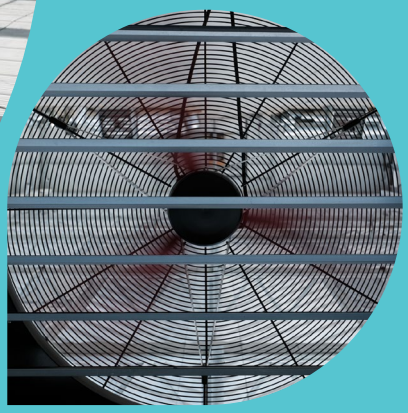
Cannasouth Limited and Group

Financial Statements for the year ended 31 December 2020

cannasouth



CREATING THE FOUNDATIONS

Vera Cultivation Deal Announced

Contents

Covid-19

Chairman and Chief Executive's Report

For the year ended 31 December 2019

First Annual Report Released

Cannasouth Closes SPP Raising

$6 million

JAN | FEB | MAR | APR | MAY | JUN | JUL | A

2020

Colin Foster Appointed as CFO

New Zealand Medicinal Cannabis Scheme Launched

White Label Supplier Agreement

John Sanders Announced as New Chief Commercial Officer

Vision, Mission and Values


Values

Cannasouth Group Values

Four principles that guide and encourage us to achieve success for our company and customers.

Grow Ourselves

We take accountability for our actions and always strive for excellence. We have the courage to be adaptable, open, honest, and harness feedback, building strong relationships in the process.

Lead Through Innovation

We understand that motivated employees are the key to unlocking innovation to create new value. We solve problems for our customers (internal and external) by being creative, collaborative and driven by an open mind.

Unified Delivery

We are unified through our commitment to deliver. We supercise excellence by being responsible, accountable and quality focused throughout our business.

Everyone Together

We believe that working as a team leads to greater results. We constructively support people by actively listening, sharing information as shared and understood in a timely manner. We help each other succeed by working together in a positive and compassionate way.

cannasouth midwest cannasouth

Cannasouth Plant Research Name Changed to **Cannasouth Bioscience Limited**

Cannasouth Cultivation Commercial License Issued

AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR

2021

Cannasouth Bioscience Commercial License Issued

Co-Founder Nic Foreman Retired

Juliet Hull Appointed as Director

Contents

Chairman and Chief Executive's Report

For the year ended 31 December 2020

The Directors have pleasure in presenting the annual report of Cannasouth Ltd and its subsidiary Cannasouth Bioscience Ltd (the 'Group') incorporating the consolidated financial statements and the Independent Auditor's Report, for the year ended 31 December 2020.

The Group recorded a loss before tax of $3.5 million (2019 $2.2 million) and operating revenue of $131,000 (2019 $53,000). 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.

Cash on hand at 31 December 2020 for the Group was $9.2 million (2019 $8.5 million).

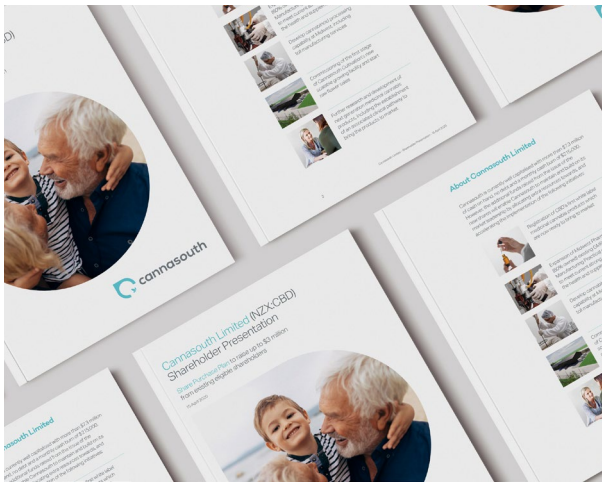
In addition to subsidiary Cannasouth Bioscience Ltd (CBL) the Group has investments in two joint ventures: Cannasouth Cultivation Ltd (for flower production) and Midwest Pharmaceutics NZ Ltd (for medicines grade production and cannabinoid oil extraction services).

The New Zealand Medicinal Cannabis Scheme, which launched on 1 April 2020, was a significant milestone that provided regulatory clarity for Cannasouth in this exciting emerging industry. Our license applications and product assessment applications were lodged with the Medicinal Cannabis Agency during the latter half of the year.

The launch of the Scheme provided Cannasouth with the required timelines, and substantial progress has been made with implementation of its strategy to be an integrated "seed to sale" medicinal cannabis business. The focus was on building facilities and developing the Senior Executive leadership team.

Cannasouth's mission is well-defined to be a sustainable and profitable vertically integrated medicinal cannabis business.

The Group is also building on market intelligence and validating a sales strategy for medicinal cannabis products and services across the whole product spectrum from cannabis cultivation to finished product for sale on the local and global markets.



2020 WAS YET ANOTHER BUSY AND SUCCESSFUL YEAR. HIGHLIGHTS INCLUDE:

- **A heavily over-subscribed successful Share Purchase Plan (SPP) and wholesale placement capital-raise despite the Covid-19 lockdown in May 2020; raising $6 million.**
- **As a good corporate citizen, we refunded $85,726 to the New Zealand government for COVID-19 financial assistance, after our well-supported capital raising.**
- **Successfully concluded a supply agreement with MediPharm Labs, Australia, in May 2020 to import our first own brand medicines.**
- **Our joint venture Cannasouth Cultivation Ltd appointed noted Colorado, USA-based cannabis cultivator Vera Cultivation to supply the design, and the implementation of a state-of-the-art growing facility, including supporting the development of growing systems.**
- **In September we were granted our first commercial cultivation activity and possession to manufacture activity licences from the Medicinal Cannabis Agency.**
- **Submitted our product assessment applications to the Medicinal Cannabis Agency in November 2020 for our three imported own brand medicines.**

Without a doubt, COVID-19 was and still is the biggest challenge for New Zealand businesses. We have been unable to undertake offshore travel, nor have suppliers or customers been able to visit us in New Zealand. However, we embraced video conferencing technology which has overcome this restriction.

The Board believes the future demand for cannabis medicines, and the existing health and well-being products market will remain positive and is confident about the outlook for the Group.

It's exciting to see all of the components of our strategy coming together – we are committed to improve the quality of life for patients through the use of affordable, next-generation cannabinoid therapeutics.

As we continue to invest and grow the Group, our key milestones for 2021 will include:

Receive the full suite of commercial licences from the Medicinal Cannabis Agency required for our businesses.

Commissioning of our state-of-the-art cultivation facility with JV partner Cannasouth Cultivation Ltd.

Complete additional production capacities and capabilities at Midwest Pharmaceutics NZ Limited (to extract APIs and manufacture cannabinoid products).

Gain accreditations for Good Agricultural and Collection Practices (GACP) for flower production and Good Manufacturing Practice (GMP) of manufacturing cannabinoid products.

First domestic sales of approved imported own brand products to New Zealand patients in the first half of 2021.

First sales of cannabis biomass in Q4.

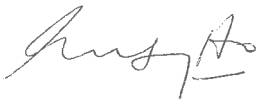
Looking out further, the manufacture and sale of Cannasouth manufactured cannabinoid products from New Zealand grown biomass, is expected from 2022.

