



**Cannasouth Limited Group**  
2022 Annual Report







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# CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

For the year ended 31 December 2022

2022 was a year of **firsts** as the Group continued to achieve milestones to develop into New Zealand's leading, fully operational, medicinal cannabis business.

Establishing compliant manufacturing operations, and sales of pharmaceutical quality medicinal cannabis products is a capital intensive and multi-year process, which has required significant investment and overcoming many regulatory requirements.

Cannasouth has successfully established a world-class team, commercial cultivation operations, manufacturing, and research and development capability to enable it to compete in the rapidly growing domestic and global medicinal cannabis markets.

Cannasouth completed its first **commercial-sized cannabis crop through to harvest** in our state-of-the-art controlled environment agriculture greenhouse. During the year, the Company has taken three crops through to harvest, with two growing in progress at year end.

Cannasouth had its **first cannabis medicines** verified by the Medicinal Cannabis Agency (Agency) in 2022.

Despite the long approval process by the Agency it was a major step towards revenue generation for the Company and has laid the foundations of a sustainable end-to-end business.

In New Zealand there are estimated to be over 266,000 people using cannabis for medicinal purposes, of these only 6% obtain it through legal channels.<sup>1</sup> This provides growth opportunity for the Company. As Cannasouth brings new products to market in New Zealand we expect to see more patients transition from the black market to legal prescriptions.

Patients and shareholders were eager to see us bring products to market, and we were able to **deliver our first products at the end of 2022**. The coming year will see the acceleration of these activities.

Patients will see more treatment options at a lower cost. Shareholders will see meaningful revenues build as the emerging medicinal cannabis industry grows. Our short-term goal is to achieve GMP certification for premium cannabis flower production, which will allow us to verify dried flower products in New Zealand and export to high value, high demand markets like Germany.

## HIGHLIGHTS FOR 2022 INCLUDED:

- **First commercial scale cannabis crop commences in our new state-of-the-art (and unique to New Zealand), sealed controlled-environment greenhouse and processing facility in the Waikato**
- **First medicinal cannabis medicines verified by the Medicinal Cannabis Agency**
- **Signed a three-year supplier agreement with leading Germany based WEECO Pharma GMBH**
- **Findings from our Neuropathic Pain Study released into the public domain**
- **Cultivation facility achieved GACP certification for cannabis flower production**
- **Successfully raised \$3.2 million from a Shareholder Rights Issue**
- **Announcing a proposal to merge with Equalis Group New Zealand Ltd to form the largest New Zealand based, fully integrated, medicinal cannabis company**
- **Announcing the divestment of non-core liquid filling assets of Midwest Pharmaceuticals NZ Ltd**

There are no shortcuts in pharmaceutical development. Over the last year our operating costs have increased to reflect a year-round, full-scale production at our cultivation facility. In the 2023-year meaningful revenues from the sales of medicinal cannabis products and ingredients will commence. From that point onwards Cannasouth will continue to refine and develop its product

and IP portfolio to ensure product differentiation and significant revenue flows and market share is established.

<sup>1</sup> NZ Drug Foundation's 2022 State of the Nation report, <https://www.drugfoundation.org.nz/news-media-and-events/more-than-250000-kiwis-still-accessing-medicinal-cannabis-through-black-market/>

## Summary of Financial Results

Reflecting the cost of commencing commercial cultivation activities (required to produce high-quality flower) that occurred during the year, the Group reported a loss from continuing operations of \$7.92 million (2021 \$2.56 million) and operating revenue of \$141,000 (2021 \$206,000). The loss from discontinued operations was \$298,000 (2021 \$555,000).

Planned investments in ramping up the Group's operations to establish the Group as a key participant in the emerging medicinal cannabis market in New Zealand contributed to the loss. Establishing compliant operations at our cultivation facility during 2022 required us to increase staffing levels and incur full operating costs during the commissioning period of the greenhouses. This is usual in any new major manufacturing operations in the pharmaceutical industry.

The total increase in operating loss was distorted when compared with the previous year due to the Group recording a one-off gain in the previous year of \$1.46 million on its acquisitions held in Cannasouth Cultivation Ltd and Midwest Pharmaceuticals NZ Ltd. This gain represented the difference between the carrying value of the investments and the fair value of the assets acquired.

Excluding the prior year's one-off gains, the loss from continuing operations was:

	For the Year Ended 31 December 2022	For the Year Ended 31 December 2021
Loss from continuing operations	\$7,924,626	\$2,562,354
Notional add back of one-off gains		\$1,459,551
Notional losses for the years	\$7,924,626	\$4,021,905

The increased loss is primarily a result of cost of sales incurred in 2022 of \$3.26 million (2021 \$0) from the commencement of commercial cultivation activities.

Net Assets of the Group was \$11.87 million (2021 \$17.06 million). Cash on hand at 31 December 2022 for the Group was \$1.91 million (2021 \$5.52 million).

## Proposed Merger with Equalis and Divestment of Midwest

In December 2022 Cannasouth announced a proposal for a 50:50 merger with Bay of Plenty based medicinal cannabis company, Equalis Group New Zealand Limited (Equalis).

The Company also announced a sale of certain assets of Cannasouth's manufacturing subsidiary, Midwest Pharmaceuticals NZ Ltd (Midwest), to Midwest's major customer Harker Herbal Products Ltd (Harker Herbals) for \$2.2 million plus stock at valuation. The sale was settled on 28 February 2023.

The divestment of the Midwest liquid filling assets 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 it GMP ready for cannabinoid medicines.

The Board believes the proposed merger with Equalis 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.

Medicinal cannabis products from the new proposed merged Group will range from simple oil-based tinctures to next generation pharmaceuticals, while building revenue streams from services such as the independently operated medicinal cannabis clinic RestoreMe and royalties from licensing intellectual property.

The proposed merger will ensure patients have low-cost access to medicinal cannabis and ensure Cannasouth can respond to demand changes in local and global markets.

At our Annual Shareholder meeting in June 2022, Shareholders re-elected Tony Ho as Director of the Company. The board subsequently re-elected Mr Ho as Chairman.

We are extremely grateful for the continued support of our 26,000+ shareholders while we build this complex business from the ground up. Many of our shareholders have been with us since the listing in 2019 and are also patients who understand the potential of cannabis-based therapeutics.

Some commentators believe the regulatory and quality requirements of the New Zealand medicinal cannabis scheme are too complex and onerous.

However, because we have invested in the right people and facilities, we are meeting these standards, which puts Cannasouth in a strong position to supply New Zealand made products to patients and compete in the global market, all while protecting patient safety and ensuring product efficacy.

Finally, on behalf of the Board, we sincerely thank our shareholders, staff and stakeholders for your continued support and encouragement during 2022.



*Tony Ho*

**Tony Ho**  
Chairman of Directors  
28 March 2023



*Mark Lucas*

**Mark Lucas**  
CEO, Managing Director  
28 March 2023

# INDUSTRY UPDATE AND MARKET TRENDS

Strong growth is expected to continue from global and local medicinal cannabis markets. Germany remains the Company's largest single market in Europe and is a key target market for Cannasouth. During the year Cannasouth signed a three-year supplier agreement with WEECO Pharma GMBH based in Germany for the supply of premium cannabis flower.

## About WEECO Pharma GmbH

WEECO Pharma GmbH is one of the leading EU-GDP Medicinal Cannabis companies in Europe. The company was founded in Hildesheim in 2018 by Entrepreneur and businessman Tim Feike. With its unique business model to supply top grade medical cannabis from all over the world to more than 40 German medical cannabis wholesalers, at affordable prices, they became the first of its kind in Germany using a "distribution hub" concept.

WEECO provides a trading network within the German industry, and exports products to 7 international destinations, as well as having their own R & D facility in Denmark where strains are being developed with over 30% THC and to meet the specific production needs of individual GACP/GMP companies.

WEECO is growing its group internationally with different market strategies for new genetics and cultivation processes. Their concept is easy, they simply take the best ingredients and optimise their and their suppliers' processes using a high-end digital quality management system.

## Highlights of WEECO Agreement

- WEECO is one of the leading importers of medicinal cannabis in Germany. Under individual cultivar supply agreements to be negotiated, cannabis flower will be supplied to WEECO from Cannasouth's world-class cannabis cultivation and processing facility based in Waikato, New Zealand.
- Cannasouth's agreement with WEECO is for a three-year term. Under the agreement WEECO has the right of first refusal for each new cultivar developed by Cannasouth.
- Cannasouth and WEECO have also agreed to work together to develop cannabis cultivars to best suit the needs of the European market.
- Cannasouth will retain sufficient flower to supply the local New Zealand market which will enable its medicinal cannabis products to be verified. This flower is expected to be a popular form of medicinal cannabis with New Zealand patients.
- If the parties cannot agree terms on any individual cultivar supply agreement, for any reason, Cannasouth will be free to sell to other parties without restriction.
- Cannasouth is the exclusive New Zealand supplier of flower to WEECO except where Cannasouth is unable to supply flower to meet particular specifications or requirements requested by WEECO.
- The parties agreed to establish a genetics development agreement which will ensure future genetics will be best suited to the European market.

## AUSTRALIA

Australia is another target market for Cannasouth. Critical mass has now been achieved in the Australian market and growth rates are exponential year on year. Australia is an excellent case study for the New Zealand market because its cannabis acceptance levels, prescribing pathways and quality standards are similar.



### Since 2019, the number of doctors prescribing medicinal cannabis in Australia has grown considerably.

Official data<sup>2</sup> from the Therapeutic Goods Administration (TGA) reveals that there were just 144 doctors authorised to issue prescriptions for medicinal cannabis in 2019, by 2022 that number had increased to 1,701. There were 295,515 prescriptions for medicinal cannabis issued between 2020 and 2022, compared with just 1,011 issued between 2016 and 2019.

With patient access pathways and product pricing improving, patients are transitioning from the black market in large numbers. On 1 July 2023 Australia requires all products, including imports, to meet GMP quality standards. This is a significant change for the Australian market and will see increased demand for GMP manufactured products.

These factors, combined with the continued strong growth of dried flower prescriptions, positions Cannasouth well for this export market.

### Doctors in Australia authorised to issue prescriptions for medicinal cannabis



<sup>2</sup> The University of Sydney Medical cannabis treating at least 2.7 percent of population  
<https://www.sydney.edu.au/news-opinion/news/2022/12/16/medical-cannabis-treating-population.html>



## NEW ZEALAND

The New Zealand market is growing steadily with both the number of products and prescribers increasing during the 2022 year. There is however still a wide knowledge gap for both prescribers and patients about both the medicinal cannabis scheme and the number of products available.

Data on the size of the market in New Zealand is hard to gather as currently the Medicinal Cannabis Agency does not publish statistics. It is hoped that this will change in the future which will help manufacturers and suppliers to better service the New Zealand market.

As stated earlier in this report, in New Zealand it is estimated there are over 266,000 people currently using cannabis for medicinal purposes, of these only 6% obtain it through legal channels.<sup>1</sup> If each one of the current users were spending on average \$100 per month this would value the current market size at over \$320 million. Anecdotal evidence from specialist clinics suggests that up to 50% of new consultations are patients that are cannabis naive, that is, they have not used medicinal cannabis in the past and are seeking alternate treatment options for their medical conditions. These new patients will further add to the size of the market and shows the potential growth opportunities that exist in New Zealand.

Patients currently accessing products from the black market or importing from international websites (which is illegal) put their health at risk and also risk criminal prosecution. Many black market and unregulated imported cannabis products do not contain stated ingredients and can also contain contaminants such as pesticides, moulds and bacteria.

The challenge for the New Zealand industry is to continue to transition patients to legal prescribers.

This provides growth opportunity for the Company. As Cannasouth brings new products to market in New Zealand we expect to see more patients transition from the black market to legal prescriptions.





## NEW ZEALAND REGULATORY LANDSCAPE

Establishing a pharmaceutical quality medicinal cannabis business in New Zealand is a multi-year process, which requires a significant investment to comply with New Zealand's and international regulatory requirements. Whilst this is a significant challenge for a start-up, it also means that those companies that successfully achieve New Zealand's standards are well positioned to enter global markets. Cannasouth continues to navigate and overcome these regulatory challenges.

New Zealand's regulations have many areas that function as intended. However, there are areas where they are holding back the New Zealand industry and adding unnecessary cost to manufacture and export.

### New Zealand Medicinal Cannabis Scheme Regulatory Review

When the Medicinal Cannabis Scheme came into effect on 1 April 2020 with the commencement of the Misuse of Drugs (Medicinal Cannabis) Regulations 2019, it was agreed that a review of the regulations should be conducted within two years of implementation. This review process has been significantly delayed.

In New Zealand we are fortunate that the Agency is engaged with the industry, with a focus on enabling rather than hindering our ability to deliver for New Zealand patients and shareholders.

Cannasouth believes that although the regulations are generally fit-for-purpose, there is an urgent need for refinement and alignment with other major overseas regulations.

In Cannasouth's 2021 annual report we highlighted several areas we believed the regulations needed to be refined to enable the industry to deliver more effectively on the scheme's intent, which is to provide patients with better access to high quality medicinal cannabis products. Price is one of the biggest barriers for patients. It is important then, that the regulations not only focus on product quality, but also price. The regulations must not be overly burdensome on manufacturers such as adding unnecessary time delays, testing costs, and unwarranted barriers to export, all of which add to the cost.

During the 2022 calendar year Cannasouth along with others in the New Zealand Medicinal Cannabis Council continued to offer industry insights to the Agency to enable it to understand the challenges faced by industry and offer solutions.

In December 2022 the Agency sought feedback on possible areas for regulatory change. These include:

- Removing the current requirement for 'starting material for export' to meet the NZMQS.
- Exempting verified medicinal cannabis products for export from needing to meet the local labelling requirements.
- Allowing more flexibility with importing and exporting of samples.
- Allowing more flexibility for licence holders to trade in cannabis seeds, including export.

