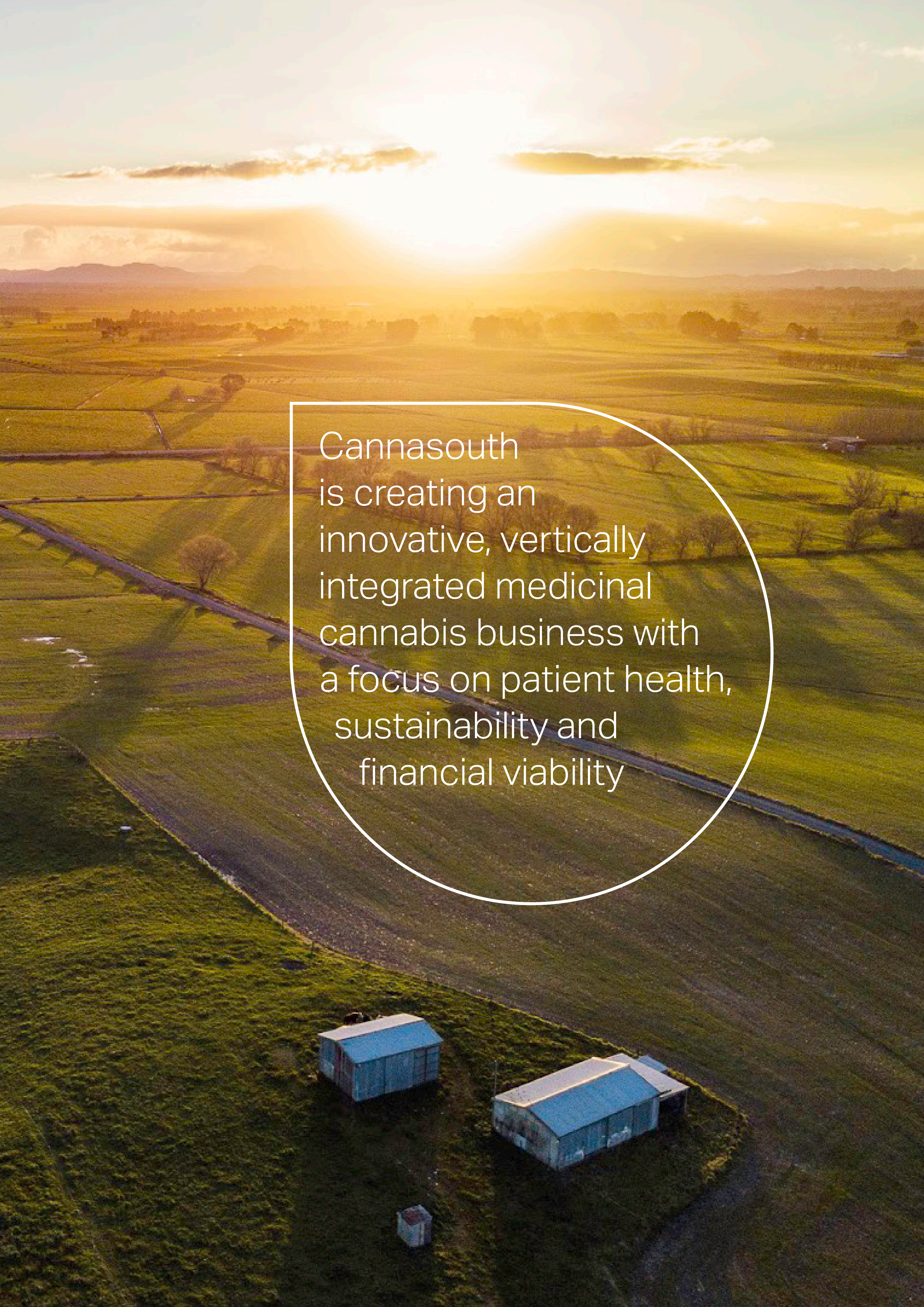
Cannasouth Limited and Group
Financial Statements for the year ended 31 December 2019

cannasouth


Cannasouth
is creating an
innovative, vertically
integrated medicinal
cannabis business with
a focus on patient health,
sustainability and
financial viability

During the financial year, Cannasouth made substantial progress on implementing its strategy to be an integrated "seed to sale" medicinal cannabis business

Contents

Covid-19

At the date of this report, the Board of Cannasouth Limited provided the following update on the operations of Cannasouth and Group companies and joint ventures in relation to the Coronavirus (Covid-19) global pandemic.

The health, safety and wellbeing of our people, and their families is our top priority. An Action Plan for each entity and site has been implemented and aligns with advice from the New Zealand Government and Ministry of Health.

Cannasouth Limited (parent company) & Cannasouth Plant Research Limited (100% subsidiary)
Cannasouth has developed a modern working environment with IT systems and infrastructure that allow for agile work practices. Our people use video conferencing and online communications daily so the transition to mandatory working from home has been seamless. The Hamilton based business has suspended some research activities to comply with the current Covid-19 alert level while continuing with other product development activities and building business capability to support future product sales when the regulatory environment allows. Several of the conferences CBD had scheduled to attend in the upcoming months have either been postponed or cancelled. We continue to communicate with our stakeholders online.

Cannasouth Cultivation Limited (50% owned)
This operation is located in the Waikato and construction of its state-of-the-art hybrid greenhouse cultivation facility is now on hold during the Covid-19 lockdown. Our project team can use this time to make further progress with planning and system design for the new facility while working from home.

Midwest Pharmaceutics NZ Limited (60% owned)
This GMP manufacturing operation is located in Hastings and currently has two key focuses. One is the development of its medicinal cannabis production capability and the other is existing pharmaceutical and health & wellness product production and contract manufacturing. For the latter, Midwest will continue its operations as it falls under the Covid-19 essential service, producing health sector medicines. Production is currently running at full capacity with the team working hard to keep up with an increase in demand from its customers. The GMP and clean room protocols, along with other pandemic management measures, ensure safe working conditions for our people.

Summary
Health precautions were implemented early on for the safety of our teams and anyone physically interfacing with the Group.