In October 2020 we bid farewell to Nic Foreman, Co-founder, when he retired from the Company. Nic was instrumental in establishing Cannasouth. Nic gathered extensive industry experience over the last 18 years from hemp cultivation through to medicinal cannabis research. On behalf of the Board and Shareholders we thank you Nic for your significant contribution to the current success in building the Group.

In February 2021 the Board appointed Ms Juliet Hull as new independent non-executive director. Ms Hull's extensive leadership management and sales and marketing skills in the pharmaceutical and healthcare sectors will assist Cannasouth in our transition into a fully-fledged commercial enterprise.

Finally, on behalf of the Board, we thank our teams, in a trying COVID-19 year, for their ongoing enthusiasm and dedication, and for achieving our milestones.

And to our shareholders and stakeholders, a sincere thank you for your ongoing support and encouragement during 2020.



Tony Ho
Chairman of Directors
24 March 2021

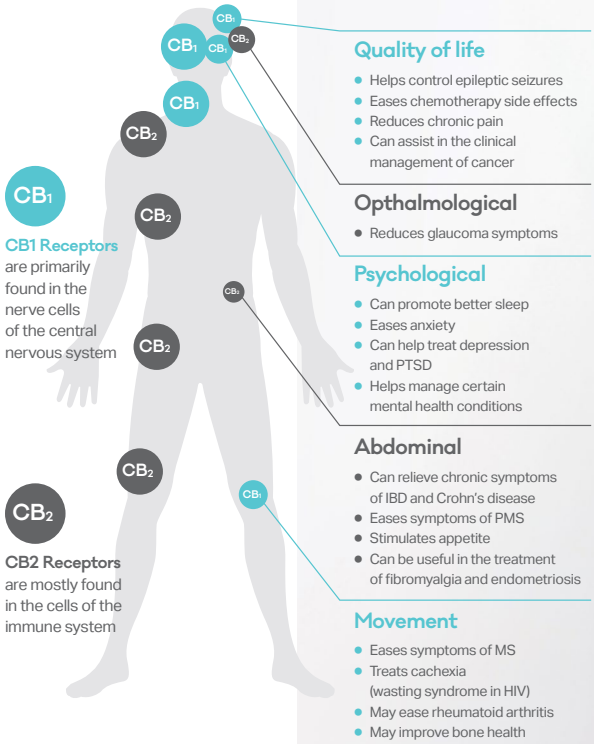
Mark Lucas
CEO, Director
24 March 2021

Industry Insights

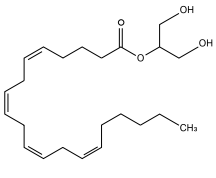
A New Area of Medicine

The discovery of the ECS (Endocannabinoid System) in the 1990s has illuminated an intricate network of receptors in the mammalian nervous system.
The ECS is a key modulator of many important processes of the human body including pain and inflammation, immune function, motor control and stress responses.
Cannabinoids found in the cannabis plant (phytocannabinoids), such as CBD and THC, mimic the endocannabinoids and can integrate with this system to provide therapeutic effects to improve quality of life for many patients.
While still in its infancy, global scientific research is continually unearthing new discoveries on the application of cannabis for health and the potential for medicinal cannabis products to become a staple of modern medicine.

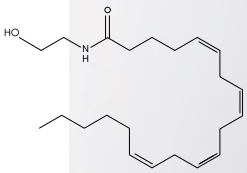
The Endocannabinoid (ECS) System



2-AG



Anandamide



These endocannabinoids are named anandamide (strong affinity for CB1 receptors) and 2-AG (stronger affinity for CB2 receptors). Together, the cannabinoid receptors and endocannabinoids form the endocannabinoid system which helps regulate physiological processes such as mood, pain, appetite, metabolism, sleep, inflammation and more.

Main Market Drivers:

Worldwide, there is increasing pressure driven by patient groups and prescribers on governments to allow access to legal cannabis-based medicines. Currently 42[1] countries allow some kind of legal access, with many of them in their very early stages of development.

Creating a regulated market allows patients to access these products in a more controlled and safer manner than if they accessed crude products on the black market with no guarantee of product quality.

In an effort to reduce the cost of these medicines to patients, many countries adopting a legal medicinal cannabis market (including New Zealand, Australia, and Germany) are confident about allowing products to be prescribed that are produced to pharmaceutical standards GMP (Good Manufacturing Practice), without the full clinical trial data that is normally required for a medicine registration.

42

countries allow some kind of legal access

Main Patient Access Barriers:

In almost all regions where medicinal cannabis first becomes available, the biggest barriers to patient access are;

- Overly restrictive and or evolving regulatory policies, such as a limited number of approved conditions for treatment and/or the need for specialist approval.
- Lack of clear definition and guidance on the product development and approval process for industry and prescribing practices for medical practitioners.
- Lack of prescriber education and/or stigma attached to prescribing these medications.
- Lack of approved or registered products.
- Initial products are relatively expensive due to limited supply, current product classification and the requirement for specialist approval. It is anticipated that products will become more affordable as the market increases and local manufacturing comes onstream. With the exception of Germany, medicinal cannabis medicines are generally not government funded nor covered by patients' health insurance.

Cannabis Clinics and Telehealth

Specialist cannabis clinics are now beginning to emerge in many markets. The benefit of these clinics is that the prescriber is well versed in medicinal cannabis uses, contra indications, and appropriate product selection for best therapeutic outcome.

The global COVID-19 pandemic has also paved the way for more 'telehealth' consultations, which are particularly beneficial for medicinal cannabis patients.

Often with the stigma attached to cannabis-based medicines, patients may be reluctant to ask their regular GP about these products or may not want to visit a physical cannabis clinic. In most cases, the conditions for which cannabis-based medicines are prescribed are chronic and ongoing. It is likely they have been previously diagnosed, which means a physical examination is not necessary. This trend of online consultations is likely to continue and significantly increases patient access.

Currently in the United States there are over

20

clinical trials either being conducted or about to start in the area of pain alone

Clinical Trials, Safety, and Efficacy Data

Market growth continues to be fueled by the significant amount of research currently being undertaken globally to produce clinical data to support the use of medicinal cannabis for a range of conditions. Currently in the United States there are over 20 clinical trials either being conducted or about to start in the area of pain alone. In Europe there are currently 35 clinical trials being conducted with cannabinoid-based products.

As more data is produced to demonstrate efficacy and safety, medical professionals and regulators are becoming more comfortable with regulating access to and prescribing these products further increasing the market size and rate of growth.

The Global CBD Market

At a high level, the global CBD (Cannabidiol) market can be broken down into two distinct areas:

Pharmaceutical and **Food Grade Quality**

In many countries, including New Zealand and Australia, CBD is considered a medicine and is only available by prescription. Products containing CBD must be produced to pharmaceutical quality standards. Australia is implementing changes that will allow some low-dose pharmaceutical quality CBD products to be accessed OTC (Over The Counter). New Zealand may follow in the future, but the regulatory pathway for this is not yet clear. In these jurisdictions, CBD is not allowed to be used in food, supplements or cosmetics. Pet products incorporating CBD in New Zealand would need to be registered as medicines and approved by ACVM (Agricultural Compounds and Veterinary Medicines) before being released to the market.

Some countries are choosing to allow CBD into food, supplements, cosmetics and pet products, including the USA and the UK. Often this CBD is being produced from industrial hemp cultivation and is produced to a lower food grade quality standard.

