

For Public Release
NZX Limited
Wellington

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Preliminary Results for the Year Ended 31 December 2021

Cannasouth Limited (NZX: CBD), ("Cannasouth", the "Group" or the "Company") today reported its preliminary results (subject to completion of audit) for the year ended 31 December 2021.

Within a COVID-19 environment, Cannasouth made further significant progress in completing the foundations of a sustainable business operating in the emerging and highly regulated medicinal cannabis sector in New Zealand and globally. CEO, Mark Lucas says, "it is pleasing to see Cannasouth achieve 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."

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

The largest early revenue opportunity is the export of premium cannabis flower and Cannasouth is focused on achieving this during 2022. In November 2021 our world-class, next-generation cannabis cultivation and processing facility was fully commissioned, which enables Cannasouth to enter the rapidly growing pharmaceutical cannabis flower market.

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 (MCA). 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 activities.

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.

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 MCA. 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 Juliet Hull and 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 Pharmaceuticals 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.

Summary of Financial Results:

The Group recorded a loss of \$1.6 million (2020 \$3.5 million) and operating revenue of \$1.3 million (2020 \$131,000). The loss was attributable to the 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 \$15.7 million (2020 \$14.1 million). The Group recorded a gain of \$2.2 million on its acquisitions held in Cannasouth Cultivation Ltd and Midwest Pharmaceuticals NZ Ltd. This gain represents the difference between the carrying value of the investments and the fair value of the assets acquired. Cash on hand at 31 December 2021 for the Group was \$5.5 million (2020 \$9.2 million).

Group Consolidation

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 Pharmaceuticals NZ Ltd.

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

Market Outlook

Global and local medicinal cannabis markets continue to show strong growth.

The European cannabis market is expanding and is estimated to reach a value of €3.2 billion by 2025. ¹

Germany remains the largest single market in Europe and a key export target for Cannasouth.

Australia is another key market for Cannasouth, and sales are forecasted to exponentially 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. ²

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

Summary of key business initiatives:**Flower Sales a Growing Opportunity**

Cannabis flower remains a popular product format in key export markets. In Australia, flower accounts for 40% of all prescriptions in 2021. ² In Germany a similar trend exists. ³ Globally, demand for premium flower remains high. Premium flower is generally produced indoors and is more expensive to produce. During our design phase Cannasouth considered, and chose, a next-generation hybrid, fully sealed, greenhouse design.

The facility is now operational and offers the best of both indoors and greenhouse growing. The facility is scalable to meet future demand. This design is unique to New Zealand. While it has taken time to complete it puts Cannasouth at a significant advantage over competitors. The Group is well positioned to compete in the highly competitive global flower market with a unique selling proposition. Negotiations are well advanced with prospective customers for sales of our first flower harvests. Overcoming the export regulatory complexities is likely to 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.

Research and Development – Developing IP and Moving Beyond Generics

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. Cannasouth has a targeted research and development programme established, with co-funding from Callaghan Innovation, covering the following areas:

- Extraction and Purification of Cannabinoids
- Therapeutic Potential of Cannabinoids in Neuropathic Pain
- Drug Delivery Technologies to Improve Bioavailability
- Computational Molecular Binding

A video update can be found here: <https://www.youtube.com/watch?v=ZlPkE2lDof8>

Quality and Regulatory

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. However, gaining GACP and GMP accreditations for our cultivation facility is a key objective because it will enable Cannasouth to achieve the highest possible selling price and access to the most regulated markets with flower suitable as a finished patient product. 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.

People

Cannasouth continues to develop its team. During 2021 the Company added two highly experienced members to the management team, Satish Nand joined the company in June as Head of Quality for the Group. Satish's most recent role was Quality Manager at PharmaNZ Ltd. Tony Clark joined the Group in September as Operations Manager of Cannasouth Cultivation. Tony joins the team following his most recent role as Operations Manager at Douglas Manufacturing Ltd.

With over 250 years of combined GMP and Pharmaceutical development experience Cannasouth has one of the most highly skilled and well-rounded teams in the New Zealand medicinal cannabis sector.

End to End Manufacture and Diversified Revenue

Our manufacturing site in Hastings, Midwest Pharmaceuticals, is one of New Zealand's leading contract manufacturers of liquid-based health products and provides Cannasouth diversified revenue streams with non-cannabinoid revenue coming from pharmaceutical contract manufacturing and repacking services. There are good opportunities for growth and Cannasouth will continue to progress these in addition to cannabis-based finished product and active ingredient manufacture during 2022.

What's Next

Upcoming major milestones for 2022 include:

- Gaining GACP and GMP accreditations for the 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.

-ENDS-

For further information visit www.cannasouth.co.nz or contact:

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About Cannasouth Limited

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

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

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

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

(3) <https://www.mfat.govt.nz/en/trade/mfat-market-reports/market-reports-europe/germany-medical-cannabis-update-imports-price-reform-domestic-harvest-june-2021/>