Cannasouth Limited Group
2021 Annual Report

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CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

For the year ended 31 December 2021

2021 was a transformational year for the Group. Despite the challenges of the macro environment that disrupted supply chains and delays from pandemic lockdowns, the company achieved milestones that transformed it into a consolidated Group that reported an operating revenue of $1.3 million (part year), and a decrease in net loss over the prior year. Within this background, your Directors have pleasure in presenting the annual report of Cannasouth Ltd and its subsidiary companies Cannasouth Bioscience Ltd, Cannasouth Cultivation Ltd, and Midwest Pharmaceutics NZ Ltd (the 'Group') incorporating the consolidated financial statements and the Independent Auditor's Report, for the year ended 31 December 2021.

The Group recorded a loss of $2.9 million (2020: $3.5 million) and operating revenue of $1.3 million (2020: $131,000). The loss was attributable to the continued and planned investment in establishing the Group as a key participant in the emerging medicinal cannabis market in New Zealand.

Net Assets of the Group grew to $17.1 million (2020: $14.1 million). The Group recorded a gain of $1.5 million on the remeasurement of fair value of existing shareholding held in Cannasouth Cultivation Ltd and Midwest Pharmaceutics NZ Ltd. This gain represents the difference between the fair value of the existing shareholding over the carrying value. Cash on hand at 31 December 2021 for the Group was $5.5 million (2020: $9.2 million).

Significant progress was achieved in completing the foundations of a sustainable business. Pleasingly, Cannasouth achieved its first revenues during the year with (part year) $1.3 million sales of products and services to the pharmaceutical, health and wellness supplement sectors through Midwest Pharmaceutics NZ Ltd.

The strategic goals of Cannasouth are to implement short, medium, and long-term revenue streams. In 2022 further revenue streams will commence with medicinal cannabis products and exports of cannabis flower.

Global demand has created an early revenue opportunity in the export of premium cannabis flower and Cannasouth is focused on achieving this revenue during 2022. Our world-class, next-generation cannabis cultivation and processing facility was fully commissioned in November 2021, enabling Cannasouth to enter the rapidly growing pharmaceutical cannabis flower market.

Advanced negotiations are progressing with prospective customers for offtake of our first cannabis flower harvests. Overcoming the export regulatory complexities may likely result in sales commencing in H2 2022. On a full-year basis revenues are expected to be circa $8 million, with the potential to scaleup in the future.

Cannasouth remains committed to New Zealand patients and our first three medicinal cannabis products continue to progress through the product assessment approval process with the New Zealand Medicinal Cannabis Agency. These products are scheduled to launch in 2022.

Medium and longer-term revenue streams are also being developed, from our own-formulated finished products to the commercialisation of IP from our research and development programmes.

The Group has assembled a highly experienced team, commissioned world-class cultivation and processing facilities, established advanced research and development programmes and revenue streams have begun.

Following a $4.7 million capital raise in August 2021 through a Share Purchase Plan and Public Offer, Cannasouth acquired the interests held by both joint venture partners in Cannasouth Cultivation Ltd and Midwest Pharmaceutics NZ Ltd.

The 100% ownership enabled Cannasouth to accelerate its development to significant revenue generation, improving operational efficiencies across the Group and enabling future revenues and profits to be consolidated into the Cannasouth Group Profit & Loss Statement.

WE WILL CONTINUE THE GROWTH TRAJECTORY FOR THE GROUP IN THE YEAR AHEAD. KEY MILESTONES FOR 2022 WILL INCLUDE:

- **Gaining GACP and GMP accreditations for Cannasouth's cultivation and processing facility.**
- **Once approved, sales of our medicinal cannabis products into the New Zealand market.**
- **Export of premium cannabis flower bringing significant revenue to the Cannasouth Group.**

HIGHLIGHTS FOR 2021 INCLUDED:

- **Granted a commercial cannabis cultivation license by the Medicinal Cannabis Agency.**
- **Granted a supply activity under its commercial medicinal cannabis licence by the Agency. This supply activity is additional to the existing cultivation and possession for manufacture activities.**
- **Cannasouth released a comprehensive Medicinal Cannabis Industry Report to assist investors with understanding the complexities and opportunities of the New Zealand and global medicinal cannabis landscape. Available here: https://www.cannasouth.co.nz/2021/medicinal-cannabis-industry-update/**
- **Added significant healthcare and governance expertise to the Cannasouth Board with the appointments of Ms Juliet Hull and Mrs Christine Pears.**
- **Successfully raised $4.7 million by way of a Share Purchase Plan and Public Offer.**
- **Acquired the interests held by both joint venture partners: Cannasouth Cultivation Ltd (for cannabis flower production) and Midwest Pharmaceutics NZ Ltd (for diversified revenue streams, future medicines grade production and cannabinoid oil extraction services).**
- **Added further key talent to the important roles of Head of Quality - Group, and Operations Manager – Cultivation.**
- **Completed commissioning our new state-of-the-art (and unique to New Zealand), sealed controlled-environment greenhouse and processing facility in the Waikato.**

The pharmaceutical regulations and the timelines for establishing compliant facilities and registered products in this sector are onerous and the development phase takes time. There are no short cuts in pharmaceutical development. The opportunity at the end of this process is a rapidly expanding global marketplace for cannabis-based medicines and active pharmaceutical ingredients.

The Board appointed Ms Juliet Hull as a Non-executive Independent Director in February 2021. Ms Hull was previously the country director of Johnson & Johnson Medical in New Zealand. Her knowledge of the healthcare sector and commercial expertise will augment the skill mix of the board as we move forward to commercialisation of our medicinal cannabis product offerings. Ms Hull was also appointed a member of the Audit, Finance and Risk, and the Remuneration, Nomination, Health & Safety Committees of the Board.

At our Annual Shareholder meeting in June 2021, we bid farewell to Mr Conor English, Non-executive Independent Director when he resigned from the board. On behalf of the Board and Shareholders we thank you, Conor, for your valued contribution to the establishment and development of the business. At the meeting Shareholders elected Mrs Christine Pears as new Non-executive Independent Director. Mrs Pears brings with her valuable experience from finance to horticulture and was appointed to chair the Audit, Finance and Risk Committee of the board.

The progress described here was achieved with the backdrop of the global Covid-19 pandemic which disrupted global supply chains, locked down staff and contractors and increased costs. On behalf of the Board, we thank our teams, suppliers, and stakeholders for their ongoing resilience, dedication, and enthusiasm for achieving our milestones.

> **To our loyal shareholders; for your continued support of Cannasouth and our journey as we built our position as a leader in the medicinal cannabis industry in New Zealand, we thank you.**

We look forward to building further shareholder value during 2022 and beyond as we execute our strategy and business development plans.

Tony Ho
Chairman of Directors
31 March 2022

Mark Lucas
CEO, Director
31 March 2022

2019

First Medicinal Cannabis company to list on NZX Main Board in June 2019

Established a joint venture, Cannasouth Cultivation Ltd, to grow and process cannabis

Purchased a 60% stake in Midwest Pharmaceutics NZ Ltd to provide a GMP manufacturing facility for the Group, and core revenues while the medicinal cannabis market develops

Commenced construction of a new energy-efficient, scalable, Controlled Environment Agricultural (CEA) commercial cannabis cultivation and processing facility

Secured funding for research projects from Callaghan Innovation

2020

Submitted product assessment applications to the NZ Ministry of Health in November 2020 for three imported own branded medicines

Granted first commercial cultivation activity and possession to manufacture activity licences

Appointed noted Colorado cultivator, Vera Cultivation to supply the design, and the implementation of a state-of-the-art growing facility, and growing systems

Successfully concluded a supply agreement with MediPharm Labs, Australia, to import Cannasouth branded medicines

A successful Share Purchase Plan (SPP) and wholesale placement capital-raise raising

$6million

2021

Received additional cultivation licence for commercial cultivation facility

Commissioning of a state-of-the-art cultivation facility completed

Recruited additional talent to join our team, covering Research, Quality, Operations and Finance

Successful $4.7 million capital raise to purchase remaining stakes in Midwest Pharmaceutics NZ Ltd and Cannasouth Cultivation Ltd

Purchased remaining 50% stake of Cannasouth Cultivation Ltd. This completes the Cannasouth group consolidation

All subsidiaries now

100%

Cannasouth Ltd (NZX:CBD)

NEW ZEALAND

Medicinal cannabis became legal in New Zealand when the Medicinal Cannabis Scheme (Scheme) was launched on 1 April 2020. The Scheme is overseen by the Medicinal Cannabis Agency (Agency). The Scheme allows prescribers to prescribe medicinal cannabis and oversees importation and local manufacture of these medicines. All products prescribed under the Scheme must be assessed as meeting the New Zealand Minimum Quality Standard (NZMQS).

In New Zealand, prescribers can prescribe products registered under the Scheme for any condition they feel it is appropriate. This approach is a significant advantage for patients in New Zealand compared with some overseas jurisdictions, which typically only allow prescriptions for specified clinical conditions or require a specialist to approve.

Following the introduction of the Medicinal Cannabis Scheme in New Zealand, some existing CBD products failed to meet the NZMQS or had insufficient data to support the regulatory application. However, to ensure patients had continuity of access, a transitional period was introduced. In September 2021 the transitional period ended and any existing products that had not been registered were removed from sale.

> **"With no existing herbal medicines regulations in New Zealand medicinal cannabis products could only be aligned with the Medicines Act creating some of the most stringent quality standards of any country.**

These high-quality requirements are designed to protect patients and build prescriber confidence in the products.

Although the regulations in New Zealand are fundamentally aligned with key offshore markets (such as Australia and Germany), there are some nuances and misalignment in key areas that can add cost and time to the product assessment process. It is for this reason that only ten products are currently available to patients under the scheme at the time of writing this report. Of these products, three are flower products (varying cannabinoid profiles), and five are CBD only products. Only two of these products are oral products containing THC.

Cannasouth is committed to providing New Zealand patients with access to quality medicinal cannabis products and continues to work with the Agency to provide evidence that our first three products (which will be imported from Australia) meet the NZMQS. We expect to launch these products in 2022. These products will provide prescribers and patients with better treatment options compared to the current limited range of registered products. Unfortunately, Section 29 of the Medicines Act prohibits the promotion of medicinal cannabis products, which means we cannot provide details of the products planned for sale. However, prescribers can request information from suppliers.

Despite the limited number of products, prescriber interest in medicinal cannabis is increasing and patient demand remains significant. Several specialist clinics are helping inform prescribers, which as a result is providing patients with easier product access.

We believe the New Zealand market is poised for rapid growth and will follow a similar trajectory to that of Australia. We also predict that patient numbers and sales will show exponential growth over the coming years.

REVIEW OF MARKETS

6%

Currently it is estimated that only 6%[1] of New Zealanders who use cannabis for medicinal purposes are accessing it using the prescription pathway, with the remainder accessing it illegally.

New Zealand Medicinal Cannabis Scheme Regulatory Review

When introduced in 2019, it was agreed that a review of the regulations should be conducted within two years of implementation. Cannasouth believes that although the regulations are generally fit-for-purpose and do not require significant change, there are opportunities for refinement and alignment with other major overseas regulations.

The single most significant barrier for patent access to medicinal cannabis remains price. New Zealand is a relatively small market, and it is paramount that companies like Cannasouth and other New Zealand producers can access much larger export markets with a competitive product offering and pricing model. Key export revenues will allow scale in production, ultimately reducing costs to New Zealand patients and allowing continued investment in the research and development required to develop improved product formats. It is critical that the Government and the Agency takes this opportunity to identify and remove unnecessary barriers and costs for local producers.

Cannasouth believes the current regulations could be improved to help deliver affordable, safe and effective medicines to patients in New Zealand and overseas.

Export Requirements and the NZMQS

Remove the need to complete a NZMQS assessment for medicinal cannabis intended for the export market only.

The NZMQS does not align completely with the regulatory requirements of the importing authorities, including the EU, resulting in expensive and time-consuming regulatory assessment fees and analytical testing, some of which is not currently available in New Zealand. Building quality into products by complying to internationally accepted Good Agricultural and Collection Practice (GACP) and Good Manufacturing Practice (GMP) quality standards rather than testing for quality is an accepted practice in the pharmaceutical industry.

Cannasouth would like to see the Government allow greater harmonisation with international markets and consider quality risk assessments as per international regulations, such as ICH Q9 Quality Risk Management [2], which would be consistent with the way other pharmaceutical products are treated.

Low Dose CBD and Export of CBD Products

Down-schedule low dose CBD to pharmacist-only medicines, and

Allow the export of CBD ingredients and finished products if they meet the regulatory requirements of the intended export market.

The regulatory status of cannabidiol (CBD) differs significantly in other counties. New Zealand currently regulates all products containing CBD as medicines. Some overseas markets such as the UK have reclassified CBD products as novel foods, allowing the sale of supplements and nutraceuticals.[3] The Australian regulators (TGA) have recently down-scheduled the use of low-dose CBD (less than 150 milligrams a day) from a prescription medicine to a pharmacist-only medicine, allowing direct to patient over the counter (OTC) sales.[4]

The CBD supplement market is growing rapidly overseas providing the potential for significant export revenue if these regulatory barriers could be removed. The ability to access these lucrative markets would create more opportunities for New Zealand companies, help support industry growth and ensure investment for further development. Cannasouth believes that New Zealand should follow the lead of the Australian TGA and down-schedule low dose CBD to pharmacist-only medicines.

The evolving overseas regulatory landscape has created a large and growing market for CBD products. Due to current New Zealand regulations, New Zealand companies are excluded. Cannasouth believes the regulations should allow the export of CBD ingredients and finished products if they meet the regulatory requirements of the intended market.

