Cannasouth Limited

Annual Report

9 May 2019

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Contents

CANNASOUTH LIMITED
CHAIRMAN AND EXECUTIVE DIRECTORS REVIEW OF OPERATIONS
FOR THE PERIOD ENDED 31 DECEMBER 2018

Dear fellow shareholder

Welcome to the inaugural Annual Report for Cannasouth Limited.

Cannasouth operates in the emerging medicinal cannabis sector in New Zealand. The Company and its founders have been intimately involved in the research and development of medicinal cannabis having worked collaboratively over a number of years with the University of Waikato and with the New Zealand Ministry of Health (MOH).
The focus of Cannasouth is to conduct and advance further research into the benefits of medicinal cannabis and to develop a range of medicinal cannabis related products for distribution in New Zealand and globally. Our mission is to bring science to our medicinal cannabis products.

Cannasouth Limited was incorporated on 21 August 2018 and on 24 August 2018 acquired 100% shareholding of Cannasouth Plant Research New Zealand Limited.

Key achievements for 2018 include:
- Completion of AGMART funded University of Waikato Masters research on Cannabinoid Fractionation and Purification;
- Commencement of Callaghan Innovation funded University of Waikato PhD research on Super Critical CO^2 Fluid and Short Path Distillation Research;
- Establishment of the Cannasouth Board of Directors;
- Successfully raising new capital;
- Securing MOH licence to Deal in Controlled Drugs for research purposes; and
- Commencement of cultivation and research facility projects.

Key achievements for 2019 year to date include:
- Securing MOH licences to Import Controlled Drugs and Cultivate a Prohibited Plant;
- Catalyst for the formation of an industry body (New Zealand Medicinal Cannabis Council - NZMCC) to properly interface with MOH to ensure that future guidelines are properly implemented with due industry consultations;
- Commencement of Callaghan Innovation funded University of Waikato Masters research on Tissue Culture;
- Completion of cultivation and research facility projects; and
- Building up a management and research team.

At the date of this report, the Company is well advanced in respect of progressing its initial public offering (IPO) in conjunction with its application to list on the NZX Main Board. Capital raised from the IPO will be applied towards the following:
- Pay for the costs associated with the offer, and the listing of the Company's shares on the NZX Main Board;
- Advancing research and product initiatives;
- Investigations into a site for the construction of new scalable commercial processing and research and cultivation facilities as regulations are developed and such expansion becomes commercially viable;
- Additional staffing; and
- Increasing working capital.

Thank you for your support and trust in Cannasouth.

Yours sincerely
CANNASOUTH LIMITED

Tony Ho
Chairman
09 May 2019

Mark Lucas
Executive Director, CEO
09 May 2019

CANNASOUTH LIMITED
DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2018

The Directors have pleasure in presenting the Annual Report of Cannasouth Limited and its subsidiary (the 'Group') incorporating the consolidated financial statements and the Independent Auditor's Report for the four month period ended 31 December 2018.

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018 and their financial performance and cash flows for the period ended on that date.

The Directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Directors consider they have taken adequate steps to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Board of Directors of the Group authorised these consolidated financial statements and notes presented on pages 7 - 25 for issue on 16 April 2019.

The Financial Statements are signed on behalf of the Board by:

Nic Foreman
Director
16 April 2019

Mark Lucas
Director
16 April 2019

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Independent Auditor's Report

To the Shareholders of Cannasouth Limited and Group

Opinion

We have audited the financial statements of Cannasouth Limited and its subsidiary (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the four months ended on that date, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 7 to 25, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and cash flows for the four months 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 and assistance with preparation of the financial statements, we have no relationship with or interests in the Company or its subsidiary. These services have not impaired our independence as auditor of the Company and Group.

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 financial statements and the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

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.

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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 financial statements.