This is developing into a large sector globally with huge potential for growth over the coming years. The global CBD market is expected to reach USD 13.4 billion by 2028. The market is expected to expand at a CAGR of 21.2% from 2021 to 2028.[7] In the US there is currently very little regulatory oversight of these products and the US FDA (Federal and Drug Administration) is reviewing this with the possibility of increased regulation on the horizon.

Testing of some marketed CBD products has shown content may not be consistent with the stated levels and some products may also be adulterated with potentially toxic ingredients. There are also growing concerns regarding potential liver toxicity when unregulated CBD products are taken in very high doses.

The veterinary market has huge potential in the coming years and will likely be split into either pharmaceutical therapeutic products or general wellness products depending on what is permitted by regulators in each jurisdiction.

The global CBD market is expected to reach

$13.4B

(USD) by 2028

The market is expected to expand at a CAGR of

21.2%

from 2021 to 2028

Review of Markets

Countries in Europe with well-established medicinal cannabis legislation includes: [5]

- Cyprus
- Czech Republic
- Germany
- Greece
- Italy
- Malta
- Netherlands
- North Macedonia
- Poland
- Portugal
- Switzerland
- United Kingdom

Countries in Europe permitting the supply of specific cannabis products under specific conditions or test/trial/pilot periods includes: [5]

- Austria
- Croatia
- Denmark
- Estonia
- Finland
- France
- Georgia
- Iceland
- Lithuania
- Luxembourg
- Norway
- Romania
- Russia
- Slovenia
- Spain

Europe and the United Kingdom

The European medicinal cannabis market is in its early phase of development and represents a major area of interest for the Cannasouth Group. Access to medicinal cannabis in this region is tightly regulated with a high degree of physician oversight, access by pharmacy prescription only, and strict GMP pharmaceutical quality standards.

The European market is currently dominated by Germany. In 2020 the value of the German medicinal cannabis market was estimated to be USD 267 million and expected to grow to USD 2.1 billion by 2025.[3]

Several factors explain the growth in use of medicinal cannabis in Germany, including its cost being covered by some health insurers, government [4] and prescriber education initiatives designed to increase patient access to these products.

Despite a slow start to its medicinal cannabis scheme, the UK has also been tipped to become a major market over the coming years with an estimated 2020-2025 Compound Annual Growth Rate (CAGR) of 98%. The total European market is estimated to reach a value of just under USD 3 billion by 2025. [3]

Asia

The Asian medicinal cannabis market is also beginning to develop. Strict laws prohibiting cannabis use in many of these countries means that medicinal cannabis access is being tightly controlled as schemes are developed with a preference for pharmaceutical quality products.

Most Asian countries have a long history with traditional medicine use, often from natural plant-based sources. Thailand and South Korea have both legalised medicinal cannabis use with some other countries in the region allowing access to products containing CBD The region's close proximity to New Zealand, combined with our country's trusted reputation for quality, creates excellent export opportunities for the Cannasouth Group over the coming years.

Australia

The Australian medicinal cannabis market has been operational since 2016. However, regulatory prescribing complexities and differences between states reduced patient access and slowed the initial growth of the market. These issues have been largely resolved and the market continues to grow strongly with an estimated market value of AUD 95 million in 2020 growing to over AUD 150 million in 2021.[8] The number of medical cannabis prescriptions approved by the Therapeutic Goods Administration in February 2021 soared past 8,000, eclipsing the previous highest total by more than 1,700. [9]

Australia operates a regulatory model similar to that of New Zealand, incorporating a traditional prescription/pharmacy model. Australian law also requires GMP for locally manufactured product. However, they have allowed a different quality standard for imports, which has created challenges for local manufacturers. This difference in standards is now being reviewed with the possibility of bringing import standards into line with GMP standards. [2] Australia is a key target market for Cannasouth due to the close proximity and close alignment of regulations and quality standards.

New Zealand

The New Zealand Medicinal Cannabis Scheme was launched on the 1st of April 2020. However, it has had a slow start due to the complexities associated with meeting the required quality standard under the Scheme allowing products to enter the market.

Medicinal Cannabis products in New Zealand are required to be registered with the Medicinal Cannabis Agency (Agency) i.e must meet the defined minimum quality standards including conformance to GMP. These registered products are classified as 'unapproved' medicines unless they have a supporting clinical trials data to support a specific therapeutic claim. These unapproved products fall under Section 29 of the Medicines Act which means they must be prescribed by a doctor or specialist on a named patient basis.

Initially a transition period was granted for products that may not meet the new quality standard and that were available before the Scheme's launch. This allowed them to remain available via prescription to be either assessed as meeting the new quality standard by the Agency or be phased out. As very few manufacturers globally have reached the required GMP standard, no products as at December 2020 had been successfully assessed. The transition period was therefore extended until the 31 March 2021 and has been further extended until the 30th of September 2021. Cannasouth currently has product assessment applications being processed for our first imported products which will be under our own brand name if successful in the registration process.

Patient demand for medicinal cannabis remains high in New Zealand. Once products have been assessed by the Agency and registered, the main barrier to access for patients will be prescriber education. Several specialist clinics have already emerged, which has been the trend in other countries adopting a prescriber/pharmacy access model. In New Zealand, a prescriber can prescribe a medicinal cannabis product for any condition they feel it is appropriate.

Currently, most of the medicinal cannabis products being dispensed in New Zealand are CBD due to the lack of availability of products containing THC (Tetrahydrocannabinol) which has controlled drug status. Once products containing THC are assessed by the Agency, doctors will be able to prescribe for a much larger number of clinical indications and hence the market is expected to grow at a consistent pace over the coming years. If New Zealand follows Australia's lead and allows OTC sales of low dose CBD product, the market is expected to grow at a much faster rate.

The transition period was extended until

31 March

and has been further extended until

30 September

"In New Zealand, a prescriber can prescribe a medicinal cannabis product for any condition they feel it is appropriate."

Leveraging market opportunities

Global medicinal cannabis markets are going to continue to grow at a strong rate over the coming years, with many markets still in their infancy.

Regulatory complexities mean companies will need to have a clear regulatory strategy and capabilities to be able to access key markets. Product quality standards will also be a key differentiator.

Cannasouth Group has assembled a highly experienced team with over 190 years of GMP and pharmaceutical development knowledge and experience

Collectively, the Cannasouth Group has assembled a highly experienced team with over 190 years of GMP and pharmaceutical development knowledge and experience.

Cannasouth's facilities are in the final stages of development and are designed to operate at the highest EU GMP quality standards. As such, once these facilities are certified during 2021 and early 2022, Cannasouth will be in a position to target the most regulated high-quality markets globally, while leveraging the opportunities presented by New Zealand's reputation for quality.

Unlike traditional pharmaceuticals, Cannabis-based medicines are plant based and consumers are interested in the origin of these products. Increasingly, especially in Europe, the environmental merits and provenience of these products are also key selling points.

The Cannasouth Group will collectively be able to provide products to satisfy consumer demand for sustainably produced medicinal cannabis, including pharmaceutical quality API's (Active Pharmaceutical Ingredient) or CBI's (Cannabis Based Ingredient), including flower, oils, distillates, and isolates through to finished dosage forms.

With our JV Partner, Cannasouth Cultivation Limited, we have constructed a world-class facility designed to produce pharmaceutical quality flower meeting the strict requirements of GACP/GMP standards while utilising the power of the sun in a hybrid greenhouse.

This approach allows us to cultivate cannabis at a much lower price than traditional indoor cultivation facilities while also reducing our carbon footprint.