- Allowing more flexibility for GMP manufacturers in choosing appropriate containers for cannabis-based ingredients.
- Allowing more flexibility in identifying very low levels of 'other' active compounds in products which is a challenge in full spectrum herbal medicines.
- Consideration of some alternative tests, test methods and associated testing limits from specified pharmacopoeia that would be appropriate.
- Allowing finished product manufacturers to use excipients from British and US pharmacopoeias.
- Allowing manufacturers to use ISO/IEC 17025:2017 rather than GMP accredited laboratories for certain lower risk contaminant testing.
- Removing some testing requirements for GMP manufacturers, as these manufacturers are already required to demonstrate control of possible contamination in their manufacturing processes.

If these changes were adopted they would address many areas of concern for New Zealand producers and would enable a much more competitive industry in New Zealand. Ultimately reducing costs to manufacturers and allowing better access to large export markets will help reduce costs to New Zealand patients.

In addition to these proposals, Cannasouth would like to see streamlining and improved processing times when making minor changes to licences. Excessive time delays for relatively minor licencing changes can add significant costs to products and reduce the selling window of products with limited shelf life.

Cannasouth also support the rescheduling of low dose CBD products to enable them to be accessed over-the-counter via a pharmacy.

The above proposals for regulatory change require several steps before changes to the regulations can be implemented. Following the feedback process the Agency will submit their recommendations to cabinet for consideration. Making these proposed changes to the regulations could only come into effect at the end of 2023 at the earliest when the proposed updates to the regulations are approved by cabinet. There is potential for delay in this process if cabinet does not treat this changes as a matter of priority.

Cannasouth wishes to clearly state that these changes should be treated with the upmost priority, the current regulations are adding significant additional costs to New Zealand companies which are not sustainable in the long term and these costs are putting us at a competitive disadvantage to international competitors.

These additional costs are also hindering our ability to reduce costs for New Zealand patients.

The appointment of Pierre Booyesen to the new role of Chief Compliance Officer strengthens our ability to find the fastest pathways to market and support the product innovation process.



### Pierre Booyesen Chief Compliance Officer

In December 2022, Cannasouth appointed Pierre Booyesen as Chief Compliance Officer for the Group to provide strategic leadership for all quality and regulatory functions – adding to Cannasouth's existing team of high-calibre quality and regulatory professionals.

Pierre brings extensive knowledge and experience in the medicinal cannabis industry and the New Zealand regulatory system, having worked as a Senior Advisor (GMP audit) with Medsafe, and Team Leader with Medicinal Cannabis Agency. He is a pharmacist by profession, with a background in various production, regulatory affairs and quality roles in the pharmaceutical industry. He holds a Bachelor of Pharmacy and Master of Science in Pharmaceutical Chemistry.

Mr Booyesen's first priorities are to lead the verification of flower products for local and export markets and map the regulatory approach for the company's next generation finished product formulations and other key projects. He is also responsible for integrating the quality and regulatory teams at Cannasouth and Equalis if the proposed merger is approved by shareholders.

### Products Available in New Zealand

Currently there are 27 products available in New Zealand that have been verified as meeting the New Zealand Minimum Quality Standard (NZMQS).

These products fall into the following categories:

- CBD Oral Liquids/Sublingual Solutions (7 products)
- THC Containing Oral Liquids (7 products)
- Dried Flower for Tea or Oral Consumption (6 products)
- Dried Flower for Inhalation via Vaporiser (7 products)

During the 2022 calendar year 11 products were added to the list of verified products. Of the 11 products added during the year 7 were flower products making this the fastest growth segment for new products.

The growth in new flower products matches expectations that this will be a fast growth area in line with market trends and patient demand seen in Australia and other international markets. Cannasouth is positioned well for this developing, high growth market segment.

### Specialist Clinics

As expected, New Zealand is following Australia's lead. Specialist medicinal cannabis clinics are becoming the place where many patients are accessing cannabinoid therapeutics. Many general practice doctors are hesitant to prescribe these products due to a lack of knowledge because most have not had training in their use.

Contrasting this, specialist clinics have doctors trained in prescribing these medicines including what conditions, formulations and dose levels should be used.

Currently there are at least 9 specialist clinics operating in New Zealand. We expect this number to increase as more product options become available and pricing improves. Most of these clinics use a telehealth model which works particularly well for medicinal cannabis prescribing as often the conditions for which these medicines are prescribed are ongoing and prediagnosed, therefore do not require a physical consultation.

This saves the patient time and cost. Products are often couriered direct to the patient's door.

# STRATEGY AND KEY BUSINESS INITIATIVES

Cannasouth's vision is to develop the next generation of cannabinoid therapeutics to improve the quality of life of New Zealanders and people around the world.

## KEY ELEMENTS TO OUR STRATEGY INCLUDE: EXPANSIVE CAPABILITIES



### CULTIVATION

**Key considerations:**

- Next-Generation Design
- GMP Capable/Premium Product
- Scalable
- USP
- Competitive Production Costs
- Environmental Sustainability



### MANUFACTURING

**Key considerations:**

- Diversified Capability
- Pharma and Non-Pharma/Wellness
- Contract Manufacturing



### RESEARCH AND DEVELOPMENT

**Key considerations:**

- Develop Internal Capability
- Ideation/IP/Product Development Capability
- Provide Group Technical Support
- Provide Internal Testing Capabilities



### PEOPLE

**Key considerations:**

- Attract the best talent and ensure we have sufficient internal experience in all key areas of the business.

### DIVERSIFICATION

- Medicinal cannabis products
- Premium flower
- End to end medicinal cannabis product manufacture through to commercialisation
- Licencing of in-house created IP
- Next-generation cannabinoid therapeutics
- Supporting targeted clinical trials

### First Verified Products Available

In October 2022 Cannasouth received its first shipment of verified cannabis medicines. This accomplishment marked the end of a near two-year process from submitting product assessments with the Medicinal Cannabis Agency.

Navigating and establishing the supply chain for its first medicines means Cannasouth is now generating revenue from the sale of medicines in New Zealand.

The differentiated formulations (including the first to contain THC verified by a New Zealand medicinal cannabis company) of our products will provide New Zealand patients and prescribers with expanded treatment options compared to existing products on the New Zealand market. We are confident these products offer patients and prescribers a point of difference to meet the treatment needs of a wider range of conditions. We are unable to provide specific information due to advertising restrictions in the Medicines Act 1981.



**Cannasouth is committed to New Zealand patients and these first products are part of this commitment and our strategy to be a major supplier to the New Zealand market.**

These first products provide the beachhead for Cannasouth to establish relationships with prescribers and pharmacies. This beachhead will allow us to seamlessly add new products in the future including dried flower and next generation finished product formulations.

### Premium Cannabis Flower

Medicinal cannabis flower can either be a flower as finished dosage form or bulk start material.

Cannasouth is specifically focused on targeting the cannabis flower as finished dosage form. As such certain quality certifications are required to enter this market.

Supplying the cannabis flower is a product format growing in popularity in key export markets. Premium flower is highly specialised and more expensive to produce than lower grade biomass used for extraction.

To produce saleable premium flower for export and local sales requires achieving various quality standards.

### GACP Certification Achieved

Our facility is now fully operational and is GACP (Good Agricultural and Collection Practice) certified.

GACP certification is required by many countries for the import of bulk cannabis flower to be used as a start material for further processing.

The certifier is global organisation Control Union, which conducted an audit of the facility during its first commercial harvest in June 2022. Control Union Medical Cannabis Standard GAP (CUMCS-GAP) is the globally leading certification standard for medical cannabis. The goal

of the standard is to ensure the best quality and consistency in the cultivation and harvest of the product.

The scope of CUMCS-GAP covers medical cannabis propagation and cultivation and is fully compliant with both the World Health Organisation (WHO) and European Medicine Agency (EMA) GACP guidelines. Certified organisations receive both CUMCS-GAP certificate and GACP compliance certificate for both the WHO as well as EMA GACP guidelines.

### GMP Certification

Cannasouth's cultivation and post-harvest facility is one of only a few of its type in New Zealand that has been specifically designed to operate with two quality standards. GACP, which covers the propagation and cultivation activities, and Good Manufacturing Practices (GMP), which covers the post-harvest, drying and packing processes. This is an important distinction because for higher value premium flower to be used as a finished product requires GMP certification for certain post-harvest activities in most jurisdictions, including New Zealand.

During the year Cannasouth received clarification from the Agency related to technical aspects associated with achieving the New Zealand Minimum Quality Standard for cannabis flower as a finished product. The insights gained helped Cannasouth optimise post-harvest processes, which will lead to a higher quality finished product.

The adopted process improvements removed complexity and streamlined our operations; however it did require additional data to validate the changes. Validation is a key component of the GMP accreditation process. Cannasouth elected to defer its GMP audit to ensure the new data pack was properly assembled.

The initial GMP audit of the cultivation facility is confirmed with Medsafe for the 27-29 March 2023.

At this time Cannasouth is not aware of any other cultivation facility in New Zealand that has been audited for GMP certification to produce dried flower as the finished product. Once GMP certification has been obtained Cannasouth will begin the process of verifying flower products for the New Zealand market.

Currently dried flower products available to patients in New Zealand are retailing between \$13,000 and \$30,000 per kg (price to patient). Cannasouth intends to reduce these prices and become a major supplier to the New Zealand market.

### Research and Development – Developing IP and Moving Beyond Generic Products

Cannasouth believes it is vital for the long-term success that companies operating in the medicinal cannabis sector have a robust IP portfolio to develop, grow and protect the R&D investment. Targeted research is imperative to identify and address unmet patient needs and to identify where cannabis could provide improved therapeutic outcomes.





## NEUROPATHIC PAIN STUDY

Cannasouth research shows cannabinoids could provide relief for thousands of New Zealanders and hundreds of millions globally from debilitating neuropathic pain.

In August 2022 Cannasouth released findings from its three-year neuropathic pain (pre-clinical) study. The research confirmed that cannabinoids from medicinal cannabis could be effective at reducing debilitating neuropathic pain, which affects about 400,000 New Zealanders or 8 per cent of the country's population.

The study to understand the potential of cannabis as an alternative therapeutic to treat neuropathic pain is the first of its kind in New Zealand. It is part of Cannasouth's science-led programme of commercially focused research aimed at developing next-generation medicinal cannabis products and valuable IP.

Neuropathic pain generally results from physical damage, infection, and disorders such as diabetes. It is caused by damage or injury to the nerves that transfer information between the brain and spinal cord from the skin, muscles, and other parts of the body. The pain is usually described as a burning sensation and affected areas are often overly sensitive to the touch (allodynia) and has a significant adverse impact on quality of life.

Neuropathic pain is currently poorly managed by the traditional first-line treatment options available in New Zealand. The treatment options include anti-convulsant drugs, such as gabapentin or antidepressants. However, both these medicines have the potential to cause significant drug interactions or have adverse effects on patients, including sedation and addiction.

Cannabinoids could provide a much-needed alternative treatment option for doctors and patients. The data from our research clearly demonstrates the comparable efficacy of cannabinoids to gabapentin.

The investigational phase of this study has provided Cannasouth with significantly more understanding and intellectual property in a critically important area of neuroscience. We believe sharing this knowledge will benefit Cannasouth, doctors and patients alike. By releasing some of our findings, we want to bring doctors and patients along with us on this journey of discovery.

The implications of these findings are significant. There is real potential for this research to help us develop advanced cannabinoid therapeutic products ready for human efficacy and drug delivery-controlled trials.

These findings mean we are one step closer to developing medicines that could potentially improve the quality of life of hundreds of thousands of New Zealanders.

Cannasouth is now in the process of seeking a partner to progress the clinical development of these medicines.

The research was co-funded by Callaghan Innovation and led by Prof. Brett Langley and Marion McKinnon (PhD candidate) at The University of Waikato. Ms. McKinnon presented the research findings at the [Australasian Winter Conference on Brain Research](#) in Queenstown on 28-30 August 2022.



**The study to understand the potential of cannabis as an alternative therapeutic to treat neuropathic pain is the first of its kind in New Zealand.**

**It is part of Cannasouth's science-led programme of commercially focused research aimed at developing next-generation medicinal cannabis products and valuable IP.**



## THE RESEARCH & FINDINGS

The research determined the efficacy of cannabinoids in alleviating symptoms in a pre-clinical model for distal to proximal peripheral neuropathy and neuropathic pain (Charcot-Marie-Tooth disease type 2A (CMT2A)).

As part of the research, a dosing study was conducted using oral Cannabinoid formulations (cannabidiol and tetrahydrocannabinol) using placebo and a positive control, gabapentin at clinically relevant dose.

Post-administration testing was used to assess mechanical allodynia and thermal hyperalgesia. Cannabinoid efficacy was comparable to gabapentin

following single and multiple doses, with an observable faster onset of action in the first 4 hours. No effect was noted for the placebo formulation.

The study indicated a clear strategy for CBD and THC doses which provided greatest improvement in pain symptoms. The dose equaled gabapentin for efficacy in improving thermal hyperalgesia across eight hours of testing.

The pre-clinical efficacy also indicates further investigation is warranted into cannabis compounds for the treatment of neuropathic pain symptoms.



## CANNASOUTH'S CURRENT RESEARCH AND DEVELOPMENT PROJECTS:

Current cannabis products are generally in the form of oil based oral solutions which are dosed to the patient via an oral syringe or dropper. They are intended for the delivery of cannabinoids to the systemic system via the gut or sublingual cavity (under tongue). These existing products can have considerable limitations (speed of action, bioavailability, chemical stability, taste, ease of use, accuracy of dose, allergies etc). As part of the Callaghan funded Project Grant, our research team investigated alternatives to the current product lines and sought to identify improved technologies to overcome these limitations and develop a range of 'next generation' medicinal cannabis products.

Cannasouth has explored multiple approaches to enhance the performance and patient experience of the next generation products including, like other research groups, nanotechnology. However, the team were also mindful of cost of development and to patient. This innovative thinking led to the development of a new simple and effective alternative to the oils which could be utilised in a range of drug delivery systems from oral to transdermal. This technology will allow Cannasouth to progress a range of 'in-house' products using our current capability. Since this technology could potentially be used as a drug delivery platform for other lipophilic drugs (not just cannabinoids) it also provides an opportunity to partner / out-license the technology IP.

