

# CEO'S REVIEW OF OPERATIONS

For the six months ended 30 June 2023

The Cannasouth Group is **solidifying its leadership position** in the emerging New Zealand medicinal cannabis industry. The merger with Equalis Group, completed on 31st May, represents a pivotal shift in our collective path. This merger provides the **scale and momentum** necessary to not only lead the New Zealand industry but also to be a competitive contender on the global stage.

The accounting treatment adopted for the merger was a reverse takeover. Equalis is regarded as the parent for accounting purposes i.e., Equalis is the accounting acquirer of Cannasouth.

The operating loss for the Group for the six months to 30 June 2023 was \$3,546,495 (2022: \$2,476,560). The result reflects the investment in positioning Cannasouth to be New Zealand's leading medicinal cannabis company.

Cash on hand as at 30 June 2023 was \$5.32 million (2022: \$1.46 million). The board will look to undertake a dual listing on the ASX as a foreign exempt listing in the near term and will keep the market updated.



## HIGHLIGHTS FOR THE SIX MONTHS

- **February 2023** Cannasouth (NZX: CBD) signed a binding term sheet with Bay of Plenty-based Equalis Group New Zealand Ltd (Equalis) to advance a **potential 50:50 merger** between the two companies.
- **February 2023** Cannasouth **settled the sale** of non-core liquid filling assets of subsidiary **Midwest Pharmaceuticals**. The divestment reduced the need for the company to invest further capex.
- **April 2023** Shareholders of Cannasouth **overwhelmingly approved the proposed merger with Equalis** at a Special Shareholder Meeting.
- **May 2023** Cannasouth subsidiary Cannasouth Cultivation received its **GMP Licence to Manufacture Medicines** to produce dried cannabis flower.
- **May 2023** Merger related capital raise closed, raising approximately **\$7.2 million**.
- **June 2023** On 1 June 2023 the **merger with Equalis Group was completed**. This resulted in Cannasouth having **end-to-end GMP certified production**, starting with dried cannabis flower, through to the manufacture of cannabis-based ingredients and medicinal cannabis products (oral solutions).
- **June 2023** Cannasouth Bioscience successfully **exports its first commercial scale shipment** of high-quality dried cannabis-flower to Australia. This signaled the commencement of Cannasouth's export program into Australia.
- **June 2023** Equalis' first cannabis-based ingredient is **successfully verified** by the Medicinal Cannabis Agency (MCA) as meeting the NZ minimum quality standard. This achievement allows for local and export ingredient sales and is key to verifying future medicinal cannabis products.

## Capitalising on the Merger Benefits:

The merger of Equis and Cannasouth is not merely a combination of two entities; it's a strategic alignment to unlock substantial synergistic benefits. As we navigate the merger implementation process, we are actively leveraging these advantages. Our focused objectives for this union are:

- 1. Accelerated Product Development:** We are committed to fast-tracking a diverse portfolio of products to market, leveraging the combined expertise and resources of both companies.
- 2. Advancement to Gen2 Products:** We are swiftly progressing towards second-generation (Gen2) value-added products. These products are designed to offer unique features that will set us apart from competitors and provide a defensible market position.
- 3. Enhanced Profit Margins:** Through this differentiation, we are positioning ourselves to secure increased margins, reflecting the premium value of our offerings and cost efficiencies from economy of scale.
- 4. Strengthened Market Positioning:** Our goal is to create a defensible market presence, ensuring that we not only lead but sustain our leadership through strategic advantages from this merger.
- 5. Intellectual Property Development:** We are investing in innovation, focusing on creating intellectual property assets that will not only offer competitive differentiation but also the platform for future growth and expansions.

## Phase Change: From Capability Building to Commercialisation

Transitioning to the production of compliant pharmaceutical-grade medicinal cannabis products and ingredients requires years of commitment, a substantial investment, and deep expertise.

Both Cannasouth Cultivation and Equis Pharmaceuticals have secured the essential GMP (Good Manufacturing Practice) Licences to Manufacture Medicines, signaling the start of our revenue generating commercialisation phase. As a result, we see clear pathways to new revenue opportunities. Despite the challenges and lengthy regulatory processes, we've navigated this critical phase of the development of our business.

Our immediate goal is to launch products and tap into immediate revenue opportunities. While we've been developing our capabilities, the medicinal cannabis market has grown rapidly both locally and internationally, opening various commercial opportunities. Cannasouth's revenue-generating activities are just beginning.