We have constructed a world-class facility designed to produce pharmaceutical quality flower meeting the strict requirements of GACP/GMP standards

The manufacture of API and medicinal cannabis in finished dosage form will be conducted under GMP standards at our subsidiary Midwest Pharmaceutics NZ Limited in Hastings.

Our in-house R&D (Research and Development) team is headed by our Chief Scientific Officer, David Gill, who has over 30 years' experience in commercially focused innovation and pharmaceutical product development.

Our R&D Team includes highly qualified and experienced scientists and laboratories equipped with some of the most advanced technology for targeting and isolating cannabinoids to feed into our formulation and clinical development programmes. Cannasouth has been successful in achieving Government funding via Callaghan Innovation for many of our research initiatives including:

Grant Type	Research	Status
Fellowship Grant	PhD: the Extraction of bioactives using Supercritical Fluid CO2 extraction, short path molecular distillation and purification research	In final year of three-year programme
	MSc: Tissue Culture to identify and optimize cultivation processes	Submitted February 2021
	MSc: To create a cannabinoid and receptor docking library using computational chemistry	Commenced March 2021
Project Grant	PhD: Drug Discovery, Neuropathic pain research In-house Research: Improved Drug Delivery technologies	Half-way into a three-year programme
Career Grant	Placement of a Fellowship Grant MSc student into full-time R&D role	February to August 2021

This research combined with our pre-clinical studies allows Cannasouth to search for genuine unique IP opportunities, develop clinical trial strategies and develop innovative new products and formulations for both the local and export markets.

References:

(1) https://en.wikipedia.org/wiki/Legality_of_cannabis

(2) https://consultations.health.gov.au/medical-devices-and-product-quality-division/medicinal-cannabis-reforms-2020/https://content.brightfieldgroup.com/succeeding-in-european-cannabis-fall-2020-report

(3) https://www.bluewin.ch/de/news/schweiz/medizinal-cannabis-kann-kuenftig-einfacher-verschrieben-werden-617079.html?mc_cid=27eafa407e&mc_eid=930f6f9d67

(4) https://www.broadsheet.com.au/national/city-file/article/explainer-low-dose-cbd-oil-can-now-be-bought-over-counter-heres-what-means

(5) https://www.cnbc.com/2019/07/15/medical-cannabis-is-gaining-momentum-in-asia.html

(6) https://www.grandviewresearch.com/press-release/global-cannabidiol-cbd-market

(7) Freshleaf Analytics Australian Medicinal Cannabis Market Q3 2020 Report

(8) https://www.cannabiz.com.au/huge-spike-in-approvals-as-tga-signs-off-8000-cannabis-prescriptions-in-february/

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 2021

	Number of security holders		Number of securities	
Ordinary Shares	Number of Holders	%	Shares held	%
1 - 1,000	841	21.91	502,503	0.41
1,001 - 5,000	1,606	41.84	4,535,134	3.72
5,001 - 10,000	602	15.69	4,734,075	3.89
10,001 - 50,000	649	16.91	14,350,130	11.78
50,001 - 100,000	72	1.88	5,183,400	4.25
Greater than 100,000	68	1.77	92,525,309	75.95
Total	3,838	100.00	121,830,551	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 Dec 2020. The total number of quoted ordinary shares of the Company at that date was 121,830,551.

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

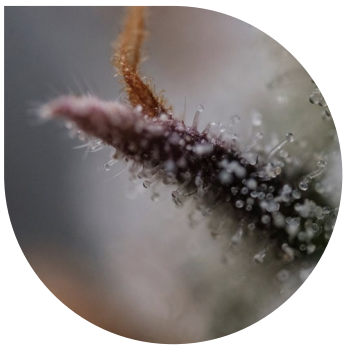
During the 12 Months ended 31 December 2020

Cannasouth Ltd	Appointed	Retired	Position
Mark Lucas	21/8/2018		Executive
Nicholas Foreman	21/8/2018	7/10/2020	Executive
Anthony Ho	26/9/2018		Independent Chairman, Non-executive
Conor English	19/10/2018		Independent, Non-executive

20 Largest Registered Holders of Quoted Equity Securities

As at 31 December 2020

	Number of ordinary shares	Percentage of ordinary shares
Mark John Lucas	28,029,435	23.01
Nicholas Jon Foreman	25,651,290	21.05
New Zealand Depository Nominee	15,387,854	12.63
FNZ Custodians Limited	5,906,959	4.85
Merran Dawn Davis	1,741,935	1.43
Aaron John Craig & Jennifer Craig	1,451,023	1.19
Jason Stewart Craig & Vicki Leanne Craig	1,319,545	1.08
Mark Balchin & Greenmeadows Health Limited	886,406	0.73
Heather Anne Burgess	693,000	0.57
Anthony Ho & Chui Ho	620,000	0.51
All Green Limited	620,000	0.51
Yang Lin & Yiqing Liu	470,000	0.39
Sandra Margaret Lamb & David Lorrence Bell	380,000	0.31
Kim Tea Chuor & Helen Ngac Huor Chuor	360,000	0.30
Eugene John Gibney	350,000	0.29
Yinghao Chen	339,000	0.28
Lynda Sharmayne Mather	288,500	0.24
Robert Donald Mckay	281,578	0.23
JBWERE (NZ) Nominees Limited	280,042	0.23
David Anthony Grattan	272,240	0.22
Total	85,328,807	70.04%



Directors Security Holdings

As at 31 December 2020

	Ordinary Shares				Share options			
	Legally & beneficially owned		Held by associated persons		Legally & beneficially owned		Held by associated persons	
	2020	2019	2020	2019	2020	2019	2020	2019
Mark Lucas	28,029,435	28,161,290	-	-	-	-	-	-
Nicholas Foreman	25,651,290	28,161,290	-	-	-	-	-	-
Anthony Ho	620,000	450,000	-	-	250,000	250,000	-	-
Conor English	4,741	32,332	-	-	250,000	250,000	-	-

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 2020 is:

	Remuneration of Directors		Other Services	
	2020 $	2019 $	2020 $	2019 $
Mark Lucas	176,523	104,352	-	-
Nicholas Foreman	356,701	104,352	-	-
Anthony Ho	77,502	58,569	-	-
Conor English	52,500	45,332	-	-
Total	**663,226**	**312,605**	**-**	**-**

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 virture of their directorship or membership of those entities.

Mark Lucas	Hemptech NZ Ltd	Director
	Base New Zealand Ltd	Director
	Cannasouth Cultivation Ltd	Director
	Midwest Pharmaceutics NZ Ltd	Director
	Cannasouth Bioscience Ltd	Director
Nicholas Foreman	Herne Bay Holdings Ltd	Director
	Hemptech NZ Ltd	Director
	Nic-Mark NZ Ltd	Director
	Gentec Plant Research New Zealand Ltd	Director
	Cannasouth Cultivation Ltd (1)	Director
	Cannasouth Bioscience Ltd (1)	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) (2)	Chairman
Conor English	Quotable Value Ltd	Director
	GMP Pharmaceuticals Ltd	Director
	E Sport New Zealand	Director
	QEX Logistics Ltd (NZX:QEX)(3)	Chairman
	Caniwi FFLP Ltd	Director
	Fibre Fresh GP Ltd	Director
	Agribusiness New Zealand Ltd	Director

(1) Retired effective 7 October 2020
(2) Resigned effective 28 April 2020
(3) 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 2020.