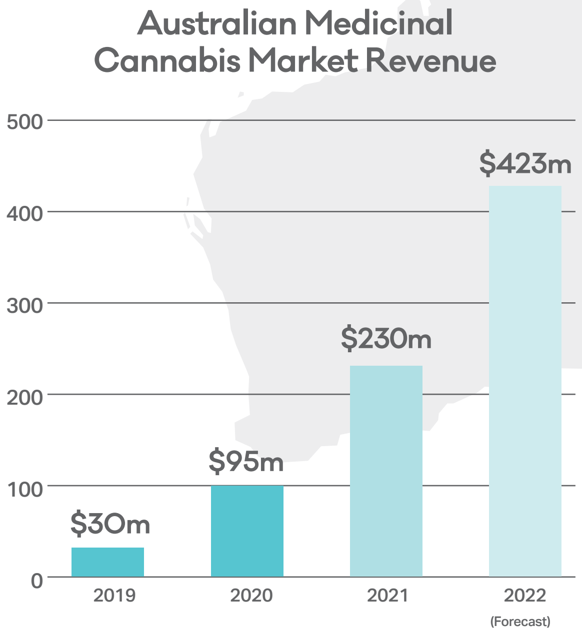
AUSTRALIA

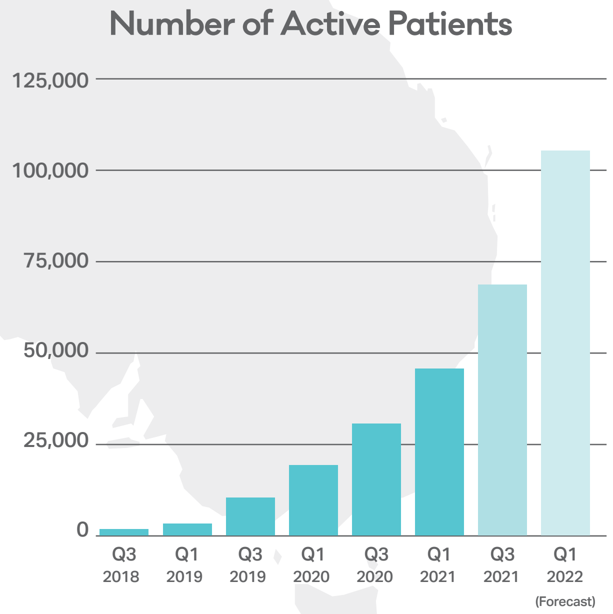
Australia is another key market for Cannasouth because of its proximity, similar regulatory regime and quality standards. Like most jurisdictions that have introduced medicinal cannabis schemes, Australia's growth was initially slow due to a combination of factors including: price; a restrictive prescriber pathway; an absence of products; and lack of prescriber education. As these barriers break down, product options widen and competition increases resulting in products becoming more affordable for patients.

As these barriers have been removed in Australia, the market has reached a significant tipping point. An increasing number of patients that were accessing cannabis medicines on the black-market have transitioned to the legal market. Accessing cannabis-based medicines legally provides patients with the best product quality, reassurance of their composition and removes the risk of prosecution.

Sales of medicinal cannabis in Australia are forecast to reach A$423 million in 2022 up from A$30 million in 2019. Active patient numbers are expected to exceed 100,000 in 2022 from circa 10,000 in 2019.[5]

A by-product of higher (initial) pricing is that patients often reduce their daily dosage to reduce their costs. This can result in patients dropping to a sub therapeutic dose





Graphs courtesy of Freshleaf Analytics.

REVIEW OF MARKETS

$423m

The tipping point has been reached. Sales are forecast to reach A$423 million in 2022 up from A$30 million in 2019.

level. A clear trend we've seen in Australia is that as prices decrease, patients increase their daily dose. In some cases this means better product efficacy for the patient. Currently, the average daily dose of cannabinoids per patient in Australia is 112 milligrams per day, compared with 37 milligrams per day in 2018.

There are a few key changes to the Australian market that will affect the market's future outlook, pricing and product options.

Low Dose CBD Over the Counter

The Australian regulators (TGA) have down-scheduled the use of low-dose CBD (less than 150 milligrams a day) from a prescription to a pharmacist-only medicine, allowing some medicines with supporting clinical data to be supplied over the counter without prescription.
This change is expected to grow the Australian market significantly by improving patient access through removing the need to obtain a prescription for these products.

TGA Lifting Quality Standards for Imports

The TGA conducted a public consultation on medicinal cannabis regulations in 2021 and agreed to implement a number of changes.

One key change is that under new importing rules, medicinal cannabis products are required to be manufactured under compliant GMP standards. This will increase the barrier to entry for some imports into the Australian market.

This change will likely result in the removal of some lower quality and lower cost products from the market and increase demand for products from suppliers who are able to comply with GMP quality standards.

EUROPE AND THE UNITED KINGDOM

The European medicinal cannabis market is expanding and is estimated to reach a value of EUR €3.2 billion by 2025.[6] There are a number of countries in Europe, outside of the largest market Germany, where medicinal cannabis can be legally prescribed, which is leading to significant sales growth. Apart from the Netherlands, where medicinal cannabis is not imported, it is likely that Italy has the second largest market by patient count, followed by Poland. Other emerging yet smaller markets are the Czech Republic and Luxembourg.

There are various patient pilot trials in the UK (e.g. Project Twenty21), France, Ireland and Denmark, which aim to create a body of evidence for the effectiveness and tolerability of medicinal cannabis. Should these trials be successful, the UK and France in particular with their larger populations are likely to be attractive export markets. Smaller European countries such as Croatia, Cyprus, Malta and North Macedonia have limited Medical Cannabis programmes.

GERMANY

With over 128,000 patients, Germany remains the single largest medicinal cannabis market in Europe and a key export target for Cannasouth.[6] Germany is now in its 6th year of legalisation, following the introduction of legislation in 2017.

The German market is attractive not only because of its high import volumes compared to other countries, but that 60-70% of patients receive cost reimbursement from health insurers, which makes medicinal cannabis affordable and accessible for more patients compared to many other jurisdictions.

In summary, global medicinal cannabis markets continue to show strong growth.

With most markets still in their infancy, we believe the potential market size of pharmaceutical GMP quality medicinal cannabis products globally will continue to grow at an exponential rate over the coming years.

References

(1) https://www.pharmacytoday.co.nz/article/unfiltered/unfiltered/more-250000-kiwis-still-accessing-medicinal-cannabis-through-black

(2) ICH Harmonised Tripartite Guideline. Quality Risk Management Q9. 2005 November 09.

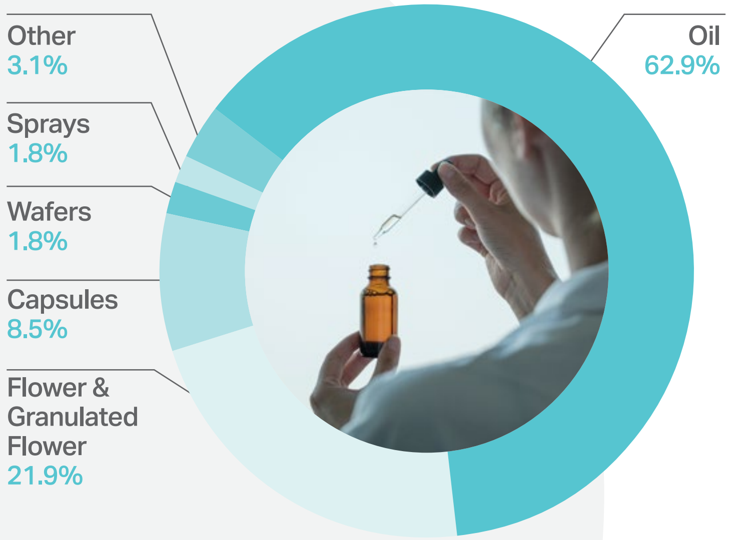
(3) Food Standard Agency, U K. Novel foods authorisation guidance. Available at: https://www.food.gov.uk/business-guidance/regulated-products/novel-foods-guidance#process-for-authorisation-of-a-novel-food. Accessed 15 April, 2021.

(4) Therapeutic Good Administration(TGA). Over-the-counter access to low dose cannabidiol. 2020; Available at: https://www.tga.gov.au/media-release/over-the-counter-access-low-dose-cannabidiol. Accessed 05, 2021.

(5) Freshleaf Analytics - Australian Medicinal Cannabis Market – H2 2021

(6) https://prohibitionpartners.com/2021/04/09/key-insights-from-the-european-cannabis-report-6th-edition/

CANNABIS FLOWER — A GROWING OPPORTUNITY

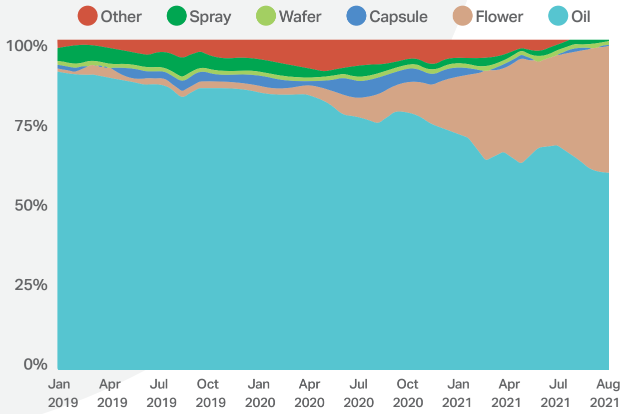


Cannabis flower is still a popular product in key export markets, with demand continuing to grow.

Many patients access medicinal cannabis initially from the black market in a flower form. As a result, when a patient transitions to the legal regulated market, they often prefer to be prescribed flower to ensure they achieve consistent treatment results.

In Australia, cannabis flower accounted for 40% of all prescriptions in 2021 and is the fastest growing product category. A trend we are also seeing in Germany.[1]

SAS-B approvals by delivery format



Graphs courtesy of Freshleaf Analytics.

When regulated market flower prices are comparable to black market pricing, many patients transition to purchasing from the legal market. This is a trend that has been clearly seen in Australia.

Unlike highly purified pharmaceutical preparations such as oils, flower contains unique terpene and flavonoid profiles, which vary from one genetic strain to the other. As a result, the consumer demand profile of flower products more closely resembles that of a connoisseur wine.

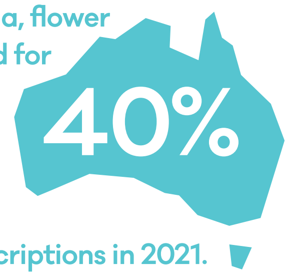
Medicinal cannabis flower can either be a Flower as Finished Dosage Form (FDF) or Bulk Start Material

Flower as Finished Dosage Form (FDF) – This is intended to be consumed directly by the patient. The way the product is used will depend on the local regulations but in New Zealand these products can only be used with an approved vaporiser or consumed as a tea. Since there is little post-harvest refinement these products rely on the highest quality cultivation, harvest, drying and packing standards to control quality such as Good Agricultural and Collection Practice (GACP) and/or Good Manufacturing Practice (GMP). These premium quality products also demand higher prices.

Bulk Start Material – This flower product is intended for use in the manufacture of other products such as formulated oils and tinctures. The quality of these products can be defined and controlled during processing and therefore the quality of the starting material is less critical. Bulk flower as a starting material can be considered as a bulk commodity and generally achieves the lowest prices.

All cannabis flower grown in New Zealand that is intended for export, regardless of its product category or end use, must meet the NZMQS in addition to the quality standard required by the importing market. Significant regulatory and quality experience is required for companies to meet these requirements.

In Australia, flower accounted for



of all prescriptions in 2021.

QUALITY REQUIRED FOR FLOWER AS A FINISHED DOSAGE FORM

The regulatory quality standards that must be achieved for this type of product is focussed on critical quality attributes such as cannabinoid content, moisture (important for control of microbial growth), and absence of harmful contaminants (heavy metals, pesticide residues or microbial contamination).

It is possible however to produce flower that meets the requirements of the regulatory authorities GACP/GMP/NZMQS but fails to meet consumer requirements for terpene and flavour profiles and/or flower appearance. Lower cost international suppliers often produce compliant, mid-grade flower which can be inconsistent from batch to batch. This often results in patient dissatisfaction.

Premium flower that meets the consumers preference is typically cultivated in highly controlled indoor facilities. It is generally more expensive due to higher start-up and running costs. However, the export demand for this premium quality year-round product is growing.

> **Cannasouth foresaw this market trend and has developed a unique facility to enable access to this high value market segment.**

Our premium product provides us with a unique selling proposition, which gives us a competitive advantage over other producers. More detail about Cannasouth's cultivation operation follows later in this report.

It is important to recognise that in New Zealand and most export markets, only cultivation operations specifically designed to meet GACP and GMP standards can produce flower that can be used as a finished product. These operations are complex and expensive to establish. As a result, there are currently only a relatively small number of cultivation operations worldwide that meet this standard. Cannasouth will be one. Most other licenced cultivators in New Zealand will not currently be able to meet this standard without significant further investment. The material they currently produce will also be limited for use as a bulk biomass for further manufacture.

Reference

[1] Freshleaf Analytics - Australian Medicinal Cannabis Market – H2 2021

CANNASOUTH'S STRATEGY

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.

To achieve this vision, our team has developed a vertically integrated business model and we are implementing a careful phased strategy to allow medicinal cannabis revenue generation as early as possible. Pharmaceutical development is a complex, multi-year process, so developing complementary non-pharma revenue opportunities is an important component of our strategy. These diverse and staged revenue streams support continued R&D programmes, product development initiatives, process optimisation, Intellectual Property (IP) creation and ultimately greater Shareholder value.

