

Cannasouth Limited

Notice Of Annual Meeting Of Shareholders

Notice is hereby given that the Annual Meeting of Shareholders of Cannasouth Limited will be held at 11:00am on Monday, 28 June 2021.



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Notice is hereby given that the Annual Meeting of Shareholders of Cannasouth Limited (the "Company") will be held at 11:00am on Monday, 28 June 2021.

Covid-19 Implications

Due to the current uncertainties relating to public health restrictions associated with Covid-19, the Company may elect to hold this Annual Meeting as an online meeting only, depending on the Covid-19 Alert levels in place on the day of the Annual Meeting. The Company will provide shareholders with as much notice as is reasonably practicable, by way of an announcement to NZX's Market Announcement Platform, if the physical meeting is not to proceed. The health and safety of our team and shareholders is of paramount importance.

In the instance where a physical meeting takes place, it will be held at the offices of Link Market Services, Level 30, PWC Commercial Bay, 15 Customs Street West, Auckland, commencing at 11:00am. Cannasouth will record the physical meeting and make it available to Shareholders via NZX Market Announcement Platform and on www.cannasouth.co.nz.

The Explanatory Notes which accompany this Notice of Meeting set out the details of the transactions which are the subject of the resolutions and the approval required for each resolution by the shareholders of the Company pursuant to the Companies Act 1993 and the Constitution of the Company.



Order of Business

1 Re-election of Mark Lucas as a Director

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“That Mark Lucas be elected as a Director of the Company.”

2 Election of Juliet Hull as a Director

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“That Juliet Hull be elected as a Director of the Company.”

3 Election of Christine Pears as a Director

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“That Christine Pears be elected as a Director of the Company.”

4 Remuneration of Auditors

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“That the Board is authorised to fix the remuneration of the Company’s auditors, Deloitte, for the forthcoming financial year ending 31 December 2021.”

5 Issue of up to 2,000,000 Options to Employees, Contractors, and Directors - Ordinary Resolution – Listing Rule 4.2.1

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“The Directors of the Company are authorised to:

- (a) issue up to 2,000,000 options to acquire ordinary shares in the Company, to employees, contractors, and to non-executive Directors of the Company on the terms set out in the Explanatory Notes accompanying this Notice of Meeting; and
 - (b) take all action, do all things, and execute all documents and agreements necessary or considered by them to be expedient to give effect to the issue of the options.”
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6 Replacement of the Company’s Constitution

To consider and, if thought fit, pass the following resolution as a special resolution of the Company:

“That the Constitution, in the form tabled at the meeting, be adopted as the Company’s Constitution in place of the existing Constitution.”

Notes

1. Explanatory Notes

Explanatory Notes for Resolutions 1 to 6 (inclusive) are set out in the following pages.

2. Proxies

In accordance with the Constitution of the Company, any shareholder of the Company entitled to attend and vote at the Annual Meeting may appoint a proxy to attend and vote at the Annual Meeting in the place of the security holder. The proxy appointed is not required to be a security holder in the Company. A proxy form is enclosed.

The Chairperson of the Meeting is not interested in any of the resolutions and is willing to act as proxy for any shareholder who wishes to appoint him for that purpose. If you appoint the Chairperson and you do not indicate how the Chairperson should vote, the Chairperson will vote in favour of all of the resolutions. It is requested that any proxies granted to the Chairperson include directions from the shareholder for voting for all resolutions.

If you do not propose to attend the Annual Meeting but wish to be represented by proxy, you can appoint a proxy online by going to: <https://investorcentre.linkmarketservices.co.nz/voting/CBD>

Alternatively, you can complete the Proxy Form and either:



Scan and Email your proxy to meetings@linkmarketservices.com ;



Return the Proxy Form by mail to Link Market Services, PO Box 91976, Victoria Street West, Auckland 1142; or



Fax the Proxy Form to +64 (9) 375-5990.

The online proxy appointments must be lodged with, and the completed Proxy Forms received by, Link Market Services Limited not less than 48 hours before the meeting, being 11:00am on Saturday, 26 June 2021.

All persons registered on the Company's register of shareholders as the holders of shares as at 5pm on Friday, 25 June 2020 shall, subject only to any applicable voting restrictions (if any), be entitled to vote at the Meeting in person or by proxy.

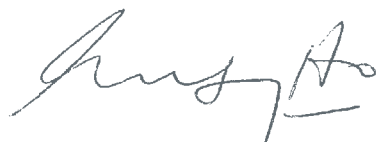
3. Voting Restrictions

Any person to whom it is proposed to issue options to acquire shares in the Company in accordance with resolution 5, and their Associated Persons (as that term is defined in the NZX Listing Rules), are unable to vote in favour of resolution 5.

