

Cannasouth Limited

Half Year Report

For the six months ended 30 June 2019



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Review of Operations

The operating loss for the six months to 30 June 2019 was \$821,175 (year to 31 December 2018 loss of \$245,372). This represented an acceleration of the Company's investment and development to be a leading medicinal cannabis company in New Zealand. The result was in line with the Company's business plan. Cash on hand as at 30 June 2019 was \$10.77 million with investment in property, plant and equipment of \$1.02 million.

The six months to 30 June 2019 was an exciting and transformational period for the Company. With the strong support from public shareholders, the Company successfully completed an Initial Public Offer (IPO) and listed on the New Zealand Main Board (NZX) on 19 June 2019 with the ticker code CBD. The IPO was oversubscribed, and the Company raised the full amount of \$10 million from the public. Post-listing, the Company has in excess of 1,900 shareholders. The funds raised now allows the Company to progress quickly to implement its business plan to be New Zealand's leading medicinal cannabis company.

Subsequent to 30 June 2019, the Ministry of Health (MoH) released its Public Consultation Document on the proposed regulations for the medicinal cannabis scheme. The release of the final regulations is expected in December 2019. Cannasouth has lodged a submission to the MoH on aspects of the proposed regulations. From an overall perspective, the Company is pleased with the proposed approach by the MoH as indicated by the Public Consultation Document. The proposed regulations, when introduced, will provide a strong foundation for the New Zealand medicinal cannabis sector to be established domestically and to expand globally.

Cannasouth has worked collaboratively with MoH and other regulatory agencies in a highly regulated sector to ensure that the regulatory policies being considered have inputs from the New Zealand medicinal cannabis sector. The Company is pleased to be a founding member of the New Zealand Medical Cannabis Council whose office has been established in Wellington aiding in ready availability for consultations with regulatory agencies.

To successfully operate within a highly regulated environment, it is equally important that the Company has a strong culture of compliance with regulations and protocols to ensure that Cannasouth's operations are conducted to the highest possible standards. The Company is committed to achieve ISO Integrated Management System accreditation, while our prospective entry into manufacturing and cultivation will be accredited to the relevant GMP and/or GPP/GAP standards.

The Company remains focused on building our research capabilities. During the half year, the Company took delivery of various pieces of key extraction and refinement equipment. Additional laboratory space was leased at Waikato Innovation Park to accommodate further growth in our research activities and scientific team.

During the six months we welcomed Philip Squire (Quality Manager), Dr. Sameek Singh (R&D Chemist), and Ninette Rowlands (Cultivation & Research Coordinator). In July we also announced a key appointment of David Gill, a noted product development scientist, to spearhead the development of the Company's first products. David Gill will relocate to Hamilton, joining the Company in October 2019.

With great excitement, in mid-August, we harvested our first crop of medicinal cannabis. The crop was grown from imported seeds, pursuant to a license issued by the MoH and the Ministry of Primary Industries (MPI). The cultivars were selected for their various cannabinoid (CBD and THC) and terpene profiles. The harvested flowers will provide the raw materials for our research team to extract the medicinal compounds for a range of research projects which were previously approved for part funding by Callaghan Innovation.

The execution of our planning during the six months to 30 June 2019 was handled professionally by the team. The high security growing facility was completed within a few short weeks following receipt of the license from MPI to import cannabis seed. A successful harvest in mid-August has provided our laboratory research team with high quality harvested cannabis flowers to further their research activities.

Corporate development

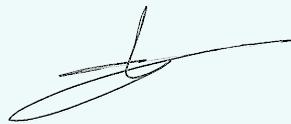
On 14 August 2019, we announced a cultivation Joint Venture that will secure a steady supply of medicinal cannabis flowers for the Company once construction of the secured cultivation facility is completed and licences for commercial production are obtained. Forty five hectares of prime agricultural land will be available to the Company for outdoor cultivation as and when regulations permit us to do so.

The commercial and construction expertise of our Joint Venture partner, and joint investment in the cultivation facility will allow the executive team to focus on research and development and sales and marketing activities. The Joint Venture will also reduce the Company's upfront capital investment in the new cultivation facility. Please refer to the 14 August 2019 NZX announcement for more information.

The Way Ahead

The pace of the Company's development is guided by the pace of the regulatory framework. The initial regulations are expected to be announced in December 2019.

In the coming months, Cannasouth will continue to press ahead with the development of our research programmes and product and business development in readiness for a pragmatic and positive outcome from the regulators to establish a sustainable New Zealand medicinal cannabis sector.



Mark Lucas
CEO, Cannasouth Limited

27 August 2019



Cannasouth Limited
Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the six months ended 30 June 2019

	GROUP	GROUP
	30 June 2019	31 Dec 2018
	(6 Months)	(4 Months)
	\$	\$
Continuing operations		
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Interest Income	18,987	69
Research and development expenses	(62,742)	(26,521)
Administrative expenses	(768,140)	(218,918)
Finance costs	(9,280)	(2)
Profit/(Loss) before tax from continuing operations	(821,175)	(245,372)
Income tax (expense)/benefit	-	-
Profit/(Loss) after tax from continuing operations	(821,175)	(245,372)
Other comprehensive income	-	-
Total other comprehensive income	(821,175)	(245,372)
Profit/(Loss) and other comprehensive income for the period attributable to shareholders	(821,175)	(245,372)