KEY ELEMENTS OF OUR STRATEGY:

ESTABLISH CAPABILITIES

FLOWER PRODUCTION

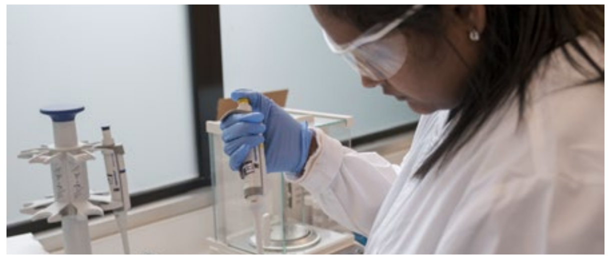
Key considerations: • Next-Generation Design • GMP Capable/Premium Product • Scalable • Efficient • USP • Competitive Production Costs • Environmental Sustainability

MANUFACTURING

Key considerations: • Diversified Capability • Pharma and Non-Pharma/Wellness • Contract Manufacturing

TECHNICAL SERVICES

Key considerations: • Develop Internal Capability and Research Collaborations • Establish External Funding • 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.

ESTABLISH DIVERSIFIED REVENUE STREAMS

SHORT TERM

- Contract Manufacturing
- Imported Medicinal Cannabis Products Sales
- Premium Flower Sales

MEDIUM TERM

- End to End Medicinal Cannabis Product Manufacture
- Commercialisation and Licencing of Generated IP

LONG TERM

- Next Generation Cannabinoid Therapeutics Sales
- Clinical Trials Leading to Licencing of Approved Medicines

> **"Cannasouth has made significant investments in these areas and we have established internal capabilities beyond that of almost all other medicinal cannabis companies in New Zealand.**

With the consolidation of the Group during 2021, commissioning of our world-class cultivation facility and generating our first revenues, Cannasouth has reached an inflection point in its development. We have begun to achieve our short-term revenue targets, while also looking ahead towards our medium and longer-term objectives. Cannasouth has moved through the capability building phase and developed a competitive, unique selling proposition that will lay the foundation for our success.

END

A CLOSER LOOK AT THE BUSINESS CAPABILITIES

TO

END

FLOWER PRODUCTION

As Cannasouth began developing its cultivation strategy, we recognised that cannabis flower would be a highly competitive, high-value, fast-growing segment worldwide.

Cannasouth chose to develop a cultivation facility that could meet the demands of the premium quality flower segment. The flower we will produce can be used as a finished patient product because it will meet the highest global GMP standards. Our cultivation facility needed to incorporate scalability, operational efficiency, and environmental sustainability, as well as give us a unique selling proposition – leveraging the New Zealand story and our product's provenance.

With this in mind, Cannasouth opted not to pursue indoor growing with its high production costs and heavy environmental footprint. We also ruled out vented greenhouses because of the difficulty maintaining year-round quality and biosecurity. Instead, we chose to grow our medicinal cannabis in cutting-edge Controlled Environment Agriculture (CEA) sealed greenhouses.

This approach takes the precise climate and biosecurity control features of an indoor environment but introduces sunlight as the primary light source. This design, combined with purpose-built GMP post-harvest processing equipment and pharmaceutical clean rooms, enables us to produce premium quality product in finished dosage form all year-round.

Our cutting-edge facility is complex to design and construct. Unlike indoor facilities, seasonal variations with solar gain must be factored into our facility's environmental control equipment. The initial capital expenditure is similar to an indoor facility but has the advantage of being scalable without interrupting existing operations.

Our use of rainwater harvesting, solar energy and energy efficient lighting along with our commitment to reducing our environmental impact means we have an authentic 'made in clean, green New Zealand' story to tell.

KEY FEATURES OF THE FACILITY:

Scalability

The facility operates two sealed flowering greenhouses with indoor cultivation areas to house mother plants and juvenile vegetative plants. The indoor cultivation and the post-harvest, trim, dry and pack areas are designed to support a total of eight flowering greenhouses. Additional greenhouses can be added once market demand ramps up.

Energy Efficiency – Environmental Impact – Production Costs

Investments in energy-saving technologies during the construction will significantly reduce running costs, which translates into a lower finished product cost. This approach will also appeal to customers who are looking to partner with companies that have taken steps to reduce their environmental footprint.

Sunlight is the primary light source in the flowering greenhouses, so energy costs are significantly less than indoor cultivation facilities. Because sunlight levels vary throughout the year, we use supplementary lighting to ensure the same level of quality and yield is produced year-round. These lights produce heat, which the insulated greenhouses hold onto when temperatures are colder.

Cannasouth has invested in energy efficient LED lighting throughout all growing areas. We can manage energy loads to use off-peak power demand and take pressure off the power grid. Solar power capability can be added if we scale up the facility.

Our facility harvests rainwater and processes this to a potable water quality using advanced water filtration and sterilisation technologies to reduce reliance on municipal utilities water supply.

In traditional greenhouses, heating uses large amounts of energy, which inflates running costs. Cannasouth's facility uses highly insulated materials to capture and retain heat meaning we can significantly reduce heating costs during cooler periods.

Precise Climate Control

The facility is fully sealed and is climate-controlled via advanced, custom-built HVAC and humidification/dehumidification systems with pressure differentials throughout. The system is also controlled by a cutting-edge Building Management System (BMS), driven off a recognised and well supported hardware platform which enables each growing area to be individually climate controlled. Any air introduced into the facility is filtered and UV sterilised before being conditioned and delivered to the growing spaces. To maximise the potential of our controlled environment and carefully selected genetics we elected to included CO_2 enrichment in our design. By providing higher levels of CO_2 we aim to stimulate our plant growth gaining a competitive advantage.

Pharmaceutical Quality Built In

To produce cannabis flower to finished product standard (or finished dosage form), we need to comply with strict regulatory and quality requirements. Accessing the most highly regulated markets usually requires the flower to be grown to GACP standards and the post-harvest processes to be conducted to GMP levels. With this underpinning everything we do we have purposefully designed our facilities and cultivation workflows to suit.

We have developed post-harvest areas for the trim, dry and packing of the finished product to adhere to GMP, which helps control the products' consistency and quality. The post-harvest clean rooms employ customised HVAC climate control and air pressure differentials.

Our entire cultivation process is overlaid with a quality management system that tracks every step, from cultivation to finished product.

"

Very few licenced cultivators in New Zealand will be able to produce flower to a GMP standard without a significant upgrade of their facilities.

Quality of the Finished Product

Cannasouth's cultivation facility is designed to produce the highest quality of flower. By taking the best climate control characteristics of indoor growing and tapping into the high UV levels of the New Zealand sun, we can enhance cannabinoid and terpene profiles compared to those achieved by artificial lighting. We are also continually improving our cultivation processes by using the detailed data captured throughout the growing cycle to tune the precise parameter controls in the facility.

WHAT'S NEXT:

Our cultivation facility is fully operational and commercial cultivation has begun.

Obtaining Good Agricultural and Collection Practice (GACP) and Good Manufacturing Practice (GMP) is not required to grow and sell medicinal cannabis flower as a bulk starting material. Even so, gaining GACP and GMP accreditations for our cultivation operations is important; it will enable Cannasouth to secure the highest selling price for our products and give us access to the most regulated overseas markets.

The flower we produce will be suitable as a finished patient product by international standards and will give us the option of having it assessed as a finished flower product for New Zealand patients. GACP and GMP audits are scheduled to commence in H1 2022.

We will consider scaling up our cultivation facility once the offtake agreements currently under negotiation are finalised and exports are underway.

The location of our cultivation site also gives us the opportunity to grow outdoors and produce lower-quality biomass flower suitable for extraction and further manufacturing.

END TO END

Research Overview

A video update can be found here:
https://www.youtube.com/watch?v=ZIpkE2lDoF8

FINISHED PRODUCT MANUFACTURE

Our manufacturing facility in the Hawke's Bay (Midwest Pharmaceutics) is one of New Zealand's leading contract manufacturers of liquid-based health products. With GMP certification for repacking of medicines, the business provides Cannasouth with additional income from non-cannabinoid revenue generated from pharmaceutical repacking, ingredient supply, and contract manufacturing services. This diversification of income provides Cannasouth with good opportunities for growth and we will continue to pursue them in addition to manufacturing cannabis-based finished product and active ingredients.

As a manufacturer of supplements and other wellness products, Midwest positions Cannasouth well for any possible future regulatory changes which may allow cannabinoids such as CBD to be sold locally or exported as supplements or nutraceuticals.

KEY OFFERINGS CURRENTLY:

Contract Supplement Manufacture

Our manufacturing facility in the Hawke's Bay is currently accredited for GMP for the Packing of Medicines and our cultivation facility has GACP and GMP audits scheduled to commence in H1 2022.

SUPPORT SERVICES

Cannasouth has established support services for the Group which includes research and development, sales and marketing, quality and regulatory, and shared services. These capabilities have been developed to support in-house business activities and support commercial customers who are seeking a turn-key solution.

Cannasouth has established an advanced in-house R&D and technical services department equipped with industry leading cannabinoid isolation capabilities and advanced testing equipment. We have multiple Government funded research programmes underway designed to produce the next generation of cannabinoid medicines and technologies and valuable Intellectual Property (IP) in the coming years.

We are confident we have the most advanced in-house research and development technology for cannabis-based products of any competitor in New Zealand.

During 2021 Cannasouth also added critical qPCR testing capabilities which enables fast in-process testing for early detection of plant pathogens.

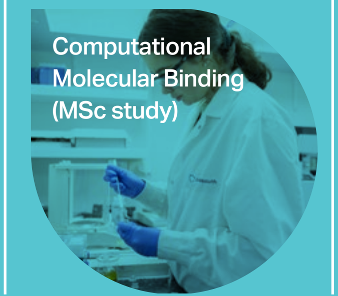
Cannasouth has established multiple external university collaborations for key research initiatives, but we have purposely kept key, sensitive, product and intellectual property development programmes in-house.

Finished medicinal cannabis products on the market are predominately basic mixtures of THC and CBD contained in an excipient, such as MCT oil. Products are generally registered with no clinical claims or efficacy data. It is vital that companies operating in the sector develop defendable IP and move beyond these generic products as quickly as possible. Cannasouth is working to this end.

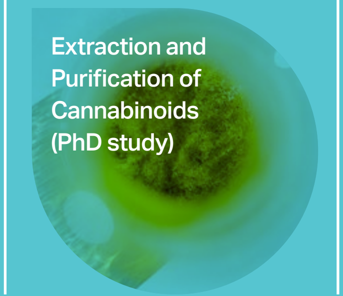
Drug development from cannabis offers one of the greatest opportunities to improve and expand the offering of the pharmaceutical market. It has the potential to generate new technology, medicine formulations, combinations, devices, clinical protocols and data, which could all potentially lead to a new generation of IP. Cannasouth is leading the way and has a targeted research and development programme established, supported by grants from Callaghan Innovation. We are working in the following areas:

RESEARCH AND DEVELOPMENT PROGRAMME

Identify potential molecules of interest



Extraction of Molecules



Pre-clinical studies, proof of concept for efficacy

Improving bioavailability

CANNASOUTH'S PEOPLE

OUR GREATEST ASSET

Cannasouth's people are its greatest assets. We have spent the last three years assembling a team of the highest calibre with skills and expertise in corporate governance, finance, research and development, formulation, project management, cultivation, manufacturing, quality, and regulatory compliance. Our team has more than 250 years of combined GMP and pharmaceutical experience.

We are confident we have the most well-equipped team in New Zealand of any vertically integrated medicinal cannabis operation. Together, we are proud to be developing pharmaceutical quality medicinal cannabis finished products and ingredients, and genuine differentiated products and defendable intellectual property.

During 2021 the Company added three highly experienced members to the team.

TONY CLARK

Operations Manager

With over 20 years of operations experience in engineering, manufacturing, aviation and pharmaceutical industries, Tony Clark is uniquely qualified to lead and grow Cannasouth's medicinal cannabis cultivation business.

As Cannasouth Cultivation Limited's Operations Manager, Tony manages our state-of-the-art controlled environment agriculture (CEA) sealed greenhouse and headhouse facility in the Waikato.

It's his job to ensure the facility produces premium pharmaceutical quality biomass at a highly competitive production cost. More than that, the facility must be energy efficient and environmentally sustainable.

> **"As Operations Manager, my job is to examine every point and ask a series of questions: Is that action reliably repeatable? If not, why not? How can we build in consistency and take out human error? How can we measure, mark and record the results so we know we're improving? And if we make an improvement here, is there a quality trade-off over there?**

"I've come from highly regulated industries that demanded the highest levels of compliance," says Tony. "I know what it means to create a lean operation that is agile enough to accommodate new demands, and one that is process-driven to get the maximum amount of quality and production out of its people and its facilities.

"It's a complicated process. But at the end of the day, the more we control and regulate the inputs, the more consistent and reliable the outputs will be. My job description might not be everyone's cup of tea, but I've been thriving in that space for decades now. I know how to continually improve and calibrate production processes to get the best result."

Because New Zealand's Medicinal Cannabis industry is in its infancy, the Government is understandably conservative in its regulatory approach. Its primary objective is to protect the health of people who look to medicinal cannabis for relief. The result is a hyper-regulated environment covering every aspect of medicinal cannabis production.

> **While most start-up operations will stumble under the regulatory weight, Cannasouth is well-placed to succeed because of the skills and expertise of our people in this highly controlled space. In the cultivation domain, that expertise lies with Tony Clark.**

"I've seen the expansion of governance across multiple industries and I understand how the red tape comes to be," he says. "Regulations are written by committees. They have good intent, but it's often difficult to clarify what those intentions are. Everything gets wordy but lacks granular in detail.

"With cannabis cultivation, working through the requirements demands a high level of discipline. But if you have a good understanding of the rationale and intentions of the regulations, you find there is room to navigate ways through. That's part of what I do at Cannasouth."

Another key skill that Tony possesses is his ability to continually improve processes. Improvement is measured against a series of objectives. Compliance is one. Cost-effectiveness is another. Efficiency, sustainability, consistency of cultivation output. The list is long.