A person disqualified from voting may act as a proxy for another person who is qualified to vote in respect shares held by that person and in accordance with that person's express instructions.

4. Notice Of Report Availability

Our most recent and future Annual or Half Year Reports are, or will be, available on our website <https://www.cannasouth.co.nz/investors/financial-reports-and-news-for-investors/>.



By Order of the Board of Directors

Tony Ho
Chairman



Explanatory Notes

The Company is listed on the NZX Main Board and must comply with the NZX Listing Rules ("Listing Rules"), the Takeovers Code and the Companies Act 1993 (Act). In addition, various provisions of the NZX Listing Rules are included in or incorporated by reference in the Company's Constitution (Constitution). The Act, the Constitution and the NZX Listing Rules also contain specific requirements which are relevant to the resolutions comprised in this Notice. The implications of the NZX Listing Rules, the Act and the Constitution, insofar as they relate to each resolution, are addressed in the Explanatory Notes to each resolution.

Nature of Resolutions

Resolutions 1 to 5 are ordinary resolutions. An ordinary resolution is a resolution passed by a simple majority of votes of Shareholders of the Company, entitled to vote and voting.

Resolution 6 is a special resolution. A special resolution is a resolution passed by a majority of 75% of the votes of shareholders of the Company, entitled to vote and voting.

These Explanatory Notes have been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

Resolution 1:

RE-ELECTION OF MARK LUCAS AS A DIRECTOR OF THE COMPANY – ORDINARY RESOLUTION

In terms of the Constitution of the Company, Mr Lucas is retiring from his role as a Director of the Company at the Annual Meeting and has offered himself for re-election. Mr Lucas is eligible to be re-elected as Director at the Annual Meeting.

A brief biography for Mr Lucas is provided below:

Mr Lucas is an Executive Director undertaking the role of Chief Executive Officer.

Mr Lucas is a co-founder of Cannasouth and has focused on developing successful businesses through the implementation of operational business systems and people management. Mr Lucas' skill sets encompass management, human resources, project management, contract negotiation, sales and marketing, financial control, and business strategy.

With over 25 years' experience in the industry, business entities Mr Lucas has been involved with include Hemptech NZ Limited, Auckland Fabric Printers Limited, and Base New Zealand Limited.

Mr Lucas has been a Director and shareholder of Cannasouth since its inception.

Resolution 2:

ELECTION OF JULIET HULL AS A DIRECTOR OF THE COMPANY – ORDINARY RESOLUTION

Ms Hull was appointed by the Board as a Non-Executive, Independent Director in February 2021 to fill a vacancy when Mr. Nicholas Foreman retired from the Board in October 2020. Ms Hull is eligible to be elected as Director at the Annual Meeting.

A brief biography for Ms Hull is provided below:

Ms Hull is an experienced senior executive with more than 20 years of working across Asia Pacific markets in the dynamic environment of Healthcare, in sales, marketing and leadership, backed with a Master of Business Administration from Macquarie Graduate School of Management in Sydney, Australia. In her most recent role as NZ General Manager/Country Director for Johnson & Johnson Medical she led large teams, in strategy

development, managed key relationships, and held various directorships and governance roles. Ms Hull is currently an independent non-executive Director of NZX/ASX listed Truscreen Group Limited.

In addition to Ms Hull's MBA, she holds a Bachelor of Nursing from the Auckland Technical Institute and is a member of the Institute of Directors in New Zealand. Her early career in nursing underscores her understanding of Cannasouth's customers who are doctors and patients.

The Board endorses the election of Ms Juliet Hull to the position of Non-Executive, Independent Director. The Board considers that Ms Hull qualifies as an Independent Director (as that term is defined in the Listing Rules).

Resolution 3:

ELECTION OF CHRISTINE PEARS AS A DIRECTOR OF THE COMPANY – ORDINARY RESOLUTION

Christine Pears was nominated during the open nomination period for a Non-Executive, Independent Director position. Ms Pears nomination was received prior to the closing date and she is eligible to be elected as Director at the Annual Meeting.

A brief biography for Ms Pears is provided below:

Ms Pears is currently a non-executive Director of NZX listed Marlborough Wines Limited and YMCA Auckland. Prior to that she held a CEO role within the wine sector which included viticulture, wine making and marketing. She was also the Chief Financial Officer of a successful property group and also of several major IT data services companies. Ms Pears has travelled overseas widely and understands international marketing issues. She is a Chartered Accountant and has worked at KPMG Auckland.

