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Rua Bioscience Limited

Consolidated Financial Statements
For the year ended
30 June 2022

Contents

Company Directory	3
Independent Auditor's Report	4 – 8
Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Cash Flows	12
Notes forming part of the Consolidated Financial Statements	13 - 59

Company Directory
For the year ended 30 June 2022

Country of incorporation of company:	New Zealand
Company Number:	6484092
Legal form:	NZ Limited Company
Principal activities:	Pharmaceutical Manufacturer
Registered office:	1 Commerce Place Awapuni Gisborne
Directors:	Trevor BURT Panapa EHAU Brett GAMBLE Martin SMITH Anna Kate STOVE
Auditor:	PricewaterhouseCoopers
Bankers:	Kiwibank
Solicitors:	Lowndes Jordan

Independent auditor's report

To the shareholders of Rua Bioscience Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of Rua Bioscience Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2022, its financial performance and its 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).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). 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.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of half year review procedures. The provision of these other services has not impaired our independence as auditor of the Group.

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 year. 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.

Description of the key audit matter	How our audit addressed the key audit matter
Derecognition of Deferred Tax Asset	
As disclosed in Note 8, the Group has derecognised the deferred tax asset of $2.2m down to the level of the deferred tax liability. The tax losses have been incurred during the pre-commercialisation stage of the Group's business in the medicinal cannabis industry. NZ IAS 12 *Income* Taxes permits a deferred tax asset to be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. As the Group progresses towards commercialisation in its chosen markets, key milestones, including obtaining and retaining licenses to operate, have taken longer than originally anticipated. The Group has determined that the timing of taxable profit is beyond a reliable forecast horizon to enable continued recognition of a deferred tax asset. The derecognition of the deferred tax asset is considered a key audit matter due to the inherent estimation uncertainty due to the nature of the balance and significance of the balance to the financial statements.	We focused our audit response on the evaluation of the Group's assessment regarding the forecast profitability, the timeframe to taxable profit and the derecognition of the deferred tax asset. This included: • obtaining and understanding the Group's assessment and plans, including management's updated profit and loss forecasts; • discussing with management the Group's assumptions regarding the forecasted profitability including the underlying revenue and expenditure assumptions; • confirming key milestones that have been met and assessing management's ability to achieve forecast milestones; • challenging management's assessment and assumptions of the future forecast profitability; • testing the mathematical accuracy of management's profit and loss forecast; and • reviewing the appropriateness of the disclosure in Note 8.
Acquisition of Zalm Therapeutics Limited	
On the 4th of February 2022, Zalm Therapeutics Limited was acquired for $11.5m as disclosed in note 13 of the financial statements. The acquisition will be settled via the issue of Rua Bioscience Limited shares. The shares are to be issued at three separate dates. The first tranche was issued on the date of acquisition and the remaining tranches are planned to be distributed in equal instalments on the achievement of two subsequent milestones. The acquisition accounting has been completed by management and includes the fair value of physical assets, the identifiable intangible assets with the remaining balance of goodwill of $6.3m. In estimating the value of goodwill, management has assessed the	Our audit of the acquisition of Zalm Therapeutics Limited focused on verifying the purchase price and assessing the significant estimates and judgements made by management for the acquisition. Our audit procedures included: • confirming the transaction details to the Sale and Purchase Agreement. • assessing management's treatment of milestone one and two by reviewing the relevant sections of the Sale and Purchase agreement and confirming our understanding is consistent with the approach taken and supporting documentation available; • obtaining an understanding of the approach management has undertaken to identify and value the tangible and identifiable intangible assets, liabilities assumed and goodwill arising on acquisition;

Description of the key audit matter	How our audit addressed the key audit matter

value of the supply contract that was unable to be quantified on acquisition.
 	
Management has used independent experts to assist with the valuation of the identified intangible asset and to account for the business combination.
 	
Because of the significant estimates and judgement involved in determining the fair values of assets acquired and the contingent consideration, this was considered to be a key audit matter.
	• considered management's assessment of the goodwill arising on acquisition to identify any indicators of impairment;
	• using our auditor's expert, to assist us in assessing and challenging whether the assumptions used in the valuation model for identifiable intangible assets were reasonable. The key areas assessed included:
	  ● the valuation methodology used; and
	  ● the reasonableness of the discount rate;
	● testing the mathematical accuracy of the underlying details within managements identifiable intangible asset valuation calculation; and
	• auditing the disclosures in note 13 of the consolidated financial statements to ensure that they are compliant with the requirements of the relevant accounting standards.

Our audit approach

Overview

Overall group materiality: $81,500, which represents approximately 1% of total expenses.