A further description of our responsibilities for the audit of the 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-7

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, in accordance with Section 207B of the Companies Act 1993. 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

Hamilton, New Zealand
16 April 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the four months ended 31 December 2018

	Notes	GROUP 31-Dec-18 (4 months) $
Continuing operations		
Revenue		-
Cost of sales		-
Gross profit		-
Interest income	8	69
Research and development expenses		(26,521)
Administrative expenses	7	(218,918)
Finance costs	8	(2)
Profit/(Loss) before tax from continuing operations		**(245,372)**
Income tax (expense)/benefit	9	-
Profit/(Loss) after tax from continuing operations		**(245,372)**
Other comprehensive income		-
Total other comprehensive income		**(245,372)**
Profit/(Loss) and other comprehensive income for the period attributable to shareholders		(245,372)

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

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for
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Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	GROUP 31-Dec-18 $
Cash and cash equivalents		3,137,074
Other receivables	10	7,102
Tax refund due		15
Other assets	11	26,553
Total current assets		**3,170,744**
Property, plant and equipment	12	219,428
Total non-current assets		**219,428**
Total assets		**3,390,172**
Trade and other payables	13	61,337
Loans from related parties	19	217,550
Total current liabilities		**278,887**
Total liabilities		**278,887**
Net assets		**3,111,285**
Share capital	15	3,515,000
Retained earnings		(403,715)
Total equity		**3,111,285**

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

Consolidated Statement of Changes in Equity
For the four months ended 31 December 2018

	Note	Share Capital	Retained Earnings	Total
		GROUP		
		$	$	$
Balance as at Incorporation		-	-	-
Shares issued	15	3,700,000	-	3,700,000
Capital raising costs	15	(185,000)	-	(185,000)
Profit/(loss) for the year			(245,372)	(245,372)
Total comprehensive income		-	(245,372)	(245,372)
Losses of Cannasouth Plant Research New Zealand Limited at acquisition	16	-	(158,343)	(158,343)
Balance as at 31 December 2018		**3,515,000**	**(403,715)**	**3,111,285**

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

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Consolidated Statement of Cash Flows
For the four months ended 31 December 2018

	Note	GROUP 31-Dec-18 (4 months) $
Operating activities		
Cash was provided from:		
Interest received		69
Cash was disbursed to:		
Payments to suppliers and employees		(234,344)
Interest paid		(2)
Taxation paid		(15)
Net cash flows used in operating activities	18	**(234,292)**
Investing activities		
Cash was applied to:		
Purchase of property, plant and equipment		(142,079)
Net cash flows used in investing activities		**(142,079)**
Financing activities		
Cash was provided from:		
Proceeds from capital raising		3,700,000
Cash was applied to:		
Loans from related parties	18	(6,692)
Capital raising costs		(185,000)
Net cash flows from financing activities		**3,508,308**
Net increase in cash flows		3,131,937
Cash and cash equivalents at acquisition of subsidiary		5,137
Cash and cash equivalents at the end of the year		**3,137,074**

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

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Notes to the Consolidated Financial Statements
For the four months ended 31 December 2018

1 Reporting entity

Cannasouth Limited ('the Company') is a company incorporated and domiciled in New Zealand, and registered under the Companies Act 1993. The address of its registered office and principal place of business are disclosed in the Business Directory section of the annual report.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of directors dated 16 April 2019.

2 Basis of preparation of the consolidated financial statements

Statement of compliance

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

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

Basis of preparation

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

These are the first financial statements prepared for the Group.

The Company acquired the subsidiary Cannasouth Plant Research New Zealand Limited during the period. Refer to note 16 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 four month period ending 31 December 2018 and reflect the combined activities of Cannasouth Plant Research New Zealand Limited and Cannasouth Limited for that period.

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 2018. 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 2018, 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:

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

3 Changes in accounting policies and disclosures (continued)

NZ IFRS 9 Financial Instruments

NZ IFRS 9 introduces new requirements for the classification and measurement of financial instruments, including a new expected credit loss methodology for calculating impairment of financial assets and changes to general hedge accounting requirements. The standard is mandatory for reporting periods beginning on or after 1 January 2018. As this is the first year the financial statements have been prepared, all disclosures required from the application of NZ IFRS 9 have been applied and reflected in the financial position and/or financial performance and accounting policies of the Group. Given the limited financial instruments in the Group, there was no material impact.