CBD currently has no debt, significant cash reserves and the ability to make adjustments to its business strategy and plans to extend cash reserves while still making progress towards its objectives and achieving key milestones. Applications are underway for the various Government Covid-19 employer support measures, as appropriate.

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

The board is assessing the Group's position on an ongoing basis, and will continue to keep the market informed of any changes to the operations of the business in relation to Covid-19 that may have a material impact on our current business strategy.

At the date of this report, the Covid-19 global pandemic has resulted in only minimal disruptions to the operations of Cannasouth and Group companies and does not qualify for recognition as an adjusting event.

Chairman and Chief Executive's Report

For the year ended 31 December 2019

The Directors have pleasure in presenting the annual report of Cannasouth Limited and its subsidiaries (the 'Group') incorporating the consolidated financial statements and the Independent Auditor's Report, for the year ended 31 December 2019.

The Group recorded a loss before tax of $2.2 million (2018 $0.2 million) and operating revenue of $53,000 (2018 $0). The loss was attributable to the planned establishment of the Group as a key participant in the emerging medicinal cannabis market in New Zealand.

Cash on hand at 31 December 2019 for the Group was $8.5 million (2018 $3.1 million). Property, plant and equipment grew to $834,000 (2018 $219,000).

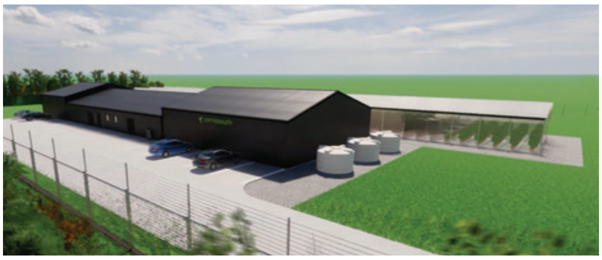
The release of the Government's medicinal cannabis regulations in December 2019 was a significant milestone as it provided guidance to the way ahead for the New Zealand medicinal cannabis industry. The announcement removed regulatory uncertainty for Cannasouth in this exciting new industry. During the financial year, Cannasouth made substantial progress on implementing its strategy to be an integrated "seed to sale" medicinal cannabis business.

The Group is also focusing on developing good clinical data to support medicinal cannabis products and establishing education programmes for doctors and prescribers. Equipping these professionals with this knowledge will be key to ensuring they have readily available quality information to make informed decisions.

During the year Cannasouth made significant progress in developing its business. Highlights include:

Recruited additional top talent to join our team, covering Regulatory, Science, cGMP, Formulation, Medical

Established a joint venture, Cannasouth Cultivation Limited (CCL), to grow and process cannabis.



CCL commenced construction of a new environmentally sustainable and scalable commercial cannabis cultivation and processing facility in the Waikato region.

Secured funding for research projects from Callaghan Innovation. Our research now covers Tissue Culture, RNA DNA Genomics, Formulation, Neuropathic Pain, Drug discovery.

Purchased a 60% stake in Midwest Pharmaceutics NZ Limited to provide a GMP manufacturing facility for the Group and some core revenues while the medicinal cannabis market is being developed.

Cannasouth's mission is to create the foundations of a well-defined and vertically integrated medicinal cannabis business with a focus on sustainability and profitability.

The new regulations set important standards for the manufacture of medicinal cannabis products. GMP (Good Manufacturing Practice) will be the quality standard required for the sale of medicinal cannabis in the New Zealand market and export of finished products to other countries. The Group is building its business to meet those standards. Having high standards for medicinal cannabis products will eliminate the risk of sub-standard products in the New Zealand market, which will give patients and prescribers confidence that the medicines are always consistent in quality and content.

2020 will see a number of milestones to be delivered by Cannasouth, subject to Ministry of Health approvals. These include:

The application for and the issue of a license to cultivate medicinal cannabis crops commercially

The commissioning of CCL's commercial growing and processing facility and the processing of the first commercial crop to be harvested by CCL

The release of a range of quality cannabinoid formulated medicinal products

The development of a sales and marketing team to take products to market

The installation and commissioning of state-of-the-art plant and equipment at Midwest Pharmaceutics NZ Limited. This will ensure the company is ready to manufacture Cannasouth-branded cannabinoid formulated medicines

Growing Midwest's core revenues and expand its existing manufacturing capabilities

The Cannasouth Group comprises: Cannasouth Cultivation Limited for raw production of high quality, pharmaceutical grade cannabis; Midwest Pharmaceutics NZ Limited for medicines production; and Cannasouth Plant Research New Zealand Limited for research and product development. The acquisition of a 60% stake in GMP-accredited Midwest Pharmaceutics NZ Limited in October 2019 provides the Group with an existing third-party contract manufacturing revenue stream. For the two-month period post acquisition revenues from Midwest were $358,000.

The regulatory environment is ready, and our teams are in place to drive Cannasouth's business plans. It's exciting to see all the components of our corporate strategy now coming together. We are now well placed to develop affordable, next-generation cannabinoid therapeutics to support patients' health outcomes and improve their quality of life.

The Company's Board currently has no intention to declare dividends while the business is being established.

On behalf of the board, we thank our teams for their ongoing enthusiasm and dedication, and for achieving our milestones. We also acknowledge the ongoing support and encouragement from our shareholders and stakeholders during 2019.

Tony Ho
Chairman of Directors
26 March 2020

Mark Lucas
CEO, Director
26 March 2020

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 27 February 2020

	Number of security holders		Number of securities	
Ordinary Shares	**Number of Holders**	**%**	**Shares held**	**%**
1 - 1,000	433	15.00	292,060	0.28
1,001 - 5,000	1438	49.83	3,983,440	3.78
5,001 - 10,000	482	16.70	3,999,607	3.79
10,001 - 50,000	418	14.48	9,202,605	8.73
50,001 - 100,000	59	2.04	4,574,660	4.34
Greater than 100,000	56	1.95	83,415,234	79.09
Total	**2886**	**100.00**	**105,467,606**	**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 2019. The total number of quoted ordinary shares of the Company at that date was 105,467,606.