We are currently applying this technology to a range of medicinal cannabis products in development. These products are designed to improve patient usability and experience such as ease of dosing and absorption. The same technology provides an opportunity to take advantage of new Australian regulations that allows over-the-counter CBD products. These products will be targeted at specific medical conditions and therefore require supporting clinical data. Although this makes the process a little more complex, it will provide certainty to doctors and patients that the products work. These two development programmes focus on short to medium term initiatives. For the longer term, we understand that cannabis will

become more and more embedded into mainstream therapeutics providing alternatives to existing therapies and to address unmet clinical needs. However, to achieve this we will need to demonstrate clinical efficacy. This is a complex and expensive process, so we are actively working collaboratively in this space. We are currently in discussions with research centres looking at supporting Randomised Controlled Studies (RCT's) in three therapeutic areas. The outcomes of this type of study not only allows progress in the medical space but strengthens Cannasouth IP portfolio and will help build collaborations with the pharmaceutical industry.



## WHAT'S NEXT

The new drug technologies are designed to provide a platform for numerous therapeutic products with the potential for licence opportunities and royalty revenue streams. Cannasouth is now in early-stage discussions with third party pharmaceutical manufacturers exploring licencing opportunities.

### Other upcoming major milestones for 2023 include:



- Gaining GMP accreditation for the Cannasouth's cultivation and processing facility
- Export of premium cannabis flower
- Submit flower products for verification in New Zealand
- Completing the proposed merger with Eqalis Group New Zealand Ltd



## Statement of Corporate Governance

The Board of Cannasouth Limited (the Company) is committed to ensuring that it has best practice governance principles in place, the highest standards of business behaviour and accountability, and has adopted codes and policies relating to the conduct of all directors, executives, and staff.

This statement has been structured to follow the recommendations set out in the NZX Corporate Governance Code (NZX Code) dated 17 June 2022 and discloses how the Company is applying these recommendations. The board considers that, as at 31 December 2022, the governance structures and practices it has adopted follow the NZX Code except where noted below.

The Company's constitution, charters, codes, and policies referred to in this section (except the Delegation of Authority Policy) are available on the Company's website [www.cannasouth.co.nz](http://www.cannasouth.co.nz) (Website) in the Investor Centre section. A review of the charters, codes and policies is included in the board's Annual Work Plan.

### PRINCIPLE 1 CODE OF ETHICAL BEHAVIOUR

The Board Charter and Code of Ethics establish the standards of ethical behaviour expected of directors and officers. The board expects directors and officers to personally subscribe to these values and use them as a guide for decision making.

Directors are expected to ensure the potential for conflicts of interests is minimised by restricting involvement in other businesses or in private capacities that could lead to a conflict. In considering matters affecting the Company, directors are required to disclose any actual or potential conflicts. Where a conflict or potential conflict is disclosed, the director takes no further part in receipt of information or participation in discussions on that matter. The Board maintains an interests' and related parties register and it is reviewed at each board meeting.

Directors, officers, employees, and contractors are required to deal with Cannasouth securities in compliance with the Financial Products Trading Policy which is available on the Website.

Should any member of staff have concerns regarding practices that may conflict with the Code of Ethics they are able to raise the matter with a Protected Disclosure Officer or Senior Manager, on a confidential basis in accordance with the Company's Whistleblower Policy which is available on the Website. The Company also has a Code of Conduct and Internal Complaints Procedure available to employees on the Intranet. The Chair of the board notes there have been no matters raised for the year ended 31 December 2022.

### PRINCIPLE 2 BOARD COMPOSITION & PERFORMANCE

The Board is responsible for the proper direction and governance of the Company's activities and is the ultimate decision-making body of the Company. Its roles and responsibilities are set out in the Governance Code and include setting strategic direction, approval of significant expenditures, policy determination, stewardship of the Company's assets, identification of significant business risks, legal compliance, and monitoring management performance. The number of directors, rotation, and retirement is determined in accordance with the Constitution and the NZX Main Board Listing Rules (Listing Rules). For the year ended 31 December 2022, the Company complied with the director rotation requirements of the Listing Rules dated 17 June 2022 including the composition of the board and the appointment and rotation of each individual director.

Each director must retire, but may offer themselves for re-election, at the third annual meeting following that director's appointment or every three years (whichever is longer).

Profiles of each director can be found on the Website <https://www.cannasouth.co.nz/about/our-team/>. Details of each director's ownership in Cannasouth can be found on page 23.

As at 31 December 2022, the board comprised four directors, three of whom are considered by the board to be independent under the Listing Rules. The board supports the separation of the role of Chair and CEO. The board has two sub-committees, the Audit and Finance Committee (AFC) and the Remuneration, Nomination and Health & Safety Committee (RNH&S), to which it has delegated responsibilities. Charters are available on the Website and set out the purpose, objectives, and procedures for each committee. Each committee's responsibilities are set out in Principle 3 below. The board is structured so that, as a collective group, it has the skills, experience, knowledge, independence and diversity of thought and capability to fulfil its purpose and responsibilities. Skills that directors bring to the board include finance, marketing, manufacturing, investment and mergers and acquisitions. Several of the directors are members of professional bodies including the Institute of Directors and Chartered Accountants Australia & New Zealand.

The Company has a written agreement with each director setting out the terms and conditions of their appointment. Board papers for meetings include reports supporting standing agenda items together with formal proposals in relation to any other matters for decision or noting. New directors take part in an induction program to familiarise them with Cannasouth's business, production facilities and features of the industry within which it operates. Ongoing director education and training is also encouraged. A contribution to each director's costs of education and training for programs approved by the Chair may be made. The board's annual work program is set out in the Governance Code. All matters listed were addressed in the 2022 financial year. There has not yet been an evaluation of director's performance, or the performance of the board, its processes and procedures, as set out in the Governance Code, or a review of the performance of Board Committees due to the start-up nature of the Company. The board has delegated responsibility for the day-to-day leadership and management of the Company to the CEO who is required to do so in accordance with Board direction. The Delegation of Authority Policy is regularly reviewed and amended and is subject to an annual formal review.

### Gender Diversity Statistics

Cannasouth recognises the wide-ranging benefits that diversity brings to an organisation and its workplaces. Cannasouth endeavours to ensure diversity at all levels of the organisation to ensure a balance of skills and perspectives are available in the service of our shareholders and customers. To this end, the board is committed to fostering a culture that embraces diversity by aiming to establish measurable objectives for achieving gender diversity and annually reviewing and assessing such objectives and Cannasouth's progress in achieving them.

The following table reports gender composition of the board and Company's officers as at 31 December 2022.

	Female	2022 Male	Female	2021 Male
Directors	2	2	2	2
Officers	1	6	1	6
<b>Total</b>	<b>3</b>	<b>8</b>	<b>3</b>	<b>8</b>

The Board has the responsibility of monitoring and promoting the diversity of staff and associated corporate culture to ensure management is appropriately recruiting staff from a diverse range of candidates, based on merit. A formal Diversity Policy has yet to be developed.



## PRINCIPLE 3 BOARD COMMITTEES

The board has appointed two standing committees – the Audit and Finance Committee (AFC) and the Remuneration, Nomination and Health & Safety Committee (RNH&S). Each committee has a charter that sets out its scope of responsibilities, activities, and authority. The charters for each committee are available on the Website.

### Audit and Finance Committee (AFC)

The AFC is constituted to monitor the accuracy of the financial data produced by the Company and to ensure controls are in place to minimise the opportunities for fraud or for material error in the accounts. The AFC's responsibilities include the audit functions, processes and policy for assessing financial matters and general compliance of financial reports with laws and regulations. In October 2022, the board of Cannasouth Limited changed responsibility for governance of risk from the Audit and Finance Committee Charter to the Governance Code, thereby focusing the committee on finance and audit. Governance and general business risks remains a full board activity.

The AFC has a clear line of communication with the independent external auditors and the finance team. The AFC will meet at least twice per year and will meet at least annually with the auditor without management present. In the financial year ended 31 December 2022, the AFC held three meetings.

The AFC must have a minimum of three members and the majority of whom should be independent directors and comprise solely of non-executive directors. Cannasouth's CEO is a member of the committee because of the limited number of independent non-executive directors. The Chair of the AFC may not be the Chair of the board. At least one member of the AFC must have an accounting or financial background and, as a group, the AFC must be structured to have the skills, experience, and knowledge to fulfil its purpose and responsibilities. As at 31 December 2022 the members of the AFC are Christine Pears (Chair), Juliet Hull and Mark Lucas. Mrs Pears and Ms Hull are Independent Directors. The members' qualifications and background can be found on the Website. The Chief Financial Officer (CFO), Head of Shared Service Department and other employees of the Company may attend meetings as requested by the AFC. The Head of Shared Service Department acts as secretary to the AFC and undertakes the duties normally associated with that role.

### The Remuneration, Nomination and Health & Safety Committee (RNH&S)

The RNH&S is constituted to review the composition of the board, director remuneration and board appointments. It assists with determining appointments and terms of remuneration for the CEO, and those reporting directly to the CEO. It also has oversight of any company-wide incentive and share option schemes and HR-related statutory and regulatory matters. The CFO, Head of Shared Service Department and other employees of the Company may attend meetings as requested by the committee. The NZX Code recommends that membership of the RNH&S Committee should comprise at least a majority of independent directors. Cannasouth's CEO is a member of the committee because of the limited number of independent directors. The current members of the RNH&S Committee are Tony Ho (Chair), Juliet Hull, and Mark Lucas (CEO). The RNH&S Committee will meet as scheduled from time to time, but at least once per year. In the 2022 financial year the RNH&S held one meeting.

## PRINCIPLE 4 REPORTING & DISCLOSURE

### Reporting

The board is committed to ensuring that its financial reporting is balanced, clear and objective. The AFC assists the board in fulfilling its responsibilities relating to the Group's management systems, accounting and reporting, external and internal audit activities.

The AFC monitors the Company's accounting and reporting practices, reviews the financial information reported to shareholders, and liaises with the external auditor in their conduct of the audit.

The CEO and the CFO are required to provide a letter of representation to the board confirming that:

- the Group's financial statements have been prepared in accordance with accepted accounting standards in New Zealand, are free of material misstatements, including omissions, give a true and fair view of the financial performance and position of the Group and the financial records have been properly prepared
- the representations are based on a sound system of risk management, internal compliance and controls that provide for the implementation of the policies adopted by the board
- the Group's risk management and internal control systems are operating effectively in all material respects

A letter of representation confirming those matters was received in relation to the 2022 financial statements.

The Company is in the early stages of considering how and to what extent it should report on non-financial information such as environmental, social and governance matters (ESG). The Company does not currently have a formal ESG reporting framework, however this is being progressed by the board with the intention that the Company will report on these non-financial matters in future reports.

### Disclosure

The board is committed to keeping the market and shareholders informed of all material information relating to the Company through meeting the obligations imposed under the Listing Rules and relevant legislation such as the Financial Markets Conduct Act 2013. The Company has a Market Disclosure Policy which applies to all directors, officers, and employees of the Company.

Cannasouth seeks to make disclosures in a timely and balanced manner to ensure transparency in the market for investors. The Company also recognises the benefits of providing other releases that broaden the market's knowledge of the Company's business and financial performance and seeks, where appropriate, to use communications that achieve this objective. The Website is a key channel for the distribution of Cannasouth's information and is updated after documents are disclosed on the NZX.

The Chair of the board and the CEO are responsible for the day-to-day management of ensuring these obligations are met.

The board reviews compliance with the Company's continuous disclosure obligations at every board meeting.

## PRINCIPLE 5 REMUNERATION

The maximum non-executive director's remuneration pool has been set at \$250,000 per annum. Information on payments to each director is set out on page 22. Policy on the remuneration for non-executive directors is set out in the Remuneration, Nominations and Health & Safety Committee Charter. Non-executive directors may be paid additional fees for chairing a board committee or for special service. Currently the Chair of the AFC is paid a fee of \$5,000 per annum. The RNH&S Committee Charter and Remuneration policies are available on the Website.



Directors may be reimbursed for expenses incurred in performing their duties and the RNH&S Committee reviews annually such expenses that have been reimbursed to ensure they are reasonable. Expenses claimed by directors in 2022 \$5,652 (2021: \$1,216). Two non-executive directors are currently members of the Employee Share Option Plan (ESOP). No retirement payments are paid to non-executive directors. The remuneration and performance of the CEO and officers were reviewed by the RNH&S Committee in 2022 with a recommendation made to the Board for approval. Information on the remuneration of the CEO and officers is set out on page 22. As at 31 December 2022, the CEO's remuneration consists of a base salary of \$260,000 per annum, plus 3% employer Kiwisaver contributions, with no performance-based remuneration. The CEO's remuneration is unchanged from the previous year.

## PRINCIPLE 6 RISK MANAGEMENT

In October 2022, the board of Cannasouth Limited changed the Audit and Finance Committee Charter by moving governance of risk into the Governance Code, thereby focusing the committee on finance and audit. Governance and general business risks remains a full board activity. Senior management is also responsible for the day-to-day monitoring of risk management systems. Senior management must report at each board meeting on risk management to identify material risks, the effectiveness of Cannasouth's ongoing risk management activities and policies, and whether any remedial action is necessary in relation to risk management issues. The CEO summarises the top risks in his reports to the Board. The Company is at an early stage of developing its framework to identify and manage existing and new risks. During the 2022 year the Company progressed the development of a Regulatory & Compliance Management System (RCMS).

There were no material issues reported in the 2022 financial year.

Directors are insured against liabilities to other parties that may arise from their positions as directors, excluding liabilities that may arise from criminal actions.

### Health & Safety

The health and safety of employees, directors and others associated with Cannasouth is just as important to the board as managing financial and reputational risk. The board (through the RNH&S Committee) is responsible for determining high-level health and safety strategy and policies which management is required to implement. The board has responsibility for reviewing Cannasouth's health and safety policies to ensure the Company provides a safe working environment and that a commitment to health and safety is part of everyday business with an integrated, embedded and effective system in which all staff take individual ownership. The Group's Health and Safety Policy has been published on the Website. Health and safety matters are reported on and discussed as a priority agenda item at every board meeting.

The following table reports performance against health and safety objectives for the 2022 year.

