

# **AUSTRALIS CAPITAL INC.**

## **Management's Discussion and Analysis**

**For the three and nine months ended December 31, 2021  
(In Canadian Dollars)**

# AUSTRALIS CAPITAL INC.

## Management's Discussion & Analysis

### For the nine months ended December 31, 2021

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This Management's Discussion and Analysis ("MD&A") reports on the financial condition and operating results of Australis Capital Inc. (the "Company" or "ACI") for the three and nine months ended December 31, 2021, and is prepared as of March 1, 2022. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2021, and 2020 and accompanying notes therein.

The condensed 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 period ended December 31, 2021. 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 the 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 management's expectations or beliefs regarding future events. Generally, 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. 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 for the Company's current and proposed products, as well as the Company's ability to capture market share; and,
- Expectations of the business and regulatory environment in which the Company operates, and for the cannabis industry in general;

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#### BUSINESS OVERVIEW

The Company 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 in the United States under the symbol "AUSAF."

The Company operates in the cannabis space, with a current focus on branding and operations, as well in the horticultural industry through its advisory services. The Company is committed to becoming a leading US cannabis company with a strategic plan expected to deliver sustainable and growing value to shareholders.

On November 17, 2020, the Company held its annual and special meeting of the shareholders resulting in the election of a new board and the subsequent resignation of the current management of the Company effective December 18, 2020. The newly elected directors of the Company appointed Dr. Duke Fu as Interim Chief Executive Officer. On December 30, 2020, the Company announced the appointment of Jon Paul as its new Chief Financial Officer effective January 1, 2021. On May 17, 2021, the Company hired Leah S. Bailey as its Chief Business Development Officer.

On March 8, 2021, the Company acquired 51% of the issued and outstanding shares of 2750176 Ontario Inc. ("ALPS"), with an option to purchase the remaining 49%. ALPS, formerly Aurora Larssen Projects, is a global leader in facility design, construction management and (post) commissioning services to the horticultural sector across a wide variety of commercial crops. As a condition of the transaction, Terry Booth, a principal of ALPS, became CEO of the Company, taking over from Dr. Duke Fu, who was serving as Interim CEO since November 17, 2020. At the time of closing, Dr. Fu assumed the role of COO of the Company.

On March 23, 2021, the Company purchased 100% of the issued and outstanding membership interests in Green Therapeutics, LLC ("GT"), a licensed cultivator and producer of high-end medicinal and recreational marijuana in the state of Nevada. Prior to completing the acquisition, the parties agreed to settle a previously announced legal dispute regarding the original May 2020 transaction whereby the Company had acquired certain non-operational GT assets.

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

<b>Entity</b>	<b>Location</b>	<b>Percentage Ownership</b>
Australis Capital (Nevada) Inc. (“ACN”)	Nevada (USA)	100%
Australis Holdings LLP (“AHL”)	Washington (USA)	100%
Rthm Technologies Inc. (“Rthm”)	Ontario (Canada)	100%
Audacious WR LLC	Nevada (USA)	100%
Australis CA LLC	Nevada (USA)	100%
Audacious New Mexico LLC	New Mexico (USA)	100%
Australis NJ LLC	New Jersey (USA)	100%
Australis NY LLC	Nevada (USA)	100%
Australis Ohio LLC	Nevada (USA)	100%
Australis Perennial LLC	Nevada (USA)	100%
Australis Prosper LLC	Nevada (USA)	100%
Australis Terrain LLC	Nevada (USA)	100%
Cocoon Technology LLC (“Cocoon Technology”)	Nevada (USA)	100%
GT Acquisition LLC (“GTA”)	Nevada (USA)	100%
GTIntellectualprop LLC (“GTIP”)	Nevada (USA)	100%
2750176 Ontario Inc. (“ALPS”)	Ontario (Canada)	51%
ALPS Empco Inc.	Ontario (Canada)	51%
Larssen Ltd.	Ontario (Canada)	51%
ALPS (Ontario) Inc.	Ontario (Canada)	51%
ALPS B.V.	Netherlands	51%
Larssen GC Ltd.	Ontario (Canada)	51%
APIS Inc.	Ontario (Canada)	51%
ALPS USA, Inc.	Nevada (USA)	51%

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#### VISION AND OBJECTIVES

**Vision:** To become a global player in the cannabis space, with focus on operations in North America and Europe

**Objectives:**

- Transition into an operating Management Service Organization (“MSO”): expand footprint into States with most attractive economics through acquisitions and licensing
- Expand consumer use of cannabis through geographic expansion and innovation of products and user experiences
- Execute on accretive financial strategies, with a focus on strong ROI, profitability, and cash flow
- Support efforts to create social equity in cannabis and reinvest in disenfranchised communities
- Optimize competitiveness for federally legal cannabis with intrastate shipping through asset efficient, brand focused investments
- Advocate for global legalization of cannabis and medical research into benefits of this powerful plant
- Enter the CBD derived from hemp market
- Delight our consumers through quality and innovation; utilize our operational excellence and efficiency

#### A Unique Strategy

Led by industry pioneer Terry Booth and a highly accomplished management team with proven industry track records, AUSA is building an MSO based on a unique and very difficult to imitate strategy. Secure access to low-cost but high-quality cannabis enables the Company to expand across the US. Award winning brands and cultivars create strong resonance with the end consumer, thereby driving growth in each market and as the Company expands its footprint.

#### *De-risked, low-cost operations*

Through its majority ownership of ALPS, the Company is engaged with numerous cultivators in the cannabis space globally. ALPS, the world's premier cultivation facility design and services agency with a 30+ year track record, is known to deliver facilities that yield high-quality flower with exceptionally low operating costs. With certain customers, AUSA is looking to secure supply arrangements whereby a certain percentage of the canopy space will be dedicated to growing AUSA's cultivars. AUSA, in turn, will buy the flower at a cost + arrangement and use the raw material for the manufacturing of its branded product lines.

Additionally, the Company is exploring multiple low-cost entry ways into new jurisdictions, including license applications and other partnerships.

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#### *Award-winning brands*

Having access to low-cost high-quality flower is the start. AUSA, as part of its mission of becoming a dominant MSO, has acquired GT and LOOS. GT is an award-winning brand, founded in Nevada by AUSA's current COO Dr. Duke Fu. The GT team brings exceptional experience in GMP production from the pharmaceutical industry, which has enabled the Company to deploy a science-based approach to product development. Products, marketed under the Provisions and Tsunami brands have won multiple awards, including the Jack Herer Cup, High Times Cannabis Cup, and Las Vegas Cannabis Awards. GT's products can be found in over half of Nevada's dispensaries, with all products selling out rapidly. Certain Provisions products, such as the newly launched 1-gram cartridges, are now also available in California through Eaze, the state's largest legal delivery service.

LOOS is a California brand presently focused on the beverage segment. The first three products are THC infused shots (2 oz shot with 100mg of THC). LOOS was founded by savvy marketeers who were involved previously with market leading brands such as 710 Labs and PLUS Products. LOOS products have attracted significant attention and were launched in California with the initial production run materially sold out, also through being carried on Eaze's delivery menu. AUSA intends to rapidly expand the LOOS product line, including CBD versions.