Substantial Product Holder	Quoted voting products in the Company in which a relevant interest is held	Date of notice
Nicholas Foreman	28,161,290 ordinary shares	19/6/2019
Mark Lucas	28,161,290 ordinary shares	19/6/2019
Adam Sorenson	6,475,563 ordinary shares	20/12/2019

20 Largest Registered Holders of Quoted Equity Securities

As at 31 December 2019

	Number of ordinary shares	Percentage of ordinary shares
Mark John Lucas	28,161,290	26.70
Nicholas Jon Foreman	28,161,290	26.70
Marley Trustee Limited	5,749,763	5.45
New Zealand Depository Nominee Limited	5,531,554	5.24
Merran Dawn Davis	1,741,935	1.65
Jason Stewart Craig & Vicki Lean Craig	1,388,889	1.32
Aaron John Craig & Jennifer Craig	1,388,889	1.32
All Green Limited	1,000,000	0.95
Mark Balchin & Greenmeadows Health Limited	689,828	0.65
Sandra Margaret Lamb & David Lorrence Bell	580,000	0.55
Dragonfly Capital Limited	568,209	0.54
Anthony Peng Ho & Chui Hoorg Ho	450,000	0.43
Heather Anne Burgess	408,000	0.39
Betalert Limited	400,000	0.38
Yang Lin & Yiqing Liu	400,000	0.38
Forsyth Barr Custodians	349,640	0.33
JBWERE (NZ) Nominess Limited	343,019	0.33
Lynda Sharmayne Mather	288,500	0.27
Samuel Dylan Spector	273,393	0.26
Maxim Gogol & Liudmila Alexandrovna Melnikova	259,292	0.25
Total	**78,133,491**	**74.08%**

Directors

During the 12 Months ended 31 December 2019

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

Directors Security Holdings

As at 31 December 2019

	Ordinary Shares				Share options			
	Legally & beneficially owned		Held by associated persons		Legally & beneficially owned		Held by associated persons	
	2019	2018	2019	2018	2019	2018	2019	2018
Mark Lucas	28,161,290	28,161,290	-	-	-	-	-	-
Nicholas Foreman	28,161,290	28,161,290	-	-	-	-	-	-
Anthony Ho	450,000	400,000	-	-	250,000	-	-	-
Conor English	32,332	-	100,000	100,000	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 2019 is:

	Remuneration of Directors		Other Services	
	2019 $	2018 $	2019 $	2018 $
Mark Lucas	104,352	41,080	-	-
Nicholas Foreman	104,352	40,797	-	-
Anthony Ho	58,569	10,000	-	-
Conor English	45,332	9,999	-	-
Total	**312,605**	**101,876**	**-**	**-**

Entries Recorded in the Interests Register

The following entries were recorded in the interests' register of the Company for the year ended 31 December 2019.

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

At the point of listing on the NZX (19 June 2019) Directors Tony Ho and Conor English were issued with options to purchase 250,000 ordinary shares each at 50 cents per Share.

During the 2019 financial year the following share transactions occured, which were recorded on the Interests Register, relating to Directors and Officers of the Company:

- Tony Ho purchased 50,000 shares as an on market trade on 19 June 2019.
- Agribusiness New Zealand Ltd (Related Party to Conor English) purchased 27,591 shares as part of the Cannasouth IPO on 19 June 2019.
- Glenmore Dipton Trust (Related Party to Conor English) purchased 4,741 shares as part of the Cannasouth IPO on 19 June 2019.

c) Loans to Directors

There were no loans to Directors during the for the year ended 31 December 2019.

Meeting Attendance

	Meetings Attended
Mark Lucas	11
Nicholas Foreman	10
Anthony Ho	11
Conor English	10
Board Meetings Held During The Year	**11**

Remuneration of Employees

During the year there were no employees who received remuneratiuon in excess of $100,000 (2018 nil).

Auditor

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

Donations

There were $0 donations made during the period (last year: $0).

NZX Waivers

No waiver from the NZX Main Board Listing Rules was granted to the Company or relied upon by the Company for the year ended 31 December 2019.

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 2019

	Notes	GROUP 31 Dec 2019 (12 Months) $	GROUP 31 Dec 2018 (4 Months) $
Continuing operations			
Revenue and Other Income	7	53,391	-
Cost of sales		-	-
Gross profit		**53,391**	**-**
Interest income	9	71,683	69
Research and development expenses		(302,065)	(26,521)
Administrative expenses	8	(1,939,297)	(218,918)
Share of net profit/(loss) of joint ventures accounted for using the equity method	15	(37,034)	-
Loss before finance costs		**(2,153,322)**	**(245,370)**
Finance costs	9	(28,236)	(2)
Loss before tax from continuing operations		**(2,181,558)**	**(245,372)**
Income tax (expense)/benefit	10	-	-
Loss after tax from continuing operations		**(2,181,558)**	**(245,372)**
Other comprehensive income		-	-
Total comprehensive loss		**(2,181,558)**	**(245,372)**
Total comprehensive loss is attributable to:			
Owners of Cannasouth Ltd		(2,181,558)	(245,372)
Non-controlling interests		-	-
Profit /(Loss) per share (cents per share)			
Basic		(2.34)	(0.59)
Diluted		(2.34)	(0.59)
Weighted average number of ordinary shares issued			
Basic		92,925,926	41,500,000
Diluted		92,925,926	41,500,000

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

Consolidated Statement of Financial Position
As at 31 December 2019

	Notes	GROUP 31 Dec 2019 $	GROUP 31 Dec 2018 $
Cash and cash equivalents		8,479,716	3,137,074
Trade and other receivables	11	143,644	7,102
Tax refunds due		16,046	16
Other assets	12	97,204	26,552
Total current assets		**8,736,610**	**3,170,744**
Property, plant and equipment	13	833,977	219,428
Right of use assets	14	166,998	-
Investments	15	2,238,947	-
Other intangible assets		7,009	-
Total non-current assets		**3,246,931**	**219,428**
Total assets		**11,983,541**	**3,390,172**
Trade and other payables	16	208,451	61,337
Lease liabilities	14	26,067	-
Loans from related parties	22	-	217,550
Total current liabilities		**234,518**	**278,887**
Lease liabilities	14	152,340	-
Total non-current liabilities		**152,340**	**-**
Total liabilities		**386,858**	**278,887**
Net assets		**11,596,683**	**3,111,285**
Share capital	18	14,149,297	3,515,000
Retained earnings		(2,585,273)	(403,715)
Share-based payment reserve	25	32,659	-
Total equity		**11,596,683**	**3,111,285**

