

**Statement of Corporate Governance for the Year Ended 31 December 2019**

The Board of Cannasouth Ltd (the Company) is committed to ensuring that it has best practice governance principles in place, the highest standards of business behaviour and accountability, and has adopted codes and policies relating to the conduct of all directors, executives and staff.

This statement has been structured to follow the recommendations set out in the NZX Corporate Governance Code (NZX Code) dated 1 January 2020 and discloses how the Company is applying these recommendations. The board considers that, as at 31 December 2019, the governance structures and practices it has adopted follow the NZX Code except where noted in the following pages.

The Company's constitution, charters, codes and policies referred to in this section (except the Delegations of Authority Policy) are available on the Company's website [www.cannasouth.co.nz](http://www.cannasouth.co.nz) (Website) in the Investor Centre section. A review of the charters, codes and policies is included in the board's Annual Work Plan.

**PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR**

The Board Charter and Code of Ethics establish the standards of ethical behaviour expected of directors and officers. The board expects directors and officers to personally subscribe to these values and use them as a guide for decision making.

Directors are expected to ensure the potential for conflicts of interests is minimised by restricting involvement in other businesses or in private capacities that could lead to a conflict. In considering matters affecting the Company, directors are required to disclose any actual or potential conflicts. Where a conflict or potential conflict is disclosed, the director takes no further part in receipt of information or participation in discussions on that matter. The Board maintains an interests' register and it is reviewed at each board meeting.

Directors, officers, employees and contractors are required to deal with Cannasouth securities in compliance with the Financial Products Trading Policy and Guidelines which is available on the Website.

Should any member of staff have concerns regarding practices that may conflict with the Code of Ethics they are able to raise the matter with the Chief Executive (CEO) or Chair, as appropriate, on a confidential basis. Directors would raise any concerns regarding compliance with the Code of Ethics or the Code of Conduct with the Chair. The Chair of the board notes there have been no matters raised for the year ended 31 December 2019.

**PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE**

The Board is responsible for the proper direction and control of the Company's activities and is the ultimate decision-making body of the Company. Its roles and responsibilities are set out in the Governance Code and include setting strategic direction, approval of significant expenditures, policy determination, stewardship of the Company's assets, identification of significant business risks, legal compliance and monitoring management performance. The number of directors, rotation and retirement is determined in accordance with the Constitution and the NZX Main Board Listing Rules (Listing Rules). For the year ended 31 December 2019, the Company complied with the director rotation requirements of the Listing Rules dated 1 January 2020 including the composition of the board and the appointment and rotation of individual directors. In particular, each director must retire, but may offer

themselves for re-election, at the third annual meeting following that director's appointment or every three years (whichever is longer). Profiles of each director can be found on the Website [www.cannasouth.co.nz/about/ourteam/](http://www.cannasouth.co.nz/about/ourteam/). Details of each director's ownership in Cannasouth can be found on page 11 of the 2019 Annual Report.

As at 31 December 2019, the board comprised four directors, two of whom are considered by the board to be independent under the Listing Rules. The board supports the separation of the role of Chair and CEO. The board has two sub-committees, the Audit, Finance and Risk Committee (AFRC) and the Remuneration, Nomination and Health & Safety Committee (RNH&S), to which it has delegated responsibilities. Charters are available on the Website and set out the purpose, objectives and procedures for each committee. Each committee's responsibilities are set out in Principle 3 below. The board is structured so that, as a collective group, it has the skills, experience, knowledge, independence and diversity of thought and capability to fulfil its purpose and responsibilities. Skills that directors bring to the board include finance, marketing, manufacturing, investment and mergers and acquisition. Several of the directors are members of professional bodies including the Institute of Directors and Chartered Accountants Australia & New Zealand.

The Company has a written agreement with each director setting out the terms and conditions of their appointment. Board papers for meetings include reports supporting standing agenda items together with formal proposals in relation to any other matters for decision or noting. Any new directors in the future will take part in an induction program to familiarise them with Cannasouth's business, production facilities and features of the industry within which it operates. Ongoing director education and training is also encouraged. A contribution to each director's costs of education and training for programs approved by the Chair may be made. The board's annual work program is set out in the Governance Code. All matters listed were addressed in the 2019 financial year. There has not yet been an evaluation of director's performance, or the performance of the board, its processes and procedures, as set out in the Governance Code, or a review of the performance of Board Committees due to the start-up nature of the Company.

The board has delegated responsibility for the day-to-day leadership and management of the Company to the CEO who is required to do so in accordance with Board direction. The board approved a Delegation of Authority Policy on 25 February 2020, which replaced the Purchasing & Payments Policy, affecting all aspects of the Company's operation. The Delegation of Authority Policy will be reviewed at least annually.