"The key to hitting a range of process objectives is looking at things from two perspectives. The big picture of what we're doing and why we're doing it. And the zoomed in, microscopic view of each phase of every process. I'm charged with having high-resolution clarity of both.

"At a higher level, I'm constantly looking for the next innovation. In my experience, the only way I can find that innovation is by spending time in the process. I am hands-on at every level so that I can experience the process as my team does. I want to know where the hard-stop boundaries are. Where is there room to play, while still staying within regulations?"

Tony does his creative thinking at the end of each day after everyone has left. He makes a mind map of what he's seen, and considers how he could explore it and how much further he can take an idea before bringing it to the senior management team for assessment.

At the granular level, Tony takes an 'igloo' approach.

"We know an igloo is not made of a single block of ice. That notion rings true here at Cannasouth. Every process in our cultivation business is made up of smaller processes. And sometimes there are processes within those processes.

"That's the key to getting better. Dozens of incremental wins, every week."

It's clear from Tony's previous successes that he is hard-wired for creating Lean Manufacturing processes. At Cannasouth, his pursuit of quality at least-cost production is driven by his desire to make a difference to people's lives.

"Cannasouth's priority is to improve patient access to medicinal grade cannabis products that can improve their quality of life. By running an efficient and sustainable cultivation business, my team and I can help make that a reality.

"Eliminating waste out of every process is key. Everything we do has to add value. If what we're doing or how we're doing it is wasting time or materials or other resources, that has to change. That's why my crew has stand up meetings every morning, to understand our targets for the day and to make that day as lean as possible."

Tony's commitment to waste elimination is also driven by his desire to protect the environment.

"I have a passion for the environment. I hunt and fish and trek in it, so I know what I'm trying to look after. That's another reason why I'm always seeking to eliminate waste in our cultivation processes.

"And if we must create waste, can we reuse that waste? Whole plant utilisation is what we're aiming for.

"Cannasouth truly is at the forefront of an emerging industry. It's exciting to be part of it."

OUR PEOPLE

DEDEEPYA KUDARAVALLI

New Product Development Scientist

Dedeepya Kudaravalli has dedicated her entire career to the study of medicines. She examines how they work, how they are processed by the body, and the relationship between concentration and effect.

Her technical skills and expertise are vital to Cannasouth's research and development efforts. With a PhD in Pharmacy from The University of Auckland, and qualifications and experience in toxicology and pharmacology, Dedeepya is eminently qualified to develop innovative medicinal cannabis products.

"At Cannasouth, my job is to use state-of-the-art technologies to develop new medicinal cannabis products. It is a molecule-to-market role, something I am very familiar with in previous work," she says.

"In one sense, starting with a cannabis molecule is like starting with any other. But what attracted me to Cannasouth was the curing capacity of cannabinoids. Their potential for treating a range of health issues is so much greater. I want to be part of the team unlocking that potential. I'm committed to discovering what this plant can do for human health."

New Zealand's medicinal cannabis industry is still in its infancy and the cannabinoid products on offer reflect its early developmental stage. Many are oil-based products that are taken orally. Dedeepya sees both the limitations of these products, and the opportunity that exists to create cannabis products that are more effective and patient-friendly.

"Due to the insoluble nature of cannabinoids, most of the products currently available on the market are oil-based which are not ideal (not great tasting and convenient) to take orally. Additionally, when taken orally, cannabinoids are broken down by the liver before being absorbed by the body and they have high protein-binding capacity which makes them harder for the body to absorb. Most of the beneficial elements are eliminated before the body can effectively utilise them. This creates a bioavailability problem.

"My job is to solve that problem. I start with cannabinoid molecules. Then I engineer them to create products with enhanced bioavailability. I'm also tasked with designing better delivery systems by which the key cannabis ingredients can be received by the body, such as nasal, topical and other delivery routes."

By enhancing the bioavailability of the active ingredients in cannabis, Dedeepya enables Cannasouth to offer smaller product doses to achieve greater medicinal effect. This reduces the cost to the customer, which supports Cannasouth's strategy of improving patient access to medicinal grade cannabis products.

Dedeepya may be a PhD scientist, but the needs of the market are always top of mind in her research and development work.

"Before I begin to explore molecular possibilities, we conduct a full marketing and technical evaluation to build a target product profile to aim for. These market parameters shape how I apply the science and use the technologies at my disposal.

> **"Even within that commercial framework, there is room for scientific creativity. I need that space if I'm to find and unlock the full potential of the cannabis plant to create new formulations."**

Once Dedeepya has identified a product concept, she works with the wider team to generate all the necessary technical data required to register the product with the relevant regulatory authorities.

Dedeepya understands that her work is part of a bigger medicinal cannabis puzzle.

"Producing the highest quality medicinal cannabis products involves a large team of experts with wide-ranging skills and expertise. There are clinical trials to be done, degradation tests to perform, moisture content analysis, and tests to ascertain the cannabinoid content and its quality. The list of quality controls is long.

"But it's all worth it because we will be delivering the most effective medicines to people that will improve their quality of life. I love that about my job."

SATISH NAND

Head of Quality

Designing a start-up Quality Management System (QMS) is a demanding task. Doing it within an industry enforcing the most stringent regulatory framework requires a unique set of skills and experience.

Satish Nand is the person for the job. As Head of Quality at Cannasouth, he makes sure that every product meets the regulatory and quality requirements of all Cannasouth's diverse markets. It's a detailed and process-driven task, one that requires daily oversight to ensure adherence from every member of the Cannasouth team.

Satish brings more than 18 years of Good Manufacturing Practice (GMP) experience in regulated industries to Cannasouth. GMP describes the systems manufacturers of medicines are required to have in place to ensure their products are consistently safe, effective and of acceptable quality.

Satish's start-up experience with a leading New Zealand nutritional supplement manufacturer is what makes him uniquely qualified to lead Cannasouth's quality systems.

"The pharmaceutical environment is very strict. There is no room for error, especially for start-up companies," he says. "In my previous role I was tasked with developing and implementing a code-compliant QMS. That QMS needed to cover contract manufacturing of food, dietary supplements, complementary medicines, including the certifications for our Risk Management Programme (RMP), GMP, Organic, Halal and other certifications required by our clients."

Impressively, Satish created this system within the company's first six months of operation.

Developing end-to-end quality management is one facet of Satish's work at Cannasouth. Maintaining these systems also falls within his portfolio of responsibilities.

"Once a compliant GMP system is in place, it's about making sure every aspect of that system is followed and nothing is missed.

> **"It's also about process improvements. Every day I'm fine-tuning our operations. That means talking to our people, getting their feedback, analysing data and reports, solving problems and troubleshooting. Attention to every detail is the only way we can know our products will be of the highest quality and at the most affordable prices for our customers."**

The compliance variances that exist between world markets are challenging. Germany has different regulatory requirements from New Zealand, as does Israel. Satish has experience with these technical nuances and knows how to navigate Cannasouth through them.

"One key component of my job is assessing the viability of a market for Cannasouth. Are we able to enter the German market with our products? If not, what changes need to be made to our processes to comply and what will it cost? To answer these questions, I read through all the market requirements, the additional permits, the export licensing, and the testing requirements.

"Once I understand the export demands for a specific country, I present my findings and assessments to Cannasouth's wider executive team. I look at what regulatory requirements we already meet and what the resource cost would be to achieve the rest.

"When I get the green light from the senior team, I then set up our project team and impress on them the requirements and timelines."

Satish is impressed with the breadth of knowledge and experience within the Cannasouth team.

"The diverse career backgrounds and working knowledge of the Cannasouth team is unparalleled. Diversity of culture also plays a big part in finding perspectives that help us improve processes.

"When you combine highly qualified and knowledgeable people with state-of-the-art facilities, the result is world-class."

Statement of Corporate Governance

The Board of Cannasouth Ltd (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 10 December 2020 and discloses how the Company is applying these recommendations. The board considers that, as at 31 December 2021, 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 (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' 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 and Guidelines 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 the Chief Executive (CEO) or Chair, as appropriate, on a confidential basis. Directors and officers would raise any concerns regarding compliance with the Code of Ethics or the Code of Conduct with the Chair. The Chair of the board notes there have been no matters raised for the year ended 31 December 2021.

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 2021, the Company complied with the director rotation requirements of the Listing Rules dated 10 December 2020 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 31.

As at 31 December 2021, 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, Finance and Risk Committee (AFRC) 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 acquisition. 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 2021 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 regularily 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 2021.

		2021		2020
	Female	Male	Female	Male
Directors	2	2	0	3
Officers	1	6	2	5
Total	**3**	**8**	**2**	**8**

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, Finance and Risk Committee (AFRC) 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, Finance and Risk Committee (AFRC)

The AFRC 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 AFRC's responsibilities include the audit functions, processes and policy for assessing financial matters, general compliance of financial reports with laws and regulations and the risk management framework. At this stage of Cannasouth's development, substantiative risk will be managed by the board as a whole, rather than at committee level.

The AFRC has a clear line of communication with the independent external auditors and the finance team. The AFRC will meet at least two times per year and will meet at least annually with the auditor without management present. In the financial year ended 31 December 2021, the AFRC held three meetings.

The AFRC must have a minimum of three members and the majority of whom must be independent directors. The Chair of the AFRC may not be the Chair of the board. At least one member of the AFRC must have an accounting or financial background and, as a group, the AFRC must be structured to have the skills, experience, and knowledge to fulfil its purpose and responsibilities. As at 31 December 2021 the members of the AFRC 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 AFRC. The Head of Shared Service Department acts as secretary to the AFRC 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 2021 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 AFRC assists the board in fulfilling its responsibilities relating to the Group's management systems, accounting and reporting, external and internal audit and risk management activities.

The AFRC monitors the Company's accounting and reporting practices, reviews the financial information reported to shareholders, oversees the work undertaken by the external auditor, and monitors Cannasouth's risk management program.

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 2021 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 nonfinancial matters in future reports.

Disclosure

The board is committed to keeping the market and its 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 way to ensure transparency in the market and equality of information 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 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 32. 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 AFRC is paid a fee of $5,000 per annum.

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 2021 $1,216 (2020: $nil). Three 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 2021 with a recommendation made to the Board for approval. Information on the remuneration of the CEO and officers is set out on page 32. As at 31 December 2021, the CEO's remuneration consists of a base salary of $260,000 per annum, plus 3% employer Kiwisaver contributions, with no performance-based remuneration.

PRINCIPLE 6
RISK MANAGEMENT

The AFRC has been delegated oversight for risk management by the board. The AFRC's responsibilities are set out in the Audit, Finance and Risk Committee Charter. 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. At this stage of Cannasouth's development, substantiative risk will be managed by the board as a whole, rather than at committee level. The Company is at an early stage of developing its framework to identify and manage existing and new risks. During the 2021 year we commenced the development of a Regulatory & Compliance Management System (RCMS).

There were no material issues reported in the 2021 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 2021 year.

Cannasouth Objective	2021
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 (6 incidents were reported)

PRINCIPLE 7
AUDITORS

Oversight of the Company's external audit arrangements is the responsibility of the AFRC. The AFRC's functions in relation to the auditors are set out in the Audit, Finance and Risk 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 AFRC to ensure there is no actual or perceived threat to the independence of the auditor in accordance with the Audit, Finance and Risk Committee Charter. No additional non-audit services were provided by the external auditor in the 2021 financial year.

External audit services are provided by Deloitte. 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. Deloitte has been the Company's external auditor since 2018 and will attend the annual shareholders meeting in 2022.

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 , the Website, shareholder roadshows, annual reports and annual meetings of shareholders. In lieu of a Shareholder Roadshow in 2021, not possible due to the Covid-19 environment, Cannasouth produced a number of written and video communications about the medicinal cannabis industry and Cannasouth's activities. These include an Industry Update (3 June 2021), Cultivation Facility Commissioning Completed Video (30 November 2021), and Research Update Video (7 December 2021). The Company also provides options 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.

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 2022

	Number of security holders		Number of securities	
Ordinary Shares	Number of Holders	%	Shares held	%
1 - 1,000	733	20.17	417,553	0.30
1,001 - 5,000	1,402	38.58	4,002,218	2.92
5,001 - 10,000	578	15.91	4,599,406	3.35
10,001 - 50,000	725	19.95	17,015,098	12.40
50,001 - 100,000	111	3.05	8,180,755	5.96
Greater than 100,000	85	2.34	103,021,999	75.07
Total	3,634	100.00	137,237,029	100.00

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 2021. The total number of quoted ordinary shares of the Company at that date was 137,237,029.

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	25,651,290 ordinary shares

Directors

During the 12 Months ended 31 December 2021

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
Conor English	19/10/2018	28/06/2021	Independent, Non-executive

20 Largest Registered Holders of Quoted Equity Securities

As at 31 December 2021

	Number of ordinary shares	Percentage of ordinary shares
Mark John Lucas	28,029,435	20.42
Nicholas Jon Foreman	24,651,290	17.96
New Zealand Depository Nominee	16,549,443	12.06
FNZ Custodians Limited	6,054,425	4.41
Greenmeadows Health Limited	2,200,000	1.60
Custodial Services Limited	1,908,583	1.39
Tokomaru Horticulture Industries Limited	1,384,616	1.01
Jason Stewart Craig & Vicki Leanne Craig	1,319,545	0.96
Anthony Ho & Chui Ho	925,000	0.67
Wo Zhou Yang	905,674	0.66
Mark Balchin & Greenmeadows Health Limited	886,406	0.65
Heather Anne Burgess	693,000	0.50
All Green Limited	620,000	0.45
Kim Tea Chuor & Helen Ngac Huor Chuor	600,000	0.44
Gang Cheng	528,000	0.38
Yang Lin & Yiqing Liu	520,000	0.38
Bjeah One Holding Limited	500,000	0.36
FNZ Custodians Limited	478,414	0.35
Da Wei Chu Su	467,500	0.34
Hui Wen Yang	447,600	0.33
Total	89,668,931	65.34%

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 2021 is:

	Base Director Fee $	Chairman Fee $	Committee Chair Fee $	Total Paid $
Mark Lucas [(1)]	-	-	-	-
Anthony Ho	50,004	30,000	-	80,004
Juliet Hull [(2)]	45,833	-	-	45,833
Christine Pears [(3)]	25,000	-	2,500	27,500
Conor English [(4)]	25,000	-	2,500	27,500
Total	145,837	30,000	5,000	180,837

(1) Refer to CEO remuneration
(2) Ms Hull was appointed 9 February 2021
(3) Mrs Pears was appointed 28 June 2021
(4) Mr English resigned on 28 June 2021

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.