Accounting standards, interpretations and amendments in issue not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised NZ IFRS Standards that have been issued but are not yet effective.

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. Lessor accounting remains similar to the current standard. The standard is mandatory for reporting periods beginning on or after 1 January 2019. This standard will be adopted by the group for the financial year ending 31 December 2019.

The Group's current lease contracts are being reviewed. The new accounting standard is expected to have a material impact on the Group's financial statements, as currently operating leases are only disclosed in the notes to the financial statements ('off balance sheet') whereas under the new standard a right-of-use asset and a lease liability will be recognised unless the lease qualifies as a low-value or short term lease. This change will increase the value of assets and liabilities recorded on the balance sheet. The new standard will also impact the income statement, as operating lease expenses currently disclosed in 'other operating expenses' will be replaced with depreciation on the right-of-use assets and interest expense on the lease liabilities. The changes will also impact the cash flow statement, resulting in an increase in cash flows from operating and a reduction in cash flows from investing and financing activities. One of the key judgement areas in applying the new requirements relates to the assessment of whether an option to extend or terminate a lease contract will be exercised. This is expected to have a material impact on some of the leases. Until the analysis is completed by the Group, the impact of the new requirements is unable to be reasonably estimated and quantified.

4 Critical accounting estimates and judgements

In the application of the Group's accounting policies, the Board of Directors are required to make judgements 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 judgements 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 financial statements:

- Going concern assumption (Note 6)

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. Given the structure of the Group, results of Cannasouth Limited and Cannasouth Plant Research New Zealand Limited are aggregated together for reporting purposes.

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

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 New Zealand Government licensed research laboratory in the Waikato region of New Zealand. As a result of this focus, the Group has made a net loss for the period of $245,372.

The Group has been granted licenses to import, cultivate and research medicinal cannabis. The Group plans to cultivate a wide range of medical cannabis strains including CBD-rich varieties to meet the Group's research needs; this enables medicinal cannabinoid compounds to then be produced in a variety of formulations, extracts, and isolates. The establishment of the laboratory facility will enable the Group to stay well positioned within this sector. The Group is now developing and commissioning a Waikato based research cultivation facility. The Group has also partnered with a world renowned experienced internationally based cannabinoid genetics partner to further support its research and development programs. A successful research and development program will enable the Group to manufacture medicinal cannabinoid compounds to then be produced in a variety of formulations, extracts, and isolates available to the public, pending legislative changes . This will then drive the commercial viability of the business in the future.

In order to secure capital to progress its business operations as planned, the Group intends to list its shares on the New Zealand Stock Exchange within the next 12 months.

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 consolidated financial statements for the four months ended 31 December 2018 to be appropriate. The Board of Directors have reached this conclusion having regard to circumstances that are considered likely to affect the Group during the period of at least one year from the signing of these accounts, and to circumstances that they can reasonably foresee will occur after that date, which could affect the validity of the going concern assumption.

7 Expenses

Recognition and measurement

Expenses are recognised as incurred in profit or loss on an accrual basis.

All expense transactions and cash flows are recorded exclusive of GST and other value added taxes. Assets and liabilities are similarly stated exclusive of GST, with the exception of receivables and payables, which are stated with GST included, where relevant.

	31-Dec-18 (4 months) $
Included in Administrative expenses are the following items:	
Salaries and wages	72,015
Contributions to defined contribution funds (Kiwisaver)	884
Salaries and wages expense	72,899
Audit of the financial statements	8,500
Other services - Assistance with preparation of financial statements	3,500
Depreciation	5,827

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

8 Interest income and finance costs

Recognition and measurement

Interest income and expense are recognised in profit or loss as they accrue, using the effective interest method against the relevant financial asset or liability. Refer to note 20 for further details.

