



**Cannasouth Limited and Group**  
Financial Statements for six months  
ended 30 June 2023





**Cultivation** Cannasouth grows and processes high-quality dried cannabis flower to GMP standard in its state-of-the-art Controlled Environment Agriculture (CEA) greenhouse and processing facility near Morrinsville. The facility combines the precise controls of indoor growing with the energy saving benefits of sunlight in a greenhouse to produce premium, pharmaceutical-quality, cannabis flower for local and global markets at competitive production costs and with a smaller environmental footprint than competing indoor growing operations. The flower is sold as a finished product, and for some further use in Cannasouth Group's business.

**Pharmaceuticals** Cannasouth has established an advanced in-house R&D and technical services department which focuses on the development of next-generation medicinal cannabis products and drug delivery technology, optimising product performance, bioavailability, and patient outcomes.

**Sales** Sales of all medicinal cannabis products for the Group is conducted by Cannasouth in Hamilton.



**E Q A L I S**

**Manufacture** Eqalis manufactures cannabis-based ingredients and oral solution products for the Group at its GMP certified facility in Katikati.

**Innovation** Eqalis has a valuable IP portfolio with a pipeline of advanced technologies that will provide future competitive advantages. Projects range from cannabis cultivation through to cannabis-based pharmaceuticals. Eqalis also has two outdoor cultivation sites at other locations.

## RestoreMe

**Clinic** RestoreMe is an online clinic with qualified health professionals who are educated in, and open to, prescribing medicinal cannabis products to patients. The entire process from consultation to delivery of medicines can be completed remotely, from the privacy and comfort of the patient's own home.



# CEO'S REVIEW OF OPERATIONS

For the six months ended 30 June 2023

The Cannasouth Group is **solidifying its leadership position** in the emerging New Zealand medicinal cannabis industry. The merger with Equis Group, completed on 31st May, represents a pivotal shift in our collective path. This merger provides the **scale and momentum** necessary to not only lead the New Zealand industry but also to be a competitive contender on the global stage.

The accounting treatment adopted for the merger was a reverse takeover. Equis is regarded as the parent for accounting purposes i.e., Equis is the accounting acquirer of Cannasouth.

The operating loss for the Group for the six months to 30 June 2023 was \$3,546,495 (2022: \$2,476,560). The result reflects the investment in positioning Cannasouth to be New Zealand's leading medicinal cannabis company.

Cash on hand as at 30 June 2023 was \$5.32 million (2022: \$1.46 million). The board will look to undertake a dual listing on the ASX as a foreign exempt listing in the near term and will keep the market updated.



## HIGHLIGHTS FOR THE SIX MONTHS

- **February 2023** Cannasouth (NZX:CBD) signed a binding term sheet with Bay of Plenty-based Equis Group New Zealand Ltd (Equis) to advance a **potential 50:50 merger** between the two companies.
- **February 2023** Cannasouth **settled the sale of** non-core liquid filling assets of subsidiary **Midwest Pharmaceuticals**. The divestment reduced the need for the company to invest further capex.
- **April 2023** Shareholders of Cannasouth **overwhelmingly approved the proposed merger with Equis** at a Special Shareholder Meeting.
- **May 2023** Cannasouth subsidiary Cannasouth Cultivation received its **GMP Licence to Manufacture Medicines** to produce dried cannabis flower.
- **May 2023** Merger related capital raise closed, raising approximately **\$7.2 million**.
- **June 2023** On 1 June 2023 the **merger with Equis Group was completed**. This resulted in Cannasouth having **end-to-end GMP certified production**, starting with dried cannabis flower, through to the manufacture of cannabis-based ingredients and medicinal cannabis products (oral solutions).
- **June 2023** Cannasouth Bioscience **successfully exports its first commercial scale shipment** of high-quality dried cannabis-flower to Australia. This signaled the commencement of Cannasouth's export program into Australia.
- **June 2023** Equis' first cannabis-based ingredient is **successfully verified by the Medicinal Cannabis Agency (MCA)** as meeting the NZ minimum quality standard. This achievement allows for local and export ingredient sales and is key to verifying future medicinal cannabis products.

## Capitalising on the Merger Benefits:

The merger of Equis and Cannasouth is not merely a combination of two entities; it's a strategic alignment to unlock substantial synergistic benefits. As we navigate the merger implementation process, we are actively leveraging these advantages. Our focused objectives for this union are:

- 1. Accelerated Product Development:** We are committed to fast-tracking a diverse portfolio of products to market, leveraging the combined expertise and resources of both companies.
- 2. Advancement to Gen2 Products:** We are swiftly progressing towards second-generation (Gen2) value-added products. These products are designed to offer unique features that will set us apart from competitors and provide a defensible market position.
- 3. Enhanced Profit Margins:** Through this differentiation, we are positioning ourselves to secure increased margins, reflecting the premium value of our offerings and cost efficiencies from economy of scale.
- 4. Strengthened Market Positioning:** Our goal is to create a defensible market presence, ensuring that we not only lead but sustain our leadership through strategic advantages from this merger.
- 5. Intellectual Property Development:** We are investing in innovation, focusing on creating intellectual property assets that will not only offer competitive differentiation but also the platform for future growth and expansions.