	Base Salary $	Employer Kiwisaver Contribution $	Total Paid $
Mark Lucas	239,739	7,192	246,931

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)	Chairman
	Greenland Minerals A/S	Chairman
	Bioxyne Ltd (ASX: BXN)	Chairman
	New Zealand Nutritional Research Institute Ltd	Director
	Global Treasure New Zealand Ltd	Director
	Bioxyne International (NZ) Ltd	Chairman
	Truscreen Group Ltd (NZX: TRU)	Chairman
	Truescreen Pty Ltd	Chairman
	Credit Intelligence Ltd (ASX:CI1) [(1)]	Chairman
Juliet Hull	Truscreen Group Ltd (NZX: TRU, ASX:TRU)	Director
	Juliet Hull Consultant Ltd	Director
Christine Pears	Marlborough Wine Estates Group Ltd (NZX: MWE)	Director
	YMCA North Incorporated	Director
	ESP Consulting Ltd	Director

(1) Resigned effective 18 February 2021

Entries Recorded in the Interests Register

The following entries were recorded in the interests' register of the Company for the year ended 31 December 2021.

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 2021:
As at 31 December 2021

	Ordinary Shares				Share options			
	Held directly		Held indirectly		Held directly		Held indirectly	
	2021	2020	2021	2020	2021	2020	2021	2020
Mark Lucas	28,029,435	28,029,435	-	-	-	-	-	-
Anthony Ho	925,000 [(1)]	620,000	75,000 [(2)]	-	335,000	250,000	-	-
Juliet Hull	5,000 [(3)]	-	-	-	251,667	-	-	-
Christine Pears	75,000 [(4)]	-	-	-	275,000	-	-	-

(1) Held by Anthony Ho & Chui Ho
(2) Held by New Zealand Central Securities Depository Limited (NZCSD)
(3) Held by Juliet Hull & Andrew Hull
(4) Held by Pears Family Trust

The following table details director dealings in Cannasouth Ltd shares during the year:

	Transaction	Date	Number	Total consideration $
Anthony Ho	Purchase [(1)]	between 3 and 8 March 2021	50,000	25,500
	Purchase [(1), (5)]	6 August 2021	255,000	102,000
	Purchase [(2)]	2 December 2021	75,000	28,500
Juliet Hull	Purchase [(3), (5)]	6 August 2021	5,000	2,000
Christine Pears	Purchase [(4), (5)]	6 August 2021	75,000	30,000

(1) Acquired by Anthony Ho & Chui Ho
(2) Acquired by New Zealand Central Securities Depository Limited (NZCSD)
(3) Acquired by Juliet Hull & Andrew Hull
(4) Acquired by Pears Family Trust
(5) Acquired pursuant to the terms of the Cannasouth's Captial Raise Offer, issued 6 August 2021

c) Loans to Directors

There were no loans to Directors during the year ended 31 December 2021.

Meeting Attendance

	Meetings Attended
Mark Lucas	8
Anthony Ho	8
Juliet Hull	8
Christine Pears (1)	5
Conor English (2)	3
Board Meetings Held During The Year	8

(1) Mrs Pears attended all board meetings following her appointment , effective 28 June 2021
(2) Mr English attended all board meetings before his resignation, effective 28 June 2021

Remuneration of Employees

During the year to 31 December 2021 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 the capacity as an employee e.g. employee share scheme benefits.

Remuneration Band	Number of Employees	
	2021	2020
100,000 to 109,999	2	1
120,000 to 129,999	2	-
130,000 to 139,999	1	2
140,000 to 149,999	1	-
170,000 to 179,999	-	2
180,000 to 189,999	2	-
200,000 to 209,999	1	-
240,000 to 249,999	1	-
	10	5

Auditor

The auditor for the Group is Deloitte. For the 2021 financial year Bruno Dente was the external audit partner for the Group. Auditor's remuneration is disclosed in Note 8 to the financial statements.

Donations

There was a $1,000 donation made during the period (last year: $0).

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 2021.

Index to the Financial Statements

Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	31 Dec 2021 $	31 Dec 2020 $
Continuing operations			
Revenue and other income	7	1,301,800	131,140
Cost of sales		(835,494)	-
Gross profit		**466,306**	**131,140**
Interest income	9	46,704	178,237
Research and development expenses		(870,326)	(721,235)
Administrative expenses		(3,211,109)	(2,765,283)
Share of net loss of joint ventures accounted for using the equity method	16	(685,569)	(274,303)
Remeasurement gain on purchase of joint ventures	16	1,459,551	-
Loss before finance costs		**(2,794,443)**	**(3,451,444)**
Finance costs	9	(79,666)	(29,210)
Loss before tax from continuing operations		**(2,874,109)**	**(3,480,654)**
Income tax (expense) / benefit	10	-	-
Loss after tax from continuing operations		**(2,874,109)**	**(3,480,654)**
Other comprehensive income		-	-
Total comprehensive gain / (loss)		**(2,874,109)**	**(3,480,654)**
Total comprehensive loss is attributable to:			
Owners of Cannasouth Ltd		(2,874,109)	(3,480,654)
Non-controlling interests		-	-
Profit / (Loss) per share (cents per share)			
Basic	22	(2.25)	(3.00)
Diluted	22	(2.25)	(3.00)
Weighted average number of ordinary shares issued			
Basic	22	127,518,857	116,101,513
Diluted	22	127,518,857	116,101,513

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

Consolidated Statement of Financial Position
As at 31 December 2021

	Notes	31 Dec 2021 $	31 Dec 2020 $
Cash and cash equivalents		5,515,247	9,151,233
Trade and other receivables	11	321,060	65,716
Tax refunds due		49,037	44,234
Other assets	12	350,967	200,539
Total current assets		**6,236,311**	**9,461,722**
Property, plant and equipment	13	10,762,939	728,711
Right of use assets	14	2,614,680	132,046
Investments	16	-	1,964,644
Loans to related parties	25	-	2,264,104
Goodwill	20	2,626,974	-
Other intangible assets	15	1,153,112	11,892
Deferred tax	10	107,587	-
Total non-current assets		**17,265,292**	**5,101,397**
Total assets		**23,501,603**	**14,563,119**
Trade and other payables	17	865,044	336,182
Lease liabilities	14	278,853	31,175
Borrowings	18	500,000	-
Loans from related parties	25	73,000	-
Total current liabilities		**1,716,897**	**367,357**
Borrowings	18	2,225,000	-
Loans from related parties	25	73,000	-
Lease liabilities	14	2,423,832	121,217
Total non-current liabilities		**4,721,832**	**121,217**
Total liabilities		**6,438,729**	**488,574**
Net assets		**17,062,874**	**14,074,545**
Share capital	21	25,890,948	20,066,346
Accumulated deficit		(8,919,954)	(6,053,547)
Share-based payment reserve	27	91,879	61,746
Capital and reserves attributable to owners of Cannasouth Ltd		**17,062,874**	**14,074,545**
Total equity		**17,062,874**	**14,074,545**

Tony Ho
Chairman of Directors
31 March 2022

Mark Lucas
CEO / Director
31 March 2022

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2021

	Note	Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
		$		$	
Balance as at 1 January 2021		20,066,346	61,746	(6,053,547)	14,074,545
Shares issued	**21**	6,160,974	-	-	6,160,974
Capital raising costs	**21**	(336,373)	-	-	(336,373)
Profit / (Loss) for the year		-	-	(2,874,109)	(2,874,109)
Total comprehensive income		-	-	(2,874,109)	(2,874,109)
Increase / (Decrease) in reserves	**27**	-	30,133	7,702	37,835
Balance as at 31 December 2021		**25,890,948**	**91,879**	**(8,919,954)**	**17,062,873**

	Note	Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
Balance as at 1 January 2020		14,149,297	32,659	(2,585,273)	11,596,683
Shares issued	**21**	6,279,430	-	-	6,279,430
Capital raising costs	**21**	(362,381)	-	-	(362,381)
Profit / (Loss) for the year		-	-	(3,480,654)	(3,480,654)
Total comprehensive income		-	-	(3,480,654)	(3,480,654)
Increase / (Decrease) in reserves	**27**	-	29,087	12,380	41,467
Balance as at 31 December 2020		**20,066,346**	**61,746**	**(6,053,547)**	**14,074,545**

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2021

	Notes	31 Dec 2021 $	31 Dec 2020 $
Operating activities			
Cash was provided from:			
Interest received		126,087	121,960
Receipts from customers		1,314,790	161,289
Taxation refund		16,029	-
GST		95,027	-
Cash was disbursed to:			
Payments to suppliers and employees		(4,613,030)	(3,142,560)
Interest paid		(79,666)	(29,210)
Taxation paid		(1,133)	(28,188)
GST		-	(12,223)
Net cash flows used in operating activities	**23**	(3,141,896)	(2,928,932)
Investing activities			
Cash was provided from:			
Sale of property, plant and equipment		9,113	-
Acquisition of subsidiaries (net)		76,284	-
Cash was applied to:			
Purchase of property, plant and equipment		(299,207)	(86,423)
Loans to related parties (up to acquisition date)		(4,560,000)	(2,204,104)
Net cash flows used in investing activities		(4,773,810)	(2,290,527)
Financing activities			
Cash was provided from:			
Proceeds from capital raising		4,728,744	6,279,430
Cash was applied to:			
Payment of lease liabilities		(112,651)	(26,073)
Capital raising costs		(336,373)	(362,381)
Net cash flows from financing activities		4,279,720	5,890,976
Net increase / (decrease) in cash flows		**(3,635,986)**	**671,517**
Opening cash and cash equivalents		9,151,233	8,479,716
Cash and cash equivalents at the end of the year		**5,515,247**	**9,151,233**

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2021

Notes to the Consolidated Financial Statements
For the year ended 31 December 2021

1 Reporting entity

Cannasouth Ltd ("the Company") is a company registered and domiciled in New Zealand and listed on the NZX. The address of the Company's registered office is c/- Braithwaite and Pearks Ltd, Level 1, 240 Victoria Street, Hamilton, 3256. The Company together with its subsidiaries, Cannasouth Bioscience Ltd, Cannasouth Cultivation Ltd and Midwest Pharmaceutics NZ Ltd (the '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. The Group's goal is to support patients' health outcomes and improve their quality of life. Products will be produced under GACP/GMP, using environmentally friendly methods, ensuring 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 31 March 2022.

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), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements for the Group have also been prepared in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. Cannasouth 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.

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

d) Use of 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.

Significant accounting policies
Significant accounting policies have been disclosed alongside their related note in the financial statements.

3 Changes in accounting policies and disclosures

Accounting policies have been applied on a consistent basis throughout the period.

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.

4 Critical accounting estimates and judgments

In the application of the Group's accounting policies, the Board of Directors are required to make judgments that affect the amounts recognised in the financial statements. The judgments are based on historical experience and other factors that are considered to be relevant. The judgments are reviewed on an ongoing basis.

The following are the critical 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 6)
- Accounting for business acquisitions and underlying fair value assessments (Note 20)

5 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Board which is the chief operating decision maker.

The Group operates in one segment: The biopharmaceutics market i.e., the production and supply (including research and development) of biopharmaceuticals, specialising in cannabinoid medicines; with areas of operation being New Zealand.

6 Going concern

The Group is considered a start-up entity and the industry in which the Group undertakes its business is in its infancy. During the period, the focus of the Group was on establishing a supply chain for medicinal cannabis. As a result of this focus, the Group has made a net loss for the period of $2,874,109 (2020: $3,480,654).

The financial statements have been prepared on a going concern basis which assumes that the Group will have sufficient cash 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 valid, 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.

The release of the Medicinal Cannabis Regulations in December 2019, and subsequent launch on 1 April 2020 are significant milestones as they provided guidance on the way ahead for the New Zealand medicinal cannabis industry. In addition, the 2020 cannabis referendum consolidated the industry's focus solely on medicinal cannabis. During the financial year, the Group made substantial progress on implementing its strategy to be an integrated "seed to sale" medicinal cannabis business by acquiring its two joint ventures (Cannasouth Cultivation Ltd and Midwest Pharmaceutics NZ Ltd).

For the financial year ending 31 December 2022, the Group will continue in its investment and establishment of its core business. As at 31 December 2021, the Group has cash of $5.5 million and debt of $2.7 million. This cash is sufficient to fund the planned operations for the 2022 year. In the 2022 year a further capital raise and/or a debt facility is planned to strengthen the balance sheet.

Business Development Activities
The Group intends to raise further funding (debt or equity) to continue to implement its 'seed-to-sale' strategy. The Group will seek $3 million of additional funding (debt or equity) in 2022 to strengthen its balance sheet through the period where first crops of medicinal cannabis are grown and sold. There are uncertainties around timing of these activities.

Cannasouth Cultivation Ltd - construction of the cultivation facility is complete, and it is commissioned and operational. Next steps include finalising sales contracts, harvesting our first crop, and GACP/GMP accreditation in 2022.

