



## Cannasouth Limited and Group

Financial Statements for the six months ended 30 June 2022



## Cannasouth Limited Group

### Consolidated Statement of Profit and Loss and Other Comprehensive Income For the six month period ended 30 June 2022

	Notes	Unaudited 30 Jun 2022 (6 Months) \$	Unaudited 30 Jun 2021 (6 Months) \$
<b>Continuing operations</b>			
Revenue and other income		1,412,781	83,064
Cost of sales	4	(2,805,535)	-
<b>Gross profit / (loss)</b>		<b>(1,392,754)</b>	<b>83,064</b>
Interest income		76	40,773
Research and development expenses		(394,583)	(290,817)
Administrative expenses		(1,775,015)	(1,492,164)
Share of net loss of joint ventures accounted for using the equity method		-	(320,507)
<b>Loss before finance costs</b>		<b>(3,562,276)</b>	<b>(1,979,651)</b>
Finance costs		(170,230)	(12,983)
<b>Loss before tax from continuing operations</b>		<b>(3,732,506)</b>	<b>(1,992,634)</b>
<b>Loss after tax from continuing operations</b>		<b>(3,732,506)</b>	<b>(1,992,634)</b>
<b>Total comprehensive loss</b>		<b>(3,732,506)</b>	<b>(1,992,634)</b>
Total comprehensive loss is attributable to:			
Owners of Cannasouth Ltd		(3,732,506)	(1,992,634)
<b>Profit/(Loss) per share (cents per share)</b>			
Basic		(2.71)	(1.63)
Diluted		(2.71)	(1.63)
<b>Weighted average number of ordinary shares issued</b>			
Basic		137,244,196	121,830,551
Diluted		137,244,196	121,830,551

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

## Cannasouth Limited Group

### Consolidated Statement of Financial Position As at 30 June 2022

	Notes	Unaudited 30 Jun 2022 \$	Audited 31 Dec 2021 \$	Unaudited 30 Jun 2021 \$
Cash and cash equivalents		2,590,976	5,515,247	4,634,100
Trade and other receivables		453,872	321,060	83,137
Tax refunds due		18,276	49,037	42,178
Other assets		159,022	181,181	185,889
Inventory		195,424	169,786	-
<b>Total current assets</b>		<b>3,417,570</b>	<b>6,236,311</b>	<b>4,945,304</b>
Property, plant and equipment		10,415,390	10,762,939	648,251
Right of use assets		2,441,216	2,614,680	119,560
Investments		-	-	1,644,138
Loans to related parties		-	-	5,274,104
Goodwill		2,626,974	2,626,974	-
Other intangible assets		1,152,179	1,153,112	21,419
Deferred tax		107,587	107,587	-
<b>Total non-current assets</b>		<b>16,743,346</b>	<b>17,265,292</b>	<b>7,707,472</b>
<b>Total assets</b>		<b>20,160,916</b>	<b>23,501,603</b>	<b>12,652,776</b>
Trade and other payables		1,354,915	865,044	412,336
Lease liabilities		149,012	278,853	35,171
Borrowings		1,000,000	500,000	-
Loans from related parties	7	146,000	73,000	-
<b>Total current liabilities</b>		<b>2,649,927</b>	<b>1,716,897</b>	<b>447,507</b>
Borrowings		1,725,000	2,225,000	-
Loans from related parties	7	24,735	73,000	-
Lease liabilities		2,404,029	2,423,832	107,451
<b>Total non-current liabilities</b>		<b>4,153,764</b>	<b>4,721,832</b>	<b>107,451</b>
<b>Total liabilities</b>		<b>6,803,691</b>	<b>6,438,729</b>	<b>554,958</b>
<b>Net assets</b>		<b>13,357,225</b>	<b>17,062,874</b>	<b>12,097,818</b>
Share capital	5	25,906,535	25,890,948	20,066,346
Accumulated deficit		(12,621,192)	(8,919,954)	(8,040,181)
Share-based payment reserve		71,882	91,879	71,653
<b>Total equity</b>		<b>13,357,225</b>	<b>17,062,874</b>	<b>12,097,818</b>

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

## Cannasouth Limited Group

### Consolidated Statement of Changes in Equity For the six month period ended 30 June 2022

		Unaudited Share Capital	Unaudited Share-based Payment Reserve	Unaudited Accumulated Deficit	Unaudited Total Equity
	Notes	\$	\$	\$	\$
<b>Balance as at 1 January 2022</b>		25,890,948	91,879	(8,919,954)	17,062,873
Shares issued	5	17,200	-	-	17,200
Capital raising costs	5	(1,613)	-	-	(1,613)
Profit/(loss) for the year		-	-	(3,732,506)	(3,732,506)
Total comprehensive loss		-	-	(3,732,506)	(3,732,506)
Increase/(decrease) in reserves		-	(19,997)	31,268	11,271
<b>Balance as at 30 June 2022</b>		<b>25,906,535</b>	<b>71,882</b>	<b>(12,621,192)</b>	<b>13,357,225</b>
		Unaudited Share Capital	Unaudited Share-based Payment Reserve	Unaudited Accumulated Deficit	Unaudited Total Equity
<b>Balance as at 1 January 2021</b>		20,066,346	61,746	(6,053,547)	14,074,545
Profit/(loss) for the year		-	-	(1,992,634)	(1,992,634)
Total comprehensive loss		-	-	(1,992,634)	(1,992,634)
Increase/(decrease) in reserves		-	9,907	6,000	15,907
<b>Balance as at 30 June 2021</b>		<b>20,066,346</b>	<b>71,653</b>	<b>(8,040,181)</b>	<b>12,097,818</b>