In addition to her Bachelor of Commerce from The University of Auckland, Ms Pears is a Member of the Institute of Directors.

The Board endorses the election of Ms Christine Pears to the position of Non-Executive, Independent Director. The Board considers that Ms Pears qualifies as an Independent Director (as that term is defined in the Listing Rules).

Resolution 4:

RE-APPOINTMENT AND REMUNERATION OF AUDITOR – ORDINARY RESOLUTION

Deloitte is automatically re-appointed as the auditor of the Company under section 207T of the Companies Act 1993. Resolution 4 authorises the Board to fix the fees and expenses of the auditor.

Resolution 5:

ISSUE OF UP TO 2,000,000 OPTIONS TO EMPLOYEES, CONTRACTORS, AND DIRECTORS – ORDINARY RESOLUTION

General

The Board seeks approval to issue up to 2,000,000 options to acquire ordinary shares in the Company ("Options") to employees, contractors, and several non-executive Directors of the Company, and its subsidiary companies, if any ("Group"). This quantum of Options is in addition to the existing balance of 1,150,000 options that were previously approved around the date of the initial public offering of the Company, and remain unallocated as at the date of this Notice of Meeting ("2019 Options"). The 2019 Options may only be issued to employees (as that term is defined in the Listing Rules) of the Company and its subsidiaries. The Board considers that it requires additional capacity to issue additional Options to parties who are not employees, such as contractors and Directors of the

Company. As the Company continues to grow, it is likely that additional contractors and employees will be engaged by the Company, and the Board wishes to ensure that it has the ability to issue Options to those new contractors and employees in the future.

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

- The issue will encourage recipients of the Options to ultimately hold shares in the Company should they exercise their Options;
- The issue of Options assists in encouraging a high level of commitment and retention of senior executives, contractors and Directors, 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 senior executives and 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 senior executives and Directors without the Company incurring a direct cash cost.

No Options will be issued to Messrs Ho or Lucas who are both Directors of the Company.

The Board proposes to issue:

- 250,000 Options to Juliet Hull, a non-executive Director of the Company, should Ms Hull be elected as a non-executive Director of the Company at this meeting;
- 250,000 Options to Christine Pears, should Ms Pears be elected as a non-executive Director of the Company at this meeting;
- 400,000 Issue to Kate Flynn, Portfolio Manager of the Company.

The exercise price for the abovementioned Options to be issued to Ms Hull, Pears and Flynn will be \$0.425 per Option.

The balance of the Options proposed to be issued will be set aside in a pool for allocation to existing or future senior executives of the Company. The exercise price payable upon the exercise of each Option will be determined by the market opening price on the date the Share Option Allocation Deed is signed, or when the recipient commences employment, whichever is the later. The issue of the Options to Employees must be completed within 36 months after the passing of resolution 5, and in the case of Options to be issued to Directors and contractors, within 12 months after the passing of resolution 5.

Dilutionary impact of exercise of Options

Directors Options

The Options proposed to be issued to Ms Hull and Ms Pears represent 0.41% of the total share capital on issue as at the date of this Notice.

In the event that Ms Hull and Ms Pears were to exercise all of their Options, and no other Options were exercised, Ms Hull and Ms Pears would hold 500,000 shares in the Company, representing approximately 0.41% of the total number of shares on issue post the exercise of their Options and the issue of their new shares.

Total Options Pool

The total pool of 2,000,000 Options proposed to be approved by shareholders represents 1.64% of the total share capital on issue as at the date of this Notice.

In the event that:

- All 2,000,000 Options were issued; and
- All 2,000,000 Options were exercised,

the holders of those Options would hold 2,000,000 shares in the Company, representing approximately 1.63% of the total number of shares on issue post the exercise of their Options and the issue of their new shares.

To illustrate the dilutionary impact of the issue of all 2 million Options (and their ultimate exercise into 2 million new shares) on a specific existing shareholding in the Company, please see the example below:

- If a shareholder ("Shareholder A") holds 1,218,305 shares in the Company, Shareholder A's percentage holding in the Company represents 1% of the total number of shares on issue;
- If all 2 million Options were exercised, and 2 million new ordinary fully paid shares were issued, Shareholder A's shareholding percentage would reduce from 1% to 0.983%.

