis supply agreement (and facility engineering and design services contract) signed on June 23, 2021 with Belle Fleur Holdings LLC ("Belle Fleur"), the Company entered into a loan agreement with Belle Fleur whereby the Company will loan up to USD \$5,000,000 in interim financing to Belle Fleur towards the construction costs of the Belle Fleur cultivation facility in Blanford Massachusetts. The loan to Belle Fleur will earn interest at an annual interest rate of 15%, has a four-year term, principal and interest is due at maturity, and the borrower has the option to prepay the loan early. As at December 31, 2021, Belle Fleur had drawn USD \$1,882,327 (\$2,386,414) on this loan.

On July 14, 2021, the Company entered into a binding term sheet to acquire all of the issued and outstanding shares of Gary Maverick Inc. operating under the brand name LOOS ("LOOS Co."), a cannabinoid infused shot beverage company based in Santa Cruz, California. Pursuant to the term sheet the Company will pay total consideration of USD \$3,000,000 comprising USD \$650,000 payable in 3,163,314 shares (based on a 10-day volume weighted average price at June 24, 2021 of USD \$0.2055) on closing, USD \$350,000 in cash on closing to be used primarily towards working capital and certain identified debt repayments, and USD \$2,000,000 in contingent payments (USD \$500,000 December 2021, USD \$500,000 June 30, 2022, and USD \$1,000,000 June 2023) payable in the Company's shares, subject to certain performance milestones being met by LOOS Co. through June 2023.

On September 14, 2021, the Company entered into a binding terms sheet to acquire 100% of the issued and outstanding shares of BW Macaw Group, Inc. ("Herbs"). Herbs has entered into a distribution agreement with EAZE, California's largest legal cannabis delivery and distribution company. Additionally, the Company has two contract manufacturers to commence production of the Company's products in California. In addition to the retail license that is part of the contemplated transaction, Herbs' business license also includes the ability to cultivate, manufacture (production of derivatives and edibles) and distribute cannabis products.

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20. Subsequent Events

On January 13, 2022, the Company closed the acquisition of 100% of LOOS Co. a premium infused beverage shot brand available in California, based on consideration described in Note 19, with the number of shares increased to 4,687,500 based on a Company share price of \$0.14 in later 2021.

On January 22, 2022, the Company entered into a final settlement agreement with a former executive of the Company. As part of the settlement, the Company issued 3,750,000 units at \$0.17 per unit, consisting of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.35 for a period of two years.

On February 10, 2022, the Company signed an agreement with LDA Capital, LLC (“LDA”), whereby LDA will provide up to \$10,000,000 financing over 2 years in exchange for tranches of shares in the Company.

On February 22, 2022, the Company acquired 25% of the capital stock Golden Triangle Holdings (“GTH”), in a share exchange whereby GTH will receive 17,369,317 shares of the Company. GTH is based in Thailand and produces CBD and other cannabis related products for the Thai and international markets.