




Cannasouth Limited Group

Preliminary Unaudited Results for
Financial Year Ended 31 December 2023



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Review of Operations

For the year ended 31 December 2023

2023 – A transformative year, as Cannasouth led the consolidation of the high growth medicinal cannabis sector with its merger with Equalis Group New Zealand Limited (Equalis). This provided end-to-end GMP accredited capabilities in manufacturing and dried flower processing plus widening the Company's product range to include CBD Oral Solutions, Active Pharmaceutical Ingredients (API) and access to new technologies.

The Company transitioned to generating meaningful revenue, when, in October 2023, the Medicinal Cannabis Agency verified a suite of own-manufactured products for sale to the New Zealand market.

We fulfil the key objective of the Company – to bring quality affordable medicinal cannabis medicines to New Zealand patients.

Cannasouth has moved up the sales curve past its inflection point.

Our Relentless Focus

The Company focuses on three main areas:

- Maximising revenue from verified products.
- Reducing costs and increasing efficiencies.
- Commercialising our new product pipeline.

With greater knowledge of the market, Cannasouth forecasts 2024 revenues of \$6 million to \$10 million, from our core New Zealand and Australian markets. This considered available market information and production capacities. We expect to achieve positive monthly operating cash flows by the end of 2024 or early 2025.

The rapid growth in the New Zealand and Australian markets has enabled us to focus our efforts on leveraging our competitive advantage to our core markets before pursuing international expansion.

Cannasouth has introduced highly competitive products and has taken market share in two of the fastest-growing medicinal cannabis categories: dried flower and CBD oral solutions. We have also commenced sales of bulk CBD API to Australian manufacturers. Our proprietary processing techniques have enabled us to disrupt the industry's norms and models that allow us to compete effectively against existing products and enter export markets.

Highlights for 2023 included:

- ✓ Divestment of non-core Midwest Pharmaceuticals NZ Ltd - February 2023
- ✓ Gaining GMP accreditation for the Cannasouth's cultivation and processing facility - May 2023
- ✓ Merger with Equalis completed - 31 May 2023
- ✓ First export of dried cannabis-flower to Australia - June 2023
- ✓ Regulatory changes announced by the Medicinal Cannabis Agency to bolster NZ Medicinal Cannabis Sector - August 2023
- ✓ First export of Cannabis-based API to Australia - September 2023
- ✓ Successful verification of oral solutions and dried flower products - October 2023
- ✓ Launch of own-manufactured oral solutions and dried flower products in New Zealand - November 2023

Merger with Eqlis and Divestment of Midwest

The successful merger with Eqlis on 31 May 2023 gave the Cannasouth Group access to GMP manufacturing capabilities and innovation in new product development and processing technologies.

The Company is maximising the competitive advantages that these capabilities give us to produce low-cost products and ingredients. This transaction enabled the Company to divest the assets of Cannasouth's manufacturing subsidiary, Midwest Pharmaceuticals NZ Ltd (Midwest), to Midwest's major customer Harker Herbal Products Ltd (Harker Herbals) for a total of \$2.31 million. The sale was settled on 28 February 2023.

The divestment of the Midwest liquid filling assets to Harker Herbals enabled the Group to focus on its core medicinal cannabis business.

Summary of Financial Results

The merger transaction has impacted the Financial Statements. Cannasouth, being the NZX listed entity, issued equity (NZX: CBD shares) to Eqlis shareholders in exchange for their shares in Eqlis Group New Zealand Limited ('Eqlis').

The merger represents a business combination in accordance with NZ IFRS 3 Business Combinations. The accounting treatment under NZ IFRS 3 Business Combination is to treat the merger transaction as a reverse acquisition where Eqlis is deemed the parent and is the accounting acquirer of Cannasouth.

These consolidated financial statements have been prepared and issued under the name of the legal parent and accounting acquiree (Cannasouth) but reports the continuation of the financial statements of the subsidiary and accounting acquirer (Eqlis). The only exception is that the equity structure reported – where the number and type of ordinary shares issued, including comparatives, reflect the equity structure of the legal entity, Cannasouth.

The attached financial statements are preliminary and unaudited and subject to final review, in particular a review of the carrying value of the intangible assets.