#### Diversity

Cannasouth recognises the wide-ranging benefits that diversity brings to an organisation and its workplaces. Cannasouth endeavours to ensure diversity at all levels of the organisation to ensure a balance of skills and perspectives are available in the service of our shareholders and customers. To this end, the board is committed to fostering a culture that embraces diversity by aiming to establish measurable objectives for achieving gender diversity and annually reviewing and assessing such objectives and Cannasouth's progress in achieving them.

The following table reports gender composition of the board and Company's officers as at 31 December 2019.

Diversity Statistics	2019		2018	
	Female	Male	Female	Male
Directors	0	4	0	4
Officers	2	4	0	1
TOTAL	2	8	0	5

The board has the responsibility of monitoring and promoting the diversity of staff and associated corporate culture to ensure management is appropriately recruiting staff from a diverse range of candidates, based on merit. A formal Diversity Policy has yet to be developed.

### **PRINCIPLE 3: BOARD COMMITTEES**

The board has appointed two standing committees – the Audit, Finance and Risk Committee (AFRC) and the Remuneration, Nomination and Health & Safety Committee (RNH&S). Each committee has a charter that sets out its scope of responsibilities, activities and authority. The charters for each committee are available on the Website.

#### Audit, Finance and Risk Committee (AFRC)

The AFRC is constituted to monitor the accuracy of the financial data produced by the Company and to ensure controls are in place to minimise the opportunities for fraud or for material error in the accounts. The AFRC's responsibilities include the audit functions, processes and policy for assessing financial matters, general compliance of financial reports with laws and regulations and the risk management framework.

The AFRC has a clear line of communication with the independent external auditors and the finance team. The AFRC will meet at least two times per year and will meet at least annually with the auditor without management present. In the financial year ended 31 December 2019, the AFRC held no meetings due to the start-up nature of the business.

The AFRC must have a minimum of three members and the majority of whom must be independent directors. The Chair of the AFRC may not be the Chair of the board. At least one member of the AFRC must have an accounting or financial background and, as a group, the AFRC must be structured to have the skills, experience and knowledge to fulfil its purpose and responsibilities. The members of the AFRC are Conor English (Chair), Anthony (Tony) Ho and Mark Lucas. Mr English and Mr Ho are Independent Directors. The members' qualifications and background can be found on the Website [www.cannasouth.co.nz/about/ourteam/](http://www.cannasouth.co.nz/about/ourteam/). The Chief Financial Officer (CFO), Finance & Administration Manager and other employees of the Company may attend meetings as requested by the AFRC. The Finance & Administration Manager acts as Secretary to the AFRC and undertakes the duties normally associated with that role.

#### The Remuneration, Nomination and Health & Safety Committee (RNH&S)

The RNH&S is constituted to review the composition of the board, director remuneration and board appointments. It assists with determining appointments and terms of remuneration for the CEO, and those reporting directly to the CEO. It also has oversight of any company-wide incentive and share option schemes and HR-related statutory and regulatory matters. The CFO, Finance & Administration Manager and other employees of the Company may attend meetings as requested by the committee. The NZX Code recommends the Chair should be an independent director, who is not the Chair of the board and that membership of the RNH&S Committee should comprise solely non-executive directors of the issuer. Cannasouth's CEO is a member of the committee because of the limited number of independent directors. The current members of the RNH&S Committee are Conor English (Chair), Tony Ho, and Mark Lucas (CEO). The RNH&S Committee will meet as scheduled from time to time, but at least once per year. In the 2019 financial year the RNH&S held no meetings due to the start-up nature of the business.

### **PRINCIPLE 4: REPORTING AND DISCLOSURE**

#### Reporting

The board is committed to ensuring that its financial reporting is balanced, clear and objective. The AFRC assists the board in fulfilling its responsibilities relating to the Group's management systems, accounting and reporting, external and internal audit and risk management activities.

The AFRC monitors the Company's accounting and reporting practices, reviews the financial information reported to shareholders, oversees the work undertaken by the external auditor, and monitors Cannasouth's risk management program.

The CEO and the CFO are required to provide a letter of representation to the board confirming that:

- the Group's financial statements have been prepared in accordance with accepted accounting standards in New Zealand, are free of material misstatements, including omissions, give a true and fair view of the financial performance and position of the Group and the financial records have been properly prepared;
- the representations are based on a sound system of risk management, internal compliance and controls that provide for the implementation of the policies adopted by the board; and
- the Group's risk management and internal control systems are operating effectively in all material respects.

A letter of representation confirming those matters was received in relation to the 2019 financial statements.

The Company is in the early stages of considering how and to what extent it should report on non-financial information such as environmental, social and governance matters (ESG). The Company does not currently have a formal ESG reporting framework, however this is being progressed by the board with the intention that the Company will report on these nonfinancial matters in future reports.

#### Disclosure

The board is committed to keeping the market and its shareholders informed of all material information relating to the Company through meeting the obligations imposed under the Listing Rules and relevant legislation such as the Financial Markets Conduct Act 2013. The Company has a Market Disclosure Policy which applies to all directors, officers and employees of the Company.