Cannasouth Objective	2022
Cannasouth seeks to provide a healthy and safe workplace with a KPI goal of zero serious harm accidents & incidents per month across all sites of Cannasouth and its subsidiaries.	Achieved (no serious harm)
Cannasouth strives to create an environment where employees report ALL near miss accidents and incidents, however minor, with the objective to identify potential harm and promote continuous improvement.	Achieved (7 incidents were reported)

## PRINCIPLE 7 AUDITORS

The performance of the external auditor in their conduct of the audit is monitored by the AFC. The AFC's functions in relation to the auditors are set out in the Audit and Finance Committee Charter and include recommending the appointment and removal of external and internal auditors, reviewing the annual audit plans, formal communications with and evaluating the effectiveness of the auditors and reviewing the auditors' comments, recommendations, and plans.

Cannasouth does not have an internal audit function due to the start-up nature of the business. All services provided by the external auditor are considered on a case-by-case basis by the AFC to ensure there is no actual or perceived threat to the independence of the auditor in accordance with the Audit and Finance Committee Charter. No additional non-audit related services were provided by the external auditor in relation to the 2022 financial year.

External audit services are provided by RSM Hayes Audit (RSM Hayes). The board has delegated authority from shareholders to approve all audit fees and is responsible for ensuring that the external audit partner is rotated at least every five years. RSM Hayes has been the Company's external auditor since 2022, replacing Deloitte who was the Company's external auditor from 2018 to 2021, and will attend the annual shareholders meeting in 2023.

## PRINCIPLE 8 SHAREHOLDER RIGHTS & RELATIONS

Cannasouth aims to promote effective communication with shareholders and interested stakeholders. Cannasouth seeks to encourage effective participation at shareholder meetings of the Company and distribute shareholder communications in accordance with the Listing Rules and any relevant legislation.

Cannasouth uses a variety of channels and technologies to keep its shareholders informed and to allow access to information, including market announcements through NZX, the Cannasouth share registry at [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz), the Website, shareholder roadshows, annual reports and annual meetings of shareholders. In lieu of a Shareholder Roadshow in 2022 Cannasouth produced a number of video and written communications about the medicinal cannabis industry and Cannasouth's activities. These include a First Commercial Harvest Video (1 June 2022), and Fact Sheet for Proposed Merger with Equalis (19 December 2022). The Company also provides the option for its Shareholders to communicate with the Company and the Company's share registry electronically. All market releases carry contact details for shareholders to communicate with the Company. The Company responds to all shareholder communications within a reasonable timeframe.

Shareholders are encouraged to attend annual meetings as they are an opportunity to put questions to the board, officers and to the external auditor on the conduct of the audit and to this end, the Chair will provide reasonable time for questions and comments on relevant matters. Offering a hybrid annual meeting allows for greater participation, as shareholders who attend virtually can vote and ask questions during the meeting.

When seeking additional equity capital, Cannasouth endeavours to offer further equity securities to existing equity security holders of the same class on a pro rata basis, and on no less favourable terms, before further equity securities are offered to other investors.

Recommendation 8.5 of the NZX Code recommends that the board should ensure that the annual shareholders notice of meeting is posted on the Company's website as soon as possible and at least 20 working days prior to the meeting.



## Shareholder Information

### Stock Exchange Listing

The Company's shares are listed on the New Zealand Stock Exchange (NZX) listing code "CBD".

### Distributions of Security Holders and Security Holdings

As at 1 February 2023

Ordinary Shares	Number of security holders		Number of securities	
	Number of Holders	%	Shares held	%
1 - 1,000	688	19.32	375,343	0.25
1,001 - 5,000	1,303	36.59	3,642,237	2.46
5,001 - 10,000	568	15.95	4,357,332	2.95
10,001 - 50,000	777	21.82	17,401,449	11.77
50,001 - 100,000	125	3.51	9,164,113	6.20
Greater than 100,000	100	2.81	112,950,595	76.37
<b>Total</b>	<b>3,561<sup>(1)</sup></b>	<b>100.00</b>	<b>147,891,069</b>	<b>100.00</b>

<sup>(1)</sup> Total beneficial shareholders at least 26,000+ when including shares held via custodial services

### Substantial Product Holders

The following information is provided in compliance with Section 293 of the Financial Markets Conduct Act 2013 and is stated as at 31 December 2022. The total number of quoted ordinary shares of the Company at that date was 147,891,069.

Substantial Product Holder	Quoted voting products in the Company in which a relevant interest is held
Mark Lucas	28,029,435 ordinary shares
Nicholas Foreman	23,501,290 ordinary shares

### Directors

During the 12 Months ended 31 December 2022

Cannasouth Ltd	Appointed	Retired	Position
Mark Lucas	21/08/2018		Executive
Anthony Ho	26/09/2018		Independent Chairman, Non-executive
Juliet Hull	9/02/2021		Independent, Non-executive
Christine Pears	28/06/2021		Independent, Non-executive

## 20 Largest Registered Holders of Quoted Equity Securities

As at 1 February 2023

Rank	Investor Name	Number of ordinary shares	% Issued Capital
1	Mark John Lucas	28,029,435	18.95
2	Nicholas Jon Foreman	23,501,290	15.89
3	New Zealand Depository Nominee	21,256,004	14.37
4	FNZ Custodians Limited	6,058,125	4.10
5	Greenmeadows Health Limited	2,200,000	1.49
6	Custodial Services Limited	2,061,869	1.39
7	Gang Cheng	1,598,800	1.08
8	Jason Stewart Craig & Vicki Leanne Craig	1,319,645	0.89
9	Anthony Ho & Chui Ho	1,286,333	0.87
10	Dangtong Gu	1,162,314	0.79
11	Citibank Nominees (NZ) Ltd	1,113,867	0.75
12	Wo Zhou Yang	1,001,550	0.68
13	Heather Anne Burgess	762,300	0.52
14	Mark Richard Balchin	750,000	0.51
15	Kim Tea Chuor & Helen Ngac Huor Chuor	737,000	0.50
16	Yi Li	661,056	0.45
17	Amare Holdings Limited	609,626	0.41
18	All Green Limited	580,000	0.39
19	FNZ Custodians Limited	541,929	0.37
20	Yang Lin & Yiqing Liu	539,944	0.37
	<b>Total</b>	<b>95,771,087</b>	<b>64.77</b>





## Directors Remuneration

Details of the nature and the amount of each major element of the remuneration of each Director for the year ended 31 December 2022 is:

	Base Director Fee \$	Chairman Fee \$	Committee Chair Fee \$	Total Paid \$
Mark Lucas <sup>(1)</sup>	-	-	-	-
Anthony Ho	50,000	30,004	-	80,004
Juliet Hull	50,000	-	-	50,000
Christine Pears	50,000	-	5,000	55,000
<b>Total</b>	<b>150,000</b>	<b>30,004</b>	<b>5,000</b>	<b>185,004</b>

<sup>(1)</sup> Refer to CEO remuneration

## Chief Executive Officer Remuneration

An annual review of the Chief Executive's remuneration is undertaken by the Remuneration, Nomination and Health & Safety Committee. The Board is responsible for approving the remuneration package.

Mark Lucas is the founding Chief Executive Officer. His remuneration package comprises a fixed annual remuneration which includes a base salary plus kiwisaver contributions. He has no other benefits or entitlements, such as incentives, or retention entitlements.

	Salary \$	Employer Kiwisaver Contribution \$	Total Paid \$
Mark Lucas	264,870	7,946	272,816

## Interests Register

In accordance with s140(2) of the Companies Act 1993, directors have declared that they are to be regarded as having an interest in any contract that may be made with entities below by virtue of their directorship or membership of those entities.

Mark Lucas	Hemptech NZ Ltd	Director
	Base New Zealand Ltd	Director
Anthony Ho	Greenland Minerals Ltd (ASX: GGG) (Resigned 31 August 2022)	Director
	Greenland Minerals A/S (Resigned 30 April 2022)	Chairman
	Bioxyne Ltd (ASX: BXN)	Chairman
	New Zealand Nutritional Research Institute Ltd (Resigned 30 November 2022)	Director
	Global Treasure New Zealand Ltd (Resigned 30 November 2022)	Director
	Bioxyne International (NZ) Ltd (Resigned 30 November 2022)	Chairman
	Truscreen Group Ltd (NZX: TRU, ASX: TRU)	Chairman
Juliet Hull	Truscreen Pty Ltd	Chairman
	Truscreen Group Ltd (NZX: TRU, ASX: TRU)	Director
	Juliet Hull Consultant Ltd	Director
Christine Pears	Sleak Tek Ltd	Officer
	Marlborough Wine Estates Group Ltd (NZX: MWE)	Director
	YMCA North Incorporated	Chairperson
	ESP Consulting Ltd	Director

## Entries Recorded in the Interests Register

The following entries were recorded in the interests' register of the Company for the year ended 31 December 2022.

### a) Directors' Indemnity and Insurance

The Company has insured all of its Directors and the Directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

### b) Share dealings of Directors

The following table details director interests in shares at 31 December 2022:

As at 31 December 2022



	Ordinary Shares				Share options			
	Held directly		Held indirectly		Held directly		Held indirectly	
	2022	2021	2022	2021	2022	2021	2022	2021
Mark Lucas	28,029,435	28,029,435	-	-	-	-	-	-
Anthony Ho <sup>(1)</sup>	1,286,333	925,000	525,833	75,000	85,000	335,000	-	-
Juliet Hull <sup>(2)</sup>	28,766	5,000	-	-	251,667	251,667	-	-
Christine Pears <sup>(3)</sup>	100,000	75,000	-	-	275,000	275,000	-	-

<sup>(1)</sup> Directly Held: In the name of Anthony Ho & Chui Ho, Indirectly Held: by New Zealand Central Securities Depository Limited (NZCSD)

<sup>(2)</sup> Held in the names of Juliet Hull, and Juliet Hull & Andrew Hull

<sup>(3)</sup> Held in the names of Christine Pears, and Pears Family Trust

The following table details director dealings in Cannasouth Ltd shares (CBD) and renounceable rights (CBDRA) during the year:

	Transaction	Instrument	Date	Number	Total consideration \$
Mark Lucas	Sale <sup>(1), (7)</sup>	CBDRA <sup>(8)</sup>	23 Aug 2022	1,795,000	179,975
	Sale <sup>(1), (7)</sup>	CBDRA <sup>(8)</sup>	31 Aug 2022	86,840	7,846
Anthony Ho	Purchase <sup>(2)</sup>	CBD	3 to 8 March 2022	100,000	28,366
	Purchase <sup>(2), (7)</sup>	CBD	14 Sep 2022	350,833	105,250
	Purchase <sup>(3), (7)</sup>	CBD	14 Sep 2022	361,333	108,400
Juliet Hull	Purchase <sup>(4)</sup>	CBD	11 Mar 2022	6,000	1,800
	Purchase <sup>(4), (7)</sup>	CBD	14 Sep 2022	600	180
	Purchase <sup>(5), (7)</sup>	CBD	14 Sep 2022	17,166	5,150
Christine Pears	Purchase <sup>(6), (7)</sup>	CBD	14 Sep 2022	25,000	7,500

<sup>(1)</sup> Disposed by Mark Lucas

<sup>(2)</sup> Acquired by New Zealand Central Securities Depository Limited (NZCSD)

<sup>(3)</sup> Acquired by Anthony Ho & Chui Ho

<sup>(4)</sup> Acquired by Juliet Hull

<sup>(5)</sup> Acquired by Juliet Hull & Andrew Hull

<sup>(6)</sup> Acquired by Pears Family Trust

<sup>(7)</sup> Acquired pursuant to the terms of the Cannasouth's Capital Raise Offer, which opened on 23 Aug 2022

<sup>(8)</sup> Rights were quoted on the NZX Main Board under the ticker code "CBDRA", so Eligible Shareholders could sell all or some of their Rights on the NZX Main Board between 19 August 2022 and 1 September 2022.

### c) Loans to Directors

There were no loans to Directors during the year ended 31 December 2022.



## Meeting Attendance

	Meetings Attended
Mark Lucas	11
Anthony Ho	11
Juliet Hull	11
Christine Pears	11
<b>Board Meetings Held During The Year</b>	<b>11</b>

## Remuneration of Employees

During the year to 31 December 2022 the following number of employees of the Group received total remuneration of at least \$100,000. Total remuneration includes salaries and other benefits received in their capacity as an employee, including realised employee share scheme benefits.

Remuneration Band	Number of Employees	
	2022	2021
100,000 to 109,999	-	2
110,000 to 119,999	1	-
120,000 to 129,999	-	2
130,000 to 139,999	2	1
140,000 to 149,999	-	1
150,000 to 159,999	2	-
170,000 to 179,100	1	-
180,000 to 189,999	2	2
200,000 to 209,999	1	1
240,000 to 249,999	1	1
270,000 to 279,999	1	-
	<b>11</b>	<b>10</b>

## Auditor

The auditor for the Group is RSM Hayes Audit. For the 2022 financial year Brendon Foy was the external audit partner for the Group. Auditor's remuneration is disclosed in Note 8 to the financial statements.

## Donations

No donations were made during the period (last year: \$1,000).

## Dividends

The Company's Board does not intend to declare dividends during the current establishment phase.

## NZX Waivers

No waiver from the NZX Main Board Listing Rules was granted to the Company or relied upon by the Company for the year ended 31 December 2022.

