

CEO's Review of Operations

For the six months ended 30 June 2021

The operating loss for the six months to 30 June 2021 was \$1,992,634 (2020: \$1,451,650). The result was in line with the Group's business plan and represents the ramping up of our investment in developing Cannasouth to be New Zealand's leading medicinal cannabis company.

Cash on hand as at 30 June 2021 was \$4.63 million (2020: \$11.18 million, which included a successful capital raise in May 2020 of \$6 million).

HIGHLIGHTS FOR THE SIX MONTHS

- ✓ **JANUARY 2021** Cannasouth Cultivation Limited (JV company) was granted its commercial cannabis cultivation license by the Medicinal Cannabis Agency (Agency) for its controlled environment agriculture sealed greenhouse cultivation facility.
- ✓ **APRIL 2021** Cannasouth Bioscience Limited was granted supply activity under its commercial medicinal cannabis Licence by the Agency. The supply activity is additional to existing cultivation and possession for manufacture activities.
- ✓ **JUNE 2021** Cannasouth released a comprehensive Medicinal Cannabis Industry Report to assist investors with understanding the New Zealand medicinal cannabis landscape.
- ✓ Strengthening the **healthcare marketing skills** of the board with the appointment of Juliet Hull as independent non-executive director.
- ✓ Election of Christine Pears as independent non-executive director to chair the Audit and Finance Committee. Christine has **extensive governance experience**.
- ✓ **JULY 2021** Cannasouth announced plans to simplify and consolidate its operations by proposing to acquire the outstanding 40% of Midwest Pharmaceuticals (NZ) Limited, and the outstanding 50% of Cannasouth Cultivation Limited from its joint venture partners.
- ✓ Subsequent to 30 June 2021, the company successfully **raised \$4.5 million** by way of a Share Purchase Plan and Public Offer.
- ✓ Successfully **recruited key positions** of Head of Quality – Group and Operations Manager – Cultivation.

Cannasouth's strategy of a vertically integrated group is well articulated. We are committed to producing medicinal cannabis products in New Zealand from locally sourced raw materials. Cannasouth also has a supply agreement with an Australian supplier to import three medicinal cannabis products. Registration applications for these products were submitted to the Medicinal Cannabis Agency (Agency) in November 2020. This agreement is an important step for Cannasouth to meet an initial business objective to make available pharmaceutical grade medicinal cannabis products to New Zealand patients as soon as possible, prior to producing its own manufactured products.

Satish Nand joined the company in May 2021 as Head of Quality and is responsible for managing quality systems across the Cannasouth Group. He brings to Cannasouth more than 18 years of Good Manufacturing Practice (GMP) pharmaceutical industry experience working with companies such as GMP Pharmaceuticals, Vitaco Health NZ, and Douglas Pharmaceuticals. The Head of Quality is a key leadership role to support the journey to Good Agricultural Collection Practices (GACP) and GMP certification of the cultivation facility. Mr Nand will lead the existing team of high-calibre Quality professionals.

CEO's Review of Operations

For the six months ended 30 June 2021

New Zealand regulations require companies to operate to the highest pharmaceutical quality standards. To participate in the medicinal cannabis industry requires not only purpose-built facilities, but also professionals with expertise in key areas. Quality is one of those key areas.

We have completed the construction and licensing activity of our cultivation facility. We are now in the final stages of equipment commissioning and equipment validation, with the first commercial grow scheduled for late 2021. These greenhouses are unique in New Zealand and one of only a handful of this specification globally, providing a world-class growing environment for our medicinal cannabis. Utilising the power of the sun, we greatly reduce our energy consumption and costs compared to indoor cultivation facilities traditionally used to produce premium flower.

Cannasouth is at the inflection point of transitioning from a capital-intensive start-up phase to generating its first revenue stream. Subject to completing off-take agreements with overseas buyers, revenue from the export of high-quality medicinal cannabis flower biomass is expected to be circa \$8 million on an annual basis. The Company is in negotiations with several prospective customers for off-takes of the first harvest and exports are expected to begin in early 2022.

We look forward to announcing further key milestones in the coming months as we complete building key components of the business, to deliver affordable, next-generation cannabinoid therapeutics for local and export markets.

Covid-19 Pandemic

On Tuesday 17 August 2021 at 11.59pm, New Zealand moved to Alert Level 4 following the detection of a positive case of Covid-19 in the community. The Government has since announced that the alert level which applies to New Zealand south of Auckland, which includes all of the Groups operations, will decrease to Level 3 effective Tuesday 31 August 2021 at 11.59pm. The Group is currently assessing the impact of these Covid-19 restrictions, and whether performance will be affected.



Mark Lucas
CEO / Managing Director



For further information visit www.cannasouth.co.nz or contact:



Mark Lucas
CEO / Managing Director
Email: mark.lucas@cannasouth.co.nz
Mobile: 021 484 649



Colin Foster
CFO, Cannasouth Limited
Email: colin.foster@cannasouth.co.nz
Mobile: 027 577 1498