



**Cannasouth Limited Group**

Preliminary Condensed Consolidated Financial Statements (Unaudited)  
For the year ended 31 December 2022

## Cannasouth Limited Group

### Preliminary Consolidated Statement of Profit and Loss and Other Comprehensive Income For the year ended 31 December 2022

	Notes	Unaudited Group 31 Dec 2022 \$	Group (Restated) 31 Dec 2021 \$
<b>Continuing operations</b>			
Revenue and other income		140,601	205,772
Cost of sales	3	(3,261,178)	-
<b>Gross profit / (loss)</b>		<b>(3,120,577)</b>	<b>205,772</b>
Interest income		-	45,971
Research and development expenses		(748,466)	(870,327)
Administrative expenses		(3,109,013)	(2,873,449)
Share of net loss of joint ventures accounted for using the equity method		-	(475,442)
Gain on remeasurement on original equity investments		-	1,459,551
<b>Loss before finance costs and impairment loss</b>		<b>(6,978,056)</b>	<b>(2,507,924)</b>
Finance costs		(299,211)	(54,430)
Impairment loss		(635,600)	-
<b>Loss before tax from continuing operations</b>		<b>(7,912,867)</b>	<b>(2,562,354)</b>
Income tax (expense) / benefit		-	-
<b>Loss after tax from continuing operations</b>		<b>(7,912,867)</b>	<b>(2,562,354)</b>
<b>Loss after tax from discontinued operations</b>		<b>(294,640)</b>	<b>(555,054)</b>
Other comprehensive income		-	-
<b>Total comprehensive gain / (loss)</b>		<b>(8,207,507)</b>	<b>(3,117,408)</b>
Total comprehensive loss is attributable to:			
Owners of Cannasouth Ltd		(8,207,507)	(3,117,408)
<b>Profit / (Loss) per share (cents per share)</b>			
Basic		(5.84)	(2.44)
Diluted		(5.84)	(2.44)
<b>Weighted average number of ordinary shares issued</b>			
Basic		140,435,616	127,518,857
Diluted		140,435,616	127,518,857

## Cannasouth Limited Group

### Preliminary Consolidated Statement of Financial Position As at 31 December 2022

		Unaudited Group	Group (Restated)
		31 Dec 2022	31 Dec 2021
		\$	\$
Cash and cash equivalents		1,911,668	5,515,247
Trade and other receivables		265,140	321,062
Tax refunds due		29,973	49,037
Other assets		85,882	350,964
Inventory		431,666	-
Biological assets		64,831	-
Assets classified as held for sale	4	2,302,172	-
<b>Total current assets</b>		<b>5,091,332</b>	<b>6,236,310</b>
Property, plant and equipment		8,452,686	10,762,939
Right of use assets		1,273,028	2,614,680
Goodwill		1,991,374	2,626,974
Other intangible assets		253,972	1,153,112
Deferred tax		-	107,587
<b>Total non-current assets</b>		<b>11,971,060</b>	<b>17,265,292</b>
<b>Total assets</b>		<b>17,062,392</b>	<b>23,501,602</b>
Trade and other payables		1,507,263	865,044
Lease liabilities		118,583	278,853
Borrowings		1,000,000	500,000
Loans from related parties		110,495	73,000
<b>Total current liabilities</b>		<b>2,736,341</b>	<b>1,716,897</b>
Borrowings		1,225,000	2,225,000
Loans from related parties		-	73,000
Lease liabilities		1,217,499	2,423,832
<b>Total non-current liabilities</b>		<b>2,442,499</b>	<b>4,721,832</b>
<b>Total liabilities</b>		<b>5,178,840</b>	<b>6,438,729</b>
<b>Net assets</b>		<b>11,883,552</b>	<b>17,062,873</b>
Share capital		28,840,678	25,890,948
Accumulated deficit	5	(17,363,595)	(9,319,991)
Share-based payment reserve	5	406,469	491,916
<b>Capital and reserves attributable to owners of Cannasouth Ltd</b>		<b>11,883,552</b>	<b>17,062,873</b>
<b>Total equity</b>		<b>11,883,552</b>	<b>17,062,873</b>