We chose total expenses as the benchmark because, in our view, it is the most representative measure of the current operations and performance of the Group, and of most relevance to the users of the financial statements. The Group is incurring losses in a start-up phase; therefore, we consider that profit/loss before tax is not an appropriate benchmark. Total expenses is also a generally accepted benchmark.

Following our assessment of the risk of material misstatement, we performed full scope audits for all of the entities in the Group based on their financial significance.

As reported above, we have two key audit matters, being:

- Derecognition of Deferred Tax Asset
- Acquisition of Zalm Therapeutics Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. 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 audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, 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 not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements
The Directors are responsible, on behalf of the Company, 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 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 (NZ) and ISAs 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 at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Maxwell John Dixon.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

Napier

29 August 2022

Rua Bioscience Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2022

	Note	2022 $	2021 $
Revenue from contracts with customers	5	24,226	-
Other income	6	621,872	450,971
Changes in inventories of finished goods and work in progress	7	(128,643)	-
Research and development costs	7	(2,977,522)	(1,897,126)
Other expenses	7	(5,123,241)	(4,744,082)
Total expenses before operating loss		(8,229,406)	(6,641,208)
Operating loss before net financing income		**(7,583,308)**	(6,190,237)
Interest income		138,145	47,560
Interest expense		(70)	(9,699)
Interest expense - leases		(40,752)	(21,859)
Net finance income		**97,323**	16,002
Loss before tax		**(7,485,985)**	(6,174,235)
Income tax (expense)/credit	8	**(1,150,067)**	1,756,275
Loss after tax		**(8,636,052)**	(4,417,960)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to shareholders		**(8,636,052)**	(4,417,960)
Earnings per share attributable to the ordinary equity holders of the Company			
Loss from operations			
Basic ($)	10	(0.06)*	(0.03)**
Diluted ($)	10	(0.06)*	(0.03)**

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

Rua Bioscience Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2022

	Note	Share capital $	Share option reserve $	Accumulated losses $	Total equity $
Opening balance at 1 July 2020		**18,922,913**	**260,308**	**(4,781,260)**	**14,401,961**
Total comprehensive loss for the year					
- Loss for the year		-	-	(4,417,960)	(4,417,960)
- Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		**-**	**-**	**(4,417,960)**	**(4,417,960)**
Transactions with owners					
- Issue of share capital		20,000,000	-	-	20,000,000
- Costs of issuing share capital		(1,504,414)	-	-	(1,504,414)
- Employee share options expense	23	-	354,459	-	354,459
Total transactions with owners		**18,495,586**	**354,459**	**-**	**18,850,045**
Balance at 30 June 2021		**37,418,499**	**614,767**	**(9,199,220)**	**28,834,046**
Opening balance at 1 July 2021		**37,418,499**	**614,767**	**(9,199,220)**	**28,834,046**
Total comprehensive loss for the year					
- Loss for the year		-	-	(8,636,052)	(8,636,052)
- Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		**-**	**-**	**(8,636,052)**	**(8,636,052)**
Transactions with owners					
- Issue of share capital	13	3,820,916	-	-	3,820,916
- Employee share options expense	23	-	179,181	-	179,181
- Share options vested and exercised	23	652,262	(652,262)	-	-
Total transactions with owners		**4,473,178**	**(473,081)**	**-**	**4,000,097**
Balance at 30 June 2022		**41,891,677**	**141,686**	**(17,835,272)**	**24,198,091**

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

Rua Bioscience Limited
Consolidated Statement of Financial Position
As at 30 June 2022

	Note	2022 $	2021 $
Current assets			
Cash and cash equivalents	4	1,897,285	3,359,479
Other receivables	16	1,070,323	605,927
Prepayments		166,521	110,527
Investments	4	8,041,493	13,041,549
Inventory	11	218,805	-
Total current assets		**11,394,427**	**17,117,482**
Non-current assets			
Property, plant and equipment	12	5,843,284	6,174,610
Goodwill	13,14	10,448,082	4,000,000
Intangible assets	14	5,016,035	-
Right-of-use lease assets	15	796,772	929,897
Other receivables	16	75,000	75,000
Deferred tax asset	8	-	2,554,480
Total non-current assets		**22,179,173**	**13,733,987**
Total assets		**33,573,600**	**30,851,469**
Current liabilities			
Trade and other payables	17	438,378	510,167
Contract liabilities	5	2,062	-
Employee benefit liabilities	18	459,735	233,862
Lease liabilities	4,15	128,544	133,958
Borrowings	4	-	10,762
Deferred grant income		9,500	-
Contingent consideration payable	13	3,820,916	-
Share-based payment liability	23	-	286,647
Total current liabilities		**4,859,135**	**1,175,396**
Non-current liabilities			
Contingent consideration payable	13	3,820,916	-
Lease liabilities	4,15	695,458	810,120
Share-based payment liability		-	31,907
Total non-current liabilities		**4,516,374**	**842,027**
Total liabilities		**9,375,509**	**2,017,423**
Net assets		**24,198,091**	**28,834,046**
Equity			
Share capital	19	41,891,677	37,418,499
Accumulated losses		(17,835,272)	(9,199,220)
Share option reserve		141,686	614,767
Total equity		**24,198,091**	**28,834,046**