¹ Ministry of Health, response to OIA request dated 13 October 2023.

Reflecting the cost of commencing operations (cannabis cultivation and medicines manufacture), ongoing research and development, and merger-related activity, the Group reported a loss from continuing operations of \$8.8 million (2022 \$7.0 million) and operating revenue of \$956,000 (2022 \$8,000).

Reconciliation of Underlying operating activities

	2023	2022
Loss as reported	\$8,813,739	\$6,987,895
Less Merger transaction costs	\$1,268,748	
Underlying loss after non-recurring one off costs	\$7,544,991	\$6,987,895

In addition to the one-off merger transaction costs above, the Group has implemented merger synergies and operational efficiencies. On an ongoing basis, this will result in **savings of at least \$3.6 million annually**.

Net Assets of the Group at balance date was \$48.3 million (2022 \$5.0 million).

Cash on hand at 31 December 2023 for the Group was \$2.26 million (2022 \$2.17 million). The Group continues to operate in a cash constrained position. Further capital raising initiatives are underway with the Group currently working on raising capital, and a loan facility with a private capital firm, and is planning on dual listing on the ASX.

These initiatives which, along with cash on hand and cash receipts generated from the growing sales of products and services, mitigate the material uncertainty around going concern. The Board believes it will be successful in executing those plans.

Market Outlook

New Zealand

The medicinal cannabis market in New Zealand is growing rapidly - Medsafe reports¹ growth in pack volumes of >190% year-on-year. This closely follows the Australian market's trajectory.

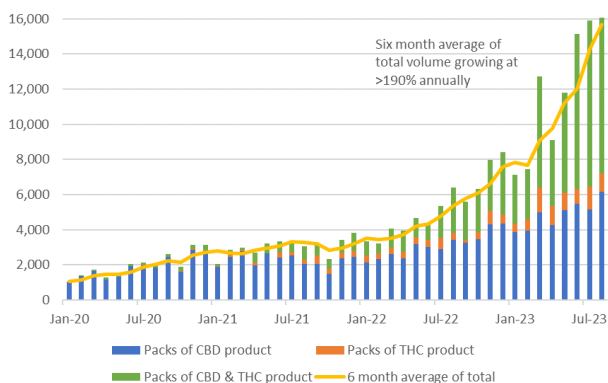
This growth is fuelled by the increased availability of products and improved patient

https://www.health.govt.nz/system/files/documents/i nformation-release/h2023031735_response.pdf

access through specialist clinics and pharmacies.

Medicinal Cannabis Packs of Products Dispensed

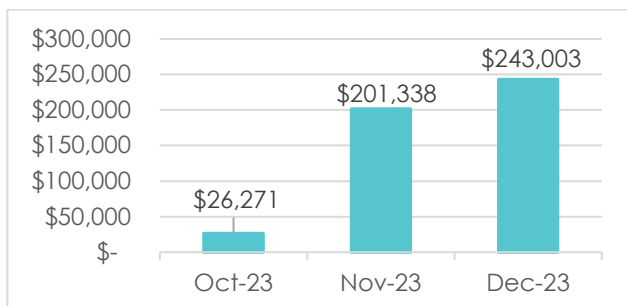
Monthly Medicinal Cannabis Packs
Packs reported by Medsafe



Source: Ministry of Health, response to OIA request dated 13 October 2023¹.

Cannasouth's products have been well-received, with strong market acceptance and rapidly gaining market share. In January 2024, we reported initial sales revenue (see below), confirming the successful market introduction and patient demand for our products.

Cannasouth Group Revenues - Q4 2023



Cannasouth is New Zealand's sole medicinal cannabis company boasting a fully vertically integrated business model, spanning from seed to patient. Uniquely, we hold end-to-end GMP licenses for the manufacturing of medicines including dried cannabis flower, CBD oral solutions, and pharmaceutical ingredients as well as operating its own clinically independent prescribing clinic RestoreMe, (<https://www.restoremeclinic.co.nz/>) further distinguishing our comprehensive approach to patient care.