## Cannasouth Limited Group

### Preliminary Consolidated Statement of Changes in Equity For the year ended 31 December 2022

		Group (Unaudited)			
		Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
		\$		\$	
<b>Balance as at 1 January 2022</b>		25,890,948	491,916	(9,319,991)	17,062,873
Profit / (Loss) for the year		-	-	(8,207,507)	(8,207,507)
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income</b>		-	-	<b>(8,207,507)</b>	<b>(8,207,507)</b>
<i>Transactions with shareholders</i>					
Shares issued		3,201,556	-	-	3,201,556
Capital raising costs		(251,826)	-	-	(251,826)
Increase / (Decrease) in reserves	5	-	(85,447)	163,903	78,456
<b>Total transactions with shareholders</b>		<b>2,949,730</b>	<b>(85,447)</b>	<b>163,903</b>	<b>3,028,186</b>
<b>Balance as at 31 December 2022</b>		<b>28,840,678</b>	<b>406,469</b>	<b>(17,363,595)</b>	<b>11,883,552</b>

		Group			
		Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
<b>Balance as at 1 January 2021</b>		20,066,346	61,746	(6,053,547)	14,074,545
Prior period restatement	5	-	155,619	(155,619)	-
<b>Restated opening balance as at 1 January 2021</b>		<b>20,066,346</b>	<b>217,365</b>	<b>(6,209,166)</b>	<b>14,074,545</b>
Profit / (Loss) for the year		-	-	(3,117,408)	(3,117,408)
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income</b>		-	-	<b>(3,117,408)</b>	<b>(3,117,408)</b>
<i>Transactions with shareholders</i>					
Shares issued		6,160,974	-	-	6,160,974
Capital raising costs		(336,373)	-	-	(336,373)
Increase / (Decrease) in reserves	5	-	274,551	6,583	281,134
<b>Total transactions with shareholders</b>		<b>5,824,601</b>	<b>274,551</b>	<b>6,583</b>	<b>6,105,735</b>
<b>Balance as at 31 December 2021</b>		<b>25,890,948</b>	<b>491,916</b>	<b>(9,319,991)</b>	<b>17,062,873</b>

## Cannasouth Limited Group

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### Preliminary Condensed Consolidated Statement of Cash Flows For the year ended 31 December 2022

	<u>Unaudited Group</u>	<u>Group</u>
	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
	\$	\$
Net cash flows used in operating activities	(5,361,734)	(3,141,896)
Net cash flows used in investing activities	(299,609)	(4,773,810)
Net cash flows from financing activities	2,057,764	4,279,720
<b>Net increase / (decrease) in cash flows</b>	<b><u>(3,603,579)</u></b>	<b><u>(3,635,986)</u></b>
<b>Opening cash and cash equivalents</b>	<b>5,515,247</b>	<b>9,151,233</b>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>1,911,668</u></b>	<b><u>5,515,247</u></b>

## Cannasouth Limited Group

### Notes to the Preliminary Consolidated Financial Statements For the year ended 31 December 2022

#### 1 Summary of significant accounting policies

##### General Information

Cannasouth Ltd ("the Company") is a company registered and domiciled in New Zealand. The address of the Company's registered office is CRV Building Waikato Innovation Park Level 2/2 Melody Lane, Hamilton East, Hamilton 3216. The Company together with its subsidiaries, Cannasouth Bioscience Ltd, Cannasouth Cultivation Ltd and Midwest Pharmaceuticals NZ Ltd (the 'Group').

The Group has been established to commercially develop medicinal products with beneficial attributes of cannabinoid compounds produced by the cannabis plant, and other health products and medicines. The Group's goal is to support patients' health outcomes and improve their quality of life. Products will be produced to ensure patients are treated with therapeutic products of the highest quality.

##### 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.

##### Restatement of comparatives

Certain comparative amounts have been restated to conform with the current period's presentation to better reflect the nature of the financial position and performance of the Group.