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

Cannasouth Limited
Consolidated Statement of Financial Position
For the six months ended 30 June 2019

	GROUP	GROUP
	30 June 2019	31 Dec 2018
	\$	\$
Cash and cash equivalents	10,771,250	3,137,074
Other receivables	73,216	7,102
Tax refund due	1,647	15
Other assets	92,502	26,553
Total current assets	10,938,615	3,170,744
Property, plant and equipment	1,023,373	219,428
Total non-current assets	1,023,373	219,428
Total assets	11,961,988	3,390,172
Trade and other payables	316,878	61,337
Lease liabilities	23,072	0
Loans from related parties	0	217,550
Total current liabilities	339,950	278,887
Lease liabilities	163,706	0
Total non-current liabilities	163,706	0
Total liabilities	503,656	278,887
Net assets	11,458,332	3,111,285
Share capital	12,683,220	3,515,000
Retained earnings	(1,224,889)	(403,715)
Total equity	11,458,332	3,111,285

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

Cannasouth Limited
Consolidated Statement of Changes in Equity
For the six months ended 30 June 2019

	GROUP		
	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance as at 1 January 2019	3,515,000	(403,715)	3,111,285
Shares issued	10,000,000		10,000,000
Capital raising costs	(831,780)		(831,780)
Profit/(loss) for the year		(821,175)	(821,175)
Total comprehensive income	-	(821,175)	(821,175)
Balance as at 30 June 2019	12,683,220	(1,224,890)	11,458,332
Balance as at Incorporation	-	-	-
Shares issued	3,700,000	-	3,700,000
Capital raising costs	(185,000)	-	(185,000)
Profit/(loss) for the year		(245,372)	(245,372)
Losses of Cannasouth Plant Research New Zealand Ltd at acquisition	-	(158,343)	(158,343)
Total comprehensive income	-	(403,715)	(403,715)
Balance as at 31 December 2018	3,515,000	(403,715)	3,111,285

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

Cannasouth Limited
Consolidated Statement of Cash Flows
For the six months ended 30 June 2019

	GROUP	GROUP
	30 June 2019	31 Dec 2018
	(6 Months)	(4 Months)
	\$	\$
<u>Operating activities</u>		
<i>Cash was provided from:</i>		
Interest received	4,945	69
<i>Cash was disbursed to:</i>		
Payments to suppliers and employees	(632,443)	(234,344)
Interest paid	(9,280)	(2)
Taxation paid	(1,631)	(15)
Net cash flows used in operating activities	(638,409)	(234,292)
<u>Investing activities</u>		
<i>Cash was applied to:</i>		
Purchase of property, plant and equipment	(671,907)	(142,079)
Net cash flows used in investing activities	(671,907)	(142,079)
<u>Financing activities</u>		
<i>Cash was provided from:</i>		
Proceeds from capital raising	10,000,000	3,700,000
<i>Cash was applied to:</i>		
Loans from related parties	(217,550)	(6,692)
Payment of lease liabilities	(6,180)	0
Capital raising costs	(831,780)	(185,000)
Net cash flows from financing activities	8,944,490	3,508,308
Net increase in cash flows	7,634,175	3,131,937
Opening cash and cash equivalents	3,137,075	5,137
Cash and cash equivalents at the end of the year	10,771,250	3,137,074

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

Cannasouth Limited
Notes to the Consolidated Financial Statements
For the six months ended 30 June 2019

1. Reporting entity

Cannasouth Limited ('the Company') is a company incorporated and domiciled in New Zealand, and registered under the Companies Act 1993.

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

2. Basis of preparation of the consolidated financial statements

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Financial Reporting Act 2013 and the Companies Act 1993.

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements are presented in New Zealand dollars (NZ\$), the currency of the primary economic environment in which the Group operates ('the functional currency'). All values are rounded to the nearest NZ\$, except when otherwise indicated.

3. Changes in accounting policies and disclosures

Accounting policies have been applied on a consistent basis throughout the period.

New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards and new accounting standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Although these new standards and amendments applied for the first time in 2019, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

NZ IFRS 16 Leases

NZ IFRS 16 specifies how to recognise, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for almost all leases. The standard is mandatory for reporting periods beginning on or after 1 January 2019.

As at 30 June 2019 lease arrangements exist in relation to:

- * Laboratory and office accommodation
- * Equipment
- * Land

On 1 January 2019 (the transition date) Cannasouth had several leases, and has followed the "modified retrospective approach" in accounting for these leases at transition to the new accounting standard.

As a result of the transition to IFRS 16 assets (and lease liability) of \$192,959 have been recognised. Lease payments that would have been expensed in the Statement of Financial Performance under the prior accounting standard of \$31,177 compares to the expense required under the new standard of \$35,006 (consisting of depreciation, interest expense and lease expense).

Cannasouth Limited

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

Tony Ho (Independent Chairman)
Conor English (Independent Director)
Mark Lucas (Executive Director)
Nic Foreman (Executive Director)

Securities Registrar

Link Market Services Limited
Level 11
Deloitte Centre
80 Queen Street
Auckland 1010

Telephone number: +64 9 375 5998

Legal Advisors

Corporate Counsel
P O Box 105 745
Auckland 1143

Auditors

Deloitte Limited
Deloitte House
24 Anzac Parade
Hamilton 3216