	31-Dec-18 (4 months) $
Interest income	69
Interest expense	(2)

9 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-18 (4 months) $
Current tax	-
Deferred tax	-
	-

b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit (Loss) before income tax expense from continuing operations	(245,372)
Tax at the New Zealand tax rate of 28%	(68,704)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Non-deductible expenses	68,704
Non-assessable income	-
Tax loss offsets	-
Income tax expense / (benefit)	-

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Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

10 Other receivables

Recognition and measurement

Receivables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Collectability of receivables is reviewed on an ongoing basis and amounts which are known to be uncollectible are written off.

GST receivable represents the net amount of GST recoverable from the Inland Revenue (IR).

	31-Dec-18
	$
Sundry receivables	-
GST receivables	7,102
	7,102

11 Other assets

Recognition and measurement

Other asset represents costs prepaid in relation to capital raising that does not yet meet the criteria outlined in note 15, and prepaid insurance premiums.

	31-Dec-18
	$
Prepaid capital raising costs	25,000
Prepaid insurance premiums	1,553
	26,553

12 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 categories of property, plant and equipment, with the exception of capital work in progress, are recognised at cost less accumulated depreciation. 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.

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 that 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.

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

12 Property, plant and equipment (continued)

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 is calculated using diminishing value method.

Depreciation rates for each asset class are as follows:

Fixtures and Fittings	10-25%
Motor Vehicles	30%
Office Equipment	50%
Plant and Equipment	13-40%

	Fixtures & Fittings	Motor Vehicles	Office Equipment	Plant & Equipment	Capital 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
Balance at 31 December 2018	**5,442**	**15,652**	**7,989**	**75,072**	**126,004**	**230,159**
Accumulated depreciation						
Balance at incorporation	-	-	-	-	-	-
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**
Net book value at 31 Dec 2018	**5,052**	**13,925**	**6,469**	**67,978**	**126,004**	**219,428**

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

13 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 service. All employee entitlements are short-term employee benefits.

	31-Dec-18
	$
Trade payable	51,652
Employee entitlements	9,685
	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.

14 Investment in subsidiary

Basis of consolidation

The consolidated financial statements relate to the Company and its subsidiary. Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with the subsidiary 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 the subsidiary. Refer to Note 16 for details of the group reorganisation that took place this year.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Company and subsidiary are eliminated on consolidation.

The details of the subsidiary that has been consolidated in the financial statements of the Group are:

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

*The balance date of the subsidiary has changed from 31 March to 31 December to align to the Company.

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Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

15 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.

All 82,000,000 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.

Reconciliation of share capital	Share capital $	Shares #
Incorporation	-	1,000,000
Shares issued ($5 per share)	1,200,000	240,000
Share split	-	70,760,000
Shares issued ($0.25 per share)	2,500,000	10,000,000
	3,700,000	**82,000,000**

Share split

During the period, the shareholders resolved to subdivide all of the existing issued share capital as at 31 October 2018 using a multiple to get a total shareholding of 72,000,000 shares after the share split. This resulted in an additional 70,760,000 ordinary shares issued.

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 $185,000 in relation to the two subscriptions discussed above.

16 Group reorganisation

These are the first financial statements prepared for the Group. 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 Limited. The acquisition was a share for share exchange with the ultimate interests of the shareholders remaining unchanged. The acquisition does not meet the criteria to be recognised as a business combination in accordance with *NZ IFRS 3 Business Combinations*, so is 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.

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

16 Group reorganisation (continued)

Assets and liabilities of the subsidiary recognised at the date of acquisition

Current assets	**$**
Cash and cash equivalents	5,137
Trade and other receivables	17,222
Other assets	3,934
Non-current assets	
Property, plant and equipment - cost	88,080
Property, plant and equipment - accumulated depreciation	(4,904)
Current liabilities	
Trade and other payables	(43,570)
Loans from key management personnel	(224,242)
Excess liabilities over assets at date of acquisition	(158,343)

The Consolidated Statement of Profit and Loss and Other Comprehensive Income records the activity of the Group from the date of incorporation of Cannasouth Limited. The subsidiary was established on 15 May 2017. The excess liabilities over assets of the subsidiary at the date of acquisition of $158,343 arises due to the subsidiary being in start-up phase and its spending had exceeded its available funding.