Cannasouth seeks to make disclosures in a timely and balanced way to ensure transparency in the market and equality of information for investors. The Company also recognises the benefits of providing other releases that broaden the market's knowledge of the Company's business and financial performance and seeks, where appropriate, to use communications that achieve this objective. The Website is a key channel for the distribution of Cannasouth's information and is updated after documents are disclosed on the NZX.

The Chair of the board and the CEO are responsible for the day to day management of ensuring these obligations are met.

The board reviews compliance with the Company's continuous disclosure obligations at every board meeting.

#### **PRINCIPLE 5: REMUNERATION**

The non-executive director's remuneration pool has been set at \$250,000 per annum. Information on payments to each director is set out on page 11 of the 2019 Annual Report. Policy on the remuneration for non-executive directors is set out in the Remuneration, Nominations and Health & Safety Committee Charter. Non-executive directors may be paid additional fees for chairing a board committee or for special service. Currently no additional fees are paid. Directors may be reimbursed for expenses incurred in performing their duties and the RNH&S Committee reviews annually such expenses that have been reimbursed to ensure they are reasonable. All non-executive directors are currently members of the Employee Share Option Plan (ESOP). No retirement payments are paid to non-executive directors. The remuneration and performance of the CEO and officers were reviewed by the board in 2019 and will be reviewed by the RNH&S Committee in the future. Information on the remuneration of the CEO and officers is set out on pages 11 & 12 of the 2019 Annual Report.

#### **PRINCIPLE 6: RISK MANAGEMENT**

The AFRC has been delegated oversight for risk management by the board. The AFRC's responsibilities are set out in the Audit, Finance and Risk Committee Charter. Senior management is also responsible for the day to day monitoring of risk management systems. Senior management must report at each board meeting on risk management to identify material risks, the effectiveness of Cannasouth's ongoing risk management program and policies, and whether any remedial action is necessary in relation to risk management issues. The Company is at an early stage of developing its framework to identify and manage existing and new risks which the AFRC is responsible for overseeing.

There were no material issues reported in the 2019 financial year.

Directors are insured against liabilities to other parties that may arise from their positions as directors, excluding liabilities that may arise from criminal actions.

#### Health and Safety

The health and safety of employees, directors and others associated with Cannasouth is just as important to the board as managing financial and reputational risk. The board (through the RNH&S Committee) is responsible for determining high-level health and safety strategy and policies which management is required to implement. The board has responsibility for reviewing Cannasouth's health and safety policies to ensure the Company provides a safe working environment and that a commitment to health and safety is part of everyday business with an integrated, embedded and effective system in which all staff take individual ownership. The board reviewed the Health and Safety Policy in 2019 and an amended policy was approved on 25 February 2020. The policy has been published on the Website. Information on the Company's health and safety performance will be made available from 2020.

### **PRINCIPLE 7: AUDITORS**

Oversight of the Company's external audit arrangements is the responsibility of the AFRC. The AFRC's functions in relation to the auditors are set out in the Audit, Finance and Risk Committee Charter and include recommending the appointment and removal of external and internal auditors, reviewing the annual audit plans, formal communications with and evaluating the effectiveness of the auditors and reviewing the auditors' comments, recommendations and plans.

Cannasouth does not have an internal audit function due to the start-up nature of the business.

All services provided by the external auditor are considered on a case by case basis by the AFRC to ensure there is no actual or perceived threat to the independence of the auditor in accordance with the Audit, Finance and Risk Committee Charter. No additional non-audit services were provided by the external auditor in the 2019 financial year.

External audit services are provided by Deloitte. The AFRC and the board has delegated authority from shareholders to approve all audit fees and is responsible for ensuring that the external audit partner is changed at least every five years. Deloitte has been the Company's external auditor since 2018 and will attend the annual shareholders meeting in 2020.

### **PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS**

Cannasouth aims to promote effective communication with shareholders and interested stakeholders. Cannasouth seeks to encourage effective participation at shareholder meetings of the Company and distribute shareholder communications in accordance with the Listing Rules and any relevant legislation.

Cannasouth uses a variety of channels and technologies to keep its shareholders informed and to allow access to information, including market announcements through NZX, the Cannasouth share registry at [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz), the Website, shareholder roadshows, annual reports and annual meetings of shareholders. The Company also provides options for its Shareholders to communicate with the

Company and the Company's share registry electronically. All market releases carry contact details for shareholders to communicate with the Company. The Company responds to all shareholder communications within a reasonable timeframe.

Shareholders are encouraged to attend annual meetings as they are an opportunity to put questions to the board, officers and to the external auditor on the conduct of the audit and to this end, the Chair will provide reasonable time for questions and comments on relevant matters.

Recommendation 8.5 of the NZX Code recommends that the board should ensure that the annual shareholders notice of meeting is posted on the Company's website as soon as possible and at least 28 days prior to the meeting.

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

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