Tony Ho
Chairman of Directors
26 March 2020

Conor English
Director
26 March 2020

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 2019

		GROUP					
		Share Capital	**Share-based Payment Reserve**	**Retained Earnings**	**Total Attributable to Owners of the Parent**	**Non-controlling Interest**	**Total Equity**
	Note	**$**		**$**	**$**		
Balance as at 1 January 2019		3,515,000	-	(403,715)	3,111,285	-	3,111,285
Shares issued	18	11,475,981	-	-	11,475,981	-	11,475,981
Capital raising costs	18	(841,684)	-	-	(841,684)	-	(841,684)
Profit/(loss) for the year		-	-	(2,181,558)	(2,181,558)	-	(2,181,558)
Total comprehensive income		-	-	(2,181,558)	(2,181,558)	-	(2,181,558)
Increase / (Decrease) in Reserves		-	32,659	-	32,659	-	32,659
Balance as at 31 December 2019		**14,149,297**	**32,659**	**(2,585,273)**	**11,596,683**	**-**	**11,596,683**

		GROUP					
		Share Capital	**Share-based Payment Reserve**	**Retained Earnings**	**Total Attributable to Owners of the Parent**	**Non-controlling Interest**	**Total Equity**
Balance as at Incorporation		-	-	-	-	-	-
Shares issued	18	3,700,000	-	-	3,700,000	-	3,700,000
Capital raising costs	18	(185,000)	-	-	(185,000)	-	(185,000)
Profit/(loss) for the year		-	-	(245,372)	(245,372)	-	(245,372)
Losses of Cannasouth Plant Research New Zealand Ltd at acquisition		-	-	(158,343)	(158,343)	-	(158,343)
Total comprehensive income		-	-	(403,715)	(403,715)	-	(158,343)
Increase / (Decrease) in Reserves		-	-	-	-	-	-
Balance as at 31 December 2018		**3,515,000**	**-**	**(403,715)**	**3,111,285**	**-**	**3,111,285**

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2019

	Notes	GROUP 31 Dec 2019 (12 Months) $	GROUP 31 Dec 2018 (4 Months) $
Operating activities			
Cash was provided from:			
Interest received		48,578	69
Receipts from Customers		277	-
Cash was disbursed to:			
Payments to suppliers and employees		(1,914,880)	(234,344)
Interest paid		(28,236)	(2)
Taxation paid		(16,030)	(15)
GST		(23,428)	-
Loan to joint venture		(60,000)	-
Net cash flows used in operating activities	20	(1,993,719)	(234,292)
Investing activities			
Cash was applied to:			
Purchase of property, plant and equipment		(785,692)	(142,078)
Acquisition of joint ventures		(1,800,000)	-
Net cash flows used in investing activities		(2,585,692)	(142,078)
Financing activities			
Cash was provided from:			
Proceeds from capital raising		11,000,000	3,700,000
Cash was applied to:			
Loans from related parties	20	(217,550)	(6,692)
Payment of lease liabilities		(18,713)	-
Capital raising costs		(841,684)	(185,000)
Net cash flows from financing activities		9,922,053	3,508,308
Net increase in cash flows		**5,342,642**	**3,131,937**
Opening cash and cash equivalents		3,137,074	5,137
Cash and cash equivalents at the end of the year		**8,479,716**	**3,137,074**

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

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 Plant Research New Zealand Ltd (the 'Group') is principally engaged in the research and development of cannabinoid medicines.

The consolidated financial statements were authorised for issue in accordance with a resolution of directors dated 26 March 2020.

2 Basis of preparation of the consolidated financial statements

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). 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.

The Company acquired the subsidiary Cannasouth Plant Research New Zealand Limited during the prior period. Refer to note 26 for details on the transaction. As a result, the balance date for Cannasouth Plant Research New Zealand Limited changed from 31 March to 31 December to align with the group, effective from 31 December 2018.

These consolidated financial statements have been prepared for the full year ending 31 December 2019 and reflect the combined activities of Cannasouth Plant Research New Zealand Limited and Cannasouth Limited for that period. The comparative period is for the four month period ending 31 December 2018.

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 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.

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.

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

Refer to note 14 for details on transition.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 Revenue from Contracts with Customers has been applied to account for Group revenues. The core principle of NZ IFRS 15 is that an entity recognises revenue when a customer obtains control of promised goods or services. The amount recognised is based on an amount that the entity expects to be entitled to in exchange for the goods or services. The standard introduces a five-step model to determine when and how much revenue should be recognised. Given this is the first period where the Group has recognised revenues, therefore has been no impact arising from adoption of this new standard.

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 judgements

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 judgements 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 judgements 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)

• Accounting for investments (Note 15)

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:
• Research, development and manufacture 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 $2,181,558 (2018 $245,372).

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. The announcement removed regulatory uncertainty for Cannasouth in this exciting new industry. During the financial year, Cannasouth made substantial progress on implementing its strategy to be an integrated "seed to sale" medicinal cannabis business.
The view of the Board of Directors after noting the considerations and risks above is that the Group will have access to adequate resources to continue operations for the foreseeable future. For these reasons, the Board of Directors consider the adoption of the going concern assumption in preparing the consoldated financial statements for the period ended 31 Dec 2019 to be appropriate. The Board of Directors has reached this conclusion having regard to circumstances that are considered likely to affect the Group during the period of at least one year from signing these accounts, and to circumstances that they can reasonably forsee will occur after that date, which could affect the validity of the going concern assumption.

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.