##### Sale of certain assets of Midwest Pharmaceuticals NZ Ltd

On 22 December 2022, the Group announced its intention to sell the assets of its contract manufacturing subsidiary Midwest Pharmaceuticals NZ Limited. Because the assets represent the main operations of the subsidiary, the Group has treated the transaction as a business sale in accordance with NZ IAS 5 Non-current Assets Held for Sale and Discontinued Operations. In particular, the Group has:

- presented the loss from Midwest Pharmaceuticals NZ Limited separately from its continuing operations in its Consolidated Statement of Profit or Loss and Other Comprehensive Income in the current period and re-presented amounts in the prior period. Refer to Note 4 for further details; and
- presented the assets of Midwest Pharmaceuticals NZ Limited as held for sale separately from other assets in the Consolidated Statement of Financial Position as at 31 December 2022 with no re-statement of amounts presented in the prior year. Refer to Note 4 for further details; and
- continued to present the Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows including both continuing and discontinued operations.

##### Share-based payment reserve

Certain assumptions for the calculation of share based payments were updated during the year to fair value share options previously issued. The restatement of prior period affected share-based payment reserve, accumulated deficit and administrative expenses.

##### Basis of consolidation

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

Name of subsidiary	Country incorporated	Ownership interest held by the Group	
		2022	2021
Cannasouth Bioscience Ltd	New Zealand	100%	100%
Cannasouth Cultivation Ltd	New Zealand	100%	100%
Midwest Pharmaceuticals NZ Ltd	New Zealand	100%	100%

#### 2 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.

### 3 Cost of sales

The Group's cost of sales for the period 31 December 2022 relates to the following subsidiaries:

	31 Dec 2022	31 Dec 2021 Restated
Production cost of cannabis flower (i)	3,188,088	-
Cost of goods sold (ii)	<u>73,090</u>	<u>-</u>
	<b>3,261,178</b>	<b>-</b>

(i) The cost of growing cannabis flower reflects the commencement and ramp-up of production, and therefore the higher than normal cost per grow in both greenhouses at the cultivation facility. The Group has expensed these costs in accordance to NZ IAS 41 and NZ IAS 2 where at balance date, the unharvested crop is treated as biological assets and harvested crop is treated as inventory.

(ii) The cost of goods sold in the current year relates to the cost of selling the Group's verified cannabinoid products. The amount in the prior year has been restated as it relates to cost of goods sold from our contract manufacturing subsidiary which has been recognised as a discontinued operation in the current year (refer to note 4).

### 4 Asset classified as held for sale

On 22 December 2022, the Group announced its intention to sell the assets of its contract manufacturing subsidiary Midwest Pharmaceuticals Limited. The assets represent the operations of the subsidiary, which are expected to be disposed within 12 months, and have been classified as assets classified as held for sale, and presented separately in the statement of financial position. The proceeds of the sale are expected to be lower than the carrying amount of the related net assets and therefore, a re-measurement to fair value less costs to sell has been recognised in the consolidated statement of profit and loss and other comprehensive income. The major classes of assets comprising the operations classified as held for sale are as follows:

	Unaudited Group 31 Dec 2022 \$	Group 31 Dec 2021 \$
<b>Results of assets held for sale:</b>		
<b>Effect on statement of profit or loss and other comprehensive income for the year 31 December 2022</b>		
Revenue	3,035,388	1,096,028
Cost of goods sold	<u>(1,733,351)</u>	<u>(835,494)</u>
<b>Gross Profit</b>	<b>1,302,037</b>	<b>260,535</b>
Other income	948	734
Administrative expense	(1,325,357)	(580,962)
Impairment loss	(107,587)	-
Remeasurement to fair value less costs to sell	(108,543)	-
Share of net loss accounted for using the equity method	-	(210,128)
<b>Loss before finance costs</b>	<b>(238,501)</b>	<b>(529,822)</b>
Finance cost	<u>(56,139)</u>	<u>(25,236)</u>
<b>Loss before tax from discontinued operations</b>	<b>(294,640)</b>	<b>(555,057)</b>
Attributable tax expense	-	-
<b>Loss after tax from discontinued operations</b>	<b>(294,640)</b>	<b>(555,057)</b>
<b>Effect on the financial position of the Group as at 31 December 2022</b>		
Plant and equipment	1,501,790	-
Inventory	102,172	-
Intangible assets	871,074	-
Right-of-use assets	<u>983,317</u>	<u>-</u>
<b>Total assets</b>	<b>3,458,353</b>	<b>-</b>
Lease liabilities	<u>(1,047,638)</u>	<u>-</u>
<b>Net assets</b>	<b>2,410,715</b>	<b>-</b>
Remeasurement to fair value less costs to sell	<u>(108,543)</u>	<u>-</u>
<b>Assets classified as held for sale</b>	<b>2,302,172</b>	<b>-</b>

