

For Public Release

NZX Limited  
Wellington

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### **Cannasouth enters into a prospective merger arrangement with Eqalis Group New Zealand Limited**

Cannasouth Limited (NZX: CBD) is pleased to announce that it has signed a binding term sheet ("Term Sheet") with the Board of Bay of Plenty based, medicinal cannabis company, Eqalis Group New Zealand Limited (Eqalis) to advance a 50:50 merger between the two companies.

#### **Details of the proposed merger**

The Terms Sheet outlines the principal terms and conditions of a potential merger between the two companies, and are as follows:

1. Notwithstanding that the transaction is in substance a "merger of equals", the transaction is to be structured as the purchase by Cannasouth of 100% of the shares on issue in Eqalis ("Eqalis Shares") from the Eqalis shareholders.
2. The value attributable to Eqalis Shares has been notionally set at \$48.8 million.
3. The notional sum of \$48.8 million will be satisfied by Cannasouth issuing 147,891,069 new ordinary fully paid Cannasouth shares, at an issue price of \$0.33 per share, to the Eqalis shareholders ("Consideration Shares"). The Consideration Shares to be issued will equal the existing number of shares on issue in Cannasouth.
4. The Eqalis Board intends to circulate to the Eqalis shareholders a Share Sale Deed in a form acceptable to the Cannasouth Board ("Sale Deed") which documents the proposed transaction for the approval of, and execution by the Eqalis Shareholders.
5. The Sale Deed, once it is signed by all parties, will be the principal agreement which documents the transaction. Therefore, in order for the transaction to advance, the Sale Deed must first be executed by Cannasouth and by the Eqalis shareholders.
6. As the Sale Deed will be circulated to a significant number of Eqalis shareholders, Cannasouth and Eqalis considered it prudent to disclose the existence of the potential transaction prior to the disclosure of the transaction to Eqalis shareholders, and the execution of the Sale Deed by the Eqalis shareholders and Cannasouth. This ensures that Cannasouth complies with its obligations of keeping the market fully informed.

7. Other material terms of the proposed transaction are as follows:

- (a) Cannasouth would undertake a capital raising initiative in conjunction with Equis to raise approximately \$9 million of new capital to fund the working capital of the merged group post completion of the transaction. It is intended that the new capital will be raised from an offer of new ordinary shares to the existing Cannasouth shareholders, existing Equis shareholders and a number of third-party investors. Further details of the capital raising initiative will be provided to the market in due course.
- (b) The Equis shareholders shall be entitled to nominate three new directors to join the Cannasouth Board.
- (c) Cannasouth CEO Mark Lucas will continue as Chief Executive of Cannasouth post completion of the merger.
- (d) Equis Managing Director Greg Misson will be appointed Chief Innovation Officer of Cannasouth post completion of the merger.
- (e) Certain Equis executives will be issued share options as part of Cannasouth's existing Employee Share option Plan – the details of which are still to be finalized.
- (f) The proposed merger is conditional upon:
  - (i) Cannasouth entering into the Sale Deed with Equis shareholders;
  - (ii) Cannasouth shareholders approving the proposed merger, the issue of the Consideration Shares, the capital raising referred to above, and the other matters collateral to the merger;
  - (iii) Both Cannasouth and Equis obtaining any regulatory approvals that may be required to the proposed merger;
  - (iv) Cannasouth securing commitments from investors to invest not less than \$9 million of new capital into Cannasouth in conjunction with the merger.
- (g) On completion of the merger it is intended that three new directors will be appointed to the CBD Board by Equis – those directors will be Greg Misson, Mark Scapens and Hilary Webber. Current CBD non-executive director Juliet Hull will retire from the CBD Board. Tony Ho, Christine Pears and Mark Lucas will remain as directors of CBD post merger.

### About Eqlis

Established in 2019 Eqlis has proven to be a pioneer in New Zealand's medicinal cannabis industry, building an innovative and collaborative culture to disrupt the sector from the ground up and solve accessibility and affordability pain points for patients. Their strengths include outdoor cultivation, GMP active pharmaceutical ingredients (API) and medicine manufacture, and an online cannabis clinic. Under the leadership of Managing Director, Greg Misson, Eqlis has made significant progress in the industry while largely flying under the radar.

Cannasouth CEO Mark Lucas says "When Cannasouth engaged with Eqlis about manufacturing its new next generation medicinal cannabis medicines at their GMP certified API and medicine manufacture facility, it quickly became apparent to both parties how complementary our business models are.

"The creation of the merged company brings diversification and eliminates cost duplication to the industry and is expected to result in a substantial lowering of costs to patients using medicinal cannabis."

Eqlis CEO Greg Misson says "A 50:50 merger between Cannasouth and Eqlis has innovation at its core. We intend to deliver better outcomes for patients in New Zealand and globally.

"The merger will create a more resilient business, building towards diversified income streams, higher margins and a larger company that will provide better access to capital and is better positioned to compete globally and attract funding."

### Key Benefits

- **Diversified product and services portfolio** with a pipeline of future products, which provides alternate revenue streams and reduces risk
- Delivers the **critical mass** required to satisfy the New Zealand market and compete internationally
- **Combines technologies** to deliver more affordable and effective medicines to consumers
- **Accelerates innovation** by combining knowledge and experience from the companies' complementary skill sets
- **Wealth of expert leadership** from both companies bringing their combined industry knowledge to improve health outcomes for Kiwi patients
- Driving **new revenue and value creation** for shareholders.

### Timeline

The merger is subject to approval by the shareholders of Cannasouth under the NZX Listing Rules and the Takeovers Code. Cannasouth expects to send information to shareholders before the end of February 2023, to enable them to vote on the merger at a shareholders' meeting shortly thereafter.

The information to shareholders will include a Notice of Meeting with a comprehensive disclosure regarding the business operations of Equalis and the merits of the merger, together with an independent adviser report prepared to comply with requirements of the Takeovers Code and Takeovers Panel guidance.

Subject to the approvals from the shareholders meeting, it is anticipated that the capital raising initiatives will be completed shortly thereafter in conjunction the completion of the merger proper.

Mr Lucas says, "we believe together Cannasouth and Equalis will have greater ability to lead and shape the New Zealand medicinal cannabis industry and reduce costs to patients."

### **Accompanying Documentation**

The following materials accompany this announcement:

- A communication from the Equalis Board of Directors to the Equalis shareholders;
- A Fact Sheet which provides some additional high-level information about the proposed merger.

-ENDS-

For further information visit [www.cannasouth.co.nz](http://www.cannasouth.co.nz) or contact:

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### **About Cannasouth Limited**

Cannasouth is a vertically integrated biopharmaceutical Group. The Group has been established to focus on the commercial development of the medicinally beneficial attributes of cannabinoid compounds produced by the cannabis plant, and other health products and medicines. Our goal is to support patients' health outcomes and improve their quality of life. Our products will be produced under GMP, using environmentally friendly methods, ensuring patients are treated with therapeutic products of the highest quality. Cannasouth Limited is the parent company, listed on the NZX, and is 100% owner of Cannasouth Bioscience Ltd, Cannasouth Cultivation Ltd, and Midwest Pharmaceuticals NZ Ltd.

For video footage, photos and logos please visit: <https://www.cannasouth.co.nz/about/media/>