Sales of goods: The Group is currently in start-up phase, but may sell very small quantities of cannabis samples to other parties who holding appropriate licenses. 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 2019 (12 Months) $	31 Dec 2018 (4 Months) $
Salaries & Wages	731,157	72,015
Contributions to defined contribution funds (Kiwisaver)	20,172	884
	751,329	72,899
Depreciation - property, plant and equipment	159,495	5,827
Amortisation - software	4,640	-
Fees to auditors:		
Audit of the financial statements	52,000	8,500
Other services - Financial Reporting Assistance	-	3,500

9 Interest income & finance costs

Recognition and measurement
Interest expense and borrowing costs are recognised in profit or loss as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial liability and allocates the interest expense, 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 liability. The application of the method has the effect of recognising expenses on the financial liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

Interest on financial liabilities held at amortised costs:

	31 Dec 2019 (12 Months) $	31 Dec 2018 (4 Months) $
Interest income	71,683	69
Interest expense	(28,236)	(2)

There was $nil borrowing costs capitalised during the period ($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 2019 (12 Months) $	31 Dec 2018 (4 Months) $
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	(2,181,558)	(245,372)
Tax at the New Zealand tax rate of 28%	(610,836)	(68,704)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	610,836	68,704
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 2019 (12 Months) $	31 Dec 2018 (4 Months) $
Trade receivables and related party receivables	113,060	7,102
GST receivables	30,584	-
	143,644	7,102

12 Other assets

	31 Dec 2019 (12 Months) $	31 Dec 2018 (4 Months) $
Prepaid capital raising costs	-	25,000
Interest income accrued	23,104	-
Prepayments	74,100	1,552
	97,204	26,552

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.

13 Property, plant and equipment continued…

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.

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 2019 (12 Months) $**	**31 Dec 2018 (4 Months) $**
Buildings	140,755	-
Fixtures & fittings	49,193	5,053
Motor vehicles	9,748	13,926
Office equipment	47,645	6,468
Plant & equipment	584,127	67,977
Work in Progress	2,510	126,004
	833,977	219,428

2019	**Buildings**	**Fixtures & Fittings**	**Motor Vehicles**	**Office Equipment**	**Plant & Equipment**	**Work in Progress**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Cost							
Balance at opening	-	5,442	15,652	7,989	75,072	126,004	230,159
Additions	151,949	48,932	-	65,192	632,169	(123,494)	774,747
Disposals	-	-	-	(1,499)	-	-	(1,499)
Balance at 31 December 2019	**151,949**	**54,374**	**15,652**	**71,682**	**707,241**	**2,510**	**1,003,407**
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	-	159,495
Eliminated on disposal of assets	-	-	-	(796)	-	-	(796)
Balance at 31 December 2019	**11,194**	**5,180**	**5,904**	**24,037**	**123,114**	**-**	**169,429**
Carrying Value at 31 December 2019	**140,755**	**49,193**	**9,748**	**47,645**	**584,127**	**2,510**	**833,977**

2018	**Buildings**	**Fixtures & Fittings**	**Motor Vehicles**	**Office Equipment**	**Plant & Equipment**	**Work in Progress**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Cost							
Balance at incorporation	-	-	-	-	-	-	-
Assets acquired on acquisition of subsidiary	-	5,442	6,087	2,522	74,029	-	88,080
Additions			9,565	5,467	1,043	126,004	142,079
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2018	**-**	**5,442**	**15,652**	**7,989**	**75,072**	**126,004**	**230,159**
Accumulated depreciation							
Balance at opening	-	-	-	-	-	-	-
Balance on acquisition of subsidiary	-	150	894	540	3,320	-	4,904
Depreciation	-	240	833	980	3,774	-	5,827
Balance at 31 December 2018	**-**	**390**	**1,727**	**1,520**	**7,094**	**-**	**10,731**
Carrying Value at 31 December 2018	**-**	**5,052**	**13,925**	**6,469**	**67,978**	**126,004**	**219,428**

14 Leases (Group as a lessee)

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.
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 NZ IFRS 16 assets (and lease liability) of $197,120 have been recognised. Lease payments that would have been expensed in the Statement of Financial Performance under the prior accounting standard of $45,973 compares to the expense required under the new standard of $58,358 (consisting of depreciation, interest expense and lease expense).

Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 18%. The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Reconciliation of operating lease commitments at 31 December 2018 to the lease liability recognised at 1 January 2019:	**$**
Operating lease commitments at 31 December 2018	45,873
Short-term leases and leases of low-value assets	(7,217)
Additional term of leases recognised	275,005
Effect of discounting the above amounts	(116,541)
Lease liabilities recognised at 1 January 2019	**197,120**

Cannasouth Group leases buildings. Lease terms include extension options. These extension options are usually at the discretion of the Cannasouth Group entity, and are included in the measurement of the lease asset if management is reasonably certain the extension will be exercised. Lease terms are negotiated on an individual basis and contain a variety of terms and conditions. However, these lease agreements do not impose any covenants.

Prior to 31 December 2018, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019 (the "transition date"), the Group applied NZ IFRS 16. Leases are recognised as a right of use asset (lease asset) and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The lease asset is depreciated over the shorter of the asset’s useful life, and the lease term on a straight-line basis.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients, on transition date:
- Reliance on the previous identification of a lease (as provided by NZ IAS 17 and IFRIC 4) for all contracts that existed on the date of initial application;
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term 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
- 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.

14 Leases (Group as a lessee) continued…

Lease assets

The Statement of Financial Position shows the following amounts related to leases of right-of-use assets:

	31 Dec 2019 (12 Months) $
Cost	
Balance at 1 January	197,120
Disposals	-
Balance at 31 December 2018	**197,120**
Accumulated depreciation	
Balance at 1 January	-
Depreciation	30,122
Eliminated on disposal of assets	-
Balance at 31 December 2018	**30,122**
Carrying Value	**166,998**

Lease liabilities

The maturity of the lease liabilities is as follows:

	31 Dec 2019 (12 Months) $
Within one year	26,067
Later than one year but not later than five years	144,352
Later than five years	7,988
	178,407

Amounts recognised in the statement of profit and loss:

Depreciation charge on right-of-use assets	30,122
Interest expense (included in finance costs)	28,236
Expense relating to short-term leases	13,104
Expense relating to low-value assets (not included in the above short-term lease expense)	3,000

At 31 December 2019, the Group is committed to $23,625 for short-term leases.