## Phase Change: From Capability Building to Commercialisation

Transitioning to the production of compliant pharmaceutical-grade medicinal cannabis products and ingredients requires years of commitment, a substantial investment, and deep expertise.

Both Cannasouth Cultivation and Equis Pharmaceuticals have secured the essential GMP (Good Manufacturing Practice) Licences to Manufacture Medicines, signaling the start of our revenue generating commercialisation phase. As a result, we see clear pathways to new revenue opportunities. Despite the challenges and lengthy regulatory processes, we've navigated this critical phase of the development of our business.

Our immediate goal is to launch products and tap into immediate revenue opportunities. While we've been developing our capabilities, the medicinal cannabis market has grown rapidly both locally and internationally, opening various commercial opportunities. Cannasouth's revenue-generating activities are just beginning.

## SUBSEQUENT ACTIVITY

- July 2023** Cannasouth Bioscience submitted product applications to MCA for Premium Dried Flower for prescription in New Zealand.
- August 2023** The MCA obtained approval for a series of modifications to the Misuse of Drugs (Medicinal Cannabis) Regulations 2019. The forthcoming regulatory changes are poised to have a significant impact on Cannasouth's growth trajectory and our industry competitiveness.
- August 2023** Cannasouth announces it intends to dual list on the ASX as a foreign exempt listing. This would widen and diversify Cannasouth's shareholder base by enabling Australian and other international investors to participate in the journey via ASX.

## Our immediate revenue streams include:

- 1. Imported oral solutions.** We currently have three verified by the MCA.
- 2. RestoreMe Consultations.** These have commenced.
- 3. Export and local sales of CBI (Cannabis-based Ingredient)** Verified by the MCA.
- 4. Export of premium dried flower for further manufacturing.** These will be verified by batch.
- 5. Export and local sales of premium GMP dried flower as a finished product.** Product verifications from the MCA are pending.
- 6. Export and local sales CBD oral solutions.** Product verifications are pending.

In June 2023, Cannasouth exported its inaugural commercial-scale dried flower shipment to Australia, marking a pivotal step in our export journey. Following this sale, we secured an additional order for a further 120kg. The customer also holds a first right of refusal for an additional 150kg, expected to be shipped before the end of 2023. These orders underscore that our pathway to the Australian market is firmly established.



## Criticality of GMP Certification

While a substantial number of companies have ventured into New Zealand's medicinal cannabis industry, few have successfully navigated the rigorous path to global GMP pharmaceutical certification—a crucial and mandatory standard for entering both the domestic and international markets. This certification represents a significant hurdle, and most entrants have failed to clear.

The Cannasouth Group stands apart. We have successfully secured GMP status for both of our key manufacturing facilities, encompassing a wide spectrum of products and ingredients, from dried flower to oral solutions.



**This achievement is more than a badge—it is a key that unlocks doors.**

With New Zealand, Australia, and targeted European markets mandating this stringent quality standard, the Cannasouth Group is exceptionally positioned to enter these high-growth markets.

The investment to achieve this status has been substantial, but it marks not an end, but a beginning. We are now at the true starting line, primed for significant sales growth in the coming years. On the 1st of July the TGA in Australia began strictly enforcing GMP quality standards, this comes at a perfect time for Cannasouth.

## Accelerated Commercialisation Journey

Following our successful GMP certification of manufacturing facilities, the critical next step is to produce sufficient production data for individual product verification – a juncture where precision and compliance are paramount. For each new product, we must manufacture three batches and generate comprehensive stability (shelf life) data. While this rigorous process is costly and time-consuming, it is a non-negotiable aspect of pharmaceutical manufacturing.

The Cannasouth Group is now advancing our planned pipeline of products – a process that is escalating, as will the revenue each of these products is poised to generate. Already, we have three oral solutions successfully verified, one CBD cannabis-based ingredient verified, and a diverse array of other products awaiting MCA verification.



**The strenuous journey to the sales starting line is behind us; our focus is now sharply set on leveraging our valuable regulatory insights and GMP status to expedite and maximise product commercialisation.**

As we move forward, anticipate a consistent launch of new products making their debut in the market in the coming months and years.

## Getting Close to the Patient: A Core Strategy

A central pillar of Cannasouth's strategy is vertical integration within this emerging industry. With our manufacturing capabilities established, and following the completion of the merger, our focus sharpens on getting as close to the patient as possible. In overseas markets, substantial sales margins are often eroded by middlemen, who insert themselves into the supply chain and inflate patient costs – a primary barrier to patient access. Unlike most pharmaceuticals, medicinal cannabis is primarily patient-driven, with many individuals previously seeking products through the black market or illegal imports.

RestoreMe is designed to make medicinal cannabis more affordable and accessible to patients, addressing the two primary barriers. By streamlining the supply chain, we are effectively removing unnecessary cost. Notably, RestoreMe (<https://www.restoremeclinic.co.nz/>) our specialist clinic, has played a significant role by dramatically reducing the cost of doctor consultations. Prior to the launch of RestoreMe, prescriber consultations at other specialist clinics often exceeded \$150; RestoreMe now offers these services at less than half that cost. RestoreMe operates with clinical independence and an agnostic product offering ensuring a patient first approach.



