

28 August 2020

**Cannasouth Limited and Group
CEO's Review of Operations
For the six months ended 30 June 2020**

Cannasouth's operations continued to track our business plans despite the impacts of COVID-19. The Company reported an operating loss for the six months to 30 June 2020 was \$1,451,650 (2019: \$821,175). The result was in line with the Group's business plan and represents the significant investment we are making in developing Cannasouth into New Zealand's leading medicinal cannabis company. Cash on hand as at 30 June 2020 was \$10.18 million (2019: \$10.77 million).

We achieved key milestones during the six months to 30 June 2020. It was an exciting period for the Company.

The New Zealand Medicinal Cannabis Scheme came into effect on 1 April. This provides guidance of how the New Zealand Medicinal Cannabis industry will be required to operate to. The Group will require various licences under the scheme to cover aspects of its vertical integration business strategy - from cannabis cultivation, to the sale of finished medicinal cannabis products.

Cannasouth Limited (and group companies) has been working through the new medicinal cannabis licencing programme and has begun submitting licence applications to cover its commercial activities.

Cannasouth remains focussed on a vertically integrated commercial strategy and continues its commitment to producing medicinal cannabis products in New Zealand from locally produced raw materials. One of Cannasouth's initial business objectives for the year was to fast-track pharmaceutical grade medicinal cannabis products to New Zealand patients, prior to producing its own products. To this end, Cannasouth announced in May it had entered into a supply agreement with MediPharm Labs Australia Pty Ltd for the supply of white label medicinal cannabis products.

In early May 2020, the Company successfully completed a Share Purchase Plan (**SPP**). The SPP provided eligible shareholders with an opportunity to purchase additional fully paid ordinary shares in Cannasouth at the same price offered to institutional investors, but without brokerage or transaction costs.

Cannasouth received over subscriptions under the SPP and further funds from several wholesale investors. The Board resolved to place those over subscriptions, and in aggregate, Cannasouth raised \$6,024,853. The funds raised allows the Group to focus on fast-tracking the implementation of its business plan. We thank our shareholders and investors for their support of the Company and sharing this exciting journey with us.

During the half year, the Company welcomed Colin Foster (Chief Financial Officer). Mr Foster succeeded Rob Braithwaite, who had been working with the team since its inception and played an important role in preparing the company for its public listing in June 2019. Colin's appointment is an important and logical progression as Cannasouth grows from a research-based organisation into an integrated commercial enterprise.

In addition, John Sanders has been appointed as Chief Commercial Officer.

John will be responsible for developing and implementing marketing and sales strategies for the company's first medicinal cannabis products. He brings to Cannasouth more than 20 years of commercial, sales and marketing experience, both globally and in New Zealand, with blue chip pharmaceutical and health supplement companies such as Bayer, Merck, Wyeth and Roche.

The Covid-19 lockdown during the six-month period to 30 June 2020 had varying impacts on the Group's entities. Fortunately, Cannasouth has developed a modern working environment with IT systems and infrastructure to accommodate agile work practices. Our team uses video conferencing and online communications daily, so we enjoyed a seamless transition to mandatory working from home. Midwest Pharmaceuticals NZ Limited (Midwest) continued its operations as an essential service provider producing health sector medicines.

The Cultivation JV (Cannasouth Cultivation Ltd or CCL) put on hold the construction of its state-of-the-art hybrid greenhouse cultivation facility during the Covid-19 lockdown. The project team made further progress with planning and system design for the new facility while working from home. In July, CCL appointed USA expert EAH Enterprises LLC, trading as Vera Cultivation in Colorado, to finalise the design of CCL's cultivation facility, develop (licensed) operating systems and procedures, and provide support for the rapid and successful implementation of CCL's state-of-the art growing facilities.

We are looking forward to sharing with you more key milestones in the coming months as we complete key components of the business.

-ENDS-

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

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About Cannasouth Limited

Cannasouth is a biopharmaceutical research and development company based in the Waikato heartland of New Zealand. The Company has been established to focus on the commercial development of the medicinally beneficial attributes of cannabinoid compounds such as CBD, THC and associated chemical structures that are produced by the cannabis plant. Our goal is the development of next-generation cannabinoid medicines that support patients' health outcomes and improve their quality of life. Our products will be produced under GMP & ISO using environmentally friendly methods without the use of harmful chemicals or solvents, ensuring patients are treated with pure cannabinoid therapeutic compounds of the highest quality.