AUSA also owns the iconic West Coast brand Mr. Natural. Founded by Vietnam War veteran Bob (Mr. Natural) Luciano, Mr. Natural is one of the most respected legacy cannabis brands in existence, having been created to help veterans suffering from PTS.

The Company launched its new AUDACIOUS PBR Wreck Relief brand at the PBR World Finals in Las Vegas. The new Wreck Relief brand combines traditional pain relief medication in the form of a topical, infused with a 500mg dose of CBD. Sales of Wreck Relief products have commenced through the Company's eCommerce site: [www.wreckrelief.com](http://www.wreckrelief.com)

#### **Expanding Footprint**

AUSA is rapidly executing on its expansion strategy. AUDACIOUS is now in Missouri, where the Company owns a 25% stake, upon final license transfer, of a manufacturing license. The facility is operational and has signed a licensing agreement to utilize and expand the AUDACIOUS brands.

Through its majority owned subsidiary ALPS, the Company is active in numerous jurisdictions. In the cannabis sector, ALPS is active on cannabis projects in Massachusetts, Arizona, Australia, and New York, as well as other jurisdictions.

The Company is focused on expanding across the U.S. and internationally. Within the U.S., it is in advanced discussions on ALPS style supply arrangements and other partnerships and potential transactions in numerous jurisdictions, including Connecticut, California, New York (an LOI with First Americans LLC of the Saint Regis Mohawk tribe was announced), New Jersey, Pennsylvania, and others.

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**International Expansion**

AUDACIOUS recently completed a definitive agreement pertaining to the acquisition of a 25% interest in Green Triangle Health, a spin-off from of NR Instant Produce PCL (NRF), a \$400 million Thai public company. The new partnership will cultivate hemp for CBD extraction and sell CBD infused products, first throughout Thailand, with the objective of driving further international sales in jurisdictions where this is permissible. The Company's partner is well connected with a deep understanding of the food and wellness markets, and has access, through NRF, to very meaningful distribution channels.

The table below provides an overview of various regions and jurisdictions where AUDACIOUS and ALPS operate:

<b>Jurisdiction</b>	<b>Cannabis (operational and/or supply arrangement)</b>	<b>Cannabis indirect (Investment in affiliated party or ALPS facility/APIS contract)</b>	<b>Non-Cannabis (ALPS facility contract; or CBD)</b>
Nevada	X	-	-
California	X	-	X
Missouri	X	-	-
Maine	-	-	X
Arizona	-	X	-
Massachusetts	X	X	-
New York	X	-	-
Europe	-	-	X
Australia	-	X	-
United States	-	-	X (CBD)
Middle East	-	-	X
Asia	-	-	X (CBD)

ALPS has been around for over three decades and has over 100 million square feet of projects under its belt. One of the biggest brands in facility design and facility services, ALPS has a strong track record in both the food and cannabis industries. ALPS is specialized in developing high-yielding, low-cost, high-quality facilities that follow environmental objectives. Having established industry leading facilities from the Arctic to the Desert, the company is active globally and rapidly expanding. Reduction of carbon footprint is a strong driver in the food industry presently. This momentum is especially strong in regions where climate prohibits outdoor cultivation of crops, resulting in the reliance on imports, resulting in a high carbon footprint related to logistics. Furthermore, ALPS' IP is focused on the reduction of other scarce and/or expensive inputs, such as water, energy, and labor.

ALPS has been highly successful in its endeavors and currently is active across the globe on cannabis and non-cannabis projects in the U.S., Canada, Denmark, Finland, Iceland, Germany, Netherlands, Bahrein, Kuwait, Southeast Asia, Australia, as well as other jurisdictions.

ALPS also has developed a recurring revenue services model, APIS, which helps cultivators achieve food safety and GMP compliance. APIS also provides a very significant ROI through its Computer Managed Maintenance Solutions (CMMS), the leading industrial greenhouse management solution in the industry.

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Together with AUDACIOUS, ALPS has now launched its GROWQUICK and ACHIEVE series of turnkey facility packages for the cannabis industry. Delivering high-quality cannabis and low operating costs is inherent in all ALPS facilities. The new offering delivers a standardized design, which accelerates time to market. Additionally, the standing of AUDACIOUS and ALPS within the industry enables the Company to assist ACHIEVE clients towards securing funding for their project.

#### **Driving APIS – A Significant Partnership**

ALPS entered into an agreement with Priva, the world's dominant provider of technology solutions for Controlled Environment Agriculture, in order jointly to market ALPS' APIS solution. Priva has over 12,500 projects worldwide and is represented in over 100 countries. The Company anticipates that this partnership will materially accelerate sales growth of its APIS solution.

#### **Belle Fleur**

The Company has a partnership with the founders of California brand Rapper Weed. In Massachusetts, the Rapper Weed team, operating as Belle Fleur, have secured a Tier 11 license, which allows for the largest possible canopy in the state (up to 100,000 sq ft). Belle Fleur have engaged the services of ALPS to design, and project manage the construction of their facility. Belle Fleur and AUSA have also signed a supply arrangement whereby Belle Fleur will dedicate 12.5% of its canopy for the cultivation of AUSA's proprietary cultivars, selling the flower products back to AUSA under a cost + 5% arrangement.

#### **KEY DEVELOPMENTS DURING THE THIRD FISCAL QUARTER 2022**

On October 5, 2021, the Company announced its majority owned subsidiary ALPS had entered into a \$1.4 million facility services agreement in Kuwait. The Company expressed the expectation that it will be working on more projects with its local partner Pure Harvest Smart Farms.

On October 18, 2021, the Company announced at MJBizCon that it will now be operating as AUDACIOUS. At MJBizCon, the Company engaged with a large number of consumers and industry participants to further brand recognition and discuss potential strategic partnerships.

On October 19, 2021, the Company announced entry into the Asia-Pacific cannabis market through a strategic partnership with Golden Triangle Health (GTH), a leading southeast Asian food manufacturer and distributor based in Thailand, whereby the Company will acquire 25% of GTH.

On October 19, 2021, ALPS announced the launch of the GROWQUICK and ACHIEVE series of facility offerings, a new service offering for cannabis companies looking to build new facilities or expand existing ones.

On October 26, 2021, the Company settled a severance dispute with their former CLO (Chief Legal Officer) whereby the executive is paid US\$400,000 over 3 months. The amount was included in accrued liabilities on the statement of financial position at March 31, 2021.

On November 5, 2021, the Company sold the Whatcom Property land for a net of CD\$1,867,800, slightly below the book value of CD\$1,886,251 as of that date.

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AUSA has expanded its partnership (subject to appropriate regulatory approvals) with Belle Fleur by entering into an agreement to acquire a 51% stake in Belle Fleur's planned manufacturing facility in Massachusetts. As part of the proposed transaction, the companies have agreed to expand the existing supply agreement, now for a total of 12.5% of Belle Fleur's canopy, including all of their trim, at low cost. The expanded strategic relationship with Belle Fleur facilitates the launch of AUDACIOUS products in the Massachusetts market.

