

For Public Release
NZX Limited
Wellington

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Preliminary Unaudited Results for the Year Ended 31 December 2022

Cannasouth Limited (NZX: CBD), ("Cannasouth", the "Group" or the "Company") today reported its preliminary results (subject to completion of audit) for the year ended 31 December 2022.

2022 was a year of "firsts" as the Group continued to achieve milestones to develop the Company 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.

The Company 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.

The Company has had its first cannabis medicines verified by the Medicinal Cannabis Agency (MCA) in 2022. Despite the long approval process by MCA 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 over 266,000 people using cannabis for medicinal purposes, of these only 6% obtain it through legal channels¹. 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.

CEO, Mark Lucas says, "We know patients and shareholders are 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.

"For patients, they will see more treatment options at a lower cost. For shareholders, they will see meaningful revenue flows 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 register flower products in New Zealand and export to high value, high demand markets like Germany.

¹ 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/),
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"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 scheme are too complex and onerous. But we've invested in the right people and facilities to meet 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."

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 Eqlis Group New Zealand Ltd (Eqlis) to form the largest New Zealand based, fully integrated, medicinal cannabis company
- ✓ Announcing the divestment of non-core Midwest Pharmaceuticals NZ Ltd

Mr Lucas says: "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 state-of-the-art cultivation facility.

"2023 is the year in which meaningful revenue from the sales of medicinal cannabis products and ingredients will begin. From this point 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."

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 \$7.91 million (2021 \$2.56 million) and operating revenue of \$141,000 (2021 \$206,000). The loss from discontinued operations was \$295,000 (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	\$7,912,867	\$2,562,354
Notional add back of one-off gains		\$1,459,551
Notional losses for the years	\$7,912,867	\$4,021,905

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

Net Assets of the of the Group was \$11.88 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 Eqalis and Divestment of Midwest

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

The Company also announced a sale of 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 require by Midwest to have it GMP ready for cannabinoid medicines.

The Board believes the proposed merger with Eqalis 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 company 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.

Market Outlook

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. WEECO is one of the leading importers of medicinal cannabis in Germany. Under the agreement WEECO has the right of first refusal for each new cultivar developed by Cannasouth.

Australia is another key market for Cannasouth, where sales of cannabis flower continues to rise exponentially.

The New Zealand market is growing steadily but is hindered by the small number of products currently available to patients. Cannasouth expects to see growth rates similar to Australia once product availability increases. Many other international markets continue to develop medicinal cannabis schemes.

Summary of key business initiatives:**Premium Cannabis Flower**

Cannabis flower is a product format growing in popularity in key export markets. Premium flower is cultivated indoors and is more expensive to produce. 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.

Cannasouth's cultivation and post-harvest facility is one of only a few of its type 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 Medicinal Cannabis 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 27-29th March 2023. We are pleased with the preparation for the audit, and our new Chief Compliance Officer, Pierre Booyen, is proving a valuable member of the team.

At this time Cannasouth is not aware of any other cultivation facility in New Zealand that has been audited for GMP certification to produce 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 flower products available to patients in New Zealand are retailing between \$13,000 and \$30,000 per kg price to patient. Cannasouth believes these prices are too high.

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. In the first instance there is an immediate need to move beyond the current generic products, which are predominately basic oily solutions, to enhance the performance of the medicine and improve patient compliance and usability via new formulations.

Cannasouth's current research and development projects include:

- New drug delivery technologies to address the short falls of existing medicines and improve product performance and patient experience.
- A range of medicinal cannabis lifecycle products utilising proprietary technologies
- Targeting emerging markets including the over-the-counter (OTC) cannabinoid (CBD) opportunities in the Australian market with specific clinical indications
- Several randomised controlled studies in collaboration with clinical centres of excellence

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
- Once approved, export and local sales of our premium medicinal cannabis flower
- Completing the proposed merger with Equalis Group New Zealand Ltd, and completion of the sale of Midwest Pharmaceuticals NZ Ltd

-ENDS-

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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 and Cannasouth Cultivation Ltd.

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