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.

15 **Investments continued…**

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.

a) **Interests in joint ventures**

Set out below are the joint ventures of the Group as at 31 December 2019 which, in the opinion of directors, are material to the Group.

Name of entity	Country of incorporation	% of ownership interest 2019	Nature of relationship	Measurement Method	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
Midwest Pharmaceutics NZ Ltd	New Zealand	60%	Joint Venture	Equity method	1,256,597	n/a
Cannasouth Cultivation Ltd	New Zealand	50%	Joint Venture	Equity method	982,350	n/a
					2,238,947	-

Midwest Pharmaceutics NZ Ltd

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.

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.

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.

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.

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		**Cannasouth Cultivation Ltd**	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Current assets	423,658	-	1,693,397	-
Non-current assets	2,136,205	-	302,061	-
Current liabilities	(207,291)	-	(30,759)	-
Non-current liabilities	(1,486,356)		-	
Net assets	866,216	-	1,964,699	-

15 Investments continued…

Reconciliation to carrying amounts:

	Midwest Pharmaceutics NZ Ltd 31 Dec 2019	Midwest Pharmaceutics NZ Ltd 31 Dec 2018	Cannasouth Cultivation Ltd 31 Dec 2019	Cannasouth Cultivation Ltd 31 Dec 2018
Opening fair value of net assets at acquisition	898,522	-	2,000,000	-
Profit/ (Loss) for period	(32,306)	-	(35,301)	-
Closing net assets	866,216	-	1,964,699	-
Groups share in %	60%		50%	
Groups share in $	519,729	-	982,350	-
Goodwill	736,868	-	-	-
Carrying amount	1,256,597	-	982,350	-

	Midwest Pharmaceutics NZ Ltd		Cannasouth Cultivation Ltd	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Revenue	357,604	-	-	-
less Cost of sales	(256,243)	-	-	-
Interest income	-	-	-	-
less				
Operating expenses	79,504	-	35,177	-
Depreciation and amortisation	43,133	-	123	-
Interest expense	13,067	-	-	-
Income tax expense	(2,037)	-	-	-
Profit / (Loss) for the period	(32,306)	-	(35,301)	-

c) Commitments and contingent liabilities in respect of joint ventures

	31 Dec 2019 (12 Months) $	31 Dec 2018 (4 Months) $
Commitments to provide funding to joint ventures, if called	1,240,000	-

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 2019 (12 Months) $	31 Dec 2018 (4 Months) $
Accounts payable	138,497	51,652
Employee Entitlements	69,954	9,685
	208,451	61,337

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 are subsidiaries that have been consolidated in the financial statements of the Group.

Name of entity	Country incorporated	Class of shares	Equity holding % 2018	Balance date
Cannasouth Plant Research New Zealand Ltd	New Zealand	Ordinary	100%	31-Dec

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 2019	**# Shares**	**$**
Opening Balance	82,000,000	3,700,000
Share issue at IPO	20,000,000	10,000,000
Share Issue at establishment of Cannasouth Cultivation Ltd	2,777,778	1,000,000
Share Issue at acquisition of Midwest Pharmaceutics NZ Ltd	689,828	475,981
	105,467,606	15,175,981

For the four months to 31 Dec 2018	**# Shares**	**$**
Incorporation	1,000,000	-
Shares issued ($5 per share)	240,000	1,200,000
Share split	70,760,000	-
Shares issued ($0.25 per share)	10,000,000	2,500,000
Closing Balance	82,000,000	3,700,000

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 capitalised

The Group capitalises costs incurred for capital raising when the following three criteria are met:

- The transaction costs are incremental or could have been avoided if the equity transaction was not undertaken;
- The costs are directly attributable to the equity transaction; and
- The equity transaction relates to issuance of new shares to raise additional capital.

The Group has capitalised capital raising costs during the year of $841,684 (2018 $185,000) in relation to the share issues discussed above.

19 Earnings per share

From continuing operations		**For the year ended 31 Dec 2019**	**For the four months to 31 Dec 2018**
Basic earnings per share	(cents per share)	(2.34)	(0.59)
Diluted earnings per share	(cents per share)	(2.34)	(0.59)

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 2019 (12 Months) $	**31 Dec 2018 (4 Months) $**
Total comprehensive loss is attributable to: Owners of Cannasouth Ltd	(2,181,558)	(245,372)
Weighted average number of ordinary shares for basic EPS	92,925,926	41,500,000
Weighted average number of ordinary shares for diluted EPS	92,925,926	41,500,000

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:

<u>Operating activities</u>

Operating activities include all transactions and other events that are not investing or financing activities.

<u>Investing activities</u>

Investing activities are those activities relating to the capital expenditures and assets supporting the Group's operations.

<u>Financing activities</u>

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.

20 Notes to the statement of cash flows continued…

a) Reconciliation of net operating cash flows to profit/loss

Cash flows from operating activities	**31 Dec 2019 (12 Months) $**	**31 Dec 2018 (4 Months) $**
Loss for the period	(2,181,558)	(245,372)
Adjustments for:		
Depreciation	194,256	5,827
Share-based payments	32,659	-
Share of profits of joint ventures	37,034	-
Movements in working capital:		
(Increase)/decrease in other and tax receivables	(175,678)	10,103
Increase in trade payables	86,845	8,361
Increase in other assets	(47,547)	(22,896)
Increase in employee entitlements	60,270	9,685
Net cash flows from operating activities	**(1,993,719)**	**(234,292)**

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	**Subsidiary Acquisition**	**Financing cash flows**	**Non-cash changes**	**Closing**
	$	**$**	**$**	**$**	**$**
31 Dec 2019					
Loans from related parties	(217,550)	-	217,550	-	-
31 Dec 2018					
Loans from related parties	-	(224,242)	6,692	-	(217,550)

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.

21 Financial instruments continued…

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.

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 judgements in applying accounting policies

There were no critical judgements 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.