ALPS signed a \$0.9 million facility contract with Little Leaf Farms, North America's largest grower of baby leaves, for an approximately 450,000 sq. ft. facility in Pennsylvania for the cultivation of baby leaves. This new facility is expected to set the industry standard for output per square foot, while delivering the highest quality produce at low operational costs per unit produced. The Company anticipates collaborating with Little Leaf Farms on multiple future projects currently being conceived.

ALPS completed comprehensive paid-for feasibility study for a large investment fund in the United Arab Emirates for the establishment of a 20-hectare (50 acre) greenhouse facility, to be operated by Pure Harvest. The Company anticipates the investment decision to be made shortly.

AUDACIOUS successfully launched its new Provisions Edibles line in both Nevada and California. The one-gram disposable cartridges have been selling at a high rate, with first production run in Nevada completely sold out. Furthermore, the Company successfully launched its LOOS beverage shot product line in California, with products now available in a rapidly growing number of dispensaries, as well as through Eaze, the state's largest legal delivery service. Due to the high sales velocity and initial success of the LOOS products in the California market, the Company is now working with its contract manufacturing partners on scaling up production to meet with demand.

#### Subsequent Events

##### LDA

- The Agreement grants AUDACIOUS the right, at its discretion, to issue shares in tranches for up to C\$10m. The Agreement allows AUDACIOUS to access capital on a flexible basis by allowing the Company to manage the timing and size of each capital call. In every Capital Call AUDACIOUS will set a floor price (at its discretion) for the shares issued to LDA Capital ensuring the shares are issued at a price aligned and with the best interest of all shareholders. The issue price of the shares under any capital call will be 90% of the average volume weighted average price (VWAP) in the 30-trading day period after the issue of the capital call by the Company.

##### License applications

- The Company has applied, or is in the process of applying for a variety of licenses in the following states:
  - Ohio
  - New Jersey
  - New Mexico
- Obtaining such licenses would reduce the cost of entry into new jurisdictions, as well as create additional assets on the Company's balance sheets. Foremost, the Company is applying for these licenses as it believes these markets represent untapped opportunities that AUDACIOUS is in a good position to capitalize on.

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#### Thailand

- Subsequent to the quarter, on February 22, 2022, the Company and its partner GTH entered into a definitive agreement, whereby AUDACIOUS will acquire a 25% interest in GTH for 17,369,317 shares valued at \$2,000,000 plus incentives for an additional \$2,000,000 in shares once GTH is cash flow positive.
- The Company also announced it had completed a sale of CBD hemp seeds to GTH, reflecting the first sale by a North American cannabis company into this region.
- GTH, which through its parent company Instant Produce PCL (“NRF”), has access to major distribution channels with large local, regional and international retailers.
- GTH also launched its first four franchise stores under the Hemp House brand. Intention is for these stores to be turned into a dispensary style outlet once regulations permit the sale of higher potency THC products.

#### ALPS

- APIS
  - ALPS' APIS offering continues to gain traction. Not only will the offering be marketed through its partnership with Priva, the world's largest provider of environmental control solutions for the horticulture industry with over 12,500 projects worldwide, but interest in the solution is also growing. The first installation was successfully commissioned in Australia. Also subsequent to the quarter, The ALPS signed an expanded contract with Vertical Harvest (“VH”), with whom the Company is engaged for the engineering and design of a 27-level urban greenhouse for the cultivation of microgreens, leafy greens and lettuce in Maine. VH's goal it is to enhance urban community access to exceptional farm fresh foods year-round using less land, water and fuel, while creating jobs serving the underemployed.
  - The Company provided an update on current projects subsequent to quarter's end:
    - **BlueHouse GreenHouse**
      - The Company's project with BlueHouse GreenHouse continues to develop in line with timelines. Final selection of project vendors is currently taking place, and ALPS management anticipates the client will commence construction shortly.
    - **Pre-Project Study for Algae Project**
      - ALPS has signed a contract with a Dutch company with operations in China for the completion of a pre-project study, which will focus on developing the optimal solution in terms of technologies used and ROI for the development of an algae facility for the production of EPA rich oil. Algae increasingly are seen as a sustainable source for wellness supplements, such as omega-3 acids. Commencement of this project add significant capacity to fuel expansion of the use of algae. The global algae market was valued at US\$ 717.14 Mn in 2018 and is projected to reach US\$ 1,365.8 Mn by 2027<sup>2</sup>, The Omega 3 acid market, which algae are anticipated to play a major role in due to its much more sustainable nature as compared to the current dominant source (fish oil), is anticipated to grow to \$3.7 billion by 2028<sup>3</sup>. ALPS intends to be an important player in facilitating the cultivation and production of algae for these markets.
    - **Middle East Feasibility Study Completed**
      - The Company's feasibility study for a client in the Middle East was completed. Senior management at the client is anticipated to make the final go-ahead decision for this major cultivation project shortly.
    - **Aldershot**
      - ALPS is involved in the development of a facility for the cultivation of miniature roses. The project is progressing well on design and permitting, and all milestones were met within customer dictated timelines.

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- **European Baby Leaf Project**
  - ALPS recently engaged with a major crop producer in Europe for the development of a 2-hectare (5 acre) facility for the cultivation of baby leaves. The first phase of the project has commenced and is progressing according to pre-set timelines.
- **Little Leaf Farms**
  - This North American baby leaves project is on track and on time.

#### **NuWu Cup**

- The Company's Tsunami brand won the inaugural NuWu cup for best extract in Las Vegas, Nevada, providing further validation of the Company's storing offerings that have resulted in production being sold out consistently

#### **Completion LOOS transaction**

- The Company, subsequent to the quarter, on January 13, 2022, completed the acquisition of LOOS, a beverage shot company out of California for stock and other considerations valued at \$1,000,000 plus an additional \$2,000,000 in performance incentives based on sales over 2 years.
- LOOS products are based on a unique nano-emulsion technology platform for rapid onset, are vegan, gluten free, low sugar and low calorie. The 2-oz. shots are infused with 100mg THC (5 mg per serving) and are available in three flavors: Orange Crush Sativa, Green Dream Hybrid, and Lavender Indica. Each flavor features a unique terpene profile and has less than 3 mg of sugar per bottle. After entering the market in the 2-oz. drink category, LOOS plans to release a number of other products across several key categories.
- LOOS products have been selling well, with the first production run fully sold out. LOOS products ranked 2nd in California in terms of popularity, even though no advertising and limited marketing activities were deployed at this stage.
- A second, larger, production run is being worked on.

#### **Settlements**

- On January 22, 2022, the Company entered into a final settlement agreement with a former executive of the Company issuing 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.