Midwest Pharmaceutics NZ Ltd - the contract manufacturing operations encompassing existing non-cannabis production is fully operational while we develop the cannabinoid processing capability for finished products. Next steps are to complete the cannabinoid processing upgrade for finished product manufacture in 2022.

Cannasouth Bioscience Ltd - all required support services including sales & marketing, regulatory & quality, project management, finance and HR, research & development etc. are all established and operational.

The Board plans to mitigate the material uncertainty around going concern first and foremost by undertaking a capital raise and/or establishing a debt facility. This is currently being investigated and is expected to occur in Q3 2022. Cannasouth has a history of successful capital raising and believes it will continue to do so. This capital raise will likely be smaller than previous capital raises, and the Board believes it will be successful.

In the event that the Group is not able to raise sufficient additional funding to strengthen the balance sheet a material uncertainty would exist that may cast 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 any adjustments relating to the classification and recoverability of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

7 Revenue

	31 Dec 2021 $	31 Dec 2020 $
Sales of goods	327,207	-
Sales of services	768,821	-
Other income	205,772	131,140
	1,301,800	**131,140**

Recognition and measurement
The Group recognises revenue from the following major sources:
• Government grants
• Sales of goods
• Sales of related services

Government grants: Where grants are directly receivable for costs incurred, they will be shown on an accruals basis as "other income" in the Statement of Financial Performance 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 has 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 in 2021 was $122,732 (2020: $121,450).

Sales of goods: The Group sells biopharmaceuticals, including pharmaceutical raw materials. Revenue is recognised when control of the goods has transferred, which is when the goods have been shipped to the customer.

Cannasouth Limited Group

Sales of related services: The Group sells contract manufacturing and packing services for biopharmaceutical products. Revenue is recognised when performance obligations have been satisfied and the entity has earned the right to consideration for the services.

Major customers: The Group has a major customer, Harker Herbal Products Ltd, which represents a significant portion of the contract manufacturing and packing services at Midwest Pharmaceutics NZ Ltd.

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:

	Note	31 Dec 2021 $	31 Dec 2020 $
Salaries & wages	i	2,735,647	1,544,803
Contributions to defined contribution funds (Kiwisaver)		72,901	55,898
		2,808,548	**1,600,701**

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

		31 Dec 2021	31 Dec 2020
Depreciation - property, plant and equipment		279,236	183,304
Depreciation - right of use assets		130,944	35,010
Amortisation - software		2,738	3,505
Fees to auditors:			
Audit of the financial statements		95,000	60,000
Other services - read of half year financial statements		1,500	-

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 2021 $	31 Dec 2020 $
Interest income	46,704	178,237
Interest expense	(79,666)	(29,210)

There was $nil borrowing costs capitalised during the period (2020: $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.

During the year we commenced a process to determine the business commencement dates for Group entities for tax purposes. This process is not complete as at balance date. A provisional estimate of the value of the deferred tax asset for the Group as at 31 December 2021 is an uplift of $2.9 million. This is not included in these financial statements.

a) Income tax expense / (benefit)	31 Dec 2021 $	31 Dec 2020 $
Current tax	-	-
Deferred tax	-	-
	-	-

b) Numerical reconciliation of income tax expense to prima facia tax payable		
Profit (Loss) before income tax expense from continuing operations	(2,874,109)	(3,480,654)
Tax at the New Zealand tax rate of 28%	(804,750)	(974,583)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	18,707	974,583
Non-assessable income	(216,715)	-
Unrecognised temporary differences	(4,966)	-
Unrecognised tax losses	1,007,724	-
Income tax expense / (benefit)	-	-

c) Deferred tax

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:

	31 Dec 2021 $	31 Dec 2020 $
Opening balance	-	-
Acquisition of subsidiaries	107,587	-
Closing Balance	107,587	-

11 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 always 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 2021 $	31 Dec 2020 $
Trade receivables and related party receivables	243,752	30,066
Contracted asset	16,128	-
GST receivables	61,179	35,650
	321,060	65,716

12 Other assets

	31 Dec 2021 $	31 Dec 2020 $
Interest income accrued	-	79,381
Inventory	169,786	-
Prepayments	126,751	53,684
Grant income accrued	54,429	67,474
	350,967	**200,539**

13 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:

Carrying amounts of:	Depreciation Rates	31 Dec 2021 $	31 Dec 2020 $
Buildings	5-25%	4,124,156	125,003
Fixtures & fittings	10-25%	878,603	53,332
Motor vehicles	30%	66,675	-
Office equipment	50%	130,080	38,449
Plant & equipment	13-40%	4,178,695	494,931
Work in progress		1,384,730	16,996
		10,762,939	**728,711**

2021	Buildings	Fixtures & Fittings	Motor Vehicles	Office Equipment	Plant & Equipment	Work in Progress	Total
Cost	$	$	$	$	$	$	$
Opening balance	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)
Balance at 31 Dec 2021	**4,182,867**	**934,513**	**72,317**	**213,889**	**4,596,340**	**1,384,730**	**11,384,656**
Accumulated depreciation							
Opening balance	26,946	12,547	-	50,094	254,467	-	344,054
Depreciation	31,765	43,480	5,642	34,163	163,925	-	278,975
Eliminated on disposal of assets	-	(117)	-	(448)	(747)	-	(1,312)
Balance at 31 Dec 2021	**58,711**	**55,910**	**5,642**	**83,809**	**417,645**	**-**	**621,717**
Carrying Value at 31 Dec 2021	**4,124,156**	**878,603**	**66,675**	**130,080**	**4,178,695**	**1,384,730**	**10,762,939**

2020	Buildings	Fixtures & Fittings	Motor Vehicles	Office Equipment	Plant & Equipment	Work in Progress	Total
Cost	$	$	$	$	$	$	$
Opening balance	151,949	54,374	15,652	71,682	707,241	2,510	1,003,408
Additions	-	11,505	-	16,861	52,357	16,996	97,719
Disposals	-	-	(15,652)	-	(10,200)	(2,510)	(28,362)
Balance at 31 Dec 2020	**151,949**	**65,879**	**-**	**88,543**	**749,398**	**16,996**	**1,072,765**
Accumulated depreciation							
Balance at opening	11,194	5,181	5,905	24,037	123,114	-	169,431
Depreciation	15,752	7,366	483	26,057	133,646	-	183,304
Eliminated on disposal of assets	-	-	(6,388)	-	(2,293)	-	(8,681)
Balance at 31 Dec 2020	**26,946**	**12,547**	**-**	**50,094**	**254,467**	**-**	**344,054**
Carrying Value at 31 Dec 2020	**125,003**	**53,332**	**-**	**38,449**	**494,931**	**16,996**	**728,711**

14 Leases (Group as a lessee)

NZ IFRS 16 Leases

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 Statement of Financial Position shows the following amounts related to leases of right-of-use assets:

	31 Dec 2021	31 Dec 2020
	$	$
Cost		
Opening balance	197,178	197,120
Additions	614,570	59
Acquisition of subsidiaries	1,999,009	-
Disposals	-	-
Closing balance	**2,810,756**	**197,178**
Accumulated depreciation		
Opening balance	65,132	30,122
Depreciation	130,944	35,010
Eliminated on disposal of assets	-	-
Closing balance	**196,076**	**65,132**
Carrying Value	**2,614,680**	**132,046**

	31 Dec 2021	31 Dec 2020
Lease liabilities	$	$
Opening lease liability	152,392	178,407
Lease extensions & modifications	616,947	58
Acquisition of subsidiaries	2,045,997	-
Interest expense for the year	60,900	29,210
Lease payments	(173,551)	(55,283)
Closing lease liability	**2,702,685**	**152,392**
Current	278,853	31,175
Non-current	2,423,832	121,217

The maturity of the lease payments is as follows:

	31 Dec 2021	31 Dec 2020
Within one year	451,521	55,283
Later than one year but not later than five years	1,671,323	164,029
Later than five years	1,463,097	-
	3,585,941	**219,312**

Amounts recognised in the statement of profit and loss:

	31 Dec 2021	31 Dec 2020
Depreciation charge on right-of-use assets	130,944	35,010
Interest expense (included in finance costs)	60,900	29,210
Expense relating to short-term leases	10,510	33,915
Expense relating to low-value assets (not included in the above short-term lease expense)	4,823	2,500

At 31 December 2021, the Group is committed to $15,333 for short-term leases (2020: $3,900).

Cannasouth Limited Group

15 Other intangible assets

	Quality Management System	Trademarks	Software	Total
2021	**$**	**$**	**$**	**$**
Cost				
Opening balance	-	8,387	11,649	20,036
Additions	-	10,846		10,846
Acquisition of subsidiaries	1,133,112	-	-	1,133,112
Disposals	-	-	-	-
Balance at 31 December	1,133,112	19,233	11,649	1,163,994
Accumulated amortisation				
Opening balance	-	-	8,144	8,144
Amortisation	-	-	2,738	2,738
On acquisition of subsidiaries	-	-	-	-
Eliminated on disposals	-	-	-	-
Balance at 31 December	-	-	10,882	10,882
Carrying Value at 31 December 2021	1,133,112	19,233	767	1,153,112

	Quality Management System	Trademarks	Software	Total
2020	**$**	**$**	**$**	**$**
Cost				
Opening balance	-	-	11,649	11,649
Additions	-	8,387	-	8,387
Acquisition of subsidiaries	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December	-	8,387	11,649	20,036
Accumulated amortisation				
Opening balance	-	-	4,640	4,640
Amortisation	-	-	3,504	3,504
On acquisition of subsidiaries	-	-	-	-
Eliminated on disposals	-	-	-	-
Balance at 31 December	-	-	8,144	8,144
Carrying Value at 31 December 2021	-	8,387	3,505	11,892

The quality management systems are intangible assets, acquired during 2021. Trademarks are indefinite life assets. Software is amortised from 2 to 10 years.

16 Investments

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5.

Under the equity method, an investment in a joint venture is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the pro fit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in it (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identi fiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identi fiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in pro fit or loss in the period in which the investment is acquired.

The requirements of NZ IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with NZ IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with NZ IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with NZ IFRS 9. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to pro fit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to pro fit or loss (as a reclassification adjustment) when the joint venture is disposed of.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassi fies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

a) Interests in joint ventures

During the year both joint ventures were acquired - refer note 20 - Business Combinations.

Name of entity	% of ownership interest 2021	Measurement Method	% of ownership interest 2020	Measurement Method
Midwest Pharmaceutics NZ Ltd	100%	Consolidated	60%	Equity method
Cannasouth Cultivation Ltd	100%	Consolidated	50%	Equity method

b) Summarised financial information

The tables below provide summarised financial information for those joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not Cannasouth's share of those amounts. The 2021 amounts are up to the date of acquisition. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

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	Midwest Pharmaceutics NZ		Cannasouth Cultivation Ltd	
	31 Jul 2021	31 Dec 2020	30 Nov 2021	31 Dec 2020
Current assets	638,982	490,375	247,874	810,170
Non-current assets	3,588,044	3,209,477	8,088,359	3,293,149
Current liabilities	(2,739,483)	(1,844,046)	(7,195,992)	(2,139,305)
Non-current liabilities	(1,198,979)	(1,239,122)	(375,642)	(248,482)
Net assets	288,564	616,684	764,599	1,715,532

	Midwest Pharmaceutics NZ		Cannasouth Cultivation Ltd	
Reconciliation to carrying amounts:	31 Jul 2021	31 Dec 2020	30 Nov 2021	31 Dec 2020
Opening net assets	616,684	866,216	1,715,532	1,964,699
Profit/ (Loss) for period	(350,214)	(249,532)	(950,933)	(249,167)
Other Comprehensive (Income) / Loss	22,094	-	-	-
Closing net assets	288,564	616,684	764,599	1,715,532
Groups share in %	60%	60%	50%	50%
Groups share in $	173,138	370,010	382,299	857,766
Goodwill	736,868	736,868	-	-
Carrying amount	910,006	1,106,878	382,299	857,766

	Midwest Pharmaceutics NZ Ltd		Cannasouth Cultivation Ltd	
	31 Jul 2021	31 Dec 2020	30 Nov 2021	31 Dec 2020
Revenue	1,262,769	2,244,328	17,929	16,750
less Cost of sales	(1,142,935)	(1,625,364)	-	-
less				
Operating expenses	239,794	607,788	892,532	213,850
Depreciation and amortisation	194,429	296,053	28,838	17,311
Interest expense	35,825	63,819	47,492	34,756
Income tax expense	-	(99,164)	-	-
Profit / (Loss) for the period	(350,214)	(249,532)	(950,933)	(249,167)

	31 Dec 2021 $	31 Dec 2020 $
Share of net loss of joint ventures accounted for using the equity method:		
Midwest Pharmaceutics NZ Ltd	210,128	149,719
Cannasouth Cultivation Ltd	475,440	124,584
	685,569	274,303
Remeasurement gain on purchase of joint ventures		
Midwest Pharmaceutics NZ Ltd	322,646	
Cannasouth Cultivation Ltd	1,136,905	
	1,459,551	

The investment held before acquisition has been remeasured to fair value at the date of acquisition. The remeasurement gain is calculated as the difference between the acquisition date carrying value of the investment already held and the acquisition date fair value of that investment. The consideration paid can be considered a good indication of the fair value of the investment already held.

17 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, annual leave and sick 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 2021 $	31 Dec 2020 $
Accounts payable	451,343	200,449
Employee entitlements	413,701	135,733
	865,044	336,182

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.