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 2020:

	Interest	Shares
Mark Lucas	Non-beneficial	28,029,435
Nicholas Foreman	Non-beneficial	25,651,290
Anthony Ho	Non-beneficial (1)	620,000
Conor English	Beneficial (2)	4,741

(1) Held by Anthony Ho & Chui Ho
(2) Held by Glenmore Dipton Trust

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

	Transaction	Date	Number	Total consideration $
Mark Lucas	Sale	between 09 and 15 October 2020	64,500	58,510
	Sale	between 10 and 12 November 2020	67,355	41,251
Nicholas Foreman	Sale	between 09 and 15 October 2020	64,500	58,510
	Sale	between 27 and 30 October 2020	600,987	444,746
	Sale	between 02 and 06 November 2020	360,513	244,899
	Sale	between 10 and 12 November 2020	138,378	87,783
	Sale	between 18 and 20 November 2020	351,158	194,941
	Sale	between 23 and 27 November 2020	994,464	622,845
Anthony Ho	Purchase (1), (4)	7 May 2020	131,578	50,000
	Purchase (1)	26 October 2020	18,422	15,659
	Purchase (1)	20 November 2020	20,000	11,200
Conor English	Purchase (2), (4)	7 May 2020	131,578	50,000
	Sale (3)	between 12 and 21 May 2020	73,639	33,595
	Sale (3)	between 22 and 28 May 2020	65,530	29,039
	Sale (3)	16 October 2020	20,000	17,936

(1) Acquired by Anthony Ho & Chui Ho
(2) Acquired by Agribusiness New Zealand Ltd
(3) Disposed by Agribusiness New Zealand Ltd
(4) Acquired pursuant to the terms of the Cannasouth Share Purchase Plan, issued 7 May 2020

c) Loans to Directors

There were no loans to Directors during the year ended 31 December 2020.

Meeting Attendance

	Meetings Attended
Mark Lucas	9
Nicholas Foreman [1]	7
Anthony Ho	9
Conor English	9
Board Meetings Held During The Year	9

[1] Mr Foreman attended all board meetings prior to his retirement, effective 7 October 2020

Remuneration of Employees

During the year to 31 December 2020 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	
	2020	2019
100,000 to 109,999	1	-
130,000 to 139,999	2	-
170,000 to 179,999	1	-
	4	-

Auditor

The auditor for the Group is Deloitte. Auditor's remuneration is disclosed in Note 8 to the financial statements.

Donations

There were $0 donations 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

The Company opened a Share Purchase Plan (SPP) to shareholders on 14 April 2020 and has relied on the class waiver related to capital raising granted by NZX on 19 March 2020 in relation to the SPP.

NZX Governance Code

A statement on the extent to which Cannasouth has followed the recommendations in the NZX Corporate Governance Code during the year can be found on our website: www.cannasouth.co.nz

Index to the Financial Statements

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2020

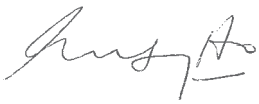
	Notes	31 Dec 2020	31 Dec 2019
		$	$
Continuing operations			
Revenue and other Income	7	131,140	53,391
Cost of sales		-	-
Gross profit		131,140	53,391
Interest income	9	178,237	71,683
Research and development expenses		(721,235)	(302,065)
Administrative expenses	8	(2,765,283)	(1,939,297)
Share of net loss of joint ventures accounted for using the equity method	15	(274,303)	(37,034)
Loss before finance costs		(3,451,444)	(2,153,322)
Finance costs	9	(29,210)	(28,236)
Loss before tax from continuing operations		(3,480,654)	(2,181,558)
Income tax (expense)/benefit	10	-	-
Loss after tax from continuing operations		(3,480,654)	(2,181,558)
Other comprehensive income		-	-
Total comprehensive loss		**(3,480,654)**	**(2,181,558)**
Total comprehensive loss is attributable to:			
Owners of Cannasouth Ltd		(3,480,654)	(2,181,558)
Profit /(Loss) per share (cents per share)			
Basic		(3.00)	(2.28)
Diluted		(3.00)	(2.28)
Weighted average number of ordinary shares issued			
Basic		116,101,513	92,925,926
Diluted		116,101,513	92,925,926

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

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	31 Dec 2020	31 Dec 2019
		$	$
Cash and cash equivalents		9,151,233	8,479,716
Trade and other receivables	11	65,716	143,644
Tax refunds due		44,234	16,046
Other assets	12	200,539	97,204
Total current assets		9,461,722	8,736,610
Property, plant and equipment	13	728,711	833,977
Right of use assets	14	132,046	166,998
Investments	15	1,964,644	2,238,947
Loans to related parties	22	2,264,104	-
Other intangible assets		11,892	7,009
Total non-current assets		5,101,397	3,246,931
Total assets		14,563,119	11,983,541
Trade and other payables	16	336,182	208,451
Lease liabilities	14	31,175	26,067
Total current liabilities		367,357	234,518
Lease liabilities	14	121,217	152,340
Total non-current liabilities		121,217	152,340
Total liabilities		444,340	386,858
Net assets		**14,074,545**	**11,596,683**
Share capital	18	20,066,346	14,149,297
Accumulated deficit		(6,053,547)	(2,585,273)
Share-based payment reserve	24	61,746	32,659
Total equity		**14,074,545**	**11,596,683**



Tony Ho
Chairman of Directors
24 March 2021

Mark Lucas
CEO, Director
24 March 2021

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 2020

	Notes	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	18	6,279,430	-	-	6,279,430
Capital raising costs	18	(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		-	29,087	12,380	41,467
Balance as at 31 December 2020		**20,066,346**	**61,746**	**(6,053,547)**	**14,074,545**

		Share Capital	Share-based Payment Reserve	Accumulated Deficit	Total Equity
		$	$	$	$
Balance as at 1 January 2019		3,515,000	-	(403,715)	3,111,285
Shares issued	18	11,475,981	-	-	11,475,981
Capital raising costs	18	(841,684)	-	-	(841,684)
Profit / (Loss) for the year		-	-	(2,181,558)	(2,181,558)
Total comprehensive income		-	-	(2,181,558)	(2,181,558)
Increase / (Decrease) in Reserves		-	32,659	-	32,659
Balance as at 31 December 2019		**14,149,297**	**32,659**	**(2,585,273)**	**11,596,683**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	31 Dec 2020	31 Dec 2019
		$	$
Operating activities			
Cash was provided from:			
Interest received		121,960	48,578
Receipts from customers		161,289	277
Cash was disbursed to:			
Payments to suppliers and employees		(3,142,560)	(1,914,880)
Interest paid		(29,210)	(28,236)
Taxation paid		(28,188)	(16,030)
GST		(12,223)	(23,428)
Net cash flows used in operating activities	20	(2,928,932)	(1,933,719)
Investing activities			
Cash was applied to:			
Purchase of property, plant and equipment		(86,423)	(785,692)
Acquisition of joint ventures		-	(1,800,000)
Loans to related parties		(2,204,104)	-
Net cash flows used in investing activities		(2,290,527)	(2,585,692)
Financing activities			
Cash was provided from:			
Proceeds from capital raising		6,279,430	11,000,000
Cash was applied to:			
Loans from related parties		-	(277,550)
Payment of lease liabilities		(26,073)	(18,713)
Capital raising costs		(362,381)	(841,684)
Net cash flows from financing activities		5,890,976	9,862,053
Net increase in cash flows		671,517	5,342,642
Opening cash and cash equivalents		8,479,716	3,137,074
Cash and cash equivalents at the end of the year		**9,151,233**	**8,479,716**

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

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 subsidiary, Cannasouth Bioscience Ltd (the 'Group') is principally engaged in the production and supply of cannabis biomass and therapeutic products, including research and development of cannabinoid medicines.