² Refer <https://www.cannabiz.com.au/cannabis-seeing-explosive-growth-but-data-reveals-sales-dogfight-beyond-the-market-leaders/>

Our sales direct to clinics, pharmacies, and wholesalers allow us to drive costs down throughout the supply chain, making our products more competitively priced. We are the only New Zealand grower of dried cannabis flower products which are 100% grown, processed, and packaged locally, without the need for offshore irradiation. The current market is predominantly serviced by imported products, which often face complex logistical challenges to maintain inventory availability, a critical concern for both prescribers and patients who prioritise consistent supply.

Cannasouth has a significant competitive advantage in our domestic market, ensuring reliable access to our products and reinforcing our commitment to patient care and service excellence. Cannasouth is well positioned to become the largest supplier of products to our core New Zealand market.

Australia

Australia serves as a prime example for forecasting New Zealand's growth and demand surge in medicinal cannabis, due to comparable regulatory frameworks and societal acceptance of cannabis-based medicines. Australia has emerged as one of the world's fastest-growing markets in this sector. In 2023 retail pharmacy sales were A\$1.65 billion this figure is 60% higher than 2022 and illustrates the huge growth of the industry there. The market is expected to reach A\$1.15 billion by 2033² with a 30.1% CAGR³.

Despite the similarities in regulatory environments between the two countries, a key distinction exists. In New Zealand, products **must be verified by the Medicinal Cannabis Agency** to meet the New Zealand Minimum Quality Standard, enforcing strict GMP standards for product verification. Conversely, in Australia, the responsibility falls on the product importer, creating disparities as local manufacturers adhere to rigorous GMP standards.

The Therapeutic Goods Administration (TGA) is now intensifying efforts to ensure imported products meet these standards, penalising non-compliance. This heightened scrutiny offers

³ Refer <https://www.futuremarketinsights.com/reports/australia-legal-cannabis-market>

Cannasouth a strategic opportunity, thanks to our GMP standards being mutually recognised by the TGA.

During 2023, Cannasouth successfully exported commercial quantities of both dried flower and CBD APIs to Australia, continuing to expand our sales and market presence. This provides geographical diversification in sales channels and direct access to a high growth market, further solidifying our position as a leader in the industry.

Cannasouth is currently negotiating to deliver ongoing bulk supplies of pharmaceutical ingredients to some of the largest industry manufacturers in Australia and expects to announce completion of these contracts in the coming months.

Regulatory Changes

During 2023 the Medicinal Cannabis Agency obtained approval for a series of modifications to the Misuse of Drugs (Medicinal Cannabis) Regulations 2019. These long-anticipated changes will have a significant positive impact on Cannasouth's growth trajectory and our industry competitiveness.

Key Highlights Include:

- Facilitation of Exports:
Changing the quality requirements for exports will make it easier for New Zealand companies, like ours, to penetrate international markets.
- Expansion of Medicinal Cannabis Categories:
Broadening the definitions to cover a more extensive variety of plant forms.
- Enhancement in Research Capabilities:
The new amendments will enable non-therapeutic research involving cannabis plant material.

These changes will streamline our operational processes, reduce costs, and enable us to seize new market opportunities. Cannasouth remains committed to leveraging these regulatory improvements to deliver enhanced shareholder value. The changes are expected to be implemented in the first half of 2024.

Looking Ahead

Upcoming major milestones for 2024 include;

- Launching further products in existing categories of dried flower, oral solutions and pharmaceutical ingredients.
- Growing our brand equity in products currently marketed.
- Launching products in new categories, utilising proprietary formulations and drug delivery technologies.
- Further bulk export sales of pharmaceutical ingredients.
- Confirming results of industrialised outdoor growing trials aimed at significantly reducing costs in biomass production as a raw material for cannabis-based ingredient manufacture.
- Dual list the Company on the Australian Securities Exchange (ASX) as a foreign exempt listing, and equity and debt capital raising.