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## Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	31 Dec 2022	31 Dec 2021 (Restated)
		\$	\$
<b>Continuing operations</b>			
Revenue and other income	6	140,601	205,772
Cost of sales	7	(3,261,178)	-
<b>Gross profit / (loss)</b>		<b>(3,120,577)</b>	<b>205,772</b>
Interest income	9	-	45,971
Research and development expenses		(748,466)	(870,327)
Administrative expenses	8	(3,120,772)	(2,873,449)
Share of net loss of joint ventures accounted for using the equity method		-	(475,442)
Remeasurement gain on purchase of joint ventures		-	1,459,551
<b>Loss before finance costs and impairment loss</b>		<b>(6,989,815)</b>	<b>(2,507,924)</b>
Finance costs	9	(299,211)	(54,430)
Impairment Loss	21	(635,600)	-
<b>Loss before tax from continuing operations</b>		<b>(7,924,626)</b>	<b>(2,562,354)</b>
Income tax (expense) / benefit	10	-	-
<b>Loss after tax from continuing operations</b>		<b>(7,924,626)</b>	<b>(2,562,354)</b>
Loss after tax from discontinued operations	11	(298,065)	(555,054)
<b>Total Loss for the year</b>		<b>(8,222,691)</b>	<b>(3,117,408)</b>
Other comprehensive income		-	-
<b>Total comprehensive income gain / (loss)</b>		<b>(8,222,691)</b>	<b>(3,117,408)</b>
Total comprehensive loss is attributable to:			
Owners of Cannasouth Ltd		(8,222,691)	(3,117,408)
<b>Profit / (Loss) per share (cents per share)</b>			
Basic	24	(5.86)	(2.44)
Diluted	24	(5.86)	(2.44)
<b>Weighted average number of ordinary shares issued</b>			
Basic	24	140,435,616	127,518,857
Diluted	24	140,435,616	127,518,857

The above consolidated statement should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	31 Dec 2022	31 Dec 2021 (Restated)
		\$	\$
Cash and cash equivalents	26	1,911,668	5,515,247
Trade and other receivables	12	259,388	321,060
Tax refunds due		5,243	49,037
Other assets	13	100,329	181,181
Inventory	14	431,666	169,786
Biological assets	15	64,831	-
Assets classified as held for sale	11	3,349,810	-
<b>Total current assets</b>		<b>6,122,935</b>	<b>6,236,311</b>
Property, plant and equipment	18	8,452,686	10,762,939
Right of use assets	19	1,273,028	2,614,680
Goodwill	21	1,991,374	2,626,974
Other intangible assets	20	255,944	1,153,112
Deferred tax	10	-	107,587
<b>Total non-current assets</b>		<b>11,973,032</b>	<b>17,265,292</b>
<b>Total assets</b>		<b>18,095,967</b>	<b>23,501,603</b>
Trade and other payables	16	1,508,384	865,044
Lease liabilities	19	118,583	278,853
Borrowings	17	1,000,000	500,000
Loans from related parties	28	110,495	73,000
Liabilities classified as held for sale	11	1,047,638	-
<b>Total current liabilities</b>		<b>3,785,100</b>	<b>1,716,897</b>
Borrowings	17	1,225,000	2,225,000
Loans from related parties	28	-	73,000
Lease liabilities	19	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>6,227,599</b>	<b>6,438,729</b>
<b>Net assets</b>		<b>11,868,368</b>	<b>17,062,874</b>
Share capital	23	28,840,678	25,890,948
Accumulated deficit		(17,378,779)	(9,319,991)
Share-based payment reserve	25	406,469	491,917
<b>Capital and reserves attributable to owners of Cannasouth Ltd</b>		<b>11,868,368</b>	<b>17,062,874</b>
<b>Total equity</b>		<b>11,868,368</b>	<b>17,062,874</b>



Tony Ho  
Chairman of Directors  
28 March 2023



Mark Lucas  
CEO / Director  
28 March 2023

The above consolidated statement should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Note	Share Capital \$	Share-based Payment Reserve \$	Accumulated Deficit \$	Total Equity \$
<b>Balance as at 1 January 2022</b>		25,890,948	491,917	(9,319,991)	17,062,874
Shares issued	23	3,201,556	-	-	3,201,556
Capital raising costs	23	(251,826)	-	-	(251,826)
Profit / (Loss) for the year		-	-	(8,222,691)	(8,222,691)
Total comprehensive income		-	-	(8,222,691)	(8,222,691)
Increase / (Decrease) in reserves	25	-	(85,448)	163,903	78,455
<b>Balance as at 31 December 2022</b>		<b>28,840,678</b>	<b>406,469</b>	<b>(17,378,779)</b>	<b>11,868,368</b>

  

	Note	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
Correction of prior period error	25	-	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>
Shares issued	23	6,160,974	-	-	6,160,974
Capital raising costs	23	(336,373)	-	-	(336,373)
Profit / (Loss) for the year		-	-	(3,117,408)	(3,117,408)
Total comprehensive income		-	-	(3,117,408)	(3,117,408)
Increase / (Decrease) in reserves	25	-	274,552	6,583	281,135
<b>Balance as at 31 December 2021</b>		<b>25,890,948</b>	<b>491,917</b>	<b>(9,319,991)</b>	<b>17,062,874</b>

The above consolidated statement should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	31 Dec 2022 \$	31 Dec 2021 (Restated) \$
<b>Operating activities</b>			
<i>Cash was provided from:</i>			
Interest received		-	125,353
Receipts from customers		155,049	235,838
Taxation refund		28,204	16,029
GST		29,380	67,915
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(5,686,008)	(3,235,579)
Interest paid		(299,211)	(54,430)
Taxation paid		-	(1,121)
GST		-	-
Cash flow from discontinued operations from operating activities		412,823	(295,901)
Net cash flows used in operating activities	26	(5,359,763)	(3,141,896)
<b>Investing activities</b>			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		-	9,113
Acquisition of subsidiaries (net)		-	76,284
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		(345,147)	(292,910)
Loans to related parties (up to acquisition date)		-	(4,560,000)
Cash flow from discontinued operations from investing activities		43,567	(6,297)
Net cash flows used in investing activities		(301,580)	(4,773,810)
<b>Financing activities</b>			
<i>Cash was provided from:</i>			
Proceeds from capital raising		3,201,556	4,728,744
<i>Cash was applied to:</i>			
Repayment of borrowings		(500,000)	-
Repayment of related party loans		(73,000)	-
Payment of lease liabilities		(59,421)	(36,598)
Capital raising costs		(251,827)	(336,373)
Cash flow from discontinued operations from financing activities		(259,544)	(76,053)
Net cash flows from financing activities		2,057,764	4,279,720
<b>Net increase / (decrease) in cash flows</b>		<b>(3,603,579)</b>	<b>(3,635,986)</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>1,911,668</b>	<b>5,515,247</b>

The above consolidated statement should be read in conjunction with the accompanying notes.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 1 Reporting entity

Cannasouth Ltd ("the Company") is a company registered and domiciled in New Zealand and is listed on the New Zealand Stock Exchange (NZX). 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') is principally engaged 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.

The consolidated financial statements were authorised for issue in accordance with a resolution of directors dated 28 March 2023.

### 2 Basis of preparation of the consolidated financial statements

#### a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a Tier 1 for-profit entity. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and International Financial Reporting Standards (IFRS), and other New Zealand accounting standards and authoritative notices that are applicable to for-profit entities. The consolidated financial statements for the Group have also been prepared in accordance with the Companies Act 1993, the Financial Markets Conduct Act 2013, and the NZX Main Board/Debt Market Listing Rules. Cannasouth Ltd is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

#### b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis. The methods used to measure fair values are discussed further in the statement of accounting policies below.

#### c) Restatement of Comparatives:

Certain comparative amounts have been re-stated 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 Ltd. Because the assets represents the main operation 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 Ltd separately from its continuing operations in the consolidated statement of profit or loss and other comprehensive income in the current period and restated amounts in the prior period. Refer to Note 11 for further details;
- presented the assets of Midwest Pharmaceuticals NZ Ltd as held for sale separately from other assets in the consolidated statement of financial position as at 31 December 2022 with no restatement of amounts presented in the prior year. Refer to Note 11 for further detail; 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 the share-based payment reserve, accumulated deficit and administrative expenses. Refer to note 25.

#### d) Functional and presentation currency

These consolidated financial statements are presented in New Zealand Dollars (NZD), which is the Group's functional currency.



## 2 Basis of preparation of the consolidated financial statements (continued)

### e) New standards interpretations and amendments effective or applied for the first time

#### NZ IAS 41 Biological Assets

The Group's cultivation facility has grown and harvested its first cannabis crops during the year ended 31 December 2022. The planted and grown cannabis crop is considered a biological asset under NZ IAS 41. The Group measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of work in progress or finished goods inventories after harvest. Gains or losses arising from changes in fair value less cost to sell are included in the consolidated statement of profit and loss and other comprehensive income. Refer to note 15 for details of the Group's biological asset accounting policy.

#### NZ IAS 2 Inventory

The Group has recognised its first harvested cannabis crops as inventory under NZ IAS 2. The amount is transferred from biological assets at its fair value at harvest less cost to sell, which becomes its deemed cost as inventory. The initial recognition is work in progress inventory under NZ IAS 2, which represents cannabis plants intended to be processed into finished dried flower. Any subsequent post-harvest costs are capitalised to work in progress. Refer to note 14 for details of the Group's inventory accounting policy.

As at 31 December 2022, the Group has recognised both biological assets and cannabis crop inventory in the statement of financial position for the first time. As a result of this recognition, the Group has reclassified prior year inventory balance as at 31 December 2021 from 'Other asset' to 'Inventory' in the statement of financial position.

#### NZ IFRS 15 Revenue from Contracts with Customers

During the year the Group had three of its medicinal cannabinoid products successfully verified by the Medicinal Cannabis Agency. Subsequent to the verification, the Group commenced sale of the products to its main distributor. Refer to note 6 for details of the Group's revenue recognition accounting policy.

### f) Accounting standards, interpretations and amendments in issue not yet effective

At the date of authorisation of these financial statements, there are no new, or revised, NZ IFRS Standards which have been issued, but are not yet effective which would have any material impact on the Group.

### g) Significant accounting policies

Significant accounting policies have been disclosed alongside their related note in the financial statements. Accounting policies have been applied on a consistent basis throughout the period.

## 3 Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, 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.

The following are the critical estimates and judgments that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Going concern assumption (note 5)
- Impairment of Goodwill (note 21)
- Valuation of inventory and biological asset (note 14 & note 15)
- Share-based payments measured at fair value (note 25)

## 4 Segment information

A segment is a component of the Group that engages in business activities in which revenues and expenses are incurred, and that has distinguishable financial information available, and whose operating results are regularly reviewed by the chief operating decision maker (CODM).

Each segment's products, manufacturing processes, regulatory environment, and customers, will have similar economic characteristics. The Group is in commencement phase and currently operates in a single segment: the biopharmaceuticals market i.e., the production and supply (including research and development) of biopharmaceuticals, specialising in cannabinoid medicines; with the area of operation being New Zealand. The Group's CEO/Managing Director is the CODM who manages the business and makes resource allocation decisions. Because the Group's operations are in the commencement phase, assessment of performance is limited, but primarily based on the operations as a whole and therefore the consolidated financial statements represent the single operating segment.

The single cannabinoid medicines segment which the Group operates in is the aggregation of the two cash generating units determined for the purpose of determining goodwill impairment. Both cash generating units operate in the same regulatory environment, with the same pharmaceutical quality manufacturing requirements, the same methods of distribution, and the same customers.

## 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 \$8.22m (2021: \$3.11m).

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 has made substantial progress in implementing its strategy. The Group's cultivation facility has been operating since the beginning of the financial period and has since cultivated and harvested three commercial size cannabis crops. The cultivation facility has been certified GACP, and its first GMP audit is scheduled for March 2023. The subsidiary aims to receive its GMP accreditation before the end of 2023. The export of its first GACP flower to the Australian market is underway, and first GMP flower sales are expected before the end of 2023. A key to achieving financial sustainability for the Group is receiving GMP certification. This will allow cannabis flower to be exported into higher-priced markets.

The Group also had three of its cannabinoid products successfully verified by the Medicinal Cannabis Agency. The first sale of these products occurred in 2022 Q4.

For the year ended 31 December 2022, the Group has classified its manufacturing subsidiary Midwest Pharmaceuticals NZ Ltd as 'held for sale', which settled for \$2.26m on 28 February 2023.

In addition, the Group has signed a binding term sheet with cannabis firm Equalis Group New Zealand Ltd to advance a merger between the two companies. A material term included in the proposed merger is that Cannasouth will undertake a capital raising initiative in conjunction with Equalis to raise approximately \$9 million of new capital to fund the working capital of the merged group post completion of the transaction. The merger is conditional upon the Group raising a minimum of \$7 million on or before 26 May 2023. It is intended that the new capital will be raised from an offer of new ordinary shares to the existing Cannasouth shareholders, existing Equalis shareholders and a number of third-party investors. Further details of the capital raising initiative will be provided to the market in due course.

The cash received from the divestment of Midwest Pharmaceuticals NZ Ltd of \$2.26m, and the commencement of product sales in FY2023, plus the capital raising plans above are designed to 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 heavily depends on achieving GMP certification and successful capital raising in the upcoming financial year.

## 6 Revenue

	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Sales of goods	42,170	-
Other income	98,431	205,772
	<b>140,601</b>	<b>205,772</b>

### Recognition and measurement

Sale of goods relate to the sale of the Group's three cannabinoid products which were verified by the Medicinal Cannabis Agency during the year. Revenue is recognised at the transaction price when control of the goods has transferred, which is when the goods have been shipped to the customer. From the continuing operations there is one customer that is currently being supplied to.

Government grants: Where grants are directly receivable for costs incurred, they will be shown on an accruals basis as 'other income' in the consolidated statement of profit and loss and other comprehensive income i.e. they will not be netted against the expense. Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that grants will be received.

Cannasouth received Callaghan Innovation support for two medicinal cannabis research programmes in areas of Neuropathic Pain/Drug Discovery, and Drug Delivery System/Optimisation Technology. The contribution from Callaghan is up to \$347,008 over a three-year period commencing in 2019. Callaghan funding recognised in 2022 was \$65,753 (2021: \$122,732).



## 7 Cost of sales

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

	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Production cost of cannabis flower (i)	2,921,786	-
Cost of goods sold (ii)	73,090	-
Fair value loss on biological asset (refer to note 15)	266,302	-
	<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 at the cultivation facility. The Group has expensed these costs in accordance to NZ IAS 41 and NZ IAS 2 where 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 11).

## 8 Expenses

### Recognition and measurement

Expenses are recognised as incurred in profit or loss on an accrual basis.

### Profit before income tax from continuing operations includes the following specific expenses:

	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Salaries & wages (i)	3,257,088	2,273,981
Contributions to defined contribution funds (Kiwisaver) (ii)	88,687	60,093
	<b>3,345,775</b>	<b>2,334,074</b>

(i) Salary & wages expenses are included in research & development, cost of sales, and administrative expenses.