The consolidated financial statements on pages 9 to 59 were approved and authorised for issue by the Board of Directors on 29 August 2022 and were signed on its behalf by:

____________________ (Director) ____________________ (Director)

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

Rua Bioscience Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2022

	Note	2022 $	2021 $
Cash flows from operating activities			
Receipts from customers		24,280	-
Grant income received		696,171	691,261
Payments to suppliers and employees		(7,565,373)	(5,138,432)
Net cash inflows/(outflows) from operating activities	9	**(6,844,922)**	**(4,447,171)**
Cash flows from Investing activities			
Interest income		113,360	69,277
Proceeds from sale of plant and equipment		1,656	15,739
Proceeds from maturing investments	4	29,070,711	2,001,420
Cash acquired in acquisition of subsidiary (net of cash paid)		876,452	-
Investment deposits made	4	(24,070,711)	(15,117,969)
Purchase of property, plant and equipment		(400,103)	(1,402,258)
Net cash inflows/(outflows) from investing activities		**5,591,365**	**(14,433,791)**
Cash flows from financing activities			
Issue of ordinary shares		-	20,000,000
Repayment of borrowings		(10,762)	(78,169)
Principal elements of lease payments		(153,284)	(82,914)
Interest paid		(44,591)	(27,789)
Share issue costs paid		-	(1,508,188)
Net cash inflows/(outflows) from financing activities		**(208,637)**	**18,302,940**
Net increase/(decrease) in cash and cash equivalents		**(1,462,194)**	**(578,022)**
Cash and cash equivalents at beginning of year		3,359,479	3,937,501
Cash and cash equivalents at end of year	4	**1,897,285**	**3,359,479**

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

1. Reporting Entity

The consolidated financial statements comprise the results of Rua Bioscience Limited and its subsidiary (together, "the Group").

Rua Bioscience Limited ("the Company") is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The address of the Company's registered office and principal place of business is 1 Commerce Place, Awapuni, Gisborne. During the period, the Company acquired its first subsidiary (refer to Note 13) and reports consolidated financial statements accordingly.

The Company is principally engaged in the business of research and development, and pharmaceuticals manufacturing.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), being in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS and International Financial Reporting Standards (IFRS). They comply with interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have also been prepared in accordance with the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Main Board/Debt Market Listing Rules of NZX Limited.

The Group is a for-profit entity for the purposes of complying with NZ GAAP.

These consolidated financial statements include non-GAAP financial measures that are not prepared in accordance with NZ IFRS. The Group presents Net Tangible Assets, in Note 25. The Group believes that this non-GAAP measure provides useful information to readers, as this is a required disclosure under the NZX Listing Rules, but it should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

The consolidated financial statements are presented in New Zealand dollars ($), which is also the Group's functional currency. All financial information presented has been rounded to the nearest dollar.

(b) Significant accounting policies

Significant accounting policies have been disclosed alongside the related notes in the consolidated financial statements.

(c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items (refer to note 2(h) for further details).

2. Basis of preparation *(continued)*

(d) New standards, interpretations and amendments

(i) Adopted during the period

Inventory and Revenue recognition

Subsequent to it having received verification from the NZ Medicinal Cannabis Agency (Medsafe) for the sale and distribution of medicinal CBD products, the Group has during the period begun purchasing raw materials and manufacturing inventory, as well as entering agreements for the sale of inventory to customers.

- Refer to note 11 for details of the Group's Inventory accounting policy.
- Refer to note 5 for details of the Group's Revenue recognition accounting policy.

Consolidation

As a result of the business combination in the period, the Group acquired the shares of Zalm Therapeutics Limited (refer to note 13). Because the transaction resulted in the Company obtaining control of Zalm, this investee has been consolidated as a subsidiary as part of the preparation of the Group's consolidated financial statements. Refer to note 2(h) for details of the accounting policy.

(ii) New standards mandatorily effective during the period

Other new standards that have become mandatorily effective in the annual consolidated financial statements for the year ended 30 June 2022, but have not had a significant effect on the Group are:

- *Interest Rate Benchmark Reform – 'phase 2' (Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16*);
- *COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to NZ IFRS 16)*;

2. Basis of preparation *(continued)*

(iii) Issued, but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the periods beginning on or after 1 January 2022:

- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to NZ IAS 37);
- *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to NZ IAS 16);
- *Annual Improvements