

For Public Release  
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## **Cannasouth to Consolidate Operations**

### **Cannasouth Enters into Conditional Agreements to Buy Out Cultivation and Manufacturing Joint Venture Partners**

Leading medicinal cannabis company, Cannasouth Limited (NZX: CBD) (“Cannasouth” or “the Company”) is pleased to announce it has today entered into two conditional agreements to acquire the balance of the stakes that it does not already own in its cultivation and manufacturing joint venture businesses.

#### **Acquisition of outstanding interest in Cannasouth Cultivation Limited**

Cannasouth has entered into a conditional agreement with Aaron Craig and his family interests (Craig Family Interests) to acquire the remaining 50% stake in Joint Venture business Cannasouth Cultivation Limited (Cannasouth Cultivation) that Cannasouth does not already own.

Cannasouth Cultivation has built a state-of-the-art growing and processing facility that will produce medicinal cannabis flower biomass at highly competitive production cost, is energy efficient, and more environmentally sustainable than indoor cultivation operations.

The facility, designed to produce premium Good Agricultural and Collection Practices (GACP) and Good Manufacturing Practice (GMP) pharmaceutical compliant biomass, is now in the equipment installation and validation phase. It is anticipated that the new facility will have sufficient capacity to generate circa \$8 million of revenues per annum (based on conservative current global pricing), subject to Cannasouth Cultivation securing commercial offtake agreements and completing quality certification. The facility has been designed to be scalable.

Cannasouth Chief Executive Mark Lucas says “There is strong global demand for premium pharmaceutical quality cannabis flower. The timing of the acquisition will bring all future revenues to be derived from the cultivation facility into the Cannasouth Group’s P&L. It also enables the Company to control all aspects of the cultivation operation. Cannasouth would like to take this opportunity to thank the Craig Family interests for their support and expertise as a valued joint venture partner in developing the innovative cultivation facility to such a high standard in a cost-effective manner”.

The principal terms of the Cannasouth Cultivation acquisition are as follows:

- Cannasouth will acquire the remaining 50% of the shares on issue in Cannasouth Cultivation which it does not already own, together with all of the shareholder loans made to Cannasouth Cultivation by the Craig Family interests, for an aggregate purchase price of \$3,540,000.
- The purchase price shall be satisfied as follows:
  - The payment of \$2 million on completion of the acquisition;

- The payment of \$500,000 12 calendar months after the date of the completion of the acquisition;
- The payment of \$500,000 18 calendar months after the date of the completion of the acquisition;
- The issue of \$540,000 of new ordinary fully paid shares in Cannasouth. The issue price for these shares will be the same issue price used by Cannasouth for its next capital raising initiative to be undertaken. The new shares will be issued subject to a 9-month escrow;
- The acquisition of the outstanding interest in Cannasouth Cultivation is conditional on the Company raising not less than \$6,000,000 of new capital through a capital raising initiative to be undertaken by not later than 5pm on 30 September 2021 ("Condition").
- Settlement for the acquisition of Cannasouth Cultivation is anticipated to occur shortly after this capital raise condition has been met.

#### **Acquisition of outstanding interest in Midwest Pharmaceuticals NZ Limited**

Cannasouth has entered into a conditional agreement with Mark Balchin and Greenmeadows Health Limited ("Midwest Vendors") to acquire the remaining 40 per cent shareholding in Hawkes Bay-based Midwest Pharmaceuticals NZ Limited (Midwest) that it does not already own, together with the shareholder loans made by the Midwest Vendors to Midwest for an aggregate purchase price of \$1,026,000.

Currently Cannasouth owns 60% of Midwest. The business generates circa \$2 million per annum in revenues, which after the completion of the transaction will be consolidated into Cannasouth's P&L from the date of acquisition.

Mark Lucas says "The Midwest acquisition provides Cannasouth with the opportunity to streamline operations and generate additional revenues from existing operations while positioning the business for GMP certified medicinal cannabis manufacturing."

CEO of Midwest, Mark Balchin, will continue as Chief Manufacturing Officer for the Group.

The principal terms of the Midwest acquisition are as follows:

- Cannasouth will acquire the remaining 40% of the shares on issue in Midwest that it does not already own, together with all shareholder loans made by the Midwest Vendors to Midwest for an aggregate purchase price of \$1,026,000.
- The purchase price shall be satisfied as follows:
  - The issue of \$880,000 of new ordinary fully paid shares in Cannasouth. The issue price for these shares will be the same issue price used by Cannasouth for its next capital raising initiative to be undertaken. The new shares will be issued subject to a 24-month escrow;
  - The payment of \$146,000 in cash which will be paid as follows (i) The sum of \$73,000 will be paid on that date being 12 calendar months after the completion of the transaction, and

(ii) the further sum of \$73,000 will be paid on that date being 18 calendar months after the completion of the transaction.

- The Midwest transaction is conditional on the parties obtaining the approvals of several landlords and regulators to the change in control of Midwest on or before 31 August 2021.
- Settlement for the transaction is anticipated to occur shortly after the date upon which the conditions precedent are satisfied.

### **Commercial Benefits of the Acquisitions**

- Take 100 per cent control of both joint venture cultivation and manufacturing businesses
- Accelerate pathway to significant revenue generation
- Improve operational efficiencies across the Group
- Post-acquisition revenues and 100 per cent of future profits will be consolidated into the Cannasouth Group P&L
- Opportunity to generate additional revenues from existing operations at Midwest while positioning the business for GMP certified medicinal cannabis manufacturing

### **Cannasouth Proposes to undertake a Capital Raising to Fund the Acquisitions**

In conjunction with the proposed acquisition of Cannasouth Cultivation and Midwest, and the further investment in increased marketing spend for export flower sales, and accelerated R&D and new product development, to enable the Company to fast track its pathway to significant revenue generation, the Cannasouth Board has resolved that it will undertake a capital raising in the near term. The Company is currently finalising its capital raising strategy and will release those details to the market in due course.

### **Corporate Advisor**

Corporate and capital markets advisory firm, CM Partners, has been engaged to assist Cannasouth with the two acquisitions, and the capital raising initiative.

-ENDS-

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

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### **About Cannasouth Limited**

Cannasouth is a biopharmaceutical research and development company based in the Waikato heartland of New Zealand. The Company has been established to focus on the commercial development of the medicinally beneficial attributes of cannabinoid compounds such as CBD, THC and associated chemical structures that are produced by the cannabis plant. Our goal is the development of next-generation cannabinoid medicines that support patients' health outcomes and improve their quality of life. Our products will be produced under GMP using environmentally friendly methods without the use of harmful chemicals or solvents, ensuring patients are treated with pure cannabinoid therapeutic compounds of the highest quality. The Cannasouth group holds commercial medicinal cannabis licenses granted by the Medicinal Cannabis Agency for cultivation, possession to manufacture, and supply activities.

For video footage, photos and logos please visit: <https://www.cannasouth.co.nz/about/media/>