## 5 Share-based payment reserve

The Company has an "employee share option plan" (ESOP). Directors of the Company may issue options to acquire ordinary shares in the Company, to employees, contractors and to non-executive directors of the Company, up to 3% of its share capital pursuant to Listing Rule 4.6. The terms of the ESOP scheme were set out in the Explanatory Notes accompanying the Notice of Shareholders Meeting held on 30 May 2019.

The Directors consider that it is beneficial for the Company to offer and to subsequently issue Options to certain current and future employees, contractors and directors, for the following reasons:

- The issue will encourage recipients of the Options to hold shares in the Company and assists in encouraging a high level of commitment and retention, and aligns their interests with those of external investors;
- The Options will only be issued to targeted recipients who are considered to be particularly valuable to the growth and development of the Company;
- The structure of the issue of the Options will assist the Company in retaining the key staff of the Group for the future;
- The opportunity to offer Options to prospective new employees, contractors and non-executive directors will assist the Company in securing the services of those parties as part of the package available to be offered to those parties;
- The offer of Options provides an appropriate way to incentive employees, contractors and directors without the Company incurring a direct cash cost.

The exercise price of the granted options is the average share price over the ten trading days prior to the grant date. They are issued in tranches. Tranches either vest immediately or after either one or two years. All options vested expire three years from grant date. Options can be exercised at any time after vesting and unexercised options lapse within 60 days of a recipient leaving the Group. There are no other performance conditions. In accordance with the terms of issue of the options, holders are entitled to acquire shares at the price determined at the time the options were issued. The Company has no legal or constructive obligation to repurchase or settle the options for cash.

The fair value of share options are calculated using the Black-Scholes model. The inputs into the model are as follows: the share price, the exercise price, the expected volatility, the expected life of the option, and the risk-free rate.

### Restatement of prior period share-based payment reserve

Below shows the restatement of prior period share-based payment reserve from updated assumptions:

- timeframe used to calculate each tranche
- volatility rate used

The Group has not granted any options during the year 2022, the change in assumption only affects the fair value of share options in the prior year.

#### Assumptions

	Updated assumption	Prior assumption
Volatility rate	54%	10%-16%
Timeframe	3 years for each tranche	1 year for each tranche

#### Impact to opening equity 1 January 2021

Equity	31-Dec-21 As Reported	Adjustment	31-Dec-21 Restated
Share-based payment reserve	61,746	155,619	217,365
Accumulated deficit	(6,053,547)	(155,619)	(6,209,166)

#### Impact to the consolidated statement of financial position as at 31 December 2021

Equity	31-Dec-21 As Reported	Adjustment	31-Dec-21 Restated
Share-based payment reserve	91,879	400,037	491,916
Accumulated deficit	(8,919,954)	(400,037)	(9,319,991)

#### Impact to the consolidated statement of profit and loss and other comprehensive income for the year ending 31 December 2021

Expenses	31-Dec-21 As Reported	Adjustment	31-Dec-21 Restated
Share-based payments (included in administrative expenses)	37,835	243,299	281,134

## 6 Subsequent Events

On 28 February 2023 Cannasouth's manufacturing subsidiary, Midwest Pharmaceuticals NZ Ltd (Midwest), sold its liquid filling business to Midwest's major customer Harker Herbal Products Ltd for \$2.26m. The divestment of the Midwest to Harker Herbals will enable the Group to focus on its core medicinal cannabis business and reduce further capital investment required by Midwest to have its GMP facility ready for manufacturing cannabinoid medicines.

On 19 December 2022 Cannasouth announced a proposal for a 50:50 merger with Bay of Plenty based medicinal cannabis company, Eqalis Group New Zealand Limited. The Board believes that the proposed merger will create a truly vertically integrated enterprise with revenues from biomass and premium flower production, manufacture of GMP cannabis-based ingredients and cannabis medicines. It will also bring synergistic benefits including expertise, technology, manufacturing capability, product distribution, and licensing, and will increase shareholder value.