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

## Cannasouth Limited Group

### Consolidated Statement of Cash Flows For the six month period ended 30 June 2022

	Notes	Unaudited 30 Jun 2022 (6 Months) \$	Unaudited 30 Jun 2021 (6 Months) \$
<b><u>Operating activities</u></b>			
<i>Cash was provided from:</i>			
Interest received		76	120,156
Receipts from customers		1,270,507	49,889
GST refunded		9,462	15,753
Taxation refunded		30,761	2,056
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(4,322,045)	(1,662,782)
Interest paid		(170,230)	(12,983)
Net cash flows used in operating activities		<u>(3,181,469)</u>	<u>(1,487,911)</u>
<b><u>Investing activities</u></b>			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		391,254	(9,451)
Loans to related parties		-	(3,010,000)
Net cash flows used in investing activities		<u>391,254</u>	<u>(3,019,451)</u>
<b><u>Financing activities</u></b>			
<i>Cash was provided from:</i>			
Proceeds from capital raising	5	17,200	-
<i>Cash was applied to:</i>			
Payment of lease liabilities		(149,643)	(9,771)
Capital raising costs		(1,613)	-
Net cash flows from financing activities		<u>(134,056)</u>	<u>(9,771)</u>
<b>Net increase in cash flows</b>		<b><u>(2,924,271)</u></b>	<b><u>(4,517,133)</u></b>
<b>Opening cash and cash equivalents</b>		5,515,247	9,151,233
<b>Cash and cash equivalents at the end of the period</b>		<b><u>2,590,976</u></b>	<b><u>4,634,100</u></b>

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

## **Cannasouth Limited Group**

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### **Notes to the Consolidated Financial Statements**

**For the six month period ended 30 June 2022**

#### **1 Reporting entity**

Cannasouth Ltd ("the Company") is a company registered and domiciled in New Zealand. 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 Pharmaceuticals NZ Ltd (the 'Group') is principally engaged 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 condensed interim financial statements were authorised for issue in accordance with a resolution of directors on 10th August 2022.

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

##### **(a) Statement of compliance**

The unaudited condensed consolidated interim financial statements of the Group have been prepared for the six month period ended 30 June 2022. The Group is a Tier 1 for-profit entity for the purpose of complying with NZ GAAP. The Group's consolidated interim financial statements for the period ended 30 June 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting and NZ IAS 34 Interim Financial Reporting, Generally Accepted Accounting Practice in New Zealand (NZ GAAP), and the requirements of the Financial Reporting Act 2013, the Companies Act 1993, and NZX listing rules. These consolidated interim financial statements do not include all of the information required for the full annual audited financial statements and should be read in conjunction with the annual audited financial statements for the year ended 31 December 2021, which have been prepared in accordance with NZ IFRS.

##### **(b) Significant accounting policies**

The accounting policies applied are consistent with those of the annual audited financial statements for the year ended 31 December 2021, as described in those annual financial statements.

##### **(c) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities at fair value.

##### **(d) New standards interpretations and amendments effective or applied for the first time**

The Group's cultivation facility has grown and harvested its first cannabis crop during the six-month period ended 30 June 2022. The planted and grown cannabis crop is considered a biological asset under NZ IAS 41. The harvested cannabis crop is recognised as work in progress inventory under NZ IAS 2. As at 30 June 2022, the Group had no biological asset on hand. The Group has recognised harvested cannabis crop as work in progress inventory in its statement of financial position for the first time. As a result of this recognition, the Group has reclassified its inventory balance as at 31 December 2021 from 'Other asset' to its own financial statement line item in the statement of financial position. There has been no changes to the balance as a result of this reclassification.

##### Biological Asset

The Group measures biological asset consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of work in progress or finished goods inventories after harvest.

Gains or losses arising from changes in fair value less cost to sell are included in the consolidated statement of profit and loss and other comprehensive income.

##### Inventory

Inventory is classified as raw materials and consumables, work in progress and finished goods. Raw materials and consumables consists of plant seeds, consumables to help nurture the growth of cannabis plants and other raw materials used for contract manufacturing. Work in progress consists of harvested cannabis plants intended to be processed into finished dried flower. Harvested cannabis is transferred from biological assets at its fair value at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalised to work in progress. Finished goods consists of packaged dried flowers and pharmaceutical goods.

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

##### **(e) Functional and presentation currency**

The consolidated financial statements are presented in New Zealand dollars (NZ\$), which is the Group's functional currency.

## Cannasouth Limited Group

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### Notes to the Consolidated Financial Statements For the six month period ended 30 June 2022

#### (f) Use of estimates and judgements

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

#### (g) 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 six month period, the focus on the Group was to continue on establishing the supply chain for medicinal cannabis. As a result of this focus, the Group has made a net loss for the period of \$3,732,506 (2021: 1,992,634).