Cannasouth Bioscience Ltd was previously known as Cannasouth Plant Research New Zealand Ltd. The name change was registered on 23 September 2020.

The consolidated financial statements were authorised for issue in accordance with a resolution of directors dated 24 March 2021.

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)

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 production and supply (including research and development) of biopharmaceuticals specialising in cannabinoid medicines

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 has been 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 $3,480,654 (2019: $2,181,558).

The financial statements have been prepared based on a going concern basis which assumes that the Group will have sufficient cash to continue its operations for a minimum of 12 months from the date of signing the financial statements. The Directors believe the going concern assumption is valid, reaching such a conclusion after having regard to the circumstances which they consider reasonably likely to affect the Group during the period of at least one year from the date the financial statements are approved.

The release of the Government's medicinal cannabis regulations in December 2019 was a significant milestone as it provided guidance to the way ahead for the New Zealand medicinal cannabis industry. In addition, the 2020 cannabis referendum removed the uncertainty that would have arisen through the introduction of a further new regulatory framework for recreational cannabis. During the financial year, the Group made substantial progress on implementing its strategy to be an integrated "seed to sale" medicinal cannabis business through its two joint ventures (Cannasouth Cultivation Ltd and Midwest Pharmaceutics NZ Ltd).

The Group has committed to continue funding the two joint ventures integral to the implementation of the strategy. The extent of this funding is $3.60 million in the 2021 financial year, based on management budgets and plans. In addition, the Group has budgeted an operating loss and certain capital expenditure for the financial year ended 31 December 2021.

As at 31 December 2020, the Group has cash of $9.15 million and no external debt or debt-like obligations. This cash together with the capital raise referred to below, is sufficient to fund the budgeted operating loss and budgeted capital expenditure.

Business Development and Construction of the Facilities

The Group needs to raise further funding (debt or equity) to continue its implementation of the 'seed-to-sale' strategy and complete the construction of facilities. The Group still needs to secure additional funding to achieve its milestones in 2021 including:

- the construction of facilities and fund working capital
- complete the development of quality and management systems to comply with the Medicinal Cannabis Scheme
- obtain the necessary regulatory approvals, licenses and /or renewals to build and operate the facilities, and sell medicinal cannabis products

The Board plans to mitigate the material uncertainty around going concern first and foremost by undertaking a capital raise. This is currently being investigated and is expected to occur mid-2021. Cannasouth has a history of successful capital raising and believes it will continue to do so. The Board believes similar levels to previous raises will be met.

In the event that the Group is not able to raise sufficient additional funding for the implementation of the 'seed-to-sale' strategy and construction of the facilities, a material uncertainty would exist that may cast significant 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

Recognition and measurement

The Group recognises revenue from the following major sources:

- Government grants
- Sales of goods

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.

Sales of goods: The Group is currently in start-up phase, but may sell very small quantities of cannabis samples to other parties who hold appropriate licences. Revenue is recognised when control of the goods has transferred, which is when the goods have been shipped to the customer.

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:	31 Dec 2020 $	31 Dec 2019 $
Salaries & wages	1,544,803	731,157
Contributions to defined contribution funds (KiwiSaver)	55,898	20,172
	1,600,701	751,329
Depreciation - property, plant and equipment	183,304	159,495
Amortisation - software	3,504	4,640
Fees to auditors:		
Audit of the financial statements	60,000	52,000

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 2020 $	31 Dec 2019 $
Interest income	178,237	71,683
Interest expense	(29,210)	(28,236)

There was $nil borrowing costs capitalised during the period (2019: $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.

a) Income tax expense / (benefit)	31 Dec 2020 $	31 Dec 2019 $
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	(3,480,654)	(2,181,558)
Tax at the New Zealand tax rate of 28%	(974,583)	(610,836)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	974,583	610,836
Non-assessable income	-	-
Tax loss offsets	-	-
Income tax expense / (benefit)	-	-

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 2020	31 Dec 2019
	$	$
Trade receivables and related party receivables	30,066	113,060
GST receivables	35,650	30,584
	65,716	143,644

12 Other assets

	31 Dec 2020	31 Dec 2019
	$	$
Interest income accrued	79,381	23,104
Prepayments	53,684	74,100
Grant income accrued	67,474	-
	200,539	97,204

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.

13 Property, plant and equipment (continued)

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:

Buildings	5-25%
Fixtures and fittings	10-25%
Motor vehicles	30%
Office equipment	50%
Plant and equipment	13-40%

Carrying amounts of:	31 Dec 2020	31 Dec 2019
	$	$
Buildings	125,003	140,755
Fixtures & fittings	53,332	49,193
Motor vehicles	-	9,747
Office equipment	38,449	47,645
Plant & equipment	494,931	584,127
Work in progress	16,996	2,510
	728,711	833,977

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 December 2020	151,949	65,879	-	88,543	749,398	16,996	1,072,765
Accumulated depreciation							
Opening balance	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 December 2020	26,946	12,547	-	50,094	254,467	-	344,054
Carrying Value at 31 December 2020	**125,003**	**53,332**	**-**	**38,449**	**494,931**	**16,996**	**728,711**

2019	Buildings	Fixtures & Fittings	Motor Vehicles	Office Equipment	Plant & Equipment	Work in Progress	Total
Cost	$	$	$	$	$	$	$
Opening balance	-	5,442	15,652	7,989	75,072	126,004	230,159
Additions	151,949	48,932	-	65,192	632,169	(123,494)	774,748
Disposals	-	-	-	(1,499)	-	-	(1,499)
Balance at 31 Dec 2019	151,949	54,374	15,652	71,682	707,241	2,510	1,003,408
Accumulated depreciation							
Balance at opening	-	390	1,727	1,520	7,094	-	10,731
Depreciation	11,194	4,791	4,178	23,313	116,020	-	159,496
Eliminated on disposal of assets	-	-	-	(796)	-	-	(796)
Balance at 31 Dec 2019	11,194	5,181	5,905	24,037	123,114	-	169,431
Carrying Value at 31 December 2019	**140,755**	**49,193**	**9,747**	**47,645**	**584,127**	**2,510**	**833,977**

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 provided to the lessor by the lessee, a party related to the lessee or an unrelated third party that is financially capable of discharging the obligations under the guarantee; 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 2020 $	31 Dec 2019 $
Cost		
Opening balance	197,120	197,120
Additions	58	-
Disposals	-	-
Closing balance	197,178	197,120
Accumulated depreciation		
Opening balance	30,122	-
Depreciation	35,010	30,122
Eliminated on disposal of assets	-	-
Closing balance	65,132	30,122
Carrying Value	**132,046**	**166,998**

Lease liabilities	31 Dec 2020 $	31 Dec 2019 $
Opening lease liability	178,407	197,120
Lease extensions & modifications	58	-
Interest expense for the year	29,210	27,261
Lease payments	(55,283)	(45,973)
Closing lease liability	152,392	178,407
The maturity of the contractual lease payments is as follows:		
Within one year	55,283	55,270
Later than one year but not later than five years	164,029	205,531
Later than five years	-	7,912
	219,312	268,713
Amounts recognised in the statement of profit and loss:		
Depreciation charge on right-of-use assets	35,010	30,122
Interest expense (included in finance costs)	29,210	28,236
Expense relating to short-term leases	33,915	13,104
Expense relating to low-value assets (not included in the above short-term lease expense)	2,500	3,000

At 31 December 2020, the Group is committed to $3,900 for short-term leases (2019: $23,625).