#### **GOING CONCERN**

The Company's consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume the realization of assets and discharge of liabilities in the normal course of business. The Company has a history of losses and negative cash flows from operating activities. As at December 31, 2021, the Company had positive working capital of \$6,064,705, which includes \$2,890,022 of marketable securities, and an accumulated deficit of \$70,930,971. These circumstances represent a material uncertainty that cast substantial doubt on the Company's ability to continue as a going concern and ultimately the appropriateness of the use of going concern assumption.

The Company is growing through additional contract awards at ALPS, the launch of the ALPS APIS service line, and growth that can come once the GT license transfer is approved by regulators. In addition, the Company is shifting focus away from fintech operations with negative cash flows as well as reducing certain non-productive corporate expenses.

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The ability of the Company to continue operating as a going concern depends on its ability to raise sufficient additional funds to finance acquisition activities and/or its ability to achieve profitable operations. The financial statements do not reflect adjustments (if any) to the recorded amounts and classification of assets and liabilities, which could be necessary if the use of the going concern assumption is ultimately determined to be inappropriate. Such adjustments, if any, could be material. While there is no certainty management's plans described above will be successful or that sufficient financing will be available on terms acceptable to the Company, based on the circumstances described above, the financial statements are prepared on the assumption that the Company is a going concern.

**NON-GAAP MEASURES**

Adjusted EBITDA and Adjusted EBITDA per share

The Company has additionally determined the adjusted EBITDA and adjusted EBITDA per share. The Company believes these measures to be more representative of ongoing operations without non-recurring one-time charges; however, these performance measures have no standardized meaning. As such, there are likely to be differences in the method of computation when compared to similar measures presented by other issuers. Management believes that, in addition to conventional measures prepared in accordance with GAAP, some investors use this information to evaluate the Company's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

	For the three months ended		For the nine months ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	\$	\$	\$	\$
Loss from operations	(4,321,082)	(5,064,841)	(12,140,621)	(10,349,271)
Share-based payments	1,097,784	(1,263,126)	3,759,580	391,507
Depreciation and amortization	406,543	152,341	1,281,555	496,355
Adjusted EBITDA	(2,816,755)	(6,175,626)	(7,099,486)	(9,461,409)
Adjusted EBITDA per share	(0.01)	(0.03)	(0.03)	(0.05)

**SUMMARY FINANCIAL INFORMATION**

The following selected financial information has been derived from, and is qualified in its entirety by, the financial statements of the Company for the nine months ended December 31, 2021:

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Income Statement	For the three months ended		For the nine months ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	\$	\$	\$	\$
Revenue	2,371,218	90,378	6,371,411	257,980
Gross profit	1,843,437	(166,048)	4,141,742	(226,554)
Operating expenses	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)
Net loss attributable to shareholders	(4,714,729)	(19,422,088)	(18,366,150)	(28,549,994)
Net loss attributable to shareholders per share	(0.02)	(0.11)	(0.08)	(0.17)
Adjusted EBITDA	(2,816,755)	(6,175,626)	(7,099,486)	(9,461,409)
Adjusted EBITDA per share	(0.01)	(0.03)	(0.03)	(0.05)

Balance Sheet	December 31, 2021	March 31, 2021
	\$	\$
Current assets	12,176,814	23,842,400
Total assets	72,450,587	82,454,979
Total liabilities	13,169,827	15,759,926
Shareholder's equity	59,280,760	66,695,053

Revenues grew slightly in Q3 FY 2022 compared to Q2 FY 2022 with product revenues from launch of Green Therapeutics lines in California offsetting declines in revenues from discontinued fintech and consulting operations. Gross margins however grew 49% over the prior quarter helped by higher margins on ALPS business. Overall gross margins were 65% YTD. Prior year sales and margins were negligible representing only fintech and consulting businesses before the Company acquired ALPS in Q4 FY 2021. Operating costs grew slightly in Q3 FY 2022 with investments in rebranding under its new operating name, AUDACIOUS and the launch of the relationship with Professional Bull Riders (PBR).

The Company's cash burn from operations was \$8.8 million for FY 2022 YTD compared to \$8.2 million YTD in FY 2021. Main drivers were the increase in accounts receivable with the growth in ALPS business along with reductions from settling various liabilities inherited from prior management. The Company also incurred \$1.7M in capital expenditures mostly from developing the new APIS service line at ALPS and purchasing land for expanding Green Therapeutics, along with \$2.4M advance to Belle Fleur for launching construction of its greenhouse operations which will help the Company launch its brands in Massachusetts later in calendar 2022. To help fund these activities, the Company sold some land and investments which generated \$7.6 million and raised \$3.0 million equity in Q3 FY 2022.

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#### SUMMARY OF QUARTERLY RESULTS

The following table presents selected quarterly financial information from the financial statements:

	Quarter Ending						
	Q3 FY 22 Dec 31, 2020	Q2 FY 22 Sep 30, 2021	Q1 FY 22 Jun 30, 2021	Q4 FY 21 Mar 31, 2021	Q3 FY 21 Dec 31, 2020	Q2 FY 21 Sep 30, 2020	Q1 FY 21 Jun 30, 2020
	\$	\$	\$	\$	\$	\$	\$
Revenue	2,371,218	2,271,830	1,728,363	459,171	90,378	104,800	62,802
Cost of goods sold	(527,781)	(1,038,064)	(663,824)	(435,508)	(256,426)	(220,920)	(7,188)
Gross profit (loss)	1,843,437	1,233,766	1,064,539	23,663	(166,048)	(116,120)	55,614
Operating expenses							
Wage and benefits	1,183,865	1,693,710	948,029	801,390	3,451,617	708,731	936,770
Share-based payments	1,097,784	1,290,951	1,370,845	998,651	(1,263,126)	732,982	921,651
Selling general and administrative	3,476,327	2,239,208	1,700,089	1,810,246	2,557,961	1,032,553	547,223
Depreciation and amortization	406,543	414,038	460,974	99,531	152,341	171,250	172,764
	6,164,519	5,637,907	4,479,937	3,709,818	4,898,793	2,645,516	2,578,408
Loss from operations	(4,321,082)	(4,404,141)	(3,415,398)	(3,686,155)	(5,064,841)	(2,761,636)	(2,522,794)
Gain (loss) on investment in associate	-	-	-	120,190	(427,739)	(303,662)	(551,050)
Gain (loss) on settlements	-	(11,138)	(226,200)	1,657,419	(3,000,000)	(1,025,477)	-
Gain (loss) on true-up provision	-	-	-	527,251	-	(1,615,835)	-
Loss on impairment - Intangible assets	-	-	-	-	(7,684,824)	-	-
Gain (loss) on remeasurement of land for sale	-	-	-	1,492,192	(2,250,241)	-	-
Net change on investment at fair value	(275,278)	(62,442)	(5,864,934)	3,115,243	(796,163)	-	(196,555)
Other expense	(107,177)	161,131	(164,338)	(213,611)	(198,280)	(108,571)	(42,326)
	(382,455)	87,551	(6,255,472)	6,698,684	(14,357,247)	(3,053,545)	(789,931)
Net income (loss) before tax	(4,703,537)	(4,316,590)	(9,670,870)	3,012,529	(19,422,088)	(5,815,181)	(3,312,725)
Gain (loss) on investments	(275,278)	(62,442)	(5,864,934)	3,235,433	(1,223,902)	(303,662)	(747,605)
Gain (loss) on impairments, settlements, provisions	-	(11,138)	(226,200)	3,676,862	(12,935,065)	(2,641,312)	-
Other expense	(107,177)	161,131	(164,338)	(213,611)	(198,280)	(108,571)	(42,326)
	(382,455)	87,551	(6,255,472)	6,698,684	(14,357,247)	(3,053,545)	(789,931)
Net income (loss) before tax	(4,703,537)	(4,316,590)	(9,670,870)	3,012,529	(19,422,088)	(5,815,181)	(3,312,725)

