

For Public Release
NZX Limited
Wellington

14 August, 2019

Cannasouth Announces Significant Cultivation Joint Venture

The Board of Cannasouth Limited (NZX:CBD) is pleased to announce that it has entered into a long-term strategic joint venture ("JV") with Aaron Craig and his family interests ("Craig Family Interests") to construct and develop a world class cannabis cultivation facility in the Waikato area.

Mr Craig is a successful business owner, developer and entrepreneur who has developed a number of substantial private companies.

The JV will construct and operate a medicinal cannabis and hemp cultivation and production facility to service and supply CBD's production requirements.

The JV is structured as a joint venture company, "Cannasouth Cultivation Limited" ("JV Co"), which will be owned equally by each of CBD and the Craig Family Interests.

JV Co will commence its operations by constructing a state-of-the-art hybrid greenhouse cultivation facility and will grow medicinal cannabis and complementary product, primarily for CBD, but potentially for other medicinal cannabis companies in New Zealand and internationally.

JV Co will also investigate expanding into broadacre operations (outdoor growing), and/or in conjunction with developing a network of New Zealand-based contract growers.

The principal terms of the joint venture arrangement are as follows:

- The joint venture will be structured as a joint venture Company – "Cannasouth Cultivation Limited" ("Cannasouth Cultivation");
- Each of CBD and the Craig Family Interests will hold a 50% interest in Cannasouth Cultivation and will initially contribute \$1 million of paid up capital into the JV company for the first phase of the operations development;
- CBD and the Craig Family Interests have identified a suitable site for the construction of the facility in the Waikato ("Land"). The Land comprises 111 acres of land. The land is ideally suited for the construction of the initial facility and further expansion, and the potential development of a broadacre cultivation operation;
- The Craig Family Interests have agreed to purchase 100% of the Land at their own cost and to lease such portion of the Land as required, to Cannasouth Cultivation. The maximum term of the lease is 20 years;
- Cannasouth Cultivation will pay a commercial market rental for that part of the Land that it utilizes;

- Cannasouth Cultivation will have an option to expand its footprint across the balance of the Land as and when it may require more land for its commercial cultivation operations. This enables Cannasouth Cultivation to expand its growing operations from hybrid greenhouse growing to outdoor broadacre growing from the one location;
- The Craig Family Interests have also agreed to grant CBD an option to purchase a one-half share interest in the Land ("Land Option") for the duration of the JV. The price payable to exercise the Land Option will be determined based on the market value of the Land at the time of the exercise of the Land Option;
- Cannasouth Cultivation will fund the construction of the facility on the land, and will ultimately own the facility structure and all internal fit outs;
- Each of CBD and the Craig Family Interests will be responsible for funding a one-half share of the ongoing working capital requirements of the JV facility;
- CBD will purchase all of its cannabis requirements from the JV Co through entry into an Off-Take Agreement, subject to Cannasouth Cultivation's ability to deliver on volume, specification and delivery date etc;
- CBD will have a first right of refusal to acquire all other production from Cannasouth Cultivation in addition to that product ordered by CBD.

Benefits of the joint venture

The capital costs associated with the construction of a state-of-the-art cannabis cultivation facility are significant. This joint venture arrangement has enabled CBD to maximise the allocation of capital raised during its recent IPO to achieve an important objective of the Company's vertical integration strategy. CBD considers the benefits of the JV to be significant, including:

- An important step towards implementing the company's vertical integration strategy "from seed to sale";
- Sharing the considerable capital costs of developing a cultivation facility with a third party;
- Entering into a strategic relationship with a trusted and experienced partner who can add considerable value with the skill set they bring to the venture;
- Providing a commercial footprint and model from which the JV can expand to other locations throughout New Zealand as the medicinal cannabis market matures;
- Providing a foundation from which further strategic initiatives, involving growing and cultivating other complementary products, can be leveraged.

Cannasouth CEO Mark Lucas said, "the establishment of Cannasouth Cultivation is an exciting development in the evolution of Cannasouth and represents another strategic milestone as CBD positions itself as a leader in the emerging medicinal cannabis industry in New Zealand.

“We are delighted to have partnered with someone of the calibre of Aaron Craig and his family interests in this exciting project. We are looking forward to implementing our business plan for the construction of the new facility and leveraging off that facility strategically in the future.”

The land and proposed facility will give the JV the opportunity to produce and CBD to source high-quality medicinal cannabis flower similar to that produced with expensive indoor cultivation methods.

Utilising the power of sun through the hybrid greenhouse option significantly reduces the overall energy costs of production and is consistent with Cannasouth's desire to utilise environmentally sustainable cultivation methods.

The rural site in the Waikato heartland also allows CBD to leverage New Zealand's reputation for high quality horticultural produce. Further expansion at the 100-acre plus site allows CBD to explore multiple cultivation strategies depending on the end product and export requirements.

“A phased expansion strategy will ensure capital is only deployed when market demand exists for the end product,” says Mr Lucas. “This flexibility will enable CBD to adapt to pricing pressures as the market matures to ensure end products remain competitively priced, ultimately reducing the cost to patients.”

Mr Craig said he was delighted to be part of the Cannasouth story and the development of New Zealand as a major player in the exciting global medicinal cannabis industry.

Subscription for new shares

Collateral to the entry into the joint venture arrangement, CBD has agreed to issue 2,777,778 new ordinary fully paid shares to the Craig Family Interests at an issue price of 36 cents per share (“New Shares”). This placement will generate \$1,000,000 of new capital for CBD, which CBD will in turn apply towards the payment of its capital commitment to the JV. The New Shares will be issued during the course of the next five trading days. A notice of issue in respect of the New Shares will be released to the market on the day that the New Shares are issued and allotted.

The Craig Family Interests have agreed that the New Shares shall be escrowed for a period of 12 months from the date of their issue.

Founders enter into escrow arrangements

In consideration of the Craig family Interests agreeing to the escrow of the New Shares, CBD's founders, Mark Lucas and Nic Foreman (who each hold 28,161,290 shares in CBD representing 55.2% of the total number of shares on issue in aggregate) have also agreed to enter into a similar escrow agreement for a period of 12 months from the date of this announcement.

Mr Lucas said that even though Mr Foreman and himself are both long term holders of an investment in CBD, they are comfortable entering into the escrow restrictions on similar terms to Mr Craig.

Financial Advisor

Auckland-based specialist corporate and capital markets advisory firm, CM Partners, has advised Cannasouth on this transaction.

-ENDS-

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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 & ISO 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.

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