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

Cannasouth Limited and Group
Financial Statements
For the six months ended 30 June 2020



Cannasouth Limited and Group

Consolidated Statement of Profit and Loss and Other Comprehensive Income For the six months ended 30 June 2020

	Unaudited GROUP	Unaudited GROUP
	30 Jun 2020	30 Jun 2019
	(6 Months)	(6 Months)
	\$	\$
Continuing operations		
Revenue and Other Income	58,403	-
Cost of sales	-	-
Gross profit	58,403	-
Interest income	85,778	18,987
Research and development expenses	(308,927)	(62,742)
Administrative expenses	(1,166,735)	(768,140)
Share of net profit/(loss) of joint ventures accounted for using the equity method	(104,986)	-
Loss before finance costs	(1,436,467)	(811,895)
Finance costs	(15,183)	(9,280)
Loss before tax from continuing operations	(1,451,650)	(821,175)
Income tax (expense)/benefit	-	-
Loss after tax from continuing operations	(1,451,650)	(821,175)
Other comprehensive income	-	-
Total comprehensive loss	(1,451,650)	(821,175)
Total comprehensive loss is attributable to:		
Owners of Cannasouth Ltd	(1,451,650)	(821,175)
Non-controlling interests	-	-
Profit /(Loss) per share (cents per share)		
Basic	(1.34)	(1.00)
Diluted	(1.34)	(1.00)
Weighted average number of ordinary shares issued		
Basic	108,109,889	82,000,000
Diluted	108,109,889	82,000,000

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

Cannasouth Limited and Group

Consolidated Statement of Financial Position As at 30 June 2020

	Notes	Unaudited GROUP 30 Jun 2020 \$	Audited GROUP 31 Dec 2019 \$	Unaudited GROUP 30 Jun 2019 \$
Cash and cash equivalents		11,178,064	8,479,716	10,771,250
Trade and other receivables		111,861	143,644	73,216
Tax refunds due		44,234	16,046	1,647
Other financial assets at amortised cost	4	1,904,104	-	-
Other assets		177,319	97,204	92,502
Total current assets		13,415,582	8,736,610	10,938,615
Property, plant and equipment		789,932	833,977	1,023,373
Right of use assets		149,497	166,998	-
Investments		2,073,962	2,178,947	-
Other intangible assets		13,644	7,009	-
Total non-current assets		3,027,035	3,186,931	1,023,373
Total assets		16,442,617	11,923,541	11,961,988
Trade and other payables		437,378	148,451	316,878
Lease liabilities		28,505	26,067	23,072
Loans from related parties		-	-	-
Total current liabilities		465,883	174,518	339,950
Lease liabilities		137,452	152,340	163,706
Total non-current liabilities		137,452	152,340	163,706
Total liabilities		603,335	326,858	503,656
Net assets		15,839,282	11,596,683	11,458,332
Share capital	3	19,821,721	14,149,297	12,683,220
Retained earnings		(4,036,922)	(2,585,273)	(1,224,888)
Share-based payment reserve		54,483	32,659	-
Total equity		15,839,282	11,596,683	11,458,332

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

Cannasouth Limited and Group

Consolidated Statement of Changes in Equity For the six months ended 30 June 2020

		GROUP			
	Notes	Unaudited Share Capital	Unaudited Share-based Payment Reserve	Unaudited Retained Earnings	Unaudited Total Equity
		\$		\$	\$
Balance as at 1 January 2020		14,149,297	32,659	(2,585,273)	11,596,683
Shares issued		6,024,805	-	-	6,024,805
Capital raising costs	3	(352,381)	-	-	(352,381)
Profit/(loss) for the year		-	21,824	(1,451,650)	(1,429,826)
Total comprehensive income		-	21,824	(1,451,650)	(1,429,826)
Increase / (Decrease) in Reserves					-
Balance as at 30 June 2020		19,821,721	54,483	(4,036,923)	15,839,282

		GROUP			
		Unaudited Share Capital	Unaudited Share-based Payment Reserve	Unaudited Retained Earnings	Unaudited Total Equity
Balance as at 1 January 2019		3,515,000	-	(403,713)	3,111,287
Shares issued		10,000,000	-	-	10,000,000
Capital raising costs		(831,780)	-	-	(831,780)
Profit/(loss) for the year		-	-	(821,175)	(821,175)
Total comprehensive income		-	-	(821,175)	(821,175)
Increase / (Decrease) in Reserves		-	-	-	-
Balance as at 30 June 2019		12,683,220	-	(1,224,888)	11,458,332