17 Earnings per share

From continuing operations	**31-Dec-18**
Basic earnings per share - cents per share	(0.59)
Diluted earnings per share - cents per share	(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 computations:	**31-Dec-18**
	$
Profit (Loss) attributable to ordinary equity holders of the parent for basic earnings	(245,372)
Weighted average number of ordinary shares for basic EPS	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.

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

18 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:

Operating activities

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

Investing activities

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

Financing activities

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.

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

Cash flows from operating activities	**31-Dec-18 (4 months) $**
Loss for the period	(245,372)
Adjustments for:	
Depreciation	5,827
Movements in working capital:	
(Increase)/decrease in other and tax receivables	10,103
Increase in trade payables	8,361
Increase in other assets	(22,896)
Increase in employee entitlements	9,685
Net cash flows from operating activities	**(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.

	Subsidiary Acquisition	**Financing cash flows**	**Non-cash changes**	**31-Dec-18**
	$	**$**	**$**	**$**
Loans from related parties	(224,242)	6,692	-	(217,550)

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

19 Related party transactions

Balances and transactions between the Company and its subsidiary, 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-18 (4 months) $
Director's fees	19,999
Salaries and other short term employee benefits	40,000
	59,999

The salaries and other short term employee benefits relate to shareholders and Directors, Nicholas Foreman and Mark Lucas who are also employees of the Group.

b) Loans from related parties

	31-Dec-18 $
Loans from shareholders	217,550

The loans are non-interest bearing and unsecured. The loans have been repaid subsequent to balance date.

c) Trading transactions

During the period, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Note	Sales of goods & services 31-Dec-18 (4 months) $	Purchases of goods & services 31-Dec-18 (4 months) $
ROC NZ Limited	(i)	-	3,445
Nicholas Foreman	(ii)	-	9,565
Gentec Plant Research New Zealand Limited	(iii)	-	41,513
		-	54,523

The following balances were outstanding at the end of the reporting period:

	Note	Owed by related parties 31-Dec-18 $	Owed by related parties 31-Dec-18 $
ROC NZ Limited	(i)	-	344
Nicholas Foreman	(ii)	-	-
		-	344

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

19 Related party transactions (Continued)

Details of related party balances and transactions

(i) ROC NZ Limited is a company in which the Director, Nicholas Foreman indirectly holds 20% of the shares. ROC NZ Limited shared premises with the Company and shared costs relating to those premises.

(ii) Nicholas Foreman is a Shareholder, Director and employee of the Company. The Company acquired a Motor Vehicle from Nicholas Foreman and reimbursed him for expenditure incurred on its behalf.

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

20 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 other receivables as financial assets at amortised cost. The Group has not designated financial assets to fair value through 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.

Impairment of financial assets

The Group has not started to trade therefore has not recognised a loss allowance for expected credit losses on financial instruments that are measured at amortised cost. The Group considers at each reporting date whether there are indicators of credit risk.

All cash and bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

20 Financial instruments (continued)

a) Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only 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

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.

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-18
Financial assets - at amortised cost	**$**
Cash and bank balances	3,137,074
Other receivables	-
Financial liabilities - at amortised cost	
Trade and other payable	(61,337)
Loans from related parties	(217,550)

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

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Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

20 Financial instruments (continued)

Financial liabilities and equity instruments (Continued)

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the equity balance. 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 Company consists of equity of the Company (comprising issued capital and retained earnings). The Company is not subject to any externally imposed capital requirements.

The Directors review the capital structure of the Company on an annual basis. As part of this review, the Directors consider the 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. In addition, the Group intends to list its shares on the New Zealand Stock Exchange within the next 12 months which will provide funding to undertake its business operations as planned.