**Getting closer to the patient isn't just about cost efficiency; it's about insight.**

This proximity grants us invaluable understanding of the size and growth trajectory of the NZ market, as well as deep insights into trends in preferences and product efficacy; essential information which will guide the development of our future Gen2 and Gen3 products.

RestoreMe currently has over 8,000 enrolled patients, with an average of 900 new enrollments per month. With the software upgrades currently being implemented at the

Clinic, patient experience is expected to further improve. RestoreMe required initial investment to establish itself as a scalable business unit, and we anticipate significant revenue growth as a result in the coming months.

## Growth and Development of the Australasian Medicinal Cannabis Industry

The medicinal cannabis market in Australasia is expanding rapidly. Australia is at the forefront, driving substantial demand year after year, with no evident signs of reaching its peak. New Zealand mirrors this growth trajectory. However, obtaining data from both markets is a challenge due to regulatory bodies data collection limitations.

A recent Official Information Act request unveiled data indicating that from April 2020 (the commencement of New Zealand's medicinal cannabis scheme) to June 2023, 32,771 patients received at least one medicinal cannabis prescription. When compared with the Drug Foundation's 2022 estimate of 266,700 medicinal cannabis users in New Zealand, it suggests there's substantial room to transition users from the black market to legal channels before the market reaches a peak. In this period, a total of 91,570 prescriptions were issued. A significant portion of these likely came in the last 12-18 months, considering the limited product availability in the scheme's early phase.

Recognising this growth, Cannasouth is intensifying its efforts to ensure a strong presence and capture a significant market share.



## A Focus on Innovation

At the heart of Cannasouth's strategy is our commitment to driving innovation. Our Group's Innovation Hub is actively working on several projects aimed at creating valuable intellectual property (IP), thereby driving shareholder value in the upcoming years.

A testament to our innovation-driven approach is the establishment of our state-of-the-art Controlled Environment Agriculture (CEA) sealed greenhouse facility, augmented with GMP post-harvest processing. This forward-thinking facility positions Cannasouth at the forefront of supplying top-tier dried flower not only to the New Zealand market but also expanding our reach to Australia and Europe. We are now at a pivotal juncture where our foresight and investment in this sector is set to yield significant commercial benefits.

In parallel, Equis Pharmaceuticals showcases our innovative edge by developing disruptive processing methods for the manufacture of its cannabis-based ingredients. This has given us a distinct advantage by significantly reducing the manufacturing costs. Consequently, it will place us in an advantageous position to tap into the burgeoning market for GMP quality cannabis-based ingredients and finished products.

It is imperative for Cannasouth to stay ahead of the curve. Hence, our focus on a swift transition to advanced Gen2 and Gen3 products and technologies. We will ensure we don't remain static in what we believe is an industry which is becoming increasingly commoditised and generic. A glimpse into the first of our next-gen solutions is our recently developed Gel drug delivery technology, which is in the commercialisation phase.



**Our Gel technology presents us with promising prospects, such as potential licensing opportunities and an over-the-counter (OTC) CBD pathway for the Australian market.**

Beyond this the company has other significant projects being developed including Ice-X, A-script and others designed to disrupt multiple areas of the supply chain and deliver future shareholder returns.

## Regulatory Changes:

After many delays, the much-anticipated review of, and amendments to, the New Zealand medicinal cannabis regulations are progressing. The Medicinal Cannabis Agency has now obtained approval for a series of changes to the Misuse of Drugs (Medicinal Cannabis) Regulations

2019. These changes are poised to have a significant impact on Cannasouth's growth trajectory and our industry competitiveness.

**Key Highlights Include:**

- 1. Facilitation of Exports:** Changing the quality requirements for exports will make it easier for New Zealand companies, like ours, to penetrate international markets.
- 2. Expansion of Medicinal Cannabis Categories:** Broadening the definitions to cover a more extensive variety of plant forms.
- 3. Enhancement in Research Capabilities:** The new amendments will enable non-therapeutic research involving cannabis plant material or products obtained from the Medicinal Cannabis Scheme or the Industrial Hemp Framework.

These primary changes, which will be complemented with numerous technical enhancements, will streamline the scheme's compliance prerequisites without jeopardising product quality. When considered collectively, these refinements have the potential to materially influence the scheme in a positive manner.

It is worth noting that these regulatory amendments will not influence the current prescribing methods for medicinal cannabis. The overarching intent of these changes is to ensure the long-term sustainability of the medicinal cannabis sector in New Zealand while maintaining the quality of products to patients.

Public consultation is underway on relevant materials that will be incorporated by reference into the Regulations. Post-consultation, the drafting of amendment regulations will commence, with the objective of enacting them by the end of 2023.



## ASX Listing:

On the 4th August Cannasouth announced its intention to a dual listing of the Company on the Australian Securities Exchange (ASX) as a foreign exempt listing. This will widen and diversify Cannasouth's shareholder base by enabling Australian and other international investors who do not currently trade in NZX shares to participate in the Cannasouth journey via ASX.