15 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 profit 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 identifiable 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 identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit 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 profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit 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 reclassifies 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.

15 Investments (continued)

a) Interests in joint ventures

Set out below are the joint ventures of the Group as at 31 December 2020 which, in the opinion of directors, are material to the Group.

Name of entity	Country of incorporation	% of ownership interest 2020	% of ownership interest 2019	Nature of relationship	Measurement Method	Carrying amount 31 Dec 2020	Carrying amount 31 Dec 2019
Midwest Pharmaceutics NZ Ltd	New Zealand	60%	60%	Joint Venture	Equity method	1,106,878	1,256,597
Cannasouth Cultivation Ltd	New Zealand	50%	50%	Joint Venture	Equity method	857,766	982,350
						1,964,644	2,238,947

Midwest Pharmaceutics NZ Ltd

Established in Hastings in 2001, Midwest operates a GMP (Good Manufacturing Practice) compliant manufacturing and packing facility specialising in the manufacture, re-packing and wholesale supply of pharmaceutical raw materials, including both actives and excipients and the 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 will be manufacturing medicinal-cannabis products in the future. On 31 October 2019 Cannasouth Ltd acquired a 60% equity interest in Midwest Pharmaceutics NZ Ltd as a strategic investment which will enable the execution of the Group's strategy.

The Board has considered the legal form of the arrangement, including the rights and obligations arising, and the rights to the net assets. The Group has determined that a 60% interest was acquired and there was unanimous voting rights on relevant activities. On that basis there is joint control and the Group has assessed it to be a joint venture.

Consideration transferred for Midwest Pharmaceutics NZ Ltd	$
The consideration transferred was $1,275,981. This was made up of:	
Cash	800,000
Shares in Cannasouth Ltd (689,828 shares)	475,981
	1,275,981

The fair value of the ordinary shares issued as part of the consideration paid was determined based on the market rate on the settlement date.

Put and Call Options for Shares in Midwest Pharmaceutics NZ Limited

The Midwest Pharmaceutics NZ Ltd Joint Venture Agreement between Cannasouth Ltd (CSL) and Mark Balchin & Greenmeadows Health Ltd (Mark & GM) includes the following call and put options:

- Cannasouth Ltd hold two call options which permit the acquisition of 40% of the shareholding in Midwest Pharmaceutics NZ Ltd.
- Mark Balchin & Greenmeadows Health Ltd holds a put option which requires Cannasouth Ltd to acquire shares held by Mark Balchin & Greenmeadows Health Ltd.

The fair values of the options above are not material.

Cannasouth Cultivation Ltd

On 29 July 2019 Cannasouth entered into a joint venture with Tokomaru Horticulture Industries Limited. The JV was structured as Cannasouth Cultivation Ltd. Cannasouth acquired a 50% interest in the Cannasouth Cultivation Ltd for consideration of $1,000,000. The JV was structured with unanimous voting rights.

The JV will construct and operate a medicinal cannabis and hemp cultivation and production facility to service and supply Cannasouth's production requirements. The JV commenced its operations by constructing a state-of-the-art hybrid greenhouse cultivation facility and will grow medicinal cannabis and complementary product, primarily for Cannasouth, but potentially for other medicinal cannabis companies in New Zealand and internationally. The JV will also investigate expanding into broadacre operations (outdoor growing), and/or in conjunction with developing a network of New Zealand-based contract growers.

The Board has considered the legal form of the arrangement, including the rights and obligations arising, and the rights to the net assets. The Group has determined that a 50% interest was acquired and there was unanimous voting rights on relevant activities. On that basis there is joint control and the Group has assessed it to be a joint venture.

15 Investments (continued)

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. 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.

	Midwest Pharmaceutics NZ Ltd		Cannasouth Cultivation Ltd	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Current assets	490,375	423,658	810,170	1,693,397
Non-current assets	3,209,477	2,136,205	3,293,149	302,061
Current liabilities	(1,844,046)	(207,291)	(2,139,305)	(30,759)
Non-current liabilities	(1,239,122)	(1,486,356)	(248,482)	–
Net assets	616,684	866,216	1,715,532	1,964,699

	Midwest Pharmaceutics NZ Ltd		Cannasouth Cultivation Ltd	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Reconciliation to carrying amounts:				
Opening net assets	866,216	–	1,964,699	–
Fair value of net assets at acquisition	–	898,522	–	2,000,000
Profit/ (Loss) for period	(249,532)	(32,306)	(249,167)	(35,301)
Closing net assets	616,684	866,216	1,715,532	1,964,699
Groups share in %	60%	60%	50%	50%
Groups share in $	370,010	519,729	857,766	982,350
Goodwill	736,868	736,868	-	-
Carrying amount	1,106,878	1,256,597	857,766	982,350

	Midwest Pharmaceutics NZ Ltd		Cannasouth Cultivation Ltd	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Revenue	2,244,328	357,604	16,750	-
less Cost of sales	(1,625,364)	(256,243)	-	-
Interest income	-	-	-	-
less				
Operating expenses	607,788	79,504	213,850	35,177
Depreciation and amortisation	296,053	43,133	17,311	123
Interest expense	63,819	13,067	34,756	-
Income tax expense	(99,164)	(2,037)	-	-
Profit / (Loss) for the period	(249,532)	(32,306)	(249,167)	(35,300)

c) Commitments and contingent liabilities in respect of joint ventures

	31 Dec 2020	31 Dec 2019
	$	$
Commitments to provide funding to joint ventures, if called.	3,600,000	1,240,000

d) Recoverability of investments' carrying value

Investments in both Midwest Pharmaceutics NZ Ltd and Cannasouth Cultivation Ltd have been made in order to build a vertically integrated medicinal cannabis business. The Group has assessed if there is objective evidence of impairment by comparing the Group's actual progress to plan. During the financial year 2020, the Group has made substantial progress in the implementation of its seed-to-sale strategy including upgrade of Midwest facility and construction of Cannasouth Cultivation facility. Significant milestones have been met and expectations are in line with the plan, therefore, the Group has noted no indicators of impairment on these investments.

16 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 2020 $	31 Dec 2019 $
Accounts payable	200,449	138,497
Employee entitlements	135,733	69,954
	336,182	208,451

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.

17 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 entity has been consolidated in the financial statements of the Group.

Name of entity	Country incorporated	Class of shares	Equity holding % 2020	Balance date
Cannasouth Bioscience Ltd	New Zealand	Ordinary	100%	31 December

18 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 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

For the year ended 31 December 2019	# Shares	$
Opening Shares as at 1 Jan 2019	82,000,000	3,700,000
Share issue at IPO	20,000,000	10,000,000
Share Issue Cultivation	2,777,778	1,000,000
Share Issue Midwest	689,828	475,981
Closing Shares as at 31 Dec 2019	105,467,606	15,175,981

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 $362,381 (2019 $841,684) in relation to the share issues discussed above.

19 Earnings per share

From continuing operations	For the year ended 31 Dec 2020	For the year ended 31 Dec 2019
Basic earnings per share (cents per share)	(3.00)	(2.28)
Diluted earnings per share (cents per share)	(3.00)	(2.28)

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 (after adjusting for interest on the convertible preference shares) 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 into ordinary shares.