Mark Lucas
CEO, Managing Director
29 February 2024



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For further information visit
www.cannasouth.co.nz

Cannasouth Limited Group

Preliminary Consolidated Statement of Profit and Loss and Other Comprehensive Income For the year ended 31 December 2023

	Unaudited Group	Unaudited Group
	31 Dec 2023	31 Dec 2022
	\$	\$
Continuing operations		
Revenue and other income	955,554	8,358
Cost of sales	(2,175,305)	(1,450)
Gross profit / (loss)	(1,219,751)	6,908
Interest income	106,455	3,919
Research and development expenses	(767,291)	-
Administrative expenses	(6,712,485)	(6,956,867)
Loss before finance costs and impairment loss	(8,593,072)	(6,946,040)
Finance costs	(215,021)	(41,855)
Loss before tax from continuing operations	(8,808,093)	(6,987,895)
Income tax (expense) / benefit	-	-
Loss after tax from continuing operations	(8,808,093)	(6,987,895)
Loss after tax from discontinued operations	(5,646)	-
Total comprehensive loss	(8,813,739)	(6,987,895)
Total comprehensive loss is attributable to:		
Owners of Cannasouth Ltd	(8,813,739)	(6,987,895)
Loss per share (cents per share)		
Basic	(3.52)	(4.98)
Diluted	(3.52)	(4.98)
Weighted average number of ordinary shares issued		
Basic	250,047,146	140,435,616
Diluted	250,047,146	140,435,616

Cannasouth Limited Group

Preliminary Consolidated Statement of Financial Position As at 31 December 2023

	Notes	Unaudited	Unaudited
		Group	Group
		31 Dec 2023	31 Dec 2022
		\$	\$
Cash and cash equivalents		2,264,420	2,169,300
Trade and other receivables		315,280	190,824
Other assets		135,467	25,910
Inventory		2,167,172	181,464
Loans to related parties		180,870	-
Total current assets		5,063,209	2,567,498
Property, plant and equipment		9,805,142	2,349,841
Right of use assets		1,860,158	564,549
Goodwill	6, 7	21,694,637	-
Intangible assets		17,030,723	837,759
Loans to related parties	10	-	154,208
Total non-current assets		50,390,660	3,906,357
Total assets		55,453,869	6,473,855
Trade and other payables		1,818,810	861,308
Lease liabilities		180,331	49,924
Borrowings		725,000	-
Loans from related parties	10	7,413	-
Total current liabilities		2,731,554	911,232
Borrowings		2,141,069	-
Lease liabilities		1,813,309	589,448
Other non-current liabilities		423,433	-
Total non-current liabilities		4,377,811	589,448
Total liabilities		7,109,365	1,500,680
Net assets		48,344,504	4,973,175
Share capital	9	72,396,021	20,256,272
Accumulated deficit		(24,086,015)	(15,283,097)
Share-based payment reserve		34,498	-
Capital and reserves attributable to owners of Cannasouth Ltd		48,344,504	4,973,175
Total equity		48,344,504	4,973,175

Cannasouth Limited Group

Preliminary Consolidated Statement of Changes in Equity For the year ended 31 December 2023

	Notes	Group (Unaudited)			
		Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
Balance as at 1 January 2023		\$ 20,256,272	-	\$ (15,283,097)	4,973,175
Loss for the year		-	-	(8,813,739)	(8,813,739)
Total comprehensive loss		-	-	(8,813,739)	(8,813,739)
<i>Transactions with shareholders</i>					
Shares issued	9	52,937,530	-	-	52,937,530
Capital raising costs	9	(797,781)	-	-	(797,781)
Increase / (Decrease) in reserves		-	34,498	10,821	45,319
Total transactions with shareholders		52,139,749	34,498	10,821	52,185,068
Balance as at 31 December 2023		72,396,021	34,498	(24,086,015)	48,344,504

	Notes	Group (Unaudited)			
		Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
Balance as at 1 January 2022		13,196,806	-	(8,295,202)	4,901,604
Loss for the year		-	-	(6,987,895)	(6,987,895)
Total comprehensive loss		-	-	(6,987,895)	(6,987,895)
<i>Transactions with shareholders</i>					
Shares issued	9	7,241,082	-	-	7,241,082
Capital raising costs	9	(181,616)	-	-	(181,616)
Total transactions with shareholders		7,059,466	-	-	7,059,466
Balance as at 31 December 2022		20,256,272	-	(15,283,097)	4,973,175

Cannasouth Limited Group

Preliminary Condensed Consolidated Statement of Cash Flows For the year ended 31 December 2023