	31 Dec 2019 (12 Months)	31 Dec 2018 (4 Months)
Financial assets - at amortised cost	**$**	**$**
Cash and bank balances	8,479,716	3,137,074
Trade and other receivables	113,060	7,102
Financial liabilities - at amortised cost		
Trade and Other Payables	208,451	61,337
Loans from related parties	-	217,550

The carrying values of all financial instruments in the table above approximates fair value

21 Financial instruments continued…

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns 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 2019					
Trade and other payables	-	208,451	-	-	208,451
Loans from related parties	-	-	-	-	-
As at 31 Dec 2018					
Trade and other payables	-	61,337	-	-	61,337
Loans from related parties	-	-	217,550	-	217,550

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

The remuneration of Directors and other members of key management personnel during the year was as follows:

	31 Dec 2019 (12 Months)	31 Dec 2018 (4 Months)
	$	$
Director's fees	103,901	19,999
Salaries and other short term employee benefits	208,704	40,000
	312,605	59,999

b) Loans from/to related parties

	31 Dec 2019 (12 Months)	31 Dec 2018 (4 Months)
	$	$
Loans from key management personnel	-	217,550
Loan to JV - Midwest Pharmaceutics NZ Ltd	60,000	-

During the period the loans from key management personnel and to Midwest Pharmaceutics NZ Ltd incurred no interest. The loans are unsecured.

22 Related party transactions continued…

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 2019 (12 Months)	**31 Dec 2018 (4 Months)**	**31 Dec 2019 (12 Months)**	**31 Dec 2018 (4 Months)**
	Note	**$**		**$**	**$**
ROC NZ Ltd	(i)	-	-	-	3,445
Nic Foreman	(ii)	-	-	-	9,565
Gentec Plant Research New Zealand Ltd	(iii)	-	-	-	41,513
		-	-	-	54,523

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 2019 (12 Months)	**31 Dec 2018 (4 Months)**	**31 Dec 2019 (12 Months)**	**31 Dec 2018 (4 Months)**
	Note	**$**	**$**	**$**	**$**
ROC NZ Ltd	(i)	-	344	-	-
Midwest Pharmaceutics NZ Ltd	(iv)	60,000			
		60,000	344	-	-

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) ROC NZ Ltd is a company in which the Director, Nicolas Foreman indirectly holds 20% of the shares. ROC NZ Ltd shared premises with the Company and shared costs relating to those premises. Balances owing at 31 March 2018 were unsecured.

ii) Nicholas Foreman is a Director and Shareholder in the Company. The Company acquired a Motor Vehicle from Nicholas Foreman.

iii) Gentec Plant Research New Zealand Ltd is a company in which the Director Nicholas Foreman holds 100% of the shares. The subsidiary, Cannasouth Plant Research New Zealand Ltd acquired intellectual property from and reimbursed Gentec Plant Research New Zealand Ltd for expenditure incurred on its behalf. Total payments to Gentec Plant Research New Zealand Ltd were $Nil (2018 $41,513). These payments occurred prior to the incorporation of Cannasouth Ltd.

(iv) A $60,000 short term loan was provided to Midwest Pharmaceutics NZ Ltd for working capital purposes.

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 $17,228 (2018 $216,742)

b) Contingent liabilities

There were no contingent liabilities at 31 Dec 2019.

24 Acquisition of subsidiaries

Recognition and measurement

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange of control of the acquiree. Acquisition-related costs are recognised in profit or loss when incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit (CGU) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Any impairment loss for goodwill is recognised in profit or loss.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

25 Share-based payments

The Company has an "employee share option plan" (ESOP). The terms of the plan were approved by shareholders at the annual general meeting in June 2019. The ESOP authorises the Directors of the Company to issue up to 5,000,000 options to acquire ordinary shares in the Company, to employees, contractors and to non-executive directors of the Company. The terms of the scheme were set out in the Explanatory Notes accompanying the Notice of Meeting.

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.

Initial issue:
The initial issue at the time of the IPO was 2,550,000 Options. The exercise price payable upon the exercise of each option was 50 cents. Each Option shall enable the holder of the option to subscribe for one new ordinary fully paid share. The Options have a term of 36 months from the date of their issue.

Subsequent issues:
Further Options may be issued to executives, contractors and directors that join the Company after the date of this Notice of Meeting.

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

	31 Dec 2019 (12 Months)	
	Number of share options #	Weighted avg. exercise price $
Initial issue	2,550,000	0.50
Granted during the year	800,000	0.49
Forfeited during the year	(300,000)	0.50
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	3,050,000	0.49

The options outstanding at 31 December 2019 had a weighted average exercise price of $0.49, and a weighted average remaining contractual life of 2.7 years. In 2019, options were granted on 17-June, 24-October and 31-October. The aggregate of the estimated fair values of the options granted on those dates was $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.

Weighted average share price	**31 Dec 2019**
Weighted average exercise price	$0.49
Expected volatility	15%
Expected life (years)	2.7
Risk-free rate	1%
Expected dividend yields	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 $32,659 related to the ESOP scheme in 2019.

26 Group reorganisation

Cannasouth Ltd (the Company) was incorporated on 21 August 2018 and on 25 August 2018 the Company acquired 100% of the shares in Cannasouth Plant Research New Zealand Ltd. The acquisition was a share exchange with the ultimate interests of the shareholders remaining unchanged. The acquisition did not meet the criteria to be recognised as a business combination in accordance with NZ *IFRS 3 Business Combinations*, so was instead reflected as a group reorganisation.

Where an acquisition occurs through a group reorganisation, the Company's accounting policy has been to measure the identifiable assets and liabilities at their pre-combination carrying amounts without fair value uplift. No new goodwill is recorded. Any difference between the consideration transferred and the carrying value of the assets and liabilities acquired is recorded in equity.

27 Subsequent events

At the date of this report, the Board of Cannasouth Limited provided the following update on the operations of Cannasouth and Group companies and joint ventures in relation to the Coronavirus (Covid-19) global pandemic.

The health, safety and wellbeing of our people, and their families is our top priority. An Action Plan for each entity and site has been implemented and aligns with advice from the New Zealand Government and Ministry of Health.