Terms of issue of the Options

The principal terms of the Options are as follows:

- Each Option entitles the holder to acquire one ordinary share in the Company;
- Each Option shall enable the holder of the option to subscribe for one new ordinary fully paid share.
- The Options to be issued to non-executive Directors shall vest on the date of their issue, and shall have a term of 36 months from the date of their issue (Exercise Period).
- The Options to be issued to employees and contractors shall vest in three equal tranches annually. The first tranche of options shall vest 12 months after the date of their issue. The options shall have a term of 36 months from the date of their issue. (Exercise Period).
- Should the services of the holder of an Option cease to be retained by the Company or a subsidiary of the Company prior to a tranche of Options vesting in the holder, other than due to death or illness, then those Options that have not vested at that time shall terminate;
- Any Options which are not exercised during the Exercise Period shall lapse;
- Shares issued upon exercise of an Option shall be credited as fully paid and rank equally in all respects with shares on issue at the relevant exercise date (except for any dividend or other entitlement where the entitlement date occurs prior to the exercise date);
- The options are not transferable without the prior approval of the Company in writing;
- The Options shall not confer on the holder the right to participate in rights issues undertaken by the Company;
- The holders of the Options will not be entitled to vote at any meeting of the shareholders of the Company;
- On any consolidation, subdivision or other reconstruction of shares the number of shares over which each Option is exercisable will be adjusted in proportion to the reconstruction, and the aggregate exercise price will remain unchanged;

and otherwise on the terms set out in the Share Option Allocation Deed entered into between the Company and the holders of the Options.

Requirement for Resolution

Listing Rule 4.2.1 states in general terms, that shareholder approval must be obtained for any issue of Equity Securities (which includes the Options) by the Company and, accordingly, shareholders approval is being sought in accordance with Listing Rule 4.2.1.

Consequences of Resolution 5 not being passed

If resolution 5 is not passed, then the Options will not be able to be issued to Ms Hull and Ms Pears. However, the Board will still be entitled to issue certain options to executives and contractors under the discretion conferred upon them in Listing Rules 4.6 (in the case of issues to employees) and Listing Rule 4.5 (in the case of issues to contractors).

Resolution 6:

REPLACEMENT OF THE COMPANY'S CONSTITUTION – SPECIAL RESOLUTION

The Board of the Company has undertaken a review of the Company's Constitution and wishes to make several amendments to the Constitution so as to ensure that the Constitution is aligned with the changes to the NZX Listing Rules applying to the NZX Main Board, which were introduced through various amendments made to the Listing Rules on 1 January 2019 and 10 December 2020. A copy of the proposed new Constitution is available for download from <https://www.cannasouth.co.nz/investors/key-dates/>.

The key changes involved are:

- **Directors:**
 - Rules requiring regular retirement and re-election of Directors have been changed as follows:
 - Under the previous NZX Listing Rules, one third of the Directors, or the number nearest one third, must retire at the annual meeting in each year, and are eligible for re-election. The Directors to retire are those who have been longest in office.
 - Under the new NZX Listing Rules, a Director may not hold office, without being re-elected, past the third annual meeting after his or her appointment or re-election, or for three years, whichever is the longer (see Rule 2.7.1).
 - The previous NZX Listing Rules provided that executive Directors were not required to retire by rotation. That exception has been removed.
- **Sale of less than a minimum holding:** amending the procedure allowing for the sale of share parcels of less than a minimum holding so as to provide for those shares to be sold on market (including through a broker on behalf of Cannasouth), rather than through NZX or in some other manner contemplated in Rule 4.14.1;
- **Board composition:** including an express statement that Cannasouth shall comply with the updated minimum Board composition requirements of the new NZX Listing Rules (see Rule 2.1.1).
- **Other Changes:**
 - Changes to the definitions in Cannasouth's Constitution, and various other less significant wording changes, have been made to reflect the provisions of the Rules;
 - removing the First Schedule of the Constitution which applied during the period prior to the Company listing on the NZX Main Board;
 - the opportunity has also been taken to simplify the form of the Constitution by removing unnecessary repetition of provisions of the Companies Act 1993 with which Cannasouth must comply.

If any of the provisions of the updated Constitution are inconsistent with the NZX Listing Rules (as amended by any waiver or ruling granted to Cannasouth), the NZX Listing Rules will prevail. A copy of the NZX Listing Rules is available at <https://www.nzx.com/regulation/nzx-rules-guidance/main-board-debt-market-rules>.

The proposed alterations to Cannasouth's Constitution do not impose or remove a restriction on the activities of Cannasouth, and accordingly no rights arise under section 110 of the Companies Act 1993.

The Company has arranged for a solicitor's opinion regarding the Constitution's compliance with the NZX Listing Rules to be provided to NZX Regulation in accordance with Rule 2.19.1.