(ii) Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Depreciation - property, plant and equipment	971,235	223,870
Depreciation - right of use assets	142,649	46,131
Amortisation - software	876	2,738
Amortisation - Quality management system	26,204	-

### Fees to auditors (2022: RSM Hayes Audit, 2021: Deloitte)

Audit of the financial statements	95,000	95,000
Other services - read of half year financial statements	-	1,500
Scope extension in respect of the audit of the financial statements for the year ended 31 December 2021		50,000

Non-audit services have been provided by RSM Hayes, relating to transactions that took place in the 2021 financial year. Advice was provided prior to the 2022 audit services, amounting to \$5,000.

## 9 Interest income & finance costs

### Recognition and measurement

Interest income or expense are recognised in profit or loss as they accrue, using the effective interest method.

The effective interest rate is the rate that discounts the estimated future cash flows from the asset or liability (including any fees and directly related transaction costs that are an integral part of the effective interest rate), over the expected life of the financial asset or liability. The application of the method has the effect of recognising income or expenses evenly in proportion to the amount outstanding over the period to maturity or repayment.

Interest on financial assets and liabilities held at amortised cost:

	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Interest income	-	45,971
Interest expense	(299,211)	(54,430)

There were \$nil borrowing costs capitalised during the period (2021: \$nil).

## 10 Income tax

### Recognition and measurement

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from tax authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets relating to unused tax losses are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit.

a) Income tax expense / (benefit)	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Current tax	-	-
Deferred tax	-	-
	<b>-</b>	<b>-</b>

### b) Numerical reconciliation of income tax expense to prima facia tax payable

Profit (Loss) before income tax expense from continuing operations	(7,924,626)	(2,562,354)
Profit (Loss) after income tax expense from discontinued operations	(298,065)	(555,054)
	<b>(8,222,691)</b>	<b>(3,117,408)</b>
Tax at the New Zealand tax rate of 28%	(2,302,353)	(872,874)
	<b>(10,525,044)</b>	<b>(3,990,282)</b>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	308,416	872,874
Unrecognised temporary differences	25,009	-
Unrecognised tax losses	1,968,928	-
Income tax expense / (benefit)	<b>-</b>	<b>-</b>

### c) Deferred tax

	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28%.		
The movement in the deferred tax account is as shown below:		
Opening balance	107,587	-
Derecognition of deferred tax (refer to note 11)	(107,587)	107,587
Closing Balance	<b>-</b>	<b>107,587</b>

As at 31 December 2022, the Group had accumulated tax losses of \$17.4m (2021: 10.3m).

## 11 Assets classified as held for sale and discontinued operations

On 22 December 2022, the Group announced its intention to sell the assets of its contract manufacturing subsidiary Midwest Pharmaceuticals NZ Ltd. The sale was completed on 28 February 2023. As at 31 December 2022, the assets represent the operations of the subsidiary, which have been recognised as assets classified as held for sale, and presented separately in the statement of financial position. The proceeds of the sale was 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.

### Results of assets held for sale:

Effect on statement of profit or loss and other comprehensive income	31 Dec 2022 \$	31 Dec 2021 \$
Revenue	3,035,388	1,096,028
Cost of goods sold	(1,733,351)	(835,494)
<b>Gross Profit</b>	<b>1,302,037</b>	<b>260,535</b>
Other income	948	734
Administrative expense	(1,328,782)	(580,962)
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>(134,339)</b>	<b>(529,822)</b>
Finance cost	(56,139)	(25,232)
<b>Loss before tax from discontinued operations</b>	<b>(190,478)</b>	<b>(555,054)</b>
Attributable tax expense (i)	(107,587)	-
<b>Loss after tax from discontinued operations</b>	<b>(298,065)</b>	<b>(555,054)</b>
<b>Profit / (Loss) per share from discontinued operations (cents per share)</b>		
Basic	(0.21)	(0.44)
Diluted	(0.21)	(0.44)

(i) The attributable tax expense during the year relates to the derecognition of deferred tax asset of \$107,587

Effect on the financial position of the Group as at 31 December 2022	31 Dec 2022 \$	31 Dec 2021 \$
Plant and equipment	1,501,790	-
Inventory	102,172	-
Intangible assets	871,074	-
Right-of-use assets	983,317	-
<b>Total assets</b>	<b>3,458,353</b>	<b>-</b>
Lease liabilities	(1,047,638)	-
<b>Net assets</b>	<b>2,410,715</b>	<b>-</b>
Remeasurement to fair value less costs to sell	(108,542)	-
<b>Assets classified as held for sale</b>	<b>2,302,172</b>	<b>-</b>

## 12 Trade and other receivables

### Recognition and measurement

The average credit period on sales of goods is 45 days. No interest is charged on outstanding trade receivables.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables is estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The Group has assessed that expected credit losses on trade receivables at balance date is negligible.

	31 Dec 2022 \$	31 Dec 2021 \$
Trade receivables and related party receivables	247,228	243,753
Contracted asset	-	16,128
GST receivables	12,159	61,179
	<b>259,388</b>	<b>321,060</b>

## 13 Other assets

	31 Dec 2022 \$	31 Dec 2021 \$
Prepayments	100,329	126,752
Grant income accrued	-	54,429
	<b>100,329</b>	<b>181,181</b>

## 14 Inventory

Inventory is classified as raw materials, work in progress and finished goods.

Raw materials consists of direct materials used in contract manufacturing and to plant and grow cannabis plants. Work in progress consists of harvested cannabis plants intended to be processed into finished dried flower. Harvested crop is transferred from biological assets at its fair value less cost to sell at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalised to work in progress. Finished goods consists of packaged dried flowers.

All inventory items are valued at the lower of cost or net realisable value. Inventory is written down to its net realisable value if the carrying amount of inventory exceeds its estimated selling price less cost to sell. Any amount written down is recognised as cost of sales.

The Group's inventory is comprised of:	31 Dec 2022 \$	31 Dec 2021 \$
Raw materials	54,983	169,786
Work in progress	85,161	-
Finished goods	291,522	-
	<b>431,666</b>	<b>169,786</b>

In the current period, \$1.02m worth of inventory was written down to its recoverable amount. The loss is recognised in cost of sales presented in the consolidated statement of profit and loss and other comprehensive income.

## 15 Biological assets

Biological assets consists of cannabis plants that are cultivated and harvested. It does not include bearer plants that are used in the production to bear produce.

Biological assets are measured at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of work in progress or finished goods inventories after harvest. Gains or losses arising from changes in fair value less cost to sell are included in cost of sales in the consolidated statement of profit and loss and other comprehensive income.

The movement associated with the Group's biological assets is as follows:

	31 Dec 2022 \$	31 Dec 2021 \$
Opening balance	-	-
Costs incurred	1,149,401	-
Transfer to inventory	(818,268)	-
Unrealised changes in fair value gain/(loss)	(266,302)	-
	<b>64,831</b>	<b>-</b>

Biological assets are classified as Level 3 on the fair value hierarchy with the following inputs being subject to volatility and uncontrollable factors, which could significantly affect the fair value of the biological assets in future periods:

- plant loss - loss of plants based on various stages of growth;
- yield per plant - the average yield of dry cannabis expected to be harvested from a cannabis plant, based on historical yields;
- estimated selling price, less costs to sell - based on estimated selling price per gram of dry cannabis based on historical sales and expected sales;
- stage of plant growth - the average age in of the plant out of the average growing cycle as at period end date.
- percentage of costs incurred to date compared to the total costs to be incurred (to estimate the fair value of an in-process plant) - i.e. estimated costs to bring a gram of cannabis from propagation to harvest

In the current period, the biological assets were approximately 75% complete as to the next harvest date. The average number of days from point of propagation to harvest is 117 days.



## 16 Trade and other payables

### Recognition and measurement

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

A liability for employee entitlements is recognised for benefits accruing to employees in respect of wages and salaries, and annual leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that services. All entitlements are short-term employee benefits.

	31 Dec 2022	31 Dec 2021
	\$	\$
Accounts payable	1,044,745	451,343
Employee entitlements	463,639	413,701
	<b>1,508,384</b>	<b>865,044</b>

The average credit period on purchases is one month. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 17 Borrowings

	31 Dec 2022	31 Dec 2021
	\$	\$
<b>Secured borrowing at amortised cost</b>		
Loan from Tokomaru Horticulture Industries Ltd	2,225,000	2,725,000
<b>Total Borrowings</b>	<b>2,225,000</b>	<b>2,725,000</b>
Current	1,000,000	500,000
Non-current	1,225,000	2,225,000
	<b>2,225,000</b>	<b>2,725,000</b>

This loan commenced on 30 November 2021. The loan is secured with a General Security Agreement (GSA) over the assets of Cannasouth Cultivation Ltd.. Quarterly repayments of \$250,000 each commenced on 1 September 2022. Interest payments are made quarterly at a rate calculated as the OCR plus 5.5% per annum for years 1 and 2, and then at the OCR plus 9.5% per annum for year 3. The loan is subject to conditions specifying full (or partial) repayment, based on capital raising events

	31 Dec 2022	31 Dec 2021
	\$	\$
<b>Net Debt Reconciliation</b>		
Borrowings	(2,225,000)	(2,725,000)
Cash and cash equivalents	1,911,668	5,515,247
<b>Net debt as at 31 December 2022</b>	<b>(313,332)</b>	<b>2,790,247</b>

Net debt as at 1 January 2021	Cash and cash equivalent	Borrowings	Total
Opening balance	9,151,233	-	9,151,233
Cash flows / business combination	(3,635,986)	(2,725,000)	(6,360,986)
<b>Net debt as at 31 December 2021</b>	<b>5,515,247</b>	<b>(2,725,000)</b>	<b>2,790,247</b>

Net debt as at 1 January 2022	Cash and cash equivalent	Borrowings	Total
Opening balance	5,515,247	(2,725,000)	2,790,247
Cash flows	(3,603,579)	500,000	(3,103,579)
<b>Net debt as at 31 December 2022</b>	<b>1,911,668</b>	<b>(2,225,000)</b>	<b>(313,332)</b>

## 18 Property, plant and equipment

### Recognition and measurement

Property, plant and equipment is shown in the financial statements at historical cost, less accumulated depreciation and any impairment losses.

### Owned assets

All property, plant and equipment owned by the Group is initially recorded at cost and depreciated. Initial cost includes the purchase consideration, and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. These costs include, where applicable, consent costs, all materials used in construction, direct labour on the project, delivery costs, duty and other non recoverable charges, financing costs that are directly attributable to the project, and an appropriate portion of variable and fixed overheads. All feasibility costs are expensed as incurred.

### Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time.

### Capital work in progress

Items of property, plant and equipment in the course of construction are classified as capital work in progress. Cost includes expenditure which is directly attributable to the acquisition of the asset. Capital work in progress is not depreciated.

### Disposal

On disposal or permanent withdrawal of an item of property, plant and equipment the difference between the disposal proceeds (if any) and the carrying amount is recognised in the profit or loss.

### Depreciation

All property, plant and equipment is written off or, where applicable, written down to its residual value over its estimated useful life. Depreciation commences from the date the asset is available for use. All items of property, plant and equipment are depreciated at rates which will write off their cost, less estimated residual value, over their expected useful lives. Depreciation rates and methods for each component group are as follows:

### Impairment

Impairment assessment of the assets is carried out annually.

### Asset held for sale

As at 31 December 2022, the Group was in the process of finalising Midwest Pharmaceuticals NZ Ltd asset sale. The assets were recognised as assets classified as held for sale. Refer to note 11.



## 18 Property, plant and equipment (continued)

Carrying amounts of:	Depreciation Rates	31 Dec 2022	31 Dec 2021
		\$	\$
Buildings	2-20% DV	4,262,628	4,124,156
Fixtures & fittings	8-50% DV	118,391	878,603
Motor vehicles	20% DV	10,398	66,675
Office equipment	20-67% DV	67,813	130,080
Plant & equipment	8-67% DV	3,366,004	4,178,695
Work in progress		627,450	1,384,730
		<b>8,452,686</b>	<b>10,762,939</b>

2022	Buildings	Fixtures & Fittings	Motor Vehicles	Office Equipment	Plant & Equipment	Work in Progress	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
<b>Opening balance</b>	4,182,867	934,513	72,317	213,889	4,596,340	1,384,730	11,384,656
Additions	389,233	15,465	-	27,572	102,363	(191,302)	343,330
Disposals	-	(4,485)	-	(4,470)	(48,140)	(2,518)	(59,613)
Assets classified as held for sale - refer to note 11	-	(764,241)	(57,000)	(63,888)	(258,755)	(563,460)	(1,707,343)
<b>Balance at 31 Dec 2022</b>	<b>4,572,100</b>	<b>181,252</b>	<b>15,317</b>	<b>173,103</b>	<b>4,391,808</b>	<b>627,450</b>	<b>9,961,031</b>
<b>Accumulated depreciation</b>							
<b>Opening balance</b>	58,711	55,910	5,642	83,809	417,645	-	621,717
Depreciation	250,760	113,500	17,498	56,011	675,887	-	1,113,656
Disposal of assets	-	(1,250)	-	(3,674)	(16,551)	-	(21,475)
Assets classified as held for sale - refer to note 11	-	(105,300)	(18,221)	(30,856)	(51,176)	-	(205,553)
<b>Balance at 31 Dec 2022</b>	<b>309,471</b>	<b>62,861</b>	<b>4,919</b>	<b>105,290</b>	<b>1,025,805</b>	<b>-</b>	<b>1,508,346</b>
<b>Carrying Value at 31 Dec 2022</b>	<b>4,262,628</b>	<b>118,391</b>	<b>10,398</b>	<b>67,813</b>	<b>3,366,004</b>	<b>627,450</b>	<b>8,452,686</b>