**The reasons for this decision include:**

- To enhance shareholder value by providing improved liquidity in a larger capital market which is more accustomed to investments in biotech and early-stage businesses.
- To gain access to mid-cap institutional fund managers who typically invest in businesses on the ASX.
- To tap into global fund managers who prioritise investments in internationally recognised bourses such as the ASX.
- Recognising Australia's status as the largest and fastest-growing medicinal cannabis market in Australasia and given Cannasouth's intention to expand its business there.

Sydney-based Addisons Lawyers have been appointed to facilitate the process together with Corporate Counsel in Auckland. We anticipate the dual listing process to conclude by year end.

**Mark Lucas**  
CEO / Managing Director  
29 August 2023

For further information visit [www.cannasouth.co.nz](http://www.cannasouth.co.nz) or contact:



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## Cannasouth Limited Group

### Consolidated Condensed Interim Statement of Profit and Loss and Other Comprehensive Income For the six months ended 30 June 2023

	Notes	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Eqalis 30 Jun 2022 (6 Months) \$
Revenue and other income	7	198,284	3,600
Cost of sales	8	(392,279)	-
<b>Gross profit / (loss)</b>		<b>(193,995)</b>	<b>3,600</b>
Interest income		26,882	750
Research and development expenses		(389,492)	(157,752)
Operating expenses		(2,950,376)	(2,301,303)
<b>Loss before finance cost</b>		<b>(3,506,981)</b>	<b>(2,454,705)</b>
Finance costs		(39,514)	(21,855)
<b>Loss before tax</b>		<b>(3,546,495)</b>	<b>(2,476,560)</b>
Income tax (expense)/benefit		-	-
<b>Loss after tax</b>		<b>(3,546,495)</b>	<b>(2,476,560)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss</b>		<b>(3,546,495)</b>	<b>(2,476,560)</b>
<b>Total comprehensive loss attributable to owners</b>		<b>(3,546,495)</b>	<b>(2,476,560)</b>
<b>Profit / (Loss) per share (cents per share)</b>			
Basic		(2.00)	(6.63)
Diluted		(2.00)	(6.63)
<b>Weighted average number of ordinary shares issued</b>			
Basic		176,664,823	37,353,828
Diluted		176,664,823	37,353,828

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



## Cannasouth Limited Group

### Consolidated Condensed Interim Statement of Financial Position As at 30 June 2023

	Notes	Unaudited Group 30 Jun 2023 \$	Unaudited Equalis 30 Jun 2022 \$
Cash and cash equivalents		5,317,536	1,461,024
Trade and other receivables		281,994	34,397
Other assets		84,932	24,111
Inventory	9	1,093,579	170,967
Biological assets		376,944	-
<b>Total current assets</b>		<b>7,154,985</b>	<b>1,690,499</b>
Property, plant and equipment		10,272,910	2,415,489
Right of use assets		1,911,449	640,601
Intangible assets	10	38,823,594	589,537
Loans to related party		176,512	153,419
<b>Total non-current assets</b>		<b>51,184,465</b>	<b>3,799,046</b>
<b>Total assets</b>		<b>58,339,450</b>	<b>5,489,545</b>
Trade and other payables		2,374,515	796,165
Lease liabilities		274,674	128,842
Borrowings		500,000	-
<b>Total current liabilities</b>		<b>3,149,189</b>	<b>925,007</b>
Borrowings		725,000	-
Lease liabilities		1,827,652	573,990
<b>Total non-current liabilities</b>		<b>2,552,652</b>	<b>573,990</b>
<b>Total liabilities</b>		<b>5,701,841</b>	<b>1,498,997</b>
<b>Net assets</b>		<b>52,637,609</b>	<b>3,990,548</b>
Share capital	12	71,208,298	15,052,451
Accumulated deficit		(18,616,007)	(11,061,903)
Share-based payment reserve		45,318	-
<b>Total equity</b>		<b>52,637,609</b>	<b>3,990,548</b>

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

## Cannasouth Limited Group

### Consolidated Condensed Interim Statement of Changes in Equity For the six months ended 30 June 2023

		Unaudited Share Capital	Unaudited Share-based Payment Reserve	Unaudited Accumulated Deficit	Unaudited Total Equity
	Notes	\$	\$	\$	\$
<b>Balance as at 1 January 2023</b>		<b>20,256,272</b>	<b>-</b>	<b>(15,069,512)</b>	<b>5,186,760</b>
Shares issued on merger	12	44,367,321			44,367,321
Shares issued post-merger	12	7,177,910	-	-	7,177,910
Capital raising costs	12	(593,205)	-	-	(593,205)
Profit/(loss) for the half-year		-	-	(3,546,495)	(3,546,495)
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>(3,546,495)</b>	<b>(3,546,495)</b>
Increase/(decrease) in reserves		-	45,318	-	45,318
<b>Balance as at 30 June 2023</b>		<b>71,208,298</b>	<b>45,318</b>	<b>(18,616,007)</b>	<b>52,637,609</b>

