

For Public Release

NZX Limited
Wellington

4 April 2023

Market update regarding prospective merger with Equis Group New Zealand Limited

As previously announced to the market on 19 December 2022, Cannasouth Limited (NZX:CBD) has signed a binding term sheet ("Term Sheet") with the Board of Bay of Plenty based Equis Group New Zealand Limited (Equis) to advance a potential 50:50 merger between the two companies ("Merger").

The Board of CBD provides an update on the progress of the Merger.

Execution of Share Sale Deed

CBD is pleased to advise that CBD and Equis shareholders have executed the Share Sale Deed which formally records all of the legal terms and conditions of the Merger, and comprises the principal transaction document for the Merger.

Notice of Special Meeting of Shareholders ("Notice") and Independent Advisor's Report ("IA Report")

Good progress has been made towards the finalisation of the Notice of Meeting and the IA Report.

CBD anticipates that all regulatory approvals in respect of the Notice and the IA Report should be obtained prior to Easter, and that this documentation will be circulated to shareholders within ten business days thereafter.

CBD expects that the Special Meeting of CBD Shareholders will be held prior to the end of April.

Capital Raising Initiative

As previously announced CBD intends to raise circa \$9 million (and in any event, no less than a minimum of \$7 million) of new equity capital in conjunction with the Merger ("Capital Raise").

The Boards of CBD and Equis have agreed upon the terms of the Capital Raise.

The principal terms of the Capital Raise will be as follows:

- Up to \$4,500,000 of the new CBD shares will be offered, at an issue price of \$0.29 per share, to existing CBD shareholders on a pro rata basis, pursuant to a one for 9.5 non-renounceable rights issue (**CBD Offer**). CBD shareholders will be entitled to apply for more shares in this offer, subject to scaling detailed below. In addition, for every two new CBD shares subscribed for under this Offer, an investor will receive one Option to acquire an additional share in Cannasouth at an exercise price of \$0.29 ("Option") – the term of the Option is 36 months from the date of the issue of the Option.
- Up to \$4,500,000 of the new CBD shares will be offered, at an issue price of \$0.29 per share, to existing Equis shareholders on a basis pro rata to their respective shareholdings in Equis, pursuant to a non-renounceable rights issue (**Equis Offer**). Equis shareholders will also be entitled to apply for more shares in this offer, subject to scaling detailed below. Again, for every two new CBD shares subscribed for under this Offer, an investor will receive one Option.

- There will be an ability to accept up to \$2 million of oversubscriptions under the above two offers in aggregate, for a maximum issue size of \$11 million in aggregate.
- Third party investors, including for this purpose certain CBD shareholders or Equis shareholders (together **Firm Investors**) are being approached to secure binding commitments to participate in the offer of the new CBD shares, subject to sufficient CBD shares being available. These investors will take priority in the allocation of any oversubscriptions under the two offers ahead of CBD and Equis shareholders' applications for oversubscriptions.

Priority of Subscriptions

- The Applications of CBD Shareholders, Equis Shareholders and Firm Investors will be dealt with in the following priority:
 - CBD Shareholders applying for their pro rata entitlement in the CBD Offer of up to \$4.5 million will receive all of the new CBD Shares they apply for on this basis (excluding oversubscription applications);
 - Equis Shareholders applying for their pro rata entitlement in the Equis Offer of up to \$4.5 million will receive all of the new CBD Shares they apply for on this basis (excluding oversubscription applications);
 - The Firm Investors (being all investors who sign up under a subscription agreement prior to the commencement of the Equis Offer or the CBD Offer) will receive all of the CBD Shares they have applied for, provided their application does not exceed the difference between the CBD Shares issued to CBD Shareholders and Equis Shareholders above, and the maximum number of shares on offer under the combined Offer. If the Applications of the Firm Investors exceed this amount, they will be scaled as between themselves;
 - If there is a shortfall in the up to \$9 million of shares offered in the CBD Offer and Equis Offer post the issue of the CBD Shares to Firm Investors, then the remaining CBD Shares shall be allotted to those CBD Shareholders and Equis Shareholders (that are not also Firm Investors) who have submitted oversubscription applications in excess of their pro rata entitlement, subject to certain restrictions imposed by the Takeovers Code on Equis shareholders, which will be delineated in detail in the offer document to be circulated to Equis shareholders;
 - If there is a shortfall post the issue of the CBD Shares to CBD Shareholders (who oversubscribe), Equis Shareholders (who oversubscribe), and Firm Investors, then third party investors (being any investors who sign up a subscription agreement after the date of the commencement of the Equis Offer or the CBD Offer) shall be issued the remaining CBD Shares, and if there is an over demand (in excess of \$11 million), then those applications will be scaled as between themselves;
- Notwithstanding that CBD and Equis are seeking to raise up to \$9 million through the Capital Raise, the Merger is conditional upon CBD raising not less than \$7 million of new capital on or before 9 June 2023. In the event that this condition is not satisfied, then the Merger and the Capital raise will not proceed.

The Capital Raise will be launched immediately after the holding of the Special Meeting of CBD Shareholders, assuming that all of the resolutions required to approve the Merger are approved at that Meeting.

CBD will continue to provide any material updates regarding the progress of the Merger as they come to hand.

-ENDS-

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About Cannasouth Limited

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

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