2021	Buildings	Fixtures & Fittings	Motor Vehicles	Office Equipment	Plant & Equipment	Work in Progress	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
<b>Opening balance</b>	151,949	65,879	-	88,543	749,398	16,996	1,072,765
Additions	4,030,918	167,170	-	66,744	3,635,992	(7,451,815)	449,009
Acquisition of subsidiaries	-	702,164	72,317	59,126	213,932	8,825,767	9,873,306
Disposals	-	(700)	-	(524)	(2,982)	(6,218)	(10,424)
<b>Balance at 31 Dec 2021</b>	<b>4,182,867</b>	<b>934,513</b>	<b>72,317</b>	<b>213,889</b>	<b>4,596,340</b>	<b>1,384,730</b>	<b>11,384,656</b>
<b>Accumulated depreciation</b>							
<b>Balance at opening</b>	26,946	12,547	-	50,094	254,467	-	344,054
Depreciation	31,765	43,480	5,642	34,163	163,925	-	278,975
Disposal of assets	-	(117)	-	(448)	(747)	-	(1,312)
<b>Balance at 31 Dec 2021</b>	<b>58,711</b>	<b>55,910</b>	<b>5,642</b>	<b>83,809</b>	<b>417,645</b>	<b>-</b>	<b>621,717</b>
<b>Carrying Value at 31 Dec 2021</b>	<b>4,124,156</b>	<b>878,603</b>	<b>66,675</b>	<b>130,080</b>	<b>4,178,695</b>	<b>1,384,730</b>	<b>10,762,939</b>

## 19 Right of use assets

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date; and
- any residual value guarantees expected to be paid by the lessee; and
- the exercise price of a purchase option, if it is reasonably certain that the option will be exercised; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

### Lease assets

The consolidated statement of financial position shows the following amounts related to leased assets:

	31 Dec 2022	31 Dec 2021
	\$	\$
<b>Cost</b>		
<b>Opening balance</b>	2,810,756	197,178
Additions	141,920	922,141
Acquisition of subsidiaries	-	1,691,438
Disposal	(276,933)	-
Assets reclassified as held for sale (refer to note 11)	(1,484,337)	-
<b>Closing balance</b>	<b>1,191,407</b>	<b>2,810,756</b>

### Accumulated depreciation

<b>Opening balance</b>	196,076	65,132
Depreciation	323,017	130,944
Disposals	(99,695)	-
Assets reclassified as held for sale (refer to note 11)	(501,020)	-
<b>Closing balance</b>	<b>(81,622)</b>	<b>196,076</b>

### Carrying Value

	31 Dec 2022	31 Dec 2021
	\$	\$
<b>Carrying Value</b>	<b>1,273,028</b>	<b>2,614,680</b>

### Lease liabilities

<b>Opening balance</b>	2,702,685	152,392
Lease extensions & modifications	-	616,947
Acquisition of subsidiaries	-	2,045,997
Interest expense for the year (including discontinued operations - refer to note 11)	154,646	60,900
Lease payments	(473,611)	(173,551)
Liabilities reclassified as held for sale (refer to note 11)	(1,047,638)	-
<b>Closing balance</b>	<b>1,336,082</b>	<b>2,702,685</b>

Current	118,583	278,853
Non-current	1,217,499	2,423,832
	<b>1,336,082</b>	<b>2,702,685</b>

### Amounts recognised in the statement of profit and loss: (continuing and discontinued operations)

Depreciation charge on right-of-use assets	323,017	130,944
Interest expense (included in finance costs)	154,646	60,900
Expense relating to short-term leases	15,777	10,510
Expense relating to leases of low-value assets (not included in the above short-term lease expense)	3,349	4,823



## 20 Other intangible assets

	Quality Management System	Trademarks	Software	Total
2022	\$	\$	\$	\$
<b>Cost</b>				
Opening balance	1,133,112	19,233	11,649	1,163,994
Additions	-	-	-	-
Reclassified as asset held for sale (i)	(871,074)	-	-	(871,074)
<b>Balance at 31 Dec 2022</b>	<b>262,038</b>	<b>19,233</b>	<b>11,649</b>	<b>292,920</b>

### Accumulated amortisation

Opening balance	-	-	10,882	10,882
Reversal of amortisation	-	-	(986)	(986)
Amortisation (ii)	26,204	-	876	27,080
<b>Balance at 31 Dec 2022</b>	<b>26,204</b>	<b>-</b>	<b>10,772</b>	<b>36,976</b>

<b>Carrying Value at 31 Dec 2022</b>	<b>235,834</b>	<b>19,233</b>	<b>877</b>	<b>255,944</b>
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	Quality Management System	Trademarks	Software	Total
2021	\$	\$	\$	\$
<b>Cost</b>				
Opening balance	-	8,387	11,649	20,036
Additions	-	10,846	-	10,846
Acquisition of subsidiaries	1,133,112	-	-	1,133,112
<b>Balance at 31 Dec 2021</b>	<b>1,133,112</b>	<b>19,233</b>	<b>11,649</b>	<b>1,163,994</b>

### Accumulated amortisation

Opening balance	-	-	8,144	8,144
Amortisation	-	-	2,738	2,738
<b>Balance at 31 Dec 2021</b>	<b>-</b>	<b>-</b>	<b>10,882</b>	<b>10,882</b>

<b>Carrying Value at 31 Dec 2021</b>	<b>1,133,112</b>	<b>19,233</b>	<b>767</b>	<b>1,153,112</b>
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Trademarks are indefinite life assets. Software is amortised from 2 to 10 years.

(i) As at 31 December 2022, the Group was in the process of finalising the asset sale of Midwest Pharmaceuticals NZ Ltd and as a result, the quality management system at Midwest was reclassified as asset held for sale. Refer to note 11 for further details.

(ii) The Group changed its accounting policy around the measurement of its Quality Management System (QMS). In the prior year, the QMS was based on an indefinite life. The Group has now determined the useful life of the asset to be 10 years, with amortisation commencing this year. The amortisation expense is recognised in cost of sales in the consolidated statement of profit and loss and other comprehensive income. Amortisation in the prior year would be immaterial to restate. The QMS asset represent the Cannasouth Cultivation QMS with a remaining useful life of 9 years.

## 21 Goodwill

	31 Dec 2022	31 Dec 2021
Goodwill Reconciliation:	\$	\$
Opening carrying amount	2,626,974	-
Acquisition of Midwest Pharmaceuticals NZ Ltd	-	635,600
Acquisition of Cannasouth Cultivation Ltd	-	1,991,374
Impairment of goodwill (i)	(635,600)	-
Closing carrying amount	1,991,374	2,626,974

(i) As at 31 December 2022, the Group was in the process of finalising the asset sale of Midwest Pharmaceuticals NZ Ltd. As the proceeds of the sale are expected to be less than the carrying value of the cash generating unit, the Group has impaired the goodwill associated with Midwest Pharmaceuticals NZ Ltd. The impairment is recognised in the consolidated statement of profit and loss and other comprehensive income.

### Impairment test for Goodwill

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

### Change in cash-generating units (CGU)

The Group has determined there are two cash-generating units (CGUs). The cash flows from the sale of finished goods, versus cannabis flower, are largely independent and therefore we have determined that two CGUs exist. However, the goodwill balance as at 31 December 2022 relates only to the prior year acquisition of Cannasouth Cultivation Ltd, which is entirely focussed on the production of cannabis flower. Therefore, cash flows related to finished goods have been excluded from the impairment calculation.

### Change in valuation method

In assessing the recoverable amount for Cannasouth Cultivation Ltd, the Group has changed its valuation method from value in use to fair value less cost of disposal - using the income approach with Level 3 inputs. This valuation method enables the Group to include future cash inflow and outflow from the planned expansion of its current cultivation facility. 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 a terminal growth rate of 2%.

### Key assumptions:

Management has prepared a five year forecast for the Group's two 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
- Selling prices per gram (GACP and GMP)
- Annual production
- GMP certification date
- Expansion capex

The headroom of the CGU is \$2.58m. No impairment of goodwill has been recognised as at 31 December 2022 (2021: nil).

### Significant estimate - impact of possible changes in key assumptions

	Sensitivity	Impact on fair value
• Post-tax risk adjusted discount rate	Increase or decrease by 10%	\$1.76m
• Average selling prices per gram (GACP and GMP)	Increase or decrease by 10%	\$1.2m
• Annual production	Increase or decrease by 2%	\$927,000
• GMP certification	Delayed by 6 months	(\$580,000)
• Expansion capex	Delayed by 6 months	(\$536,000)

Taking into account the above sensitivity, the remaining headroom remains above nil. Based on this there are no indicators of impairment and the current carrying value of goodwill is recoverable.

## 22 Investment in subsidiaries

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The consolidated financial statements incorporate the assets, liabilities and results of subsidiaries.

The following entities have been consolidated in the financial statements of the Group.

Name of entity	Country incorporated	Class of shares	Equity holding % 2022	Equity holding % 2021	Balance date
Cannasouth Bioscience Ltd	New Zealand	Ordinary	100%	100%	31 Dec
Midwest Pharmaceuticals NZ Ltd	New Zealand	Ordinary	100%	100%	31 Dec
Cannasouth Cultivation Ltd	New Zealand	Ordinary	100%	100%	31 Dec

## 23 Share capital

### a) Share capital

#### Recognition and measurement

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.

#### Reconciliation of Share Capital

##### For the year ended 31 December 2022

	Note	# Shares	\$
Opening Shares as at 1 Jan 2022		137,237,029	27,616,385
Existing shareholders rights offer and placement or oversubscription bookbuild from capital raise		10,600,621	3,180,186
Share Purchase Plan (SPP) & Retail / Wholesale Offer issued in 2021, and exercised in 2022	(i)	53,419	21,370
<b>Closing Shares as at 31 Dec 2022</b>		<b>147,891,069</b>	<b>30,817,941</b>

##### For the year ended 31 December 2021

	Note	# Shares	\$
Opening Shares as at 1 Jan 2021		121,830,551	21,455,411
Placement to Greenmeadows Health Ltd		2,200,000	913,000
Share Purchase Plan (SPP) & Retail / Wholesale Offer	(i)	11,775,000	4,710,000
Share Option Plan Redemptions		46,862	18,745
Placement to Tokomaru Horticulture Industries Ltd		1,384,616	519,229
<b>Closing Shares as at 31 Dec 2021</b>		<b>137,237,029</b>	<b>27,616,385</b>

(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 expire 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 Group has deducted capital raising costs during the year of \$251,826 (2021: \$336,373) in relation to the share issues discussed above.

Reconciliation	31 Dec 2022 \$	31 Dec 2021 \$
Share capital on issue	30,817,941	27,616,385
Accumulated capital raising cost	(1,977,263)	(1,725,437)
	<b>28,840,678</b>	<b>25,890,948</b>

## 24 Earnings per share

### From continuing operations

	31 Dec 2022	31 Dec 2021 (Restated)
Basic earnings per share (cents per share)	(5.86)	(2.44)
Diluted earnings per share (cents per share)	(5.86)	(2.44)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (from Employee Share Scheme Options or Equity Share Options) into ordinary shares. All options were out-of-the-money and therefore, had no dilutive effect.

The following reflects the income and share data used in the basic and diluted EPS calculations:

	31 Dec 2022 \$	31 Dec 2021 (Restated) \$
Total comprehensive loss is attributable to: Owners of Cannasouth Ltd	(8,222,691)	(3,117,408)
Weighted average number of ordinary shares for basic EPS	140,435,616	127,518,857
Weighted average number of ordinary shares for diluted EPS	140,435,616	127,518,857

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.





## 25 Share-based payments

The Group has an Employee Share Option Plan (ESOP). Directors of the Group may issue options to acquire ordinary shares in the Group, to employees, contractors and to non-executive directors of the Group, 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 Group 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 Group 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 Group;
- The structure of the issue of the options will assist the Group in retaining the key staff for the future;
- The opportunity to offer options to prospective new employees, contractors and non-executive directors will assist the Group 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 Group 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

Below shows the restatement of prior period share-based payment reserve from prior 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 affects the fair value of share options for all years since grant date.

Assumptions	Updated assumption	Prior assumption
Volatility rate*	54%	10%-16%
Timeframe**	3 years for each tranche	0-2 years for each tranche

\* Expected volatility was determined by calculating the historical volatility of the Group's share price since listing (excluding extra ordinary price peaks which would not be considered a predicament of what the future share price would be).

\*\* The timeframe for each tranche used in the model has been adjusted to match the life of the option as per share option deed rather than the vesting period which had previously been used.

Impact to opening equity 1 January 2021	31 Dec 2021 As Reported	Adjustment	31 Dec 2021 Restated
<b>Equity</b>			
Share-based payment reserve	61,746	155,619	217,365
Accumulated deficit	(6,053,547)	(155,619)	(6,209,166)
<b>Impact to the consolidated statement of financial position as at 31 December 2021</b>	<b>31 Dec 2021 As Reported</b>	<b>Adjustment</b>	<b>31 Dec 2021 Restated</b>
<b>Equity</b>			
Share-based payment reserve	91,879	400,038	491,917
Accumulated deficit	(8,919,953)	(400,038)	(9,319,991)
<b>Impact to the consolidated statement of profit and loss and other comprehensive income for the year ending 31 December 2021</b>	<b>31 Dec 2021 As Reported</b>	<b>Adjustment</b>	<b>31 Dec 2021 Restated</b>
<b>Expenses</b>			
Share-based payments (included in administrative expenses)	37,836	243,299	281,135

## 25 Share-based payments (continued)

	31 Dec 2022		31 Dec 2021	
	Number of share options #	Weighted avg.exercise price \$	Number of share options #	Weighted avg.exercise price \$
Outstanding at the start of the year	4,330,750	0.47	3,340,750	0.50
Granted during the year	-	-	1,440,000	0.41
Forfeited during the year	(466,750)	0.50	(450,000)	0.50
Expired during the year	(1,424,000)	0.49	-	-
<b>Outstanding at the end of the year</b>	<b>2,440,000</b>	<b>0.46</b>	<b>4,330,750</b>	<b>0.47</b>

The options outstanding at 31 December 2022 had a weighted average exercise price of \$0.46 (2021: \$0.47), and a weighted average remaining contractual life of 1.6 years (2021: 1.7 years). In 2022, there were no options granted. The aggregate of the estimated fair values of the options granted are \$0 (2021: \$218,616), which was 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.

	31 Dec 2022	31 Dec 2021 (Restated)
<b>Share based payment reserve reconciliation</b>	<b>\$</b>	<b>\$</b>
Opening Balance (restated)	491,917	217,365
Vesting during the year	78,455	281,135
Options expired, forfeited or exercised	(163,903)	(6,583)
<b>Closing balance</b>	<b>406,469</b>	<b>491,917</b>

The Group recognised a total expense of \$78,455 related to the ESOP scheme in 2022 (2021: 281,135).