		Unaudited Share Capital	Unaudited Share-based Payment Reserve	Unaudited Accumulated Deficit	Unaudited Total Equity
<b>Balance as at 1 January 2022</b>		<b>13,196,806</b>	<b>-</b>	<b>(8,585,343)</b>	<b>4,611,463</b>
Shares issued	12	1,880,145	-	-	1,880,145
Direct share issue cost	12	(24,500)	-	-	(24,500)
Profit/(loss) for the half-year		-	-	(2,476,560)	(2,476,560)
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>(2,476,560)</b>	<b>(2,476,560)</b>
Increase/(decrease) in reserves					-
<b>Balance as at 30 June 2022</b>		<b>15,052,451</b>	<b>-</b>	<b>(11,061,903)</b>	<b>3,990,548</b>

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

## Cannasouth Limited Group

### Consolidated Condensed Interim Statement of Cash Flows For the six months ended 30 June 2023

	Notes	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Egalis 30 Jun 2022 (6 Months) \$
<b><u>Operating activities</u></b>			
<i>Cash was provided from:</i>			
Interest received		4,458	-
Receipts from customers		252,927	5,614
GST refunded		49,980	150,668
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(3,213,406)	(1,848,292)
Interest paid		(39,514)	(21,855)
Net cash flows used in operating activities		(2,945,555)	(1,713,865)
<b><u>Investing activities</u></b>			
<i>Cash was provided from:</i>			
Cash held - Cannasouth	6	720,294	-
<i>Cash was applied to:</i>			
Purchase of intangibles		(8,538)	(363,715)
Purchase of property, plant and equipment		(189,320)	(324,704)
Net cash flows used in investing activities		522,436	(688,419)
<b><u>Financing activities</u></b>			
<i>Cash was provided from:</i>			
Proceeds from capital raising	12	7,177,910	1,639,308
<i>Cash was applied to:</i>			
Repayment of borrowings		(793,818)	-
Payment of lease liabilities		(62,416)	(61,189)
Capital raising costs	12	(750,321)	(24,500)
Net cash flows from financing activities		5,571,355	1,553,619
<b>Net increase in cash flows</b>		<b>3,148,236</b>	<b>(848,665)</b>
<b>Opening cash and cash equivalents</b>		<b>2,169,300</b>	<b>2,309,689</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>5,317,536</b>	<b>1,461,024</b>

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

## Cannasouth Limited Group

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### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 1 Reporting entity

These financial statements are for Cannasouth Limited ('Cannasouth') and its legal subsidiaries (together, the 'Group').

The companies within the Group are companies registered and domiciled in New Zealand. The Group is an NZX listed, biopharmaceutical group focussed on plant-based medicines. The Group is vertically integrated, with business activities ranging from the production and supply of cannabis flower, manufacturing of cannabis-based ingredients and finished dosage products, an online clinic, and related activities such as research & development, marketing and sales.

The consolidated condensed interim financial statements were authorised for issue in accordance with a resolution of directors on 29th August 2023.

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

##### (a) Merger transaction

The Group entered into a merger transaction on 31 May 2023. Cannasouth, being the NZX listed entity, issued equity to Equis to merge with Equis Group New Zealand Limited ('Equis'). The merger represents a business combination in accordance with NZ IFRS 3 Business Combinations because both Cannasouth and Equis were constituted as 'businesses'.

The accounting treatment under NZ IFRS 3 Business Combination is to treat the merger transaction as a reverse acquisition where Equis is deemed the parent and is the accounting acquirer of Cannasouth. These consolidated financial statements have been prepared following the merger, and are issued under the name of the legal parent and accounting acquirer (Cannasouth), but reports the continuation of the financial statements of the subsidiary and accounting acquirer (Equis). The only exception is that the equity structure reported - where the number and type of ordinary shares issued, including comparatives, reflect the equity structure of the legal parent, Cannasouth.

The consolidated financial statements for the period ended 30 June 2023 reflects the 6-months of Equis operations and 1-month of Cannasouth operations, and the combined financial position of the merged group from 31 May 2023. Refer to note 6 for further details on the assets acquired and liabilities assumed in relation to this business combination.

The comparative information shown within these consolidated financial statements reflects Equis for the period 1 January 2022 to 30 June 2022. Comparative information in the consolidated financial statements have been restated to be consistent with the presentation of the current period.

Refer to note 5 to see a full set of consolidated statement of profit and loss for the 6-month period 1 January - 30 June for Cannasouth Limited and Equis Group New Zealand Limited for the current and prior period.

##### (b) Statement of compliance

The Group is a Tier 1 for-profit entity for the purpose of complying with NZ GAAP. The Group's consolidated interim financial statements for the period ended 30 June 2023 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting, Generally Accepted Accounting Practice in New Zealand (NZ GAAP), and the requirements of the Financial Reporting Act 2013, the Companies Act 1993, and NZX listing rules (except for the allocation of value of identifiable intangible assets as described in note 6). These consolidated interim financial statements do not include all of the information required for the annual financial statements and should be read in conjunction with the annual audited financial statements of Cannasouth for the year ended 31 December 2022 in relation to the accounting policies being adopted, which have been prepared in accordance with NZ IFRS.

##### (c) Significant accounting policies

The accounting policies applied are consistent with those of the annual audited financial statements for the year ended 31 December 2022, as described in those annual financial statements - except where noted within these consolidated condensed interim financial statements.

##### (d) Basis of measurement

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

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

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and any future periods affected.



### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 3 Segment Reporting

A segment is a component of the Group that engages in business activities in which revenues and expenses are incurred, and that has distinguishable financial information available, and whose operating results are regularly reviewed by the chief operating decision maker (CODM).

The Group is emerging from commencement phase and currently operates in a single segment: the biopharmaceuticals market i.e., the production and supply (including research and development) of biopharmaceuticals, specialising in cannabinoid medicines; with the area of operation being New Zealand. The Group's CEO/Managing Director is the CODM who manages the business and makes resource allocation decisions. Because the Group's operations are in the commencement phase, assessment of performance is limited, but primarily based on the operations as a whole and therefore the consolidated financial statements represent the single operating segment.

#### 4 Going Concern

During the six month period, the Group incurred a net loss for the period of \$3,546,495 (2022: \$2,476,560).

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

The Group continues to meet its key strategic milestones. After the merger of Cannasouth and Equalis, the Group has since made its first export sale of premium cannabis flower grown and harvested from its cultivation facility. The key focus for the next 12 months is to drive the Group's revenue streams, maximising sales of flower, CBD oral solutions and ingredients, and RestoreMe patient consults - targeting at both the New Zealand and Australian market.

In addition, the Group has announced its intention to dual-list on the Australian Securities Exchange (ASX) as a Foreign Exempt entity. The key benefits being share liquidity and access to a larger equity capital market. It is believed that the ASX is more accustomed to investments in biotech and early-stage businesses than the NZX, and that the ASX enables access to fund managers who do not invest in the NZX. It was also well understood that Australia is the largest and fastest-growing medicinal cannabis market in Australasia, and the dual listing aligns well with Cannasouth's intention to expand its business in that area. The Group has a history of successful capital raising, including the recent successful raise of \$7.2m to effect the merger. The Board believes its capital raising activity over the next 12 months will continue to be successful.

In the event that the Group is unable to raise sufficient additional funding to strengthen the balance sheet, a material uncertainty would exist that may cast significant doubt on the ability of the Group 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 Group be unable to continue as a going concern.

As at 30 June 2023, there is material uncertainty around going concern, which heavily depends on continued successful capital raising within the next 12 months.

## Cannasouth Limited Group

### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 5 Individual Consolidated Condensed Interim Statement of Profit and Loss for the 6 months period 30 June 2023

In note 2(a) - in the merger between Cannasouth and Equis, the condensed interim financial statements have been prepared in the name of the legal parent (Cannasouth) but accounting for the continuation of the subsidiary (Equis).

Further details on the operations of each entity for the 6 months ending 30 June for the current and comparative year - individual consolidated condensed interim statement of profit and loss for the 6 months have been presented below.

The consolidated condensed interim statement of profit and loss for the Group includes 6 months of Equis' operations and only 1 month of Cannasouth. The individual condensed interim statements of profit and loss for Cannasouth and Equis for the 6 months are for information and do not reconcile to the Group's consolidated condensed financial statements.

#### i) Cannasouth Limited Group

	Unaudited Cannasouth 30 Jun 2023 (6 Months) \$	Unaudited Cannasouth 30 Jun 2022 (6 Months) \$
<b>Continuing operations</b>		
Revenue and other income *	211,870	1,412,781
Cost of sales	(1,714,331)	(2,805,535)
<b>Gross profit / (loss)</b>	<b>(1,502,461)</b>	<b>(1,392,754)</b>
Interest income	-	76
Research and development expenses	(282,512)	(394,583)
Operating expenses	(1,729,791)	(1,775,015)
<b>Loss before finance cost and impairment loss</b>	<b>(3,514,764)</b>	<b>(3,562,276)</b>
Finance costs	(150,951)	(170,230)
<b>Loss before tax from continuing operations</b>	<b>(3,665,715)</b>	<b>(3,732,506)</b>
Income tax (expense)/benefit	-	-
<b>Loss after tax from continuing operations</b>	<b>(3,665,715)</b>	<b>(3,732,506)</b>
Loss after tax from discontinued operations **	(45,993)	-
<b>Total loss for the half-year</b>	<b>(3,711,708)</b>	<b>(3,732,506)</b>
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(3,711,708)</b>	<b>(3,732,506)</b>

\* The revenue for the current period consists of sale of flower and oral solutions. The revenue for the comparative year includes 6 months of sales from Cannasouth's contract manufacturing subsidiary Midwest Pharmaceuticals NZ Limited.

\*\* On 28 February 2023, Cannasouth Limited sold the operations of its contract manufacturing subsidiary Midwest Pharmaceuticals NZ Limited. The loss after tax from discontinued operations relate to the loss of Midwest Pharmaceuticals NZ Limited for the 2 months period ending 28 February 2023 prior to the settlement of the sale.