The financial statements have been prepared on a going concern basis which assumes that the Group will have sufficient cash to continue its operation 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 launch of the Medicinal Cannabis Regulations and the cannabis referendum has consolidated the industry's focus solely on medicinal cannabis. During the six month period, the Group has made substantial progress in implementing its strategy to become the next-generation medicinal cannabis producer.

The Group's cultivation facility has been operating since the beginning of the financial period and has since cultivated and harvested its first cannabis crop. The Group's cultivation subsidiary has gone through GACP audit, with GMP audit scheduled in September 2022. The subsidiary aims to receive its GACP/GMP accreditation by the end of 2022.

The Group's manufacturing subsidiary has signed a three year manufacturing agreement with Harker Herbals which has provided the opportunity to scale up its non-cannabis contract manufacturing production. The next steps are to complete the cannabinoid processing upgrade for finished product manufacture.

The Group has had three of its cannabinoid products successfully verified by the Medicinal Cannabis Agency, which is a major step forward for Cannasouth in terms of generating its first medicinal cannabis product revenue.

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 within Q3 2022. Cannasouth has a history of successful capital raising and believes it will continue to do so.

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 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 Group be unable to continue as a going concern.

### 3 Segment Reporting

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 biopharmaceuticals market i.e., the production and supply (including research and development) of biopharmaceuticals, specialising in cannabinoid medicines; with areas of operation being New Zealand.

## Cannasouth Limited Group

### Notes to the Consolidated Financial Statements For the six month period ended 30 June 2022

#### 4 Cost of sales

The Group's cost of sales for the period ending 30 June 2022 relates to the following subsidiaries:

	Unaudited 30 Jun 2022 (6 Months) \$	Unaudited 30 Jun 2021 (6 Months) \$
Cannasouth Cultivation Limited *	1,480,001	-
Midwest Pharmaceuticals Limited	1,325,534	-
	<b>2,805,535</b>	<b>-</b>

\* Cannasouth Cultivation Limited's cost of sales reflects the commencement and ramp-up of production, and therefore the higher than normal cost to grow its first crop in one of the two greenhouses at the cultivation facility. The Group has expensed these costs in accordance to NZ IAS 2. As at 30 June 2022, the first crop has been harvested and is being processed. The crop is treated as inventory (work in progress).

#### 5 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

	Unaudited # Shares	Unaudited \$
Opening Balance at 1 January 2022	137,237,029	27,616,385
Movements during the period	43,000	17,200
<b>Balance at 30 June 2022</b>	<b>137,280,029</b>	<b>27,633,585</b>
Opening Balance at 1 January 2021	121,830,551	21,455,411
<b>Balance at 30 June 2021</b>	<b>121,830,551</b>	<b>21,455,411</b>

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 period.

##### (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 6 months period ended 30 June 2022 of \$1,613 (June 2021: \$0).

	Unaudited 30 Jun 2022 \$	Unaudited 30 Jun 2021 \$
<b>Reconciliation</b>		
Share Capital	27,633,585	21,455,411
Capital raising costs	(1,727,050)	(1,389,065)
	<b>25,906,535</b>	<b>20,066,346</b>



## Cannasouth Limited Group

### Notes to the Consolidated Financial Statements For the six month period ended 30 June 2022

#### 6 Financial instruments

Categories and fair values of the Company's financial instruments are as follows:

	Unaudited	Audited
	30 Jun 2022	31 Dec 2021
<b>Financial assets at amortised cost</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	2,590,976	5,515,247
Trade and other receivables	453,872	321,060
<b>Total carrying amount</b>	<b>3,044,848</b>	<b>5,836,307</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	1,354,915	865,044
Borrowings	2,725,000	2,725,000
Loans from related parties	170,735	146,000
Lease Liabilities	2,553,041	2,702,685
<b>Total carrying amount</b>	<b>6,803,691</b>	<b>6,438,729</b>

#### 7 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:

	Nature of Balance	Unaudited	Audited
		30 Jun 2022	31 Dec 2021
<b>Trade receivables due from related parties:</b>		<b>\$</b>	<b>\$</b>
Skybright Health Ltd	Sales	5,238	-
<b>Loans from related parties</b>			
<b>Current:</b>			
Loan from Greenmeadows Health Ltd & Mark Balchin	Loan	146,000	73,000
<b>Non-Current:</b>			
Loan from Greenmeadows Health Ltd & Mark Balchin	Loan	-	73,000
Shareholder loan - Mark Lucas	Loan	24,735	-
		<b>24,735</b>	<b>73,000</b>

#### 8 Events after the reporting period

Subsequent to 30 June 2022, the Group's subsidiary Cannasouth Bioscience Limited signed a supplier agreement with WEECO Pharma GMBH (WEECO), based in Germany. WEECO is one of the leading importers and distributor of medicinal cannabis in Germany. The agreement is for a three-year term with WEECO having the right of first refusal for each new cultivar developed by Cannasouth.



**LEARN MORE AT  
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