	Unaudited Group	Unaudited Group
	31 Dec 2023	31 Dec 2022
	\$	\$
Net cash flows used in operating activities	(9,267,929)	(4,836,604)
Net cash flows used in investing activities	6,587,023	(1,149,821)
Net cash flows from financing activities	2,776,026	5,846,016
Net increase / (decrease) in cash flows	95,120	(140,409)
Opening cash and cash equivalents	2,169,300	2,309,709
Cash and cash equivalents at the end of the year	2,264,420	2,169,300

Notes to the Preliminary Consolidated Financial Statements For the year ended 31 December 2023

1 Commentary on financial statements

In the 2023-year the Group achieved a major leap forward in terms of strategy execution. The merger of Cannasouth Ltd and Equalis Group NZ Ltd, along with regulatory approval of the Groups own-manufactured products and a focus on reducing costs to establish a lean business model was completed during the year.

The Group reported a loss from continuing operations of \$8.8 million (2022 \$7.0 million) which reflected the cost of this activity. The loss includes one-off merger transaction costs of \$1.3 million.

The Group reported monthly revenues for the last quarter of Oct: \$26k, Nov: \$201k, Dec: \$243k, which demonstrates the revenue growth from launch of own-manufactured products. Operating revenue for the 2023-year was \$956,000 (2022 \$8,000).

Net Assets of the of the Group at balance date was \$48.3 million (2022 \$5.0 million). Importantly please note that these financial statements are subject to completion of audit, including a final review of the carrying value of the intangible assets (note 6).

Cash on hand at 31 December 2023 for the Group was \$2.26 million (2022 \$2.17 million).

2 Summary of significant accounting policies

General Information

These financial statements are for Cannasouth Ltd ('Cannasouth') and its legal subsidiaries (together, the 'Group'). The Group consists of limited liability companies, incorporated under the Companies Act 1993 and domiciled in New Zealand. The Group was formed by a reverse acquisition on 31 May 2023 between Cannasouth and its legal subsidiaries and Equalis Group New Zealand Limited and its legal subsidiaries ('Equalis') (refer to note 3).

The Group is an NZX listed, biopharmaceutical group focussed on plant-based medicines. The Group is vertically integrated, with business activities ranging from the production and supply of cannabis flower, manufacturing of cannabis-based ingredients and finished dosage products, an online clinic, and related activities in research & development, marketing and sales.

The address of the Company's registered office is CRV Building Waikato Innovation Park Level 2/2 Melody Lane, Hamilton East, Hamilton 3216.

Basis of preparation

These financial statements have been prepared under IAS 34, and therefore do not contain notes and information to the same extent as do full financial statements. Except for the cash flow information, these financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated.

The financial statements are presented in New Zealand Dollars. The amounts presented in the financial statements have been rounded to the nearest dollar.

The comparative information shown within these consolidated financial statements is that of Equalis, the primary legal acquiree, for the period 1 January 2022 to 31 December 2022 as Equalis was determined to be the accounting acquirer in the reverse acquisition on 31 May 2023 (refer to note 3). Comparative information in the consolidated financial statements has been adjusted to be consistent with the presentation of the current period. These adjustments are limited to classification and disclosure and had no significant net impact on total assets, total equity, profit or cashflow classification.

3 Reverse Acquisition

The Group entered into a merger transaction on 31 May 2023. Cannasouth, being the NZX listed entity, issued equity to Equalis shareholders to effect the merger. The merger represents a business combination in accordance with NZ IFRS 3 Business Combinations because both Cannasouth and Equalis were constituted as businesses.

The accounting treatment under NZ IFRS 3 Business Combination is to treat the merger transaction as a reverse acquisition where Equalis is deemed the parent and is the accounting acquirer of Cannasouth. These consolidated financial statements have been prepared following the merger, and are issued under the name of the legal parent and accounting acquiree (Cannasouth), but reports the continuation of the financial statements of the subsidiary and accounting acquirer (Equalis). The only exception is that the equity structure reported - where the number and type of ordinary shares issued, including comparatives, reflect the equity structure of the legal parent, Cannasouth.