18 **Borrowings**

	31 Dec 2021 $	31 Dec 2020 $
Secured borrowing at amortised cost		
Loan from Tokomaru Horticulture Industries Ltd	2,725,000	-
The loan of $2,725,000 was taken out on 30 November 2021. The first in a series of quarterly repayments of $250,000 each, is payable on the earlier of (i) 60 days after the date of the company's first commercial export of cannabis flower or (ii) 1 September 2022. Interest payments are made quarterly on the borrowings at a rate of OCR plus 5.5% per annum for years 1 and 2, and then 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.		
Total Borrowings	**2,725,000**	**-**
Current	500,000	-
Non-current	2,225,000	-
	2,725,000	**-**

19 **Investment in subsidiaries**

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company 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 % 2021	Balance date
Cannasouth Bioscience Ltd	New Zealand	Ordinary	100%	31 Dec
Midwest Pharmaceutics NZ Ltd	New Zealand	Ordinary	100%	31 Dec
Cannasouth Cultivation Ltd	New Zealand	Ordinary	100%	31 Dec

20 **Business combinations and goodwill**

a) **Acquisition of Midwest Pharmaceutics NZ Ltd**

On 31 July 2021 the Group acquired the remaining 40 per cent which it did not own of the issued share capital of Midwest Pharmaceutics NZ Ltd (Midwest) , thereby obtaining control of Midwest.

Midwest was established in 2001 and is based in Hastings. Midwest operates a GMP (Good Manufacturing Practice) compliant manufacturing and packing facility specialising in the contract manufacture, re-packing and wholesale supply of pharmaceutical raw materials, including both actives and excipients and the contract manufacture of dietary supplements and herbal extracts. Its products are used by compounding pharmacies, hospitals, universities and pharmaceutical and veterinary manufacturers. Midwest also markets and distributes its own branded products and qualifies as a business as defined in NZ IFRS3.

Midwest was acquired to enable Cannasouth to use Midwest to manufacture its own range of products, reducing the time and risk of building its own GMP certified facility from scratch. The capital cost, time and resources associated with the construction and establishment of a greenfield GMP certified production facility would be significant. This acquisition reduces the amount of time, capital costs and execution risks associated with the development of such a facility from ground zero.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

Consideration	$
Amount settled in cash	-
Fair value of equity shares issued	913,000
Vendor debt	146,000
less Vendors loans transferred to Cannasouth Ltd	(246,069)
Fair value of consideration transferred	812,931
plus Fair value of previously held interest	1,219,397
Total Consideration	2,032,328
Recognised amounts of identifiable assets:	
Cash & cash equivalents	253,794
Receivables & prepayments	233,043
Tax receivable	19,700
Inventories	212,697
Property, plant and equipment	2,301,050
Right of use assets	1,336,245
Intangible assets	871,074
Deferred tax	107,587
Accounts payable & accruals	(335,055)
Lease liability	(1,383,235)
Borrowings	(2,220,173)
Net identifiable assets and liabilities	1,396,727
Goodwill	635,601
Net cash flow arising on acquisition:	
Cash consideration	-
Less: cash and cash equivalent balances acquired	253,794
Net Cash Inflow	253,794

The initial accounting for the acquisition of Midwest Pharmaceutics NZ Ltd has only been provisionally determined at the end of the reporting period.

Management has used external experts to assist with the determination of fair values for property, plant & equipment and intangible assets excluding goodwill.

The fair value of the financial assets includes trade receivables with a fair value of $233,043 and a gross contractual value of $233,043. The best estimate at acquisition date of the contractual cash flows is that all will be collected.

The goodwill of $635,601 arising from the acquisition consists of the value of the strategic position and importance of the underlying production facility assets held by Midwest. The value to Cannasouth is the savings in time, costs and reduction in execution risk to Cannasouth in securing a strategic interest in a GMP certified facility that has existing revenues and operational expertise. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the 2,200,000 ordinary CBD shares issued as part of the consideration paid for Midwest ($913,000) was determined on the basis of the average share price market on acquisition date (41.5 cents/share).

Acquisition-related costs (included in administrative expenses) amounted to $8,000. Midwest Pharmaceutics NZ Ltd contributed $1,096,028 revenue and $344,926 to the Group's loss for the period between the date of acquisition and the reporting date.

If the acquisition of Midwest had been completed on the first day of the financial year, Group revenues for the year would have been $2.56 million and Group loss would have been $3.22 million.

b) Acquisition of Cannasouth Cultivation Ltd

On 30 November 2021 the Group acquired the remaining 50 per cent which it did not own of the issued share capital of Cannasouth Cultivation Ltd, thereby obtaining control.

Cannasouth Cultivation was established in 2019 to build a state-of-the-art growing and processing facility which is designed to produce medicinal cannabis flower biomass at a highly competitive production cost, is energy efficient, and more environmentally sustainable than indoor cultivation operations. The facility is designed to produce premium Good Agricultural and Collection Practices (GACP) and Good Manufacturing Practice (GMP) pharmaceutical compliant cannabis biomass capable of meeting the highest global quality standards.

The facility has recently completed the construction and commissioning phases, has been deep cleaned and is now ready to begin the first commercial crop with plants now being transferred from the Company's cultivation research facility.

Commercial benefits of the acquisition are:
• Take 100% control of the cultivation business
• Capture 100% of future profits for the benefit of CBD shareholders
• Post-acquisition revenues from Cannasouth Cultivation will be consolidated into the Cannasouth Group Income Statement
• Improve operational efficiencies across the Group
• Accelerate the pathway to significant revenue generation

There continues to be strong global demand for premium-grade pharmaceutical cannabis flower which is the high value niche Cannasouth Cultivation is targeting. Cannasouth Cultivation qualifies as a business as defined in NZ IFRS 3.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

Consideration	$
Amount settled in cash	275,000
Fair value of equity shares issued	519,231
Vendor debt	2,725,000
less Vendor's loan to Cannasouth Cultivation transferred to Cannasouth Ltd	(2,000,000)
	1,519,231
plus Previously held interest at Fair Value	1,519,231
Total consideration transferred	3,038,461
Recognised amounts of identifiable assets:	
Cash & cash Equivalents	97,490
Receivables & prepayments	150,383
Property, plant & equipment	7,733,167
Right of use assets	662,763
Intangible assets	262,038
Accounts payable & accruals	(343,613)
Lease liabilities	(665,141)
Borrowings	(6,850,000)
Net identifiable assets and liabilities	1,047,088
Goodwill	1,991,373

Net cash flow arising on acquisition:	
Cash consideration	275,000
Less: cash and cash equivalent balances acquired	(97,490)
Net Cash Outflow	177,510

The initial accounting for the acquisition of Cannasouth Cultivation Ltd has only been provisionally determined at the end of the reporting period.

Management has used external experts to assist with the determination of fair values for property, plant & equipment and intangible assets excluding goodwill. The goodwill of $1,991,373 arising from the acquisition consists of the value of the strategic position and importance of the underlying production facility assets held by Cannasouth Cultivation Ltd. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the 1,384,616 ordinary CBD shares issued as part of the consideration paid for Cannasouth Cultivation Ltd ($519,231) was determined on the basis of the average share price market on acquisition date (37.5 cents/share).

Acquisition-related costs (included in administrative expenses) amount to $8,000. Cannasouth Cultivation Ltd contributed $nil revenue and $385,073 to the Group's loss for the period between the date of acquisition and the reporting date.

If the acquisition of Cannasouth Cultivation Ltd had been completed on the first day of the financial year, Group revenues for the year would have been $1.32 million and Group loss would have been $3.83 million.

c) Goodwill

The financial statements incorporate the results of business combinations using the acquisition method, as at the acquisition date. Goodwill resulting from business combinations represents the excess between:

- The fair value of (i) the consideration paid, (ii) any previous held interest, and (iii) any remaining non-controlling interest, and
- The fair value of the net identifiable assets, and their associated acquisition date deferred tax balances.

Acquisition-related costs are expensed as incurred.

Goodwill Reconciliation:	31 Dec 2021 $	31 Dec 2020 $
Opening carrying amount	-	-
Acquisition of Midwest Pharmaceutics NZ Ltd	635,601	-
Acquisition of Cannasouth Cultivation Ltd	1,991,373	-
Closing carrying amount	2,626,974	-

On initial recognition, goodwill is allocated to the cash generating units ('CGU') that are expected to benefit from a business combination that gives rise to the goodwill (a CGU being the smallest group of assets for which there are separately identifiable cash flows). Subsequently, a CGU to which goodwill has been allocated is tested for impairment on an annual basis, and at any other time where there is an indicator of impairment, by comparing the CGU's carrying amount to its recoverable amount. Any impairment recognised against goodwill is not subsequently reversed in future periods where the recoverable amount of a CGU increases above its carrying amount.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Management has prepared a five year forecast for the Group's cash-generating units, which are the basis for the value in use calculations.

Key assumptions used in the value in use calculations

	CGU: Cannabis Biomass	CGU: Biopharma
• Long-term growth rate	0%	5%

The long-term growth rate applied to the Biopharma CGU value in use calculation is the into perpetuity growth rate, applied immediately at the end of the five year forecast period. The growth rate applied is based on management's assessment of the global medicinal cannabis market growth data. No growth rate has been applied to the Cannabis Biomass CGU, and as a result no further capital expenditure has been forecast.

• Pre-tax risk adjusted discount rate	13.9%	13.9%

The discount rate applied takes into consideration systematic risk to each of the CGUs.

• Projected adjusted EBITDA

Projected EBITDA is based on managements past experience in the pharmaceutical industry in addition to medicinal cannabis market data (Australia in particular).

No impairment of goodwill has been recognised as at 31 December 2021 (2020: nil).

21 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 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
Closing Shares as at 31 Dec 2021		137,237,029	27,616,385

For the year ended 31 December 2020	# Shares	$
Opening Shares as at 1 Jan 2020	105,467,606	15,175,981
Share Purchase Plan (SPP)	15,853,695	6,024,805
Employee Share Option Plan Redemptions	509,250	254,625
Closing Shares as at 31 Dec 2020	121,830,551	21,455,411

(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 expired 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 $336,373 (2020: $362,381) in relation to the share issues discussed above.

Reconciliation	31 Dec 2021 $	31 Dec 2020 $
Share capital	27,616,385	21,455,411
Capital raising costs	(1,725,437)	(1,389,065)
	25,890,948	20,066,346

22 Earnings per share

From continuing operations		For the year ended 31 Dec 2021	For the year ended 31 Dec 2020
Basic earnings per share	(cents per share)	(2.25)	(3.00)
Diluted earnings per share	(cents per share)	(2.25)	(3.00)

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.

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

	31 Dec 2021 $	31 Dec 2020 $
Total comprehensive loss is attributable to: Owners of Cannasouth Ltd	(2,874,109)	(3,480,654)
Weighted average number of ordinary shares for basic EPS	127,518,857	116,101,513
Weighted average number of ordinary shares for diluted EPS	127,518,857	116,101,513

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.

23 Notes to the 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 2021 $	31 Dec 2020 $
Loss for the period	(2,874,109)	(3,480,654)
Adjustments for:		
Depreciation	412,918	221,819
Share-based payments	37,835	41,467
Share of losses of joint ventures	685,569	274,303
Gain on remeasurement on original equity investments	(1,459,551)	-
Movements in working capital:		
Decrease / (Increase) in receivables and tax receivables	202,296	(66,540)
Increase / (Decrease) in trade payables	(227,047)	61,952
Increase / (Decrease) in other assets	2,953	(47,058)
Increase in employee entitlements	77,241	65,780
Net cash flows from operating activities	**(3,141,896)**	**(2,928,932)**

24 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.
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 2021 $	31 Dec 2020 $
Financial assets - at amortised cost		
Cash and bank balances	5,515,247	9,151,233
Trade and other receivables	243,752	30,066
Loans to related parties	-	2,264,104
Financial liabilities - at amortised cost		
Trade and other payables	865,044	336,182
Lease liabilities	2,702,685	152,392
Borrowings	2,725,000	-
Loans from related parties	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 expose it primarily to the risk of changes in interest rates. The Group is exposed to interest rate risk because the Group invests funds in term deposits with banks and has external debt. The exposure to market risk is considered limited because of the current low interest rate environment and low level of debt. A 1% change in interest rates would increase interest expense by $24,750 (2020: nil).

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.

	Weighted average effective rate %	1 - 3 months $	3 months to 1 year $	1 - 5 years $	5+ years $	Total contractual cash flows $
As at 31 Dec 2021						
Trade and other payables	-	865,044	-	-	-	865,044
Lease liabilities	-	113,367	338,154	1,671,323	1,463,097	3,585,941
Borrowings	7.43%	41,995	626,447	2,452,905	-	3,121,347
Loans from related parties	4.00%	1,440	76,176	73,248	-	150,864
As at 31 Dec 2020						
Trade and other payables	-	336,182	-	-	-	336,182
Lease liabilities	-		55,283	164,029	-	219,312

25 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:

	Note	31 Dec 2021 $	31 Dec 2020 $
Director's fees		180,837	130,002
Share options issued to Directors	(i)	2,500	-
Salaries and other short term employee benefits	(ii)	1,084,151	533,224
Share options issued to Key Management Personnel	(iii)	7,333	-
		1,274,821	**663,226**

(i) During the 2021 year the leadership structure of the Group changed following the retirement of Nic Foreman.
(ii) During the year 611,667 ESOP options were issued to Directors.
(iii) During the year 400,000 ESOP options were issued to Key Management Personnel.

b) Loans to/from related parties

		31 Dec 2021 $	31 Dec 2020 $
Loans to JV - Cannasouth Cultivation Ltd		-	1,000,000
Loans to JV - Midwest Pharmaceutics NZ Ltd		-	1,264,104
		-	2,264,104
Loan from Greenmeadows Health Ltd & Mark Balchin	(iii)	146,000	-
		146,000	-

During the period the Group acquired Midwest Pharmaceutics NZ Ltd and Cannasouth Cultivation Ltd and as a result the loan balances are eliminated on consolidation.