## 26 Notes to the consolidated statement of cash flows

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Investments that qualify as a cash equivalent are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

### Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

#### Operating activities

Operating activities include all transactions and other events that are not investing or financing activities.

#### Investing activities

Investing activities are those activities relating to the capital expenditures and assets supporting the Group's operations

#### Financing activities

Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.

### a) Reconciliation of net operating cash flows to profit/loss

Cash flows from operating activities	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
<b>Loss for the period</b>	<b>(8,222,691)</b>	<b>(3,117,408)</b>
<b>Adjustments for:</b>		
<b>Continuing operations</b>		
Depreciation	1,115,854	273,083
Amortisation	26,204	-
Impairment	635,600	-
Share-based payments	78,455	281,134
Share of losses of joint ventures	-	475,441
Gain on remeasurement on original equity investments	-	(1,459,551)
<b>Discontinued operations</b>		
Depreciation	352,416	139,834
Derecognition of deferred tax	107,587	-
Remeasurements to fair value less costs to sell	108,543	-
Share of losses of joint ventures	-	210,128
<b>Movements in working capital</b>		
Decrease / (Increase) in receivables and tax receivables	12,652	202,296
Increase / (Decrease) in trade payables	593,402	(227,047)
Increase / (Decrease) in other assets	173,665	2,953
Decrease / (Increase) in inventory	(364,052)	-
Decrease / (Increase) in biological assets	(64,832)	-
Increase / (Decrease) in related party loans	37,495	-
Increase in employee entitlements	49,939	77,241
<b>Net cash flows from operating activities</b>	<b>(5,359,763)</b>	<b>(3,141,896)</b>

## 27 Financial instruments

### Recognition and measurement

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### a) Financial assets

##### Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group designates cash and cash equivalents, and trade and other receivables, as financial assets at amortised cost. The Group has not designated financial assets to fair value through the profit or loss or fair value through other comprehensive income.

##### Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For these financial instruments, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

##### Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) on trade receivables. The amount of expected ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The lifetime ECL's are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

##### Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

#### b) Financial liabilities and equity instruments

##### Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.



## 27 Financial instruments (continued)

### Financial liabilities

The Group designates its trade and other payables and loans from related parties as financial liabilities at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### Critical judgments in applying accounting policies

There were no critical judgments in applying accounting policies that the directors have made in the process of applying NZ IFRS 9.

### Classes and categories of financial instruments and their fair values

The following table combines information about classes of financial instruments based on their nature and characteristics and the carrying amounts of financial instruments.

	31 Dec 2022	31 Dec 2021
	\$	\$
<b>Financial assets - at amortised cost</b>		
Cash and bank balances	1,911,668	5,515,247
Trade and other receivables	247,228	243,753
<b>Financial liabilities - at amortised cost</b>		
Trade and other payables	1,508,384	865,044
Lease liabilities	1,336,082	2,702,685
Borrowings	2,225,000	2,725,000
Loans from related parties	110,495	146,000

The carrying values of all financial instruments in the table above approximates fair value

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders. The Group's strategy is achieved by ensuring that the level and timing of its capital expenditure and capital raisings are prudent.

The capital structure of the Group consists of equity of the Group (comprising issued capital and retained earnings). The Group is not subject to any externally imposed capital requirements.

The Board of Directors review the capital structure of the Group at least on an annual basis. As part of this review, the Board considers the availability and cost of capital, and the risks associated with each class of capital. The Group has available funding from its capital raising activities during the year.

### Financial risk management objectives

The Board of Directors monitors and manages financial risks relating to the Group. These risks include market risk, credit risk and liquidity risk.

### Market risk

The Group's activities are primarily exposed to the risk of changes in interest rates. The Group is exposed to interest rate risk because the Group has borrowings with external vendors. The exposure to market risk is considered limited because of the fixed interest rate. The only variable factor is the movement in official cash rate (OCR) which is factored into the overall quarterly interest rate calculation with the vendor. A 1% change in the OCR would increase interest expense by \$25,505 (2021: 24,750).

## 27 Financial instruments (continued)

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the rise of financial loss from defaults.

Trade receivables includes a small number of customers therefore credit risk is considered limited. The Group does not enter into any other transactions which would give rise to a credit risk.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which oversees the Group's funding and liquidity requirements. The Group manages liquidity risk by monitoring forecast and actual cash flows. Cannasouth is listed on the NZX, which provides a platform for seeking any further additional equity funding necessary to undertake its business operations as planned.

### Liquidity and maturity

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables are presented based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	Total contractual cash flows
	\$	\$	\$	\$	\$
<b>As at 31 Dec 2022</b>					
Trade and other payables	1,508,384	-	-	-	1,508,384
Lease liabilities	56,906	170,716	722,587	1,026,535	1,976,743
Borrowings	301,421	874,734	1,333,145	-	2,509,300
Loans from related parties	110,743	-	-	-	110,743
<b>As at 31 Dec 2021</b>					
Trade and other payables	865,044	-	-	-	865,044
Lease liabilities	113,367	338,154	1,671,323	1,463,097	3,585,941
Borrowings	41,995	626,447	2,452,905	-	3,121,347
Loans from related parties	1,440	76,176	73,248	-	150,864



## 28 Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

### a) Compensation of key management personnel

The remuneration of Directors and other members of key management personnel during the year was as follows:

	31 Dec 2022	31 Dec 2021 (Restated)
	\$	\$
Director's fees	185,004	180,837
Director's share options vested	-	81,281
Key management personnel salaries and other short term employee benefits	1,421,079	1,084,151
Key management personnel share options vested	48,968	55,018
	<b>1,655,051</b>	<b>1,401,287</b>

### b) Transactions with related parties

	31 Dec 2022	31 Dec 2021
	\$	\$
Skybright Health Ltd	53,737	67,531

Mark Balchin is one of the directors and shareholders of Skybright Health Ltd. During the year the Group had sales transactions with Skybright Health Ltd which is recognised as revenue under the Group's discontinued operations.

### b) Loans to/from related parties

	31 Dec 2022	31 Dec 2021
	\$	\$
Loan from Mark Lucas (i)	37,495	-
Loan from Greenmeadows Health Ltd & Mark Balchin (ii)	73,000	146,000
	<b>110,495</b>	<b>146,000</b>

(i) The Shareholder loan from Mark Lucas is interest free and repayable on demand.

(ii) This is an unsecured loan from Mark Balchin & Greenmeadows Health Limited in relation to the acquisition of Midwest Pharmaceuticals Ltd in the prior year. The remaining \$73,000 is payable in January 2023. Interest payments are made quarterly on the borrowings at a rate of 4% per annum.

## 29 Commitments and contingencies

### a) Commitments

The Group had no capital commitments as at 31 December 2022 (2021: \$130,044).

At balance date, the Group had a contractual operating commitment with EAH Enterprises LLC (Vera Cultivation) for the provision of services of US\$630,000. On the completion of each harvest, the Group will make an instalment payment to Vera, the value of the payment depends upon the degree of success of both yield and quality of the harvest. The commitment must be extinguished on or before 5 December 2023.

### b) Contingent liabilities

There were no contingent liabilities at 31 December 2022 (2021: \$nil)

## 30 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 Midwest to Harker Herbs will enable the Group to focus on its core medicinal cannabis business and eliminate further capital investment that would have been required by Midwest to have its GMP facility ready for manufacturing cannabinoid medicines had the sale not occurred.

On 19 December 2022 Cannasouth announced a proposal for a 50:50 merger with Bay of Plenty based medicinal cannabis company, Equalis 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 is expected to bring synergistic benefits including expertise, technology, manufacturing capability, product distribution, and licensing, and it is expected to increase shareholder value.

## Independent Auditor's Report

### To the shareholders of Cannasouth Limited

### Opinion

We have audited the consolidated financial statements of Cannasouth Limited and its subsidiaries (the group), which comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then then ended;
- the consolidated statement of cash flows for the year then then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements on pages 26 to 52 present fairly, in all material respects, the financial position of the group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Prior to our appointment as auditors, we provided financial reporting advice relating to transactions that took place in the 2021 financial year. The provision of this service has not impaired our independence as auditor of Cannasouth Limited. Except in this regard, and other than in our capacity as auditor, we have no other relationship with, or interests in, the group.

### Material uncertainty related to going concern

We draw attention to Note 5 on page 33 in the financial statements, which indicates that the group has made a loss during the financial year of \$8,222,691. At balance date, the group has cash reserves of \$1,911,668, however the group requires additional funding and to generate positive cash flows in order to continue implementation of its commercialisation strategy and to be able to continue to meet its debts as they fall due in the ordinary course of business. As stated in Note 5, these events or conditions, along with other matters explained in Note 5, indicate that material uncertainties exist that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. The key audit matters identified below were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Testing of non-current assets for impairment

#### Why we considered this to be a key audit matter

Non-current assets, including property plant and equipment, intangible assets and goodwill comprise a significant carrying value relative to the financial position of the group, with details of these are disclosed in Note 21 to the consolidated financial statements. In the current year, the group has tested this balance along with other non-current assets for impairment and determined the value of continuing non-current assets has not been impaired during the financial year.

The Group's forecasts indicate a rapid increase in cultivation operations and expected commencement of sale of medicinal cannabis flower during 2023. However, there is uncertainty around the timing and quantum of future revenue and cash flow generation and a loss has been reported for the 2022 financial year – both creating indicators of impairment at 31 December 2022.

This is considered to be a key audit matter due to the judgements involved in assessing the recoverable amount for the purposes of impairment testing as required by NZ IAS 36 *Impairment of Assets*.

Management performed a review of the carrying value of the non-current assets including goodwill as detailed in Note 21.

This review included assessment of risks around the ability of the Group to achieve forecast production and revenue growth and developing assumptions, including the discount rate in order to determine an estimate of the recoverable amount.

#### How our audit addressed this key audit matter

To assess the appropriateness of the impairment testing we evaluated the Group's cash flow forecast and impairment testing model as described in Note 21, including:

- We obtained management's budget and 5 year forecasts, and gained an understanding of the key cash flow drivers and key assumptions;
- We discussed the future business plans and key assumptions with management and the directors to ensure the cash flow forecasts used in the impairment testing model were consistent with these;
- We assessed the likelihood and timing of achieving forecast revenue and production;
- We evaluated and challenged how the impairment testing model accounted for risks in relation to the extent and timing of revenue growth; and
- We evaluated other key inputs used in the impairment testing model, including the discount rate and the terminal growth rate.

We also evaluated the disclosures provided around the impairment testing in Note 21 to the consolidated financial statements.

### Valuation of inventory

#### Why we considered this to be a key audit matter

This is the first year the group have recognised inventory related to harvested medicinal cannabis flower.

In the absence of an established history of cannabis flower sales, the estimation of the net realisable value requires some significant assumptions. This creates the risk that inventory could be recorded in the financial statements at greater than the net realisable value given the local market is not well established at present and the company has yet to sell any harvested produce.

During the year the group has recognised a write down in the fair value of inventory as the cost has been determined to exceed the net realisable value.

#### How our audit addressed this key audit matter

To assess the appropriateness of the carrying value of the group's inventory we conducted a detailed evaluation of the group's policy of cost capitalisation as described in note 14.

Inventory is required to be measured at the lower of cost (which includes the estimated fair value of harvested cannabis flower and post-harvest production costs) or net realisable value. We reviewed the approach to estimating net realisable value of inventory and confirmed assumptions made were reasonable based on available market information.

### Fair value of share based payments

#### Why we considered this to be a key audit matter

Share based payments have been provided to directors, employees and contractors in the previous period. Both the underlying valuation estimate, and the determination of the appropriate accounting treatment are inherently complex and subjective.

This is considered to be a key audit matter due to the judgements involved in assessing the valuation, as well as errors being identified in the calculation that affected previous reporting periods, as detailed in note 25.

#### How our audit addressed this key audit matter

Our procedures included the following:

- We obtained the Group's calculation of share-based payments and assessed the accuracy of assumptions such as the volatility and risk-free-rates applied;
- Checking calculations for mechanical accuracy; and
- Agreeing the calculation to underlying source documentation.

We also considered disclosures for compliance with NZ IFRS 2 *Share-based Payments*, and ensured adjustments to the prior period results were appropriately disclosed.

## Other matters

The financial statements of the group for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2022.

## Other information

The directors are responsible for the other information included in the annual report. The other information comprises the reports and information on pages 2 to 25 and page 57 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated financial statements

The directors are responsible, on behalf of the group, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible, on behalf of the group, for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless, the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at the XRB's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1>

## Who we report to

This report is made solely to the company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Cannasouth Limited and the company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Brendon Foy.



**RSM Hayes Audit**  
Auckland

28 March 2023

## Business Directory

<b>Incorporated</b>	21 August 2018
<b>Company Number</b>	6987773
<b>Nature of Business</b>	A vertically integrated, NZX listed, biopharmaceutical group, with business activities from the production and supply of cannabis biomass through to the manufacture and supply of therapeutic products (both cannabis and non-cannabis), including related activities such as research and development.
<b>Registered Office</b>	CRV Building, Level 2 Waikato Innovation Park 2 Melody Lane Hamilton East Hamilton 3216
<b>Physical Address</b>	CRV Building, Level 2 Waikato Innovation Park 2 Melody Lane Hamilton East Hamilton 3216
<b>Telephone number</b>	+64 7 949 8393
<b>Directors</b>	<p>Mark Lucas Executive Director – Appointed 21 August 2018</p> <p>Anthony Ho Independent Chairman – Appointed 26 September 2018</p> <p>Juliet Hull Independent Director – Appointed 9 February 2021</p> <p>Christine Pears Independent Director – Appointed 28 June 2021</p>
<b>Securities Registrar</b>	Link Market Services Limited Level 30, PWC Tower 15 Customs Street West Auckland 1010
<b>Legal Advisors</b>	<p>Harkness Henry Level 8, KPMG Centre 85 Alexandra Street Hamilton 3240</p> <p>Corporate Counsel PO Box 105 745 Auckland 1143</p>
<b>Auditors</b>	RSM Hayes Audit 1 Broadway Newmarket Auckland, 1023





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