## SUBSEQUENT ACTIVITY

- July 2023** Cannasouth Bioscience submitted product applications to MCA for Premium Dried Flower for prescription in New Zealand.
- August 2023** The MCA obtained approval for a series of modifications to the Misuse of Drugs (Medicinal Cannabis) Regulations 2019. The forthcoming regulatory changes are poised to have a significant impact on Cannasouth's growth trajectory and our industry competitiveness.
- August 2023** Cannasouth announces it intends to dual list on the ASX as a foreign exempt listing. This would widen and diversify Cannasouth's shareholder base by enabling Australian and other international investors to participate in the journey via ASX.

## Our immediate revenue streams include:

- 1. Imported oral solutions.** We currently have three verified by the MCA.
- 2. RestoreMe Consultations.** These have commenced.
- 3. Export and local sales of CBI (Cannabis-based Ingredient)** Verified by the MCA.
- 4. Export of premium dried flower for further manufacturing.** These will be verified by batch.
- 5. Export and local sales of premium GMP dried flower as a finished product.** Product verifications from the MCA are pending.
- 6. Export and local sales CBD oral solutions.** Product verifications are pending.

In June 2023, Cannasouth exported its inaugural commercial-scale dried flower shipment to Australia, marking a pivotal step in our export journey. Following this sale, we secured an additional order for a further 120kg. The customer also holds a first right of refusal for an additional 150kg, expected to be shipped before the end of 2023. These orders underscore that our pathway to the Australian market is firmly established.

## Criticality of GMP Certification

While a substantial number of companies have ventured into New Zealand's medicinal cannabis industry, few have successfully navigated the rigorous path to global GMP pharmaceutical certification—a crucial and mandatory standard for entering both the domestic and international markets. This certification represents a significant hurdle, and most entrants have failed to clear.

The Cannasouth Group stands apart. We have successfully secured GMP status for both of our key manufacturing facilities, encompassing a wide spectrum of products and ingredients, from dried flower to oral solutions.



**This achievement is more than a badge—it is a key that unlocks doors.**

With New Zealand, Australia, and targeted European markets mandating this stringent quality standard, the Cannasouth Group is exceptionally positioned to enter these high-growth markets.

The investment to achieve this status has been substantial, but it marks not an end, but a beginning. We are now at the true starting line, primed for significant sales growth in the coming years. On the 1st of July the TGA in Australia began strictly enforcing GMP quality standards, this comes at a perfect time for Cannasouth.

## Accelerated Commercialisation Journey

Following our successful GMP certification of manufacturing facilities, the critical next step is to produce sufficient production data for individual product verification – a juncture where precision and compliance are paramount. For each new product, we must manufacture three batches and generate comprehensive stability (shelf life) data. While this rigorous process is costly and time-consuming, it is a non-negotiable aspect of pharmaceutical manufacturing.

The Cannasouth Group is now advancing our planned pipeline of products – a process that is escalating, as will the revenue each of these products is poised to generate. Already, we have three oral solutions successfully verified, one CBD cannabis-based ingredient verified, and a diverse array of other products awaiting MCA verification.



**The strenuous journey to the sales starting line is behind us; our focus is now sharply set on leveraging our valuable regulatory insights and GMP status to expedite and maximise product commercialisation.**

As we move forward, anticipate a consistent launch of new products making their debut in the market in the coming months and years.

## Getting Close to the Patient: A Core Strategy

A central pillar of Cannasouth's strategy is vertical integration within this emerging industry. With our manufacturing capabilities established, and following the completion of the merger, our focus sharpens on getting as close to the patient as possible. In overseas markets, substantial sales margins are often eroded by middlemen, who insert themselves into the supply chain and inflate patient costs – a primary barrier to patient access. Unlike most pharmaceuticals, medicinal cannabis is primarily patient-driven, with many individuals previously seeking products through the black market or illegal imports.

RestoreMe is designed to make medicinal cannabis more affordable and accessible to patients, addressing the two primary barriers. By streamlining the supply chain, we are effectively removing unnecessary cost. Notably, RestoreMe (<https://www.restoremeclinic.co.nz/>) our specialist clinic, has played a significant role by dramatically reducing the cost of doctor consultations. Prior to the launch of RestoreMe, prescriber consultations at other specialist clinics often exceeded \$150; RestoreMe now offers these services at less than half that cost. RestoreMe operates with clinical independence and an agnostic product offering ensuring a patient first approach.



**Getting closer to the patient isn't just about cost efficiency; it's about insight.**

This proximity grants us invaluable understanding of the size and growth trajectory of the NZ market, as well as deep insights into trends in preferences and product efficacy; essential information which will guide the development of our future Gen2 and Gen3 products.

RestoreMe currently has over 8,000 enrolled patients, with an average of 900 new enrollments per month. With the software upgrades currently being implemented at the

Clinic, patient experience is expected to further improve. RestoreMe required initial investment to establish itself as a scalable business unit, and we anticipate significant revenue growth as a result in the coming months.