The consolidated financial statements for the year ended 31 December 2023 reflects the 12-months of Equalis operations and 7-months of Cannasouth operations, and the combined financial position of the merged group on 31 December 2023. Refer to note 6 for further details of the assets acquired and liabilities assumed in relation to this business combination.

The comparative information shown within these consolidated financial statements reflects Equalis for the period 1 January 2022 to 31 December 2022. Comparative information in the consolidated financial statements have been restated to be consistent with the presentation of the current period.

Notes to the Preliminary Consolidated Financial Statements For the year ended 31 December 2023

4 Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and any future periods affected.

5 Going Concern

The Group is considered a start-up entity, and the industry in which the Group undertakes its business is still in its infancy in the New Zealand market. During the year, the focus of the Group was to continue establishing the supply chain for medicinal cannabis. As a result of this focus, the Group has made a net loss for the period of \$8.8m (2022: \$7.0m).

The financial statements have been prepared on a going concern basis which assumes that the Group will have sufficient liquidity to continue its operations for the next 12 months from the date of signing the financial statements.

The Directors believe the going concern assumption is appropriate, reaching that conclusion after having regard to the circumstances which they consider reasonably likely to affect the Group during the period of at least 12 months from the date the financial statements are approved.

During the year, the Group made substantial progress in implementing its strategy. The Group cultivated and harvested 8 commercial size cannabis crops. The cultivation facility has been certified GMP. First GMP flower sales commenced in November 2023. The Group also had two oral dosage cannabinoid products successfully verified by the Medicinal Cannabis Agency. The first sale of these products occurred in Q4 2023.

Eqalis Group New Zealand Ltd merged with Cannasouth Ltd on 31 May 2023. Concurrent with the merger approximately \$7.2 million of new capital was raised to fund the working capital of the merged group post completion of the transaction. Nevertheless, the company continues to operate in a cash constrained position.

Further capital raising initiatives are underway with the Group currently working on raising capital, and a loan facility with a private capital firm, and is planning on dual-listing on the ASX. These initiatives which, along with cash on hand and cash receipts generated from the growing sales of products and services, mitigate the material uncertainty around going concern. The Board believes it will be successful in executing those plans.

In the event that the Group is unable to raise sufficient additional funding to strengthen the balance sheet a material uncertainty would exist that may cast significant doubt on the ability of the Company to continue as a going concern, and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements do not include an adjustment relating to the classification and recoverability of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

At the end of the year, there is a material uncertainty around going concern, which depends on achieving sales targets and successful completion of capital raising in the upcoming financial year.

Cannasouth Limited Group

Notes to the Preliminary Consolidated Financial Statements For the year ended 31 December 2023

6 Business Combination

On 31 May 2023, Cannasouth merged with Eqalis Group New Zealand Limited and its subsidiaries through an issue of shares. The transaction completed on 31 May 2023.

The merger created vertically integrated enterprise with revenues from premium flower production, GMP cannabis-based ingredients and cannabis medicines. It brings synergistic benefits including expertise, technology, manufacturing capability, product distribution, licensing, and is expected to increase shareholder value.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	31-May-23
	\$
Ordinary shares issued	147,891,069
Closing price (\$ per share)	\$ 0.30
Total share consideration	44,367,321
Add: Capital raise consideration (net)	6,584,705
Total consideration	50,952,026

The fair value of the 147,891,069 shares issued as consideration at a deemed price \$0.30 per share based on the closing share price of Cannasouth Ltd as at 31 May 2023.

The assets and liabilities recognised from the acquisition are as follows:

	31-May-23
	\$
Cash	6,990,204
Trade and other receivables	259,221
Related party loans	904,474
Inventory	914,887
Biological Assets	93,073
Right-of-use assets	1,470,264
Property plant and equipment	8,129,390
Intangible assets (i)	16,235,872
Deferred tax asset	4,478,040
Trade and other payables	(2,191,335)
Borrowings	(2,023,292)
Lease liabilities	(1,525,370)
Deferred tax liabilities	(4,478,040)
Net identifiable assets acquired	29,257,388
Add:	
Goodwill (ii)	21,694,638
Total net assets acquired	50,952,026

(i) Subject to final review of the carrying value of the intangible assets.