#### ii) Equis Group New Zealand Limited

	Unaudited Equis 30 Jun 2023 (6 Months) \$	Unaudited Equis 30 Jun 2022 (6 Months) \$
<b>Continuing operations</b>		
Revenue and other income	114,943	3,600
Cost of sales	(179,285)	-
<b>Gross profit / (loss)</b>	<b>(64,342)</b>	<b>3,600</b>
Interest income	26,762	750
Research and development expenses	(332,157)	(157,752)
Operating expenses	(2,645,459)	(2,301,303)
<b>Loss before finance cost</b>	<b>(3,015,196)</b>	<b>(2,454,705)</b>
Finance costs	(18,373)	(21,855)
<b>Loss before tax</b>	<b>(3,033,569)</b>	<b>(2,476,560)</b>
Income tax (expense)/benefit	-	-
<b>Total loss for the half-year</b>	<b>(3,033,569)</b>	<b>(2,476,560)</b>
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(3,033,569)</b>	<b>(2,476,560)</b>

## Cannasouth Limited Group

### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 6 Business Combination

On 31 May 2023, Cannasouth merged with Equalis Group New Zealand Limited and its subsidiaries through an issue of shares. The transaction completed on 31 May 2023.

The merger will create a vertically integrated enterprise with revenues from biomass and premium flower production, manufacture of GMP cannabis-based ingredients and cannabis medicines. It is expected to bring synergistic benefits including expertise, technology, manufacturing capability, product distribution, licensing, and it is expected to increase shareholder value.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Unaudited 31-May-23 \$
<b>Purchase consideration</b>	
Ordinary shares issued	147,891,069
Closing price (\$ per share)	\$ 0.30
<b>Total purchase consideration</b>	<b>44,367,321</b>

The fair value of the 147,891,069 shares issued as consideration at a deemed price \$0.30 per share based on the closing share price of Cannasouth Ltd as at 31 May 2023.

The assets and liabilities recognised from the acquisition are as follows:

	Unaudited 31-May-23 \$
Cash	720,294
Trade and other receivables	259,221
Inventory *	914,887
Biological Assets *	93,073
Right-of-use assets	1,423,477
Property plant and equipment *	8,129,390
Intangible assets *	2,234,246
Trade and other payables	(1,606,130)
Borrowings	(2,018,818)
Lease liabilities	(1,525,370)
<b>Net identifiable assets acquired</b>	<b>8,624,270</b>
Add: Goodwill and other intangibles	35,743,051
<b>Total net assets acquired</b>	<b>44,367,321</b>

\* These assets are in the process of being fair valued as at 31 May 2023. The valuation was incomplete as at the date of approval of these interim financial statements. Any subsequent changes to the value of these assets will be offset against the goodwill amount.

The goodwill is attributable to the expected synergies, capabilities, and future growth developed within the acquired business.

#### 7 Revenue

	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Group 30 Jun 2022 (6 Months) \$
Consolidated revenue is represented by:		
RestoreMe sales	114,343	-
Medicinal cannabis sales/(returns) (i)	81,769	-
Other income	2,172	3,600
	<b>198,284</b>	<b>3,600</b>

(i) Medicinal cannabis sales include sale of flower and CBD/THC oral solutions.

## Cannasouth Limited Group

### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 8 Cost of sales

The Group's cost of sales for the period ending 30 June 2023 relates to the following subsidiaries:

	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Group 30 Jun 2022 (6 Months) \$
Medicinal cannabis cost of sales (i)	212,994	-
RestoreMe (ii)	179,285	-
	<b>392,279</b>	<b>-</b>

- (i) Medicinal cannabis cost of sales reflect the cost incurred to grow and manufacture flower, and import oral solutions for the period. The cost of sales include fair value adjustments on flower for the month of June 2023. The Group has expensed these costs in accordance to NZ IAS 2.
- (ii) RestoreMe Clinic is the Group's online clinic dedicated to provide New Zealand patients easy access to high quality medicinal cannabinoid products at an affordable price. The cost of sales represent the direct cost paid to run the clinic for the 6 month period ending 30 June 2023.

#### 9 Inventory

Inventory is classified as raw materials, work in progress and finished goods.

Raw materials consists of direct materials used in manufacturing of finished cannabinoid products, and planting and growing of cannabis plants.

Work in progress consists of ingredients to be further processed into finished product, or harvested cannabis plants intended to be processed into finished dried flower. Harvested crop is transferred from biological assets at its fair value less cost to sell at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalised to work in progress.

Finished goods consists of packaged dried flowers, CBD ingredients and oral solutions.

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

	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Group 30 Jun 2022 (6 Months) \$
The Group's inventory is comprised of:		
Raw materials	185,897	170,967
Finished goods	907,683	-
	<b>1,093,579</b>	<b>170,967</b>

#### 10 Intangible assets

	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Group 30 Jun 2022 (6 Months) \$
Goodwill and other intangibles (refer to note 6)	<b>38,823,594</b>	<b>589,537</b>

Other intangible assets include website, patent and trademarks, software, and other intangibles owned by Equalis and acquired through the merger transaction. As at the date of approval of these interim financial statements the fair value of the assets acquired are in the process of being determined. No amortisation has been recognised on these acquired intangibles.

The Group tests goodwill for impairment on an annual basis. The recoverable amount is the higher of fair value less costs of disposal and value in use. As at 30 June 2023, the directors are of the view that the assets are not impaired at period end.



## Cannasouth Limited Group

### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 11 Investment in subsidiaries

The consolidated financial statements incorporate the financial statements of the entities controlled as a result of the merger treated as a reverse acquisition under NZ IFRS 3 Business Combination. Control is achieved when the Group 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 entities have been consolidated in the financial statements of the Group.