#### DISCUSSION OF QUARTERLY RESULTS

##### Revenue

Total revenues for Q3 FY 2022 and 2021 were \$2,371K and \$90K, respectively. FY 2022 includes revenues from ALPS, product sales from the launch of Green Therapeutics (GT) in California in Q3 and management fees earned from GT. FY 2021 revenues were fintech related- which has since been discontinued. Q3 FY 2022 revenues grew slightly over Q2 FY 2022 thanks to the launch of GT in California which offset discontinued fintech and consulting revenues from prior quarters.

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#### *Gross Profit*

Gross profit for Q3 FY 2022 and 2021 were \$1,843K and (\$166K), respectively. Margins increased over Q2 FY 2022 thanks to strong margins on current business, high utilization rates at ALPS and now stand at 65% YTD for FY 2022. FY 2021 had negative margins from the launch and limited sales in the since discontinued fintech operations.

#### *Wages and Benefits*

Wages and benefits for Q3 FY 2022 and 2021 were \$1,184K and \$3,452K, respectively. FY 2021 included accruals for settlements with prior management which left later in that quarter after the proxy battle which voted in a new board. While the Company continues to expand key personnel in FY 2022, costs decreased in Q3 FY 2022 vs Q2 due to an adjustment of the above-mentioned settlement reserve based on final settlements being reached.

#### *Share-based Payments*

Share-based payments for Q3 FY 2022 and 2021 were \$1,098K and (\$1,263K), respectively. The credit in FY 2021 was from forfeited options/RSUs based on resignations of personnel related to the proxy battle mentioned above. The FY 2022 costs are mostly for new management brought on board including through the ALPS and GT acquisitions. These costs dropped from Q2 as the amortization of new options is front-end loaded at the beginning of the grants.

#### *Selling General and Administrative*

SG&A expenses for Q3 FY 2022 and 2021 were \$3,476K and \$2,558K, respectively. The increase in FY 2022 is from costs of rebranding as AUDACIOUS and the start of the partnership with Professional Bull Riders (PBR) in Q3.

#### *Operating Loss*

The operating loss Q3 FY 2022 and 2021 was \$4,321K and \$5,065K, respectively. Higher margins in FY 2022 more than offset the forward spending in the AUDACIOUS brand and the PBR relationship.

#### *Other Expenses*

Total other expenses for Q3 FY 2022 and 2021 were (382K) and \$(14,357K), respectively. FY 2021 had significant settlement accruals and impairment revaluations. Q3 FY 2022 had slight declines in the value of the investment in Body and Mind stock.

#### *Net Loss Before Tax*

The net loss before tax for Q3 FY 2022 and 2021 were (\$4,704K) and (\$19,422K), respectively. FY 2021 had major settlement and impairment costs. The net loss in Q3 FY 2022 was comparable to Q2, slightly higher due to minor drops in investment values.

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#### DISCUSSION OF 9 MONTH YTD RESULTS

##### *Revenue*

Total revenues for FY 2022 and 2021 YTD were \$6,371K and \$258K, respectively. FY 2022 includes revenues from ALPS (acquired Q4 FY 2021), and management fees from Green Therapeutics.

##### *Gross Profit*

Gross profit for FY 2022 and 2021 YTD were \$4,142K and (\$227K), respectively. The YTD Q3 FY 2022 amounts are predominantly from high margin ALPS business plus management fees with GT.

##### *Wages and Benefits*

Wages and benefits for FY 2022 and 2021 YTD were \$3,826K and \$5,097K, respectively. FY 2021 includes accruals for significant settlement costs with prior management. FY 2022 has additional personnel from the ALPS and GT acquisitions as well as a broader management team geared to expanding opportunities in the US and abroad.

##### *Share-based Payments*

Share-based payments for FY 2022 and 2021 YTD were \$3,759K and \$392K, respectively. FY 2021 had reductions in share-based costs for personnel who resigned in Q3 that fiscal year. FY 2022 has higher costs from expanded personnel mentioned above via hires and acquisitions.

##### *Selling General and Administrative*

SG&A expenses for FY 2022 and 2021 YTD were \$7,416K and \$4,138K, respectively. The increase in FY 2022 is from costs with the rebranding as AUDACIOUS including trade show expenses, advisory expenses related to expansion opportunities across the country and SG&A costs related to the acquisition of ALPS.

##### *Operating Loss*

The operating loss for FY 2022 and 2021 YTD were (\$12,141K) and (\$10,349K), respectively. Higher marketing and personnel costs (wages and share-based payments) offset the significantly higher gross margins in FY 2022.

##### *Other Expenses*

Total other expenses for FY 2022 and 2021 YTD were \$6,551K and \$18,201K, respectively. FY 2022 costs were mainly a decline in the value of publicly traded Body and Mind stock. FY 2021 costs had some investment declines but were mostly impairment and settlement costs.

##### *Net Loss Before Tax*

The net loss before tax for FY 2022 and 2021 YTD was (\$18,691K) and (\$28,550K), respectively. FY 2021 had higher losses due to the impairment and settlement charges.

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**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 and sales of investments. The Company believes that it has sufficient cash and resources to fund its business objectives for the next twelve months. The Company is not exposed to any externally imposed capital requirements.

Working capital as of December 31, 2021, was \$6,281K as compared to \$16,420K as at March 31, 2021, resulting in a decrease to working capital of (\$10,139K). The decrease was sales of Body and Mind stock as well as land in Washington state and Nevada that was not needed.

*Operating Activities*

During the nine months ended FY 2022 and 2021, cash used in operating activities was \$8,797K and \$8,153K, respectively. FY 2022 had \$2,985K in working capital spending for receivables from the revenue growth at ALPS and inventory growth in GT in California in anticipation of further expansion from the launch there in Q3 FY 2022.

*Investing Activities*

During the nine months ended FY 2022 and 2021, cash flows provided by (used in) investing activities were \$3,464K and (\$691K), respectively. In FY 2022 the Company generated \$7,637K from selling some land and investments. Meanwhile the Company invested \$1,682K developing the ALPS APIS service offering and advanced \$2,357K to Belle Fleur to launch construction of their greenhouse facility in Massachusetts.