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

	31 Dec 2020 $	31 Dec 2019 $
Total comprehensive loss is attributable to: Owners of Cannasouth Ltd	(3,480,654)	(2,181,558)
Weighted average number of ordinary shares for basic EPS	116,101,513	92,925,926
Weighted average number of ordinary shares for diluted EPS	116,101,513	92,925,926

The company has restated the prior period basic and diluted earnings per share to reflect the small dilution which arose because the new shares issued at $0.38 per share under the share purchase plan (SPP) on 7 May 2020 were priced at a discount to the $0.485 closing price on the NZX on 14 April 2020, immediately before the SPP was announced.

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.

20 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 2020	31 Dec 2019
	$	$
Loss for the period	(3,480,654)	(2,181,558)
Adjustments for:		
Depreciation	221,819	194,256
Share-based payments	41,467	32,659
Share of losses of joint ventures	274,303	37,034
Movements in working capital:		
(Increase) in other and tax receivables	(66,540)	(115,678)
Increase in trade payables	61,952	86,846
(Decrease) in other assets	(47,058)	(47,547)
Increase in employee entitlements	65,780	60,269
Net cash flows from operating activities	**(2,928,932)**	**(1,933,719)**

b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities including both cash and non-cash changes.

	Opening	Financing cash flows	Non-cash changes	Closing
	$	$	$	$
31 Dec 2019				
Loans (from) / to related parties	(217,550)	277,550	-	60,000

21 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.

21 Financial instruments (continued)

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 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.

21 Financial instruments (continued)

Financial assets - at amortised cost	31 Dec 2020 $	31 Dec 2019 $
Cash and bank balances	9,151,233	8,479,716
Trade and other receivables	30,066	60,216
Loans to related parties	2,264,104	60,000
Financial liabilities - at amortised cost		
Trade and other payables	336,182	208,451
Loans from related parties	-	-

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. The exposure to market risk is considered limited because of the current low interest rate environment.

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 risk 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 risk 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. During the year Cannasouth 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	Carrying amount
	%	$	$	$	$
As at 31 Dec 2020					
Trade and other payables	-	336,182	-	-	336,182
Loans from related parties	-	-	-	-	-
As at 31 Dec 2019					
Trade and other payables	-	208,451	-	-	208,451
Loans from related parties	-	-	-	-	-

22 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	31 Dec 2020	31 Dec 2019
The remuneration of Directors and other members of key management personnel during the year was as follows:	$	$
Director's fees	130,002	103,901
Salaries and other short term employee benefits	533,224	208,704
	663,226	312,605

b) Loans from/to related parties	31 Dec 2020	31 Dec 2019
	$	$
Loans to JV - Cannasouth Cultivation Ltd	1,000,000	-
Loans to JV - Midwest Pharmaceutics NZ Ltd	1,264,104	60,000

During the period the Group provided a loan to Cannasouth Cultivation Ltd which is non-interest bearing, collectible on demand and unsecured. The loan to Midwest Pharmaceutics NZ Ltd is interest-bearing, and incurred interest at a commercial rate based on 30 day BKBM – at year end it was 4.01%. It was also collectible on demand and unsecured.

None of the loans above are expected to be repaid in the next 12 months and have been classified as non-current. In measuring the expected credit loss, the Group has considered the expected manner of recovery and the recovery period which are highly related to the successful implementation of the Group's strategy through these two joint ventures (see note 6 and 15).

c) Trading transactions

During the period, group entities entered into the following trading transactions with related parties that are not members of the Group:

		Sales of goods & services		Purchases of goods & services	
		31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	Note	$		$	$
Cannasouth Cultivation Ltd	(i)	151,413	-	6,881	-
Midwest Pharmaceutics NZ Ltd	(i)	134,890	-	-	-
		286,303	-	6,881	-

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

		Owed by related parties		Owed to related parties	
		31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	Note	$	$	$	$
Cannasouth Cultivation Ltd	(i)	18,834	-	6,325	-
Midwest Pharmaceutics NZ Ltd	(i)	11,232	-	-	-
		30,066	-	6,325	-

The 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.

23 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 $0 (2019 $17,228).

b) Contingent liabilities

There were no contingent liabilities at 31 Dec 2020.

24 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.

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

	31 Dec 2020		31 Dec 2019	
	Number of share options	Weighted avg exercise price	Number of share options	Weighted avg exercise price
	#	$	#	$
Outstanding at the start of the year	3,050,000	0.49	-	-
Initial issue	–	–	2,550,000	0.50
Granted during the year	1,000,000	0.53	800,000	0.49
Forfeited during the year	(200,000)	0.50	(300,000)	0.50
Exercised during the year	(509,250)	0.50	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,340,750	0.50	3,050,000	0.49

The options outstanding at 31 December 2020 had a weighted average exercise price of $0.50 (2019: $0.49), and a weighted average remaining contractual life of 2.1 years (2019: 2.7 years). In 2020, options were granted on 20-July and 17-August. The aggregate of the estimated fair values of the options granted on those dates was $22,567 (2019: $77,100), 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 2020	31 Dec 2019
Weighted average share price	$0.53	N/A
Weighted average exercise price	$0.50	$0.49
Expected volatility	11%	15%
Expected life (years)	2.1	2.7
Risk-free rate	0.7%	1.1%
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 $29,087 (2019: $32,659) related to the ESOP scheme in 2020.

25 Subsequent events

There were no material events subsequent to 31 December 2020 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 subsidiary (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit and loss and other comprehensive income, 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 20 to 41, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, 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 $3.48 million during the year ended December 31, 2020. As of that date, the Group's cash amounted to $9.15 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 $229,000.

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.

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Key audit matter	How our audit addressed the key audit matter
Recoverability of the Joint Venture Investment and Loan Balances As disclosed in Note 15, the Group has joint venture investments of $1.96 million. These investments have been made in order to build a vertically integrated medicinal cannabis business. The Group has considered the carrying value of these investments by assessing if there is objective evidence of impairment. As at 31 December 2020, the Group has loans to these joint ventures of $2.26 million, as disclosed in Note 22. The Group has assessed any expected credit losses on the loan balance. We have included the recoverability of the Group's joint venture investment and loan balances as a key audit matter due to the significance of the balances to the financial statements.	We evaluated the Group's assessment for the recoverability of the investments and loans. This includes, among others: • obtaining and understanding the Group's strategy and business plan in relation to the investment and loan balances; • discussing with the Board and Management the future funding requirements in relation to the Group; • challenging management's assessment of any indicators for impairment by understanding the Group's actual progress in implementing its strategy against the business plan; • assessing management's measurement of expected credit losses on the loans by understanding the Group's expected manner of recovery and recovery period; • challenging the inputs used in the gross cash flows forecast and performing sensitivity analysis of the assumptions used; and • checking the mechanical accuracy of the cash flow forecast.

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.

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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

Melissa Youngson, Partner
for Deloitte Limited
Hamilton, New Zealand
24 March 2021

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	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 – Retired 7 October 2020 Mark Lucas Executive Director – Appointed 21 August 2018 Anthony Ho Independent Chairman – Appointed 26 September 2018 Conor English Independent Director – Appointed 19 October 2018 Juliet Hull Independent Director – Appointed 9 February 2021
Securities Registrar	Link Market Services Limited Level 11 Deloitte Centre 80 Queen Street 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

LEARN MORE AT CANNASOUTH.CO.NZ

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