Financial risk management objectives

The Directors monitor and manage financial risks relating to the Group. The Group does not undertake any activities which expose it to market risks such as foreign currency or interest rate risk. Furthermore, the Group does not currently trade and therefore does not have significant credit risk exposure.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which manages the Group's funding and liquidity management requirements. The Group manages liquidity risk by monitoring forecast and actual cash flows. The Group has available funding from its capital raising activities during the year. In addition the group intends to list its shares on the New Zealand Stock Exchange within the next 12 months which will provide funding 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 have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective rate	Total contractual cash flows			Carrying amount
		1 - 3 months	3 months to 1 year	1 to 5 years	
31-Dec-18	%	$	$	$	$
Trade and other payables	-	(61,337)	-	-	(61,337)
Loans from related parties	-	-	(217,550)	-	(217,550)

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for Identification

Notes to the Consolidated Financial Statements (continued)
For the four months ended 31 December 2018

21 Commitments and contingencies

a) Capital

The Group has ordered Plant and Equipment which have not been delivered at balance date. Amounts payable after balance date in relation to the commitments amount to $203,860.

b) Operating leases

Recognition and measurement
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group leases for premises and plant and equipment. There are renewal options in respect of operating leases. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	31-Dec-18
	$
Within one year	27,961
Later than one year but not later than five years	17,912
Later than five years	-
	45,873

c) Contingent liabilities

There were no contingent liabilities at 31 December 2018.

22 Subsequent events

In February 2019 the Board of Directors resolved to fully repay the loans to shareholders of $217,550.

There were no other events subsequent to 31 December 2018 requiring disclosure or qualifying for recognition (adjusting event).

CANNASOUTH LIMITED

CORPORATE GOVERNANCE STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2018

The Board of Cannasouth Limited is committed to acting with integrity and expects high standards of behaviour and accountability from all its offi cers and staff .
The Board recognises the need to continue to enhance its Governance Standards in line with developing best practice. In doing so, the Board has considered standards, guidelines and principles published by a range of interested parties in New Zealand and Internationally. The Governance Principles adopted by the Board are designed to meet best practice. The Board has reviewed those Rules, Principles and Guidelines and is taking progressive steps to improve the Governance Systems and Processes by reference to them.

Role of the Board

The Board's primary objective is the enhancement of shareholder value by following appropriate strategies and ensuring eff ective and innovative use of available Group resources. The Board is responsible for the management, supervision and direction of the Group. Day-to-day management of the Group is delegated to the Group Chief Executive Officer.

Board Meetings

The Board normally meets eleven times each year for scheduled meetings. Additional meetings are held where specifi c matters require attention between scheduled meetings. Board meetings are used to monitor, challenge, develop and fully understand business and operational issues.

Composition of the Board

The Constitution provides that there will be no less than three Directors.
The Board currently consists of two Independent Directors including the Chairman, and two non-independent executive directors.

Criteria for Board Membership

When a vacancy arises, the Board will identify candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities eff ectively. A Director appointed by the Board must stand for election at the next Annual Meeting.

Board Committees

The Board has established an Audit & Risk Committee, and a Remuneration, Nomination and Health & Safety Committee.

The Audit & Risk Committee operates under a Charter approved by the Board and is accountable to the Board for: the business relationship with, and the independence of, external auditors; the reliability and appropriateness of the disclosure of the fi nancial statements and external fi nancial communication; and the maintenance of an eff ective business risk management framework including compliance and internal controls. The Audit & Risk Committee is comprised of Independent and Executive Directors. The Chairman of the Committee is Conor English. Tony Ho and Mark Lucas are also members of the Audit & Risk Committee.

The Remuneration, Nomination and Health & Safety Committee (RNHS Committee) operates under a Charter approved by the Board and is accountable to the Board for: obtaining assurance that the Group's human resources policies and practices support achievement of the Group's goals; overseeing appointments of the Group Chief Executive Offi cer, roles reporting to the Group Chief Executive Offi cer, and key professional advisors in the area of Legal, Tax and Public Relations; overseeing the development of key employees, and for ensuring appropriate health and safety policies and protocols are implemented.