*Financing Activities*

During the three months ended FY 2022 and 2021, cash flows provided by (used in) financing activities were \$2,537K and (\$299K), respectively. In Q3 FY 2022 the Company completed a capital raise of \$2,967K offset by payments on capitalized leases, mostly for real estate. In FY 2021 there were lease payments and taxes related to stock transactions.

**TRANSACTIONS WITH RELATED PARTIES**

*Related party transactions*

The Company incurred the following transactions with related parties:

	Three months ended		Nine months ended	
	December 31,		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

# AUSTRALIS CAPITAL INC.

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Wages and benefits include payments to the Company's key management personnel that have the authority and responsibility for planning, directing, and controlling the activities of the Company and consist of the Company's management team. The Company's directors' fees include cash and share-based compensation for the directors. In Q3 FY 2021, there were adjustments to expenses based on resignations of board and management personnel after the proxy battle in that quarter.

#### *Related party balances*

Related party payables and receivables included the following:

	<b>December 31, 2021</b>	March 31, 2020
	\$	\$
Due to officer and/or shareholder <sup>(1)</sup>	<b>1,056,695</b>	1,792,809
Other receivable <sup>(2)</sup>	<b>115,100</b>	115,100

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.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

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 the condensed interim 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 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 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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In March 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which resulted in a series of public health and emergency measures being put in place to combat the spread of the virus. These measures have caused material disruption to businesses in United States, Canada and globally resulting in an economic slowdown. The duration and impact of COVID-19 continues to be unknown, and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the company in future periods. To date, the Company has not experienced material changes in its business because of COVID-19, however, there is no certainty this will continue going forward. Accordingly, there is inherently more uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the interim consolidated financial statements. It is not possible to forecast with certainty the extent to which the economic impact of COVID-19 will affect the Company's operations and financial results in the near term and long-term.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### *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 as at December 31, 2021, 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 year.

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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	-	<b>655,597</b>
Accounts receivable	3,803,803	-	<b>3,803,803</b>
Annuity receivable - SubTerra	739,068	-	<b>739,068</b>
Loan receivable	2,386,414	-	<b>2,386,414</b>
Marketable securities – BaM	-	2,890,022	<b>2,890,022</b>
Derivative financial instrument – NCI call option	-	7,320,630	<b>7,320,630</b>
Accounts payable and accrued liabilities	4,391,418	-	<b>4,391,418</b>
Advances payable - related parties	1,056,695	-	<b>1,056,695</b>
Contingent consideration payable	-	3,698,980	<b>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.

Liquidity risk

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

As at December 31, 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 <sup>(1)</sup>	3,698,980	-	3,698,980	-
Advances payable - related parties	1,056,695	1,056,695	-	-
Lease liability	808,632	438,641	369,991	-

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.

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#### Currency risk

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

At December 31, 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 on financial assets and liabilities would result in an increase or decrease of approximately \$60,000 to net loss and to comprehensive loss for the three months ended December 31, 2021.

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 because 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 three 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 several financial instruments or contracts are entered into with the same counterparty, or where several 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.

The Company's investments in predominately U.S. cannabis assets 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 (the "Staff Notice"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company currently has ancillary involvement (as defined in the Staff Notice), is currently indirectly involved, or expects to be

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indirectly or directly involved in the upcoming year, through its operations and 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 BaM, that cultivate and/or distribute marijuana in the states of California, Michigan, Nevada, Ohio, and Arkansas. 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. The Company also has begun selling product through licenses in California. The Cannabis industry has been legalized in certain states such as the above-listed five, 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. At December 31, 2021, the Company's carrying value of its investment in BaM is \$2,890,022 (inclusive of amounts held for sale).

#### U.S. Federal Overview

In the U.S., thirty-eight states have legalized medicinal marijuana and nineteen 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 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 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. 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.

Numerous bills have been introduced in Congress in recent years to decriminalize aspects of state-legal marijuana trades, to provide protections for marijuana-related businesses in states with medical and adult-use marijuana laws, and to provide protections for financial institutions that offer banking services to State-legal marijuana businesses. For example, the MORE Act removes marijuana from the list of scheduled substances under the Controlled Substances Act and eliminates criminal penalties for an individual who manufactures, distributes, or possesses marijuana<sup>1</sup>. The CARERS Act removes restrictions on, and creates new protections for, conduct and activities related to medical marijuana that are authorized by state law<sup>2</sup>. The REFER Act limits restrictions on and penalties for certain cannabis-related activities that are authorized by state or local law<sup>3</sup>. While there are different perspectives on the most effective route to end federal marijuana prohibition, the Company anticipates that the federal government will eventually repeal the federal prohibition on cannabis, leaving the states to decide regulations on cannabis cultivation, production and sale. For the time being, cannabis remains a Schedule I controlled substance, and illegal at the federal level.

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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.

#### *Compliance*

With respect to the Company's ancillary involvement in the U.S. Cannabis industry, the Company is not aware of non-compliance of its customers, with applicable license requirements and regulatory framework enacted by the applicable U.S. State.

<sup>1</sup> <https://www.congress.gov/bill/116th-congress/senate-bill/2227>

<sup>2</sup> <https://www.congress.gov/bill/116th-congress/house-bill/127?s=1&r=8>

<sup>3</sup> <https://www.congress.gov/bill/116th-congress/house-bill/1455?q=%7B%22search%22%3A%5B%22x%22%5D%7D>

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#### 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 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. In June 2020, 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 2021.

##### *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 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.

##### *Missouri*

On November 6, 2019, Missouri voters approved Amendment 2, legalizing the use of medical marijuana for qualified patients with a physician's certification. The law went into effect in December 2018. In December 2019, the Department of Health and Senior Services awarded 62 cultivation licenses (with each license capped at 30,000 square feet of canopy). In January 2020, DHSS awarded 84 manufacturing licenses as well as 192 dispensary licenses. The state has no current plans to award any additional licenses. As of Q4 of 2021, there were more than 146k medical marijuana patients registered in Missouri. It is anticipated that Missouri voters will approve an adult-use cannabis program in December 2022.

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#### *New York*

In July 2014, Governor Andrew Cuomo signed legislation permitting the use of cannabis for medical purposes. There are only 10 vertically integrated medical marijuana businesses in the state of New York, with each licensee allowed to open to 4 dispensary locations. There were more than 140,000 registered medical marijuana patients in the state in January 2021. At the end of March 2021, the New York legislature passed a bill legalizing adult-use marijuana in the state, which Governor Andrew Cuomo signed into law. Applications for 10 different types of adult use licenses are expected to become available by Q2/Q3 of 2022; adult use sales are not expected to begin until end of 2022 or the beginning of 2023. In order to speed up the adult use program, New York has created a provisional licensing system that will allow certain licensed hemp cultivators and hemp processors apply for temporary adult use cannabis cultivation and processing licenses.