## Growth and Development of the Australasian Medicinal Cannabis Industry

The medicinal cannabis market in Australasia is expanding rapidly. Australia is at the forefront, driving substantial demand year after year, with no evident signs of reaching its peak. New Zealand mirrors this growth trajectory. However, obtaining data from both markets is a challenge due to regulatory bodies data collection limitations.

A recent Official Information Act request unveiled data indicating that from April 2020 (the commencement of New Zealand's medicinal cannabis scheme) to June 2023, 32,771 patients received at least one medicinal cannabis prescription. When compared with the Drug Foundation's 2022 estimate of 266,700 medicinal cannabis users in New Zealand, it suggests there's substantial room to transition users from the black market to legal channels before the market reaches a peak. In this period, a total of 91,570 prescriptions were issued. A significant portion of these likely came in the last 12-18 months, considering the limited product availability in the scheme's early phase.

Recognising this growth, Cannasouth is intensifying its efforts to ensure a strong presence and capture a significant market share.



## A Focus on Innovation

At the heart of Cannasouth's strategy is our commitment to driving innovation. Our Group's Innovation Hub is actively working on several projects aimed at creating valuable intellectual property (IP), thereby driving shareholder value in the upcoming years.

A testament to our innovation-driven approach is the establishment of our state-of-the-art Controlled Environment Agriculture (CEA) sealed greenhouse facility, augmented with GMP post-harvest processing. This forward-thinking facility positions Cannasouth at the forefront of supplying top-tier dried flower not only to the New Zealand market but also expanding our reach to Australia and Europe. We are now at a pivotal juncture where our foresight and investment in this sector is set to yield significant commercial benefits.

In parallel, Eqalis Pharmaceuticals showcases our innovative edge by developing disruptive processing methods for the manufacture of its cannabis-based ingredients. This has given us a distinct advantage by significantly reducing the manufacturing costs. Consequently, it will place us in an advantageous position to tap into the burgeoning market for GMP quality cannabis-based ingredients and finished products.

It is imperative for Cannasouth to stay ahead of the curve. Hence, our focus on a swift transition to advanced Gen2 and Gen3 products and technologies. We will ensure we don't remain static in what we believe is an industry which is becoming increasingly commoditised and generic. A glimpse into the first of our next-gen solutions is our recently developed Gel drug delivery technology, which is in the commercialisation phase.



**Our Gel technology presents us with promising prospects, such as potential licensing opportunities and an over-the-counter (OTC) CBD pathway for the Australian market.**

Beyond this the company has other significant projects being developed including Ice-X, A-script and others designed to disrupt multiple areas of the supply chain and deliver future shareholder returns.

## Regulatory Changes:

After many delays, the much-anticipated review of, and amendments to, the New Zealand medicinal cannabis regulations are progressing. The Medicinal Cannabis Agency has now obtained approval for a series of changes to the Misuse of Drugs (Medicinal Cannabis) Regulations

2019. These changes are poised to have a significant impact on Cannasouth's growth trajectory and our industry competitiveness.

**Key Highlights Include:**

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

These primary changes, which will be complemented with numerous technical enhancements, will streamline the scheme's compliance prerequisites without jeopardising product quality. When considered collectively, these refinements have the potential to materially influence the scheme in a positive manner.

It is worth noting that these regulatory amendments will not influence the current prescribing methods for medicinal cannabis. The overarching intent of these changes is to ensure the long-term sustainability of the medicinal cannabis sector in New Zealand while maintaining the quality of products to patients.

Public consultation is underway on relevant materials that will be incorporated by reference into the Regulations. Post-consultation, the drafting of amendment regulations will commence, with the objective of enacting them by the end of 2023.



**ASX Listing:**

On the 4th August Cannasouth announced its intention to a dual listing of the Company on the Australian Securities Exchange (ASX) as a foreign exempt listing. This will widen and diversify Cannasouth's shareholder base by enabling Australian and other international investors who do not currently trade in NZX shares to participate in the Cannasouth journey via ASX.

**The reasons for this decision include:**

- To enhance shareholder value by providing improved liquidity in a larger capital market which is more accustomed to investments in biotech and early-stage businesses.
- To gain access to mid-cap institutional fund managers who typically invest in businesses on the ASX.
- To tap into global fund managers who prioritise investments in internationally recognised bourses such as the ASX.
- Recognising Australia's status as the largest and fastest-growing medicinal cannabis market in Australasia and given Cannasouth's intention to expand its business there.

Sydney-based Addisons Lawyers have been appointed to facilitate the process together with Corporate Counsel in Auckland. We anticipate the dual listing process to conclude by year end.

**Mark Lucas**  
CEO / Managing Director  
29 August 2023

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



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