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

Cannasouth Limited and Group

Consolidated Statement of Cash Flows For the six months ended 30 June 2020

	Notes	Unaudited GROUP 30 Jun 2020 (6 Months) \$	Unaudited GROUP 30 Jun 2019 (6 Months) \$
<u>Operating activities</u>			
<i>Cash was provided from:</i>			
Interest received		73,210	4,945
Receipts from Customers		89,193	-
GST		993	-
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(1,183,207)	(632,443)
Interest paid		(15,183)	(9,280)
Taxation paid		(28,188)	(1,631)
Net cash flows used in operating activities		(1,063,182)	(638,409)
<u>Investing activities</u>			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		(54,338)	(671,907)
Loans to related parties		(1,844,104)	-
Net cash flows used in investing activities		(1,898,442)	(671,907)
<u>Financing activities</u>			
<i>Cash was provided from:</i>			
Proceeds from capital raising	3	6,024,805	10,000,000
<i>Cash was applied to:</i>			
Loans from related parties		-	(217,550)
Payment of lease liabilities		(12,452)	(6,180)
Capital raising costs		(352,381)	(831,780)
Net cash flows from financing activities		5,659,972	8,944,490
Net increase in cash flows		2,698,348	7,634,175
Opening cash and cash equivalents		8,479,716	3,137,075
Cash and cash equivalents at the end of the year		11,178,064	10,771,250

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

Cannasouth Limited and Group

Notes to the Consolidated Financial Statements

For the six months ended 30 June 2020

1 Reporting entity

Cannasouth Limited ('the Company') is a company incorporated 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 3204. The Company together with its subsidiary, Cannasouth Plant Research New Zealand Limited (the 'Group') is principally engaged in the research and development of cannabinoid medicines.

The consolidated financial statements were authorised for issue in accordance with a resolution of directors dated 27 August 2020.

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) and the requirements of the Financial Reporting Act 2013 and the Companies Act 1993.

For the purposes of complying with NZ GAAP the Group is a for-profit entity. The consolidated financial statements of the Group comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The accounting policies and methods of computation applied by the Group in these consolidated financial statements are the same as those applied by the Group in its financial statements for the year ended 31 December 2019.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis.

(b) Functional and presentation currency

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

(c) Presentational changes

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

3 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 2020	105,467,606	15,175,981
Share Purchase Plan (SPP) issue on 7 May 2020	15,853,695	6,024,805
Balance at 30 June 2020	<u>121,321,301</u>	<u>21,200,786</u>
Opening Balance at 1 January 2019	82,000,000	3,700,000
Share issue at IPO	20,000,000	10,000,000
Balance at 30 June 2019	<u>102,000,000</u>	<u>13,700,000</u>

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 capitalised

The Group capitalises costs incurred for capital raising 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 capitalised capital raising costs during the period of \$352,381 in relation to the Share Purchase Plan issue on 7 May 2020.

4 Other financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	Unaudited GROUP	Unaudited GROUP
	30 Jun 2020	30 Jun 2019
	(6 Months)	(6 Months)
	\$	\$
Loans to related parties:		
Midwest Pharmaceuticals NZ Ltd	844,104	-
Cannasouth Cultivation Ltd	1,000,000	-
	<u>1,844,104</u>	<u>-</u>
less: loss allowance for debt investments at amortised cost	-	-
	<u>1,844,104</u>	<u>-</u>

Loans to both Midwest Pharmaceuticals NZ Ltd and Cannasouth Cultivation Ltd are repayable on demand.

5 Related party transactions

In addition to the loans above, at balance date there were related party advances owing from / (owing to) the following related entities:

	Nature of Balance	Unaudited GROUP	Unaudited GROUP
		30 Jun 2020	30 Jun 2019
		(6 Months)	(6 Months)
		\$	\$
Trade payables and receivables due to related parties:			
Midwest Pharmaceuticals NZ Ltd	Recharge of expenses	16,621	-
Cannasouth Cultivation Ltd	Recharge of expenses	21,710	-
		<u>38,331</u>	<u>-</u>

Cannasouth Limited and Group

BUSINESS DIRECTORY

Incorporated: 21 August 2018
Company Number: 6987773
Nature of Business: Research, development and manufacture of biopharmaceuticals specialising in cannabinoid medicines.

Registered Office: c/- Braithwaite and Pearks Ltd
Level 1, 240 Victoria Street
Hamilton Central
Hamilton 3204

Physical Address: Core Facilities Building
Waikato Innovation Park
1 Melody Lane
Hamilton East
Hamilton 3216

Telephone number: +64 7 949 8393

Directors: Nicholas Foreman (Executive Director - Appointed 21 August 2018)
Mark Lucas (Executive Director - Appointed 21 August 2018)
Anthony Ho (Independent Chairman - Appointed 26 September 2018)
Conor English (Independent Director - Appointed 19 October 2018)

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