The RNHS Committee recommends to the Board the level of the Group Chief Executive Offi cer's remuneration package. The RNHS Committee is comprised of Independent and Executive Directors. The Chairman of the Committee is Tony Ho. Conor English and Mark Lucas are also members of the RNHS Committee.

Trading in Shares

Cannasouth Limited has a detailed Financial Products Trading Policy applying to all Directors, Employees and Contractors. A procedure must be followed to obtain consent to trade in the Company's shares at all times. Directors, Employees and Contractors are not able to trade in Company shares, if they are in possession of unpublished price sensitive information.

The Company reinforces these measures by requiring that anyone designated as having the opportunity to access price sensitive information can transact in the Company's securities only with the prior approval of the Chairman.

1. DIRECTORS

The names of the Directors of the Company in office at the date of this Report are:

Tony Ho
Chairman and Independent non-executive Director

Conor English
Independent non-executive Director

Mark Lucas
Executive Director and Chief Executive Officer

Nic Foreman
Executive Director and Chief Operating Officer

2. REMUNERATION OF DIRECTORS

During the calender year the following remuneration was paid or payable to Directors:

Company - Cannasouth Limited	**2018**
Tony Ho (Appointed 26 September 2018)	$10,000
Conor English (Appointed 19 October 2018)	$9,999
Mark Lucas (Appointed 21 August 2018)	$0
Nic Foreman (Appointed 21 August 2018)	$0
Subsidiary - Cannasouth Plant Research New Zealand Limited	
Mark Lucas (Appointed 10 September 2017)	$41,080
Nic Foreman (Appointed 15 May 2017)	$40,797

3. EMPLOYEES

No employees received remuneration and benefits which exceeded $100,000 in value for the financial period ended 31 December 2018

4. INTERESTED TRANSACTIONS

The Directors have disclosed the following transactions with the Company and Group:

Interested Transactions
On 24 August 2018, Cannasouth Limited acquired 100% of the shares ("Sale Shares") on issue in Cannasouth Plant Research New Zealand Limited from:

- Mark Lucas (Director of Cannasouth), as to 485 shares for a total aggregate consideration of $1.00;
- Nic Foreman (Director of Cannasouth), as to 485 shares for a total aggregate consideration of $1.00.

On 23 October 2018, Tony Ho entered into a subscription agreement with Cannasouth to subscribe for 400,000 new ordinary fully paid shares at an aggregate issue price of $100,000, which consideration was satisfied by the payment of cash on completion of the transaction.

On 23 October 2018, Johanna Coughlan, wife of Conor English, entered into a subscription agreement with Cannasouth to subscribe for 100,000 new ordinary fully paid shares at an aggregate issue price of $25,000, which consideration was satisfied by the payment of cash on completion of the transaction.

Directors' Remuneration
Remuneration details of Directors are provided above.

Indemnification and Insurance of Officers and Directors
The Company indemnifies Directors and Executive Officers of the Group against all liabilities which arise out of the performance of their normal duties as Directors or Executive Officers, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group is in the process of obtaining Directors & Officers Insurance cover.

5. AUDITORS

During the financial period ended 31 December 2018, Deloitte Limited were appointed auditors of the Company and Group. Fees paid and due to Deloitte Limited are $8,500 for audit related services. In accordance with Section 200 of the Companies Act 1993, the auditors, Deloitte Limited, continue in office.

6. DONATIONS

There were no donations paid during the year.

CORPORATE DIRECTORY

Cannasouth Limited

Registered Office
c/- Braithwaite and Pearks Limited
Level 1, 240 Victoria Street
Hamilton Central
Hamilton, 3256

Physical Address
Core Facilities Building
Waikato Innovation Park
1 Melody Lane
Hamilton East
Hamilton, 3216

Telephone number: +64 7 949 8393

Directors

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

Securities Registrar

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

Telephone number: 09 375 5998

Legal Advisors

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P O Box 105 745
Auckland 1143

Auditors

Deloitte Limited
Deloitte House
24 Anzac Parade
Hamilton 3216