(ii) The goodwill is attributable to the expected synergies, capabilities, and future growth developed within the acquired business. Refer to note 7 for management's assessment of goodwill impairment.

**Notes to the Preliminary Consolidated Financial Statements
For the year ended 31 December 2023**

7 Goodwill

The Group tests whether goodwill has suffered impairment on an annual basis. The recoverable amount is the higher of fair value less costs of disposal and value in use.

Cash-generating units (CGU).

The group has determined there is one cash-generating unit (CGU) - the cash flows from the sale of medicinal cannabis products.

Valuation method

In assessing the recoverable amount, the Group has used the fair value less cost of disposal method - using the income approach with Level 3 inputs. This valuation method enables the Group to include future cash inflow and outflow from planned capital expenditure investment. The estimated future cash flows (five years) are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU using an EBITDA multiple.

Key Assumptions

Management has prepared a five year forecast for the Group's single CGU. The following key assumptions were used:

- Post-tax risk adjusted discount rate 35% - taking into account the early-stage of the medicinal cannabis industry
- EBITDA Multiple of 6.1x
- Selling prices per gram/bottle
- Annual production costs

The headroom of the CGU is \$20.3m. No impairment of goodwill has been recognised as at 31 December 2023 (2022: nil).

8 Basis of consolidation

The following entities and the basis for their inclusion for consolidation in these Financial Statements are as follows:

Name of entity	Principal activities	Country incorporated	Class of shares	2023 Equity holding %	2022 Equity holding %
Eqalis Group New Zealand Limited	Holding company *	New Zealand	Ordinary	100%	100%
Eqalis Pharmaceuticals Limited	Pharmaceutical manufacturer	New Zealand	Ordinary	100%	100%
Eqalis Innovation Limited	Research & Development	New Zealand	Ordinary	100%	100%
A-Script International Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
CBD Isolates Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
Eqalis IP Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
Grow BOP Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
Ice-X International Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
Q-safe International Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
Mahana Island Therapies Limited	Non-operating entity	New Zealand	Ordinary	100%	100%
RestoreMe Clinic Limited	Online clinic	New Zealand	Ordinary	100%	100%
Cannasouth Limited	Governance entity	New Zealand	Ordinary	100%	0%
Cannasouth Bioscience Limited	Pharmaceutical sales	New Zealand	Ordinary	100%	0%
Cannasouth Cultivation Limited	Cannabis cultivation	New Zealand	Ordinary	100%	0%
Midwest Pharmaceuticals NZ Limited	Non-operating entity	New Zealand	Ordinary	100%	0%

Notes to the Preliminary Consolidated Financial Statements
For the year ended 31 December 2023

9 Share Capital

Share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

a) Reconciliation of Share Capital on Issue

	2023	2022
	\$	\$
At 1 January		
Opening Shares	20,437,888	13,196,806
Shares issued during the year	-	7,241,082
Shares issued upon reverse acquisition (share consideration)	44,367,321	-
Shares issued upon reverse acquisition (cash consideration)	7,177,910	-
Shares issued post-reverse acquisition	1,392,299	-
At 31 December	73,375,418	20,437,888

The below table details the movement in ordinary shares issued by the Group's legal parent, Cannasouth Limited.

At 1 January		
Opening Shares as at 1 Jan 2022	147,891,069	137,237,029
Existing shareholders rights offer and placement or oversubscription bookbuild from capital raise	-	10,600,621
Share Purchase Plan (SPP) & Retail/Wholesale Offer issued (i)	-	53,419
Ordinary shares issued on reverse acquisition (share consideration)	147,891,069	-
Ordinary shares issued on reverse acquisition (cash consideration)	24,751,456	-
Ordinary shares issued post-reverse acquisition	9,936,996	-
At 31 December	330,470,590	147,891,069

(i) The Share Purchase Plan (SPP) & Retail / Wholesale Offer included unlisted share options which were issued to the holders in the ratio of one option for every three ordinary fully paid shares that the investor subscribed for. The exercise price was \$0.40 / share, and expired 24 months from issue.

All ordinary shares are fully paid and authorised. They have equal voting rights and share equally in dividends and surpluses on winding up. The shares have no par value.