Cannasouth Limited (parent company) & Cannasouth Plant Research Limited (100% subsidiary)

Cannasouth has developed a modern working environment with IT systems and infrastructure that allow for agile work practices. Our people use video conferencing and online communications daily so the transition to mandatory working from home has been seamless. The Hamilton based business has suspended some research activities to comply with the current Covid-19 alert level while continuing with other product development activities and building business capability to support future product sales when the regulatory environment allows. Several of the conferences CBD had scheduled to attend in the upcoming months have either been postponed or cancelled. We continue to communicate with our stakeholders online.

Cannasouth Cultivation Limited (50% owned)

This operation is located in the Waikato and construction of its state-of-the-art hybrid greenhouse cultivation facility is now on hold during the Covid-19 lockdown. Our project team can use this time to make further progress with planning and system design for the new facility while working from home.

Midwest Pharmaceutics NZ Limited (60% owned)

This GMP manufacturing operation is located in Hastings and currently has two key focuses. One is the development of its medicinal cannabis production capability and the other is existing pharmaceutical and health & wellness product production and contract manufacturing. For the latter, Midwest will continue its operations as it falls under the Covid-19 essential service, producing health sector medicines. Production is currently running at full capacity with the team working hard to keep up with an increase in demand from its customers. The GMP and clean room protocols, along with other pandemic management measures, ensure safe working conditions for our people.

Summary

Health precautions were implemented early on for the safety of our teams and anyone physically interfacing with the Group.

CBD currently has no debt, significant cash reserves and the ability to make adjustments to its business strategy and plans to extend cash reserves while still making progress towards its objectives and achieving key milestones. Applications are underway for the various Government Covid-19 employer support measures, as appropriate.

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

The board is assessing the Group’s position on an ongoing basis, and will continue to keep the market informed of any changes to the operations of the business in relation to Covid-19 that may have a material impact on our current business strategy.

At the date of this report, the CoVid-19 global pandemic has resulted in only minimal disruptions to the operations of Cannasouth and Group companies, and does not qualifying for recognition as an adjusting event.

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 2019, and the consolidated statement of profit and loss and other comprehensive income, consolidated 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 14 to 33, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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 Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*, 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 Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

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 $103,000.

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.

Deloitte.

Key audit matter	How our audit addressed the key audit matter
Investments acquired during the year As detailed in Note 15, the Group acquired during the year: • 60% of the shares in Midwest Pharmaceuticals NZ Limited ("Midwest") for total consideration of $1.3 million; and • 50% of the shares in Cannasouth Cultivation Limited ("Cultivation") for total consideration of $1 million. The Group has considered whether it has control over both entities under NZ IFRS 10 *Consolidated Financial Statements* ('NZ IFRS 10'), or joint control under NZ IFRS 11 *Joint Arrangements*. The Group concluded that, based on their assessment of the facts and circumstances of the acquisition against the requirements of NZ IFRS 10 and NZ IFRS 11, the Group has entered into a joint arrangement with both entities and have accounted these investments using the equity method. We have included the acquisitions of interests in Midwest and Cultivation as a key audit matter due to: • the importance of these acquisitions in implementing the Group's strategy of "seed to sale"; and, • the significance of the Group's judgement in assessing the accounting treatment of these acquisitions.	In performing our audit procedures, we: • obtained and read the agreements to understand the key terms of the acquisitions; • assessed management's evaluation of the terms and conditions within the agreements and the associated accounting treatment; • challenged the Group's assessment of control and classification of the joint arrangements by comparing the facts and circumstances against the requirements of NZ IFRS 10 and NZ IFRS 11 and other relevant literature and guidance; • reviewed the underlying support for the consideration paid to acquire the investments; • assessed management's evaluation on determining the fair value of the net assets of the entities acquired and the recognition of goodwill in the investment in the joint venture, including a review and challenge of the impairment assessment of the investment at balance date; and • ensured the disclosures in the financial statements propertly reflect the nature of these acquisitions.
Going concern The consolidated financial statements have been prepared on a going concern basis as disclosed in Note 6. The Group is considered to be in a start-up phase and has recorded a net loss after tax of $2,181,558 for the year ended 31 December 2019. As described in Note 6, the Group has listed its shares on the New Zealand Stock Exchange to fund costs during its focus on its development phase. Further details of the Group's considerations relating to going concern are outlined in Note 6. Given the significance of the going concern assumption to the consolidated financial statements and the judgement involved in determining the cash flow forecast supporting this assumption, the assessment of the Group's ability to continue as a going concern is considered to be a key audit matter.	We evaluated the Group's assessment of its ability to continue as a going concern. This included, among others: • obtaining and understang the Group's strategy, business plan and controls and processes in place for preparing and approving the cash flow forecast to support the going concern assumption; • assessing the cash flow requirements of the Group for a period of 12 months from the date of approval of the financial statements; • understanding the inputs used in the forecast specifically what forecast expenditure is committed and what could be discretionary; • performing sensitivity analysis of the assumptions used including consideration of potential downside scenarios and the resulting impact to available funds; • checking the mechanical accuracy of the cash flow forecast; and • assessing management's evaluation of the specific impact of COVID-19 on the cash flow forecasts and going concern assumption. We assessed the adequacy of the going concern disclosures included in the consolidated financial statements.

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. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

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.

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
26 March 2020

Business Directory

Incorporated	21 August 2018
Company Number	6987773
Nature of Business	Research, development and manufacture of biopharmaceuticals specialising in cannabinoid medicines.
Registered Office	c/- Braithwaite and Pearks 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 Mark Lucas Executive Director - Appointed 21 August 2018 Anthony Ho Independent Chairman - Appointed 26 September 2018 Conor English Independent Director - Appointed 19 October 2018
Securities Registrar	Link Market Services Limited Level 11 Deloitte Centre 80 Queen Street Auckland 1010
Legal Advisors	Corporate Counsel PO Box 105 745 Auckland 1143
Auditors	Deloitte Limited Deloitte House 24 Anzac Parade Hamilton 3216