(iii) Unsecured Loan from Mark Balchin & Greenmeadows Health Limited	146,000	-

The loan of $146,000 was taken out on 31 July 2021. The first (part) repayment of $73,000 is payable in 12 months and the remaining $73,000 is payable in 18 months. Interest payments are made quarterly on the borrowings at a rate of 4% per annum.

c) Trading transactions

During the period, Group entities entered into the following trading transactions with related parties at the time they were not members of the Group:

	Note	Sales of goods & services 31 Dec 2021 $	Sales of goods & services 31 Dec 2020 $	Purchases of goods & services 31 Dec 2021 $	Purchases of goods & services 31 Dec 2020 $
Cannasouth Cultivation Ltd	(i)	414,449	151,413	-	6,881
Midwest Pharmaceutics NZ Ltd	(i)	126,076	134,890	-	-
Greenmeadows Health / Mark Balchin	(ii)	-	-	-	-
		540,525	286,302	-	6,881

The following balances arising from trade were outstanding at the end of the reporting period:

	Note	Owed by related parties 31 Dec 2021 $	Owed by related parties 31 Dec 2020 $	Owed to related parties 31 Dec 2021 $	Owed to related parties 31 Dec 2020 $
Cannasouth Cultivation Ltd	(i)	-	18,834	-	6,325
Midwest Pharmaceutics NZ Ltd	(i)	-	11,232	-	-
Greenmeadows Health / Mark Balchin	(ii)	-	-	-	-
		-	30,066	-	6,325

During the period the Group acquired Midwest Pharmaceutics NZ Ltd and Cannasouth Cultivation Ltd and as a result the debtor/creditor balances are eliminated on consolidation. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Details of related party balances and transactions

i) Services provided to / from joint ventures charged at cost.

ii) Vendor loan from Greenmeadows Health Ltd / Mark Balchin

26 Commitments and contingencies

a) Capital

The Company has ordered Plant and Equipment which had not been delivered at balance date. Amounts payable after balance date in relation to these commitments amounted to $130,044 (2020: $0)

b) Contingent liabilities

There were no contingent liabilities at 31 Dec 2021.

Cannasouth Limited Group

27 Share-based payments

The Company has an "employee share option plan" (ESOP). Directors of the Company may issue options to acquire ordinary shares in the Company, to employees, contractors and to non-executive directors of the Company, 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 Company 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 Company 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 Company;
- The structure of the issue of the Options will assist the Company in retaining the key staff of the Group for the future;
- The opportunity to offer Options to prospective new employees, contractors and non-executive directors will assist the Company in securing the services of those parties as part of the package available to be offered to those parties;
- The offer of Options provides an appropriate way to incentive employees, contractors and directors without the Company 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.

Details of the share options outstanding during the year are as follows.

	31 Dec 2021 Number of share options #	31 Dec 2021 Weighted avg. exercise price $	31 Dec 2020 Number of share options #	31 Dec 2020 Weighted avg. exercise price $
Outstanding at the start of the year	3,340,750	0.50	3,050,000	0.49
Initial issue				
Granted during the year	1,440,000	0.41	1,000,000	0.53
Forfeited during the year	(450,000)	0.50	(200,000)	0.50
Exercised during the year	-	-	(509,250)	0.50
Expired during the year	-	-	-	-
Outstanding at the end of the year	4,330,750	0.47	3,340,750	0.50

The options outstanding at 31 December 2021 had a weighted average exercise price of $0.47 (2020: $0.50), and a weighted average remaining contractual life of 1.7 years (2020: 2.1 years). In 2021, options were granted on 21-July and 21-December. The aggregate of the estimated fair values of the options granted on those dates was $24,000 (2020: $22,567), 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 2021	31 Dec 2020
Weighted average share price	$0.65	$0.53
Weighted average exercise price	n/a	$0.50
Expected volatility	16%	11%
Expected life (years)	1.7	2.1
Risk-free rate	0.65%	0.7%
Expected dividend yields	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price since listing. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Group recognised a total expense of $30,133 (2020: $29,087) related to the ESOP scheme in 2021.

Share based payment reserve reconciliation	31 Dec 2021 $	31 Dec 2020 $
Opening Balance	61,746	32,659
Granted during the year	53,116	30,167
Increase/(decrease) in options accrued	(15,281)	11,300
Options expired, forfeited or exercised	(7,702)	(12,380)
Closing balance	91,879	61,746

28 <u>Covid-19</u>

Covid-19 has brought disruptions and uncertainties to businesses and economies globally. These disruptions have had a moderate impact on the development of the Group over the last two financial years.

During this period we have been unable to undertake offshore travel, and suppliers and prospective customers have been unable to visit us in New Zealand. The Board notes that uncertainty continues to exist in relation to the impacts of the Covid-19 pandemic, including the possibility of supply chain disruption and further government-imposed lockdowns.

There are no provisions in these financial statements for the period ended 31 December 2021 for financial impacts of Covid-19.

29 <u>Subsequent events</u>

There were no material events subsequent to 31 December 2021 which would impact these financial statements.

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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 2021, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 35 to 60, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company 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 the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the entity.

Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial statements, which indicates that the Group incurred a net loss of $2.9 million during the year ended 31 December 2021. As of that date, the Group's cash amounted to $5.5 million, however, the Group needs to secure additional funding to continue the implementation of its strategy to be an integrated seed to sale medicinal cannabis business and complete the construction of facilities. As stated in Note 6, these events and conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists 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.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $308,000.

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. These matters 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.

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Key audit matter	How our audit addressed the key audit matter

Accounting for buyout of joint ventures

The Group fully acquired the remaining shareholding in Midwest Pharmaceutics NZ Limited and Cannasouth Cultivation Limited. Details of the acquisition are outlined in Note 20.

The acquisition of the remaining shareholding in these businesses was significant to our audit due to the size of the acquisitions, and the subjectivity and complexity inherent in these business acquisitions and the requirements of *NZ IFRS 3 Business Combinations*. The process involved complex and subjective estimation and judgement by Management on the following:

- The accounting treatment of the acquisition;
- Assessment of the fair value of the existing shareholding held by the Group in Midwest Pharmaceutics NZ Limited and Cannasouth Cultivation Limited; and
- Identification and valuation of the assets acquired and the liabilities assumed as at acquisition date.

Our procedures, amongst others included:

- Reading the sale and purchase agreements relating to the acquisitions to understand key terms and conditions and confirming our understanding of the transactions with Management;
- Assessing Management's evaluation of terms and conditions within the sale and purchase agreements to determine the associated accounting treatment by comparing those terms and conditions against the requirements of *NZ IFRS 3 Business Combinations* and other relevant guidance;
- Evaluating the valuation methodologies and resulting fair value of the Group's existing shareholding in Midwest Pharmaceutics NZ Limited and Cannasouth Cultivation Limited;
- Recomputing the resulting gain on the remeasurement of the fair value of the Group's existing shareholding in Midwest Pharmaceutics NZ Limited and Cannasouth Cultivation Limited;
- Considering the completeness of the identified assets and liabilities by evaluating the the nature of the businesses acquired, the existing contractual arrangements and relationships, and the terms of the sale and purchase agreement;
- Recomputing the resulting goodwill to be recognised on acquisition;
- For the measurement of the identified assets and liabilities, evaluating:
  - The valuation methodologies in determining the fair values of the identified assets and liabilities at acquisition date; and
  - The competence, capabilities, objectivity and expertise of Management's external valuation experts and the appropriateness of their work as audit evidence for the relevant assertions; and
- Engaging our own internal valuation expert to assist in understanding and evaluating the methodology, asusmptions and findings of Management's expert and other selected aspects of the business acquisitions, including assessing the fair value of the existing shareholding held in these businesses.

Impairment testing of goodwill

Goodwill of $2.6 million was recognised in the consolidated financial statements as at 31 December 2021 as result of the business acquisitions undertaken during the year, as detailed in Note 20.

Goodwill is tested for impairment annually or whenever there are indicators that goodwill may be impaired.

For the purpose of impairment testing, the goodwill is allocated to cash generating units (CGU). The recoverable amount of each CGU is determined through a value in use calculation, which reflects significant unobservable inputs, including forecasted financial performance, discount rates and growth rates (including the terminal growth rate).

We identified this as a key audit matter because of the significance of the goodwill to the Group's consolidated financial statements and the judgement involved in determining the value in use of each CGU including, in particular, the forecasted financial performance.

Our procedures included, amongst others:

- Comparing the forecast performance with the 2022 financial year budget;
- Assessing the historical accuracy of the Group's previous forecasts by comparing prior period budgets to actual performance;
- Challenging Management's assumptions used in the forecasted financial performance by utilising available external market data, past performance (where relevant) and our knowledge of the Group;
- Testing the value in use calculations for arithmetic accuracy;
- Performing a sensitivity analysis on the forecasted financial performance, growth rates and discount rates to determine the extent to which any changes in these inputs would result in impairment to the CGUs; and
- Involving our internal specialists in assessing the discount rates for reasonableness in comparison to market data.

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Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities 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 NZ IFRS and IFRS, 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 and 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 our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

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

This description forms part of our auditor's report.

Restriction on use

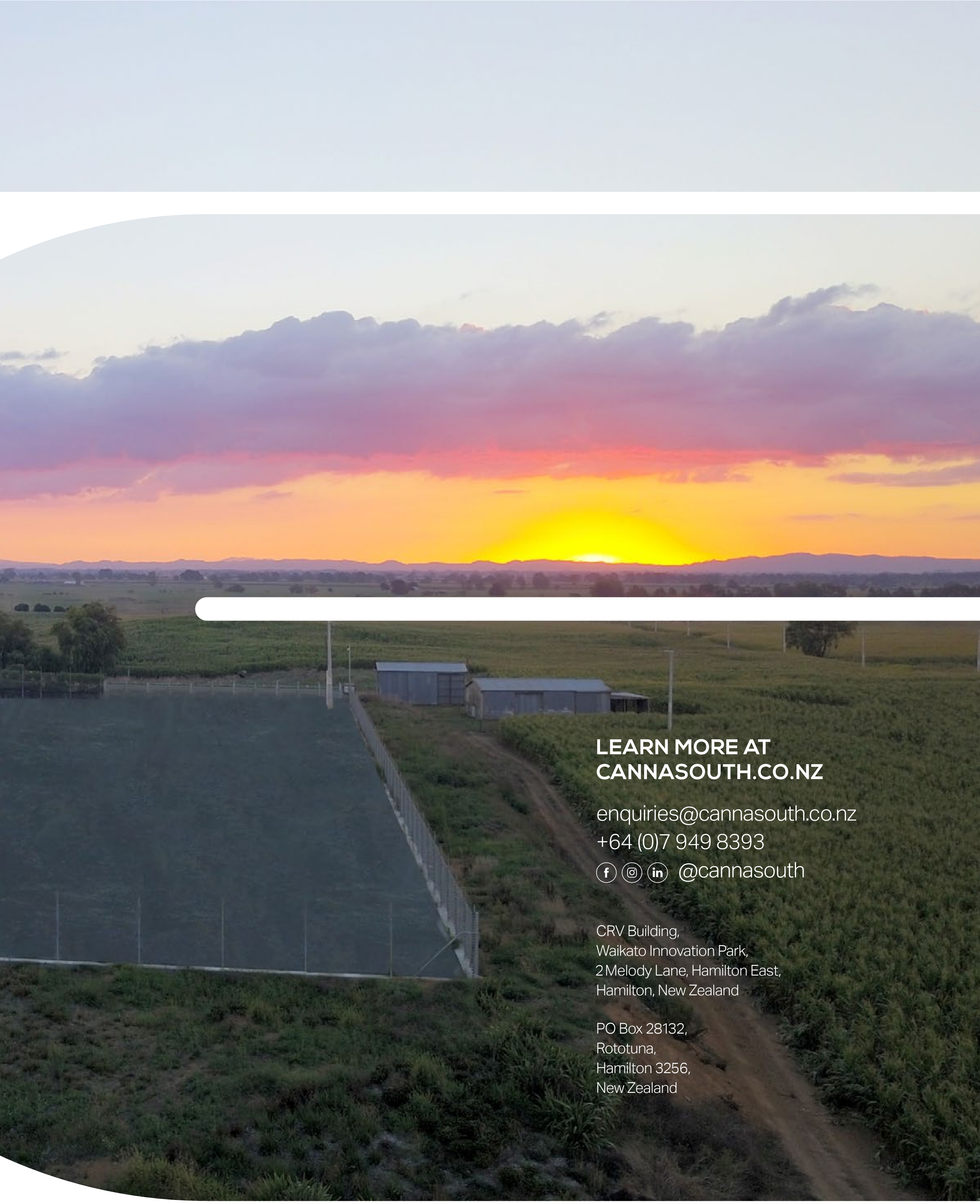
This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept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

Deloitte Limited

Bruno Dente
Partner
for Deloitte Limited
Hamilton, New Zealand
31 March 2022

Business Directory

Incorporated	21 August 2018
Company Number	6987773
Nature of Business	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.
Registered Office	c/- Braithwaite and Pearks Limited Level 1, 240 Victoria Street Hamilton Central Hamilton 3256
Physical Address	CRV Building Waikato Innovation Park 2 Melody Lane Hamilton East Hamilton 3216
Telephone number	+64 7 949 8393
Directors	Mark Lucas Executive Director – Appointed 21 August 2018 Anthony Ho Independent Chairman – Appointed 26 September 2018 Juliet Hull Independent Director – Appointed 9 February 2021 Christine Pears Independent Director – Appointed 28 June 2021 Conor English Independent Director – Appointed 19 October 2018 – Resigned 28 June 2021
Securities Registrar	Link Market Services Limited Level 30, PWC Tower, 15 Customs Street West, Auckland 1010
Legal Advisors	Harkness Henry Level 8, KPMG Centre 85 Alexandra Street Hamilton 3240 Corporate Counsel PO Box 105 745 Auckland 1143
Auditors	Deloitte Limited Deloitte House 24 Anzac Parade Hamilton 3216



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