No dividends have been paid or declared during the year.

b) Capital raising costs

The Group deducts the costs incurred for capital raising from equity when the following three criteria are met:

- The transaction costs are incremental or could have been avoided if the equity transaction was not undertaken;
- The costs are directly attributable to the equity transaction; and
- The equity transaction relates to issuance of new shares to raise additional capital.

The capital raising costs (for the current period) relate to the post-merger costs and does not include capital raising costs incurred by Equalis prior to the merger.

	31 Dec 2023	31 Dec 2022
	\$	\$
Reconciliation		
Share capital on issue	73,375,418	20,437,888
Accumulated capital raising cost	(979,397)	(181,616)
Closing Share Capital	72,396,021	20,256,272

Cannasouth Limited Group

Notes to the Preliminary Consolidated Financial Statements For the year ended 31 December 2023

10 Related Party Transactions

		31 Dec 2023 \$	31 Dec 2022 \$
Loan Receivables			
Murray Whanau Trust	Shareholder	180,870	154,208

The loan matures in December 2024 and has an annual interest rate of 5%.

Loan Payables

Loan - Mark Lucas	Director/Shareholder	7,413	-
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The shareholder loan from Mark Lucas is interest free and repayable on demand.

11 Subsequent Events

There were no material events subsequent to 31 December 2023 which would impact these financial statements.



Cultivation Cannasouth grows and processes high-quality dried cannabis flower to GMP standard in its state-of-the-art Controlled Environment Agriculture (CEA) greenhouse and processing facility near Morrinsville. The facility combines the precise controls of indoor growing with the energy saving benefits of sunlight in a greenhouse to produce premium, pharmaceutical-quality, cannabis flower for local and global markets at competitive production costs and with a smaller environmental footprint than competing indoor growing operations. The flower is sold as a finished product, and for some further use in Cannasouth Group's business.

Pharmaceuticals Cannasouth has established an advanced in-house R&D and technical services department which focuses on the development of next-generation medicinal cannabis products and drug delivery technology, optimising product performance, bioavailability, and patient outcomes.

Sales Sales of all medicinal cannabis products for the Group is conducted by Cannasouth in Hamilton.



E Q A L I S

Manufacture Eqalis manufactures cannabis-based ingredients and oral solution products for the Group at its GMP certified facility in Katikati.

Innovation Eqalis has a valuable IP portfolio with a pipeline of advanced technologies that will provide future competitive advantages. Projects range from cannabis cultivation through to cannabis-based pharmaceuticals. Eqalis also has two outdoor cultivation sites at other locations.

RestoreMe

Clinic RestoreMe is an online clinic with qualified health professionals who are educated in, and open to, prescribing medicinal cannabis products to patients. The entire process from consultation to delivery of medicines can be completed remotely, from the privacy and comfort of the patient's own home.



Business Directory

Incorporated	21 August 2018
Company	6987773
Nature of Business	An NZX listed, biopharmaceutical group focussed on medicinal cannabis. The Group is vertically integrated, with business activities ranging from the production and supply of cannabis flower, manufacturing of cannabis-based ingredients and finished dosage products, an online clinic, and related activities such as research & development, marketing and sales.
Registered Office	CRV Building, Level 2 Waikato Innovation Park 2 Melody Lane Hamilton East Hamilton 3216
Physical Address	CRV Building, Level 2 Waikato Innovation Park 2 Melody Lane Hamilton East Hamilton 3216
Telephone Number	+64 7 949 8393
Directors	Mark Lucas Managing Director and CEO – Appointed 21 August 2018 Anthony Ho Independent Non-Executive Chairman – Appointed 26 September 2018 Mark Scapens Non-Executive Director – Appointed 1 June 2023 Christine Pears Independent Non-Executive Director – Appointed 28 June 2021
Securities Registrar	Link Market Services Limited Level 30, PWC Tower 15 Customs Street West Auckland 1010
Legal Advisors	Harkness Henry Level 8, KPMG Centre 85 Alexandra Street Hamilton 3240 Corporate Counsel PO Box 105 745 Auckland 1143
Auditors	RSM Hayes Audit 1 Broadway Newmarket Auckland, 1023



LEARN MORE AT [CANNASOUTH.CO.NZ](https://cannasouth.co.nz)

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