Name of entity	Principal activities	Place of Incorporation	Equity holding % 2023	Equity holding % 2022
Eqalis Group New Zealand Limited	Holding company *	New Zealand	100%	100%
Eqalis Pharmaceuticals Limited	Pharmaceutical manufacturer	New Zealand	100%	100%
Eqalis Innovation Limited	Research & Development	New Zealand	100%	100%
A-Script International Limited	Non-operating entity	New Zealand	100%	100%
CBD Isolates Limited	Non-operating entity	New Zealand	100%	100%
Eqalis IP Limited	Non-operating entity	New Zealand	100%	100%
Grow BOP Limited	Non-operating entity	New Zealand	100%	100%
Ice-X International Limited	Non-operating entity	New Zealand	100%	100%
Q-safe International Limited	Non-operating entity	New Zealand	100%	100%
Mahana Island Therapies Limited	Non-operating entity	New Zealand	100%	100%
RestoreMe Clinic Limited	Online clinic	New Zealand	100%	100%
Cannasouth Limited	Governance entity	New Zealand	100%	0%
Cannasouth Bioscience Limited	Pharmaceutical sales	New Zealand	100%	0%
Cannasouth Cultivation Limited	Cannabis cultivation	New Zealand	100%	0%
Midwest Pharmaceuticals NZ Limited	Non-operating entity	New Zealand	100%	0%

\* Cannasouth Limited was the holding company for the Group prior to the merger (refer to note 2a and note 6).

#### 12 Share capital

The following table shows the movement in share capital for the consolidated group in accordance with NZ IFRS 3 Business Combination under reverse acquisition.

	Unaudited Group 30 Jun 2023 (6 Months) # Shares	Unaudited Group 30 Jun 2023 (6 Months) \$	Unaudited Group 30 Jun 2022 (6 Months) # Shares	Unaudited Group 30 Jun 2022 (6 Months) \$
Ordinary shares as at 1 January	147,891,069	20,256,272	35,474,620	13,196,806
Shares issued on merger	147,891,069	44,367,321	-	-
Shares issued for capital raise post-merger	24,751,456	7,177,910	-	-
Ordinary shares issued	-	-	1,879,208	1,880,145
<b>Ordinary shares as at 30 June</b>	<b>320,533,594</b>	<b>71,801,503</b>	<b>37,353,828</b>	<b>15,076,951</b>
			Unaudited Group 30 Jun 2023 \$	Unaudited Group 30 Jun 2022 \$
<b>Reconciliation of Share Capital</b>				
Share Capital			71,801,503	15,076,951
Capital raising costs*			(593,205)	(24,500)
			<b>71,208,298</b>	<b>15,052,451</b>

\* Capital raising costs (for the current period) relate to the post-merger costs and does not include capital raising costs incurred by Eqalis prior to the merger. The Group has deducted capital raising costs during the 6 months ended 30 June 2023 of \$593,205 (June 2022: \$24,500).

## Cannasouth Limited Group

### Notes to the Consolidated Condensed Interim Financial Statements For the six months ended 30 June 2023

#### 12 Share capital (continued)

The number of ordinary shares reflects the capital of the legal parent - Cannasouth Limited.

In addition to the 147,891,069 shares issued as consideration for the merger, a further 24,751,456 ordinary shares were issued at \$0.29 per share to raise \$7.2m.

The share capital of Equalis Group New Zealand Limited prior to the merger was \$20,257,272. This is contributed capital.

All ordinary shares are fully paid and authorised. They have equal voting rights and rank equally in dividends and surpluses on winding up. The shares have no par value.

No dividends have been paid or declared during the period.

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.

#### 13 Financial instruments

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

	Unaudited Group 30 Jun 2023 \$	Unaudited Group 30 Jun 2022 \$
<b>Financial assets at amortised cost</b>		
Cash and cash equivalents	5,317,536	1,461,024
Trade and other receivables	281,994	34,397
Loans to related parties	176,512	153,419
<b>Total carrying amount</b>	<b>5,776,042</b>	<b>1,648,840</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	2,374,515	796,165
Borrowings	1,225,000	-
Lease Liabilities	2,102,326	702,832
<b>Total carrying amount</b>	<b>5,701,841</b>	<b>1,498,997</b>

#### 14 Related party transactions

Balances and transactions within the Group which are related parties 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. All of these transactions were with shareholders, and were on arm's length terms.

	Unaudited Group 30 Jun 2023 \$	Unaudited Group 30 Jun 2022 \$
<i>i) Transactions during the period</i>		
<b>Interest Income</b>		
Shareholders	11,546	750
<b>Purchase of services *</b>		
Shareholders	197,475	435,265
<i>ii) Balance outstanding at period end</i>		
<b>Loan receivable **</b>		
Shareholders	176,512	153,419
<b>Payable</b>		
Shareholders	8,962	114,162

\* Purchase of services with shareholders relate to lease expense, consultancy services and director services.

\*\* Interest is charged on the loan receivable at a rate of 6.71% per annum (2022: 4.50%). The loan is repayable on demand.

#### 15 Events after the reporting period

There were no material events subsequent to 30 June 2023 which would impact these financial statements.





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