#### *New Jersey*

New Jersey became the 14<sup>th</sup> state to allow medical marijuana when the New Jersey Compassionate Use of Medical Marijuana Act (N.J.S.A 24:61-1 et seq) was passed by the state legislature on January 11, 2010, and was signed into law by Governor Jon Corzine on January 18, 2010. Since that time, the New Jersey Department of Health has issued vertically integrated licenses to 12 Alternative Treatment Centers. Each ATC is entitled to cultivation, manufacturing, and 3 dispensary locations. In 2019, the Department of Health opened applications for 24 additional medical marijuana licenses (4 vertical and 20 stand alone licenses), but these licenses have yet to be awarded. As of Q1 2021, there were approximately 104,229 registered medical marijuana patients in the state. In November 2020, New Jersey overwhelmingly approved a ballot initiative allowing for adult use, sales of which are expected to begin by the end of this year. New Jersey began accepting applications for adult use cannabis cultivation and manufacturing licenses on December 15, 2021, and will begin accepting applications for adult use dispensaries on March 15, 2022.

#### *Arizona*

Proposition 203 legalized medical cannabis in the State of Arizona in 2010. As of Q1 of 2021, there were 299,054 registered medical marijuana patients in Arizona. Adult-use sales began in Arizona in January 2021, with the state reporting \$3M in sales in the first 10 days. A lottery to issue 13 vertically integrated licenses in eight underserved counties drew 377 applications. These licenses were issued in April. The issued another 26 vertically integrated adult-use licenses to applicants that are majority owned by social equity applicants in December 2021.

#### *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 2020. In January 2022, Ohio held a lottery for an additional 76 medical marijuana dispensaries. The issuance of those licenses is pending a state review of applicants selected in the lottery.

#### *New Mexico*

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In April 2007, Governor Bill Richardson signed into law Senate Bill 523, the Lynn and Erin Compassionate Use Act. The bill allowed for the use of cannabis with a physician's recommendation for treatment of certain medical conditions like HIV/AIDS, cancer, glaucoma, multiple sclerosis, and epilepsy. The list of qualifying conditions has been expanded a number of times since 2007. In 2019, Governor Michelle Lujan Grisham signed into law Senate Bill 406 which, among other reforms, allowed medical cannabis cardholders from other states to purchase cannabis in New Mexico and allowed for the consumption of cannabis at medical cannabis dispensaries. On April 12, 2021, House Bill 2, The Cannabis Regulation Act, was signed into law by Governor Grisham legalizing adult use. Applications for adult use cannabis cultivation, manufacturing, and retail licenses are open and are being reviewed on a rolling basis. There is no limit on the number of licenses the state can issue. Adult use sales will begin in New Mexico on April 1, 2022.

#### **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, 2020, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking Act of 2020 (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 on both private and public capital markets to support the development and growth of its 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 ACI. 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 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.

# AUSTRALIS CAPITAL INC.

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#### *Risks Related to the Company's Business*

##### *Nevada License Approvals*

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 CCB and transfer of regulatory responsibilities for the State of Nevada's cannabis industry from the Department of Taxation to the CCB. The CCB was formed in July 2021. Transfer of the Company's previously acquired cultivation and production licenses from GT to the Company is pending application and approval from the CCB and involving in part, the production and cultivation assets and licenses. The Company cannot consolidate the results of Green Therapeutics cultivation and production operations until such time as the license transfer is complete.

##### *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 BaM, through its holding of certain cannabis related assets, and through the ancillary services provided by Cocoon Technology, 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 BaM operates, certain cannabis assets are held and ancillary services are provided, cannabis continues to be categorized as a controlled substance under the CSA 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 2021, 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 a decline in its investment and asset values, as well as on future revenues and results of operations, if strict enforcement of federal law occurs.

##### *Future Acquisitions or Dispositions and Management of Growth*

The Company's success will largely depend on its ability to grow its business in response to the demands of consumers and other providers within the cannabis industry. In some cases, the Company may determine to do so through the acquisition of complementary business rather than through internal development. Material acquisitions, dispositions and other strategic transactions anticipated in the growth and development of the Company's business, involve a number of risks including (i) risks surrounding the allocation and deployment of the Company's liquid assets and (ii) risks that the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected. Additionally, the Company may issue additional common shares which would dilute the current shareholders' holdings in the Company. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

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#### *Integration of Acquired Businesses*

The Company expects to grow by acquiring businesses. The integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

When the Company acquires cannabis businesses, it may obtain the rights to applications for licenses as well as licenses. The procurement of such applications for licenses and licenses generally will be subject to governmental and regulatory approval. There are no guarantees that the Company will successfully complete such acquisitions, and even if the Company completes such acquisitions, the procurement of applications for licenses may never result in the grant of a license by any state or local governmental or regulatory agency and the transfer of any rights to licenses may never be approved by the applicable state and/or local governmental or regulatory agency.

#### *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 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 three quarters. The Company expects to rely on future revenue streams, 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.

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income, and cash flow may differ materially from the Company's projected revenue, net income, and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These

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estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

#### *Operating Risks*

The Company's growth strategy contemplates expansion of its current operations and distribution capabilities. There is a risk that the expansion of operations will not be achieved on time, on budget, or at all, as it can be adversely affected by a variety of factors, including some that are discussed elsewhere in these Risk Factors and the following:

- delays in obtaining, or conditions imposed by, regulatory approvals.
- facility design errors.
- breakdown, aging or failure of equipment or processes.
- contractor or operator errors and delays.
- delays in securing necessary facilities and equipment.
- operational inefficiencies.
- labor disputes, disruptions or declines in productivity; inability to attract enough qualified workers; disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, storms or an outbreak of a public health crisis including epidemics, pandemics or outbreaks of new infectious diseases or viruses, as well as related events that can result in volatility and disruption to global supply chains, operations, mobility of people, patterns of consumption and services or goods.

#### *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.

#### *The Company's Products*

As a relatively new industry, there are not many established players in the cannabis industry whose business model the Company can follow or build on the success of. Similarly, there is no information about comparable companies available for potential investors to review in deciding about whether to invest in the Company.

Shareholders and investors should further consider, among other factors, the Company's prospects for success in light of the risks and uncertainties encountered by companies that, like the Company, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur, and they may result in material delays in the operation of the Company's business. The Company may not successfully address these risks and uncertainties or successfully implement its operating strategies. If the Company fails to do so, it could materially harm the Company's business to the point of having to cease operations and could impair the value of the Common Shares to the point investors may lose their entire investment.

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The Company expects to commit resources to develop and market existing products and new products and services. These products are relatively untested, and the Company cannot assure shareholders and investors that it will achieve market acceptance for these products, or other new products and services that the Company may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business. In addition, new products and services may pose a variety of challenges and require the Company to attract additional qualified employees.

The failure to successfully develop and market these new products and services could seriously harm the Company's business, financial condition and results of operations.

The cannabis industry is in its early stages, and it is likely that the Company and its competitors will seek to introduce new products in the future. In attempting to keep pace with any new market developments, the Company will need to expend resources in order to successfully develop and generate revenues from new products. The Company may not be successful in developing new products, bringing such products to market or gaining market acceptance for its products, which together with expenditures made in relation to such product development, may have a material adverse effect on the Company's business, financial condition and results of operations.

#### *Licensing Risks*

The Company's ability to operate its business is dependent on the ability of the Company to retain its licenses. Licenses, once issued, are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements would have a material adverse impact on the business, financial condition and operating results of the Company. There is also no assurance of new licenses or approvals from various states.

The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing, documentation and periodic reporting that may be required by governmental authorities. Any delays in obtaining, or failure to obtain or retain the necessary regulatory approvals will significantly delay the development of the Company's markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Should any state in which the Company considers a license important not grant, extend or renew such license or should it renew such license on different terms, or should it decide to grant more than the anticipated number of licenses, the business, financial condition and results of the operation of the Company could be materially adversely affected.

#### *Product Risks*

Companies are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Product recalls may be self-imposed or imposed by regulators. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant number of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products

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and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations regulatory agencies, requiring further management attention and potential legal fees and other expenses.

#### *Product Liability*

With products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company.

There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain enough insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

#### *Investment in Growth, Regulatory Compliance and Operations*

The Company expects to incur significant ongoing costs and obligations related to its investment in growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of its shares may significantly decrease.

The Company is also working with its legal, accounting and financial advisors to identify areas in which changes should be made to the Company's financial management control systems to manage its obligations as a public company listed on the CSE. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. The Company has made, and will continue to make, changes in these and other areas, including the Company's internal controls over financial reporting. However, the Company cannot assure holders of Company's shares that these and other measures that the Company might take will be enough to satisfy the Company's obligations as a public company listed on the CSE on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies listed on the CSE will create additional costs for the Company and will require the time and attention of management. The Company cannot predict

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the amount of the additional costs that the Company might incur, the timing of such costs or the impact that management's attention to these matters will have on the Company's business.

#### *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.

#### *Profitability*

There is no assurance as to whether the Company will be profitable, earn significant revenues, or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and operation of its business.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends.

#### *Managing Growth and Operations*

If the Company implements its business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and management information systems, rigorous control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the equity.

#### *Intellectual Property Rights*

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company can do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names, and its ability to register certain of its

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intellectual property under U.S. federal and state law is impaired by the illegality of cannabis under U.S. federal law;

- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;
- another party may assert a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend upon, among other things, the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions or under federal law, the Company may face additional difficulties in defending its intellectual property rights.

#### *Litigation Risk*

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

#### *Dependence on Key Inputs, Suppliers and Skilled Labor*

The cannabis business is dependent on several key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier were to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any

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## Management's Discussion & Analysis

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inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

The Company is reliant on third-party suppliers to develop and manufacture its products. Due to the uncertain regulatory landscape for regulating cannabis in the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the operations of the Company. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the business and operational results of the Company.

#### *Accuracy and Availability of Market Data*

Since the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results.

#### *Industry Changes*

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in different ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability. The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

#### *Insurance Coverage*

The Company's business is subject to risks and hazards, including adverse environmental conditions, accidents, labor disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might

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also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company believes that it and its subsidiaries currently have insurance coverage with respect to directors and officers, workers' compensation, general liability, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary.

#### *Fraudulent or Illegal Activity*

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate government regulations. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to comply such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

#### *Reliance on Information Technology Systems*

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized

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access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

#### *Officers and Directors Conflicts of Interest*

Although certain officers and board members of the Company are expected to be bound by anticircumvention agreements limiting their ability to enter into competing and/or conflicting ventures or businesses, the Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time-to-time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. If such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

#### *Company Reputation*

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition of the Company.

Adverse publicity reports or other media attention regarding the safety and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed. Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

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## **Management's Discussion & Analysis**

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#### *Environmental Laws and Employee Health and Safety*

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company incurs ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to obtain an environmental compliance approval under applicable regulations or otherwise comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the Company's business, results of operations and financial condition.

#### *Use of Funds by the Company*

The Company cannot specify with certainty the uses of available funds. Management has broad discretion in the application of available funds. Accordingly, a shareholder of the Company will have to rely upon the judgment of management with respect to the use of available funds, with only limited information concerning management's specific intentions. The Company's management may spend a portion or all the available funds in ways that the Company's shareholders might not desire, that might not yield a favorable return and that might not increase the value of a purchaser's investment. The failure by management to apply these funds effectively could harm the Company's business. Pending use of such funds, the Company might invest the proceeds in a manner that does not produce income or that loses value.

#### *Currency Fluctuations*

The Company's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results.

#### *Anti-Bribery Laws.*

The Company is subject to the Corruption of Foreign Public Officials Act (Canada) ("CFPOA") and the United States Foreign Corrupt Practices Act ("FCPA"), which generally prohibit companies and company employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The CFPOA and the FCPA also require companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. In addition, the Company may become subject to other anti-bribery laws of any nations in which it conducts business that apply similar prohibitions as the CFPOA and FCPA (e.g. the Organization for Economic Co-operation and Development Anti-Bribery Convention). The Company's employees or other agents may, without the Company's knowledge and despite the Company's efforts, engage in prohibited conduct under the Company's policies and procedures and the CFPOA, the FCPA or other anti-bribery laws to which the Company may be subject for which the Company may be held responsible. If the Company's employees or other agents are found to have engaged in such practices, the Company could suffer severe penalties and other consequences that may have a material adverse effect on the Company's business, financial condition and results of operations.

# AUSTRALIS CAPITAL INC.

## Management's Discussion & Analysis

### For the nine months ended December 31, 2021

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#### *General Economic and Political Risks*

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates, high rates of inflation or unemployment, consumer trends and spending and an outbreak of a public health crisis including epidemics, pandemics or outbreaks of new infectious diseases or viruses, as well as related events that can result in volatility and disruption to global supply chains, operations, mobility of people, patterns of consumption and services or goods. Changes in medicine and agricultural development or investment policies or shifts in political attitude in certain countries may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

#### *Risk of Public Health Crises*

Public health crises, pandemics and epidemics, including the novel coronavirus (COVID-19), could adversely impact the Company and its customers. Accordingly, these events could have a material adverse effect on the Company's business, financial conditions and cash flows. The Company is continuously monitoring the impact of COVID-19 and will continue to transparently communicate with its staff, customers and stakeholders.

#### *Internal Controls and Procedures*

Management of the Company has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the financial statements of the Company do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented thereby, and (ii) the financial statements of the Company fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented. However, as a venture issuer, the certifying officers of the Company filing such financial statements do not make any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis disclosure controls and procedures, and internal controls over financial reporting, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**AUSTRALIS CAPITAL INC.**  
**Management's Discussion & Analysis**  
**For the nine months ended December 31, 2021**

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**OUTSTANDING SHARE DATA**

As of March 1, 2022, the Company had the following securities issued and outstanding:

	<u>Units Outstanding</u>
Issued and outstanding shares	293,180,550
Options	34,242,804
Warrants	49,353,724
Restricted Stock Units	110,557
<b>Total</b>	<b>376,887,635</b>

**ADDITIONAL INFORMATION**

The Company's continuous disclosure documents and additional information are available on SEDAR at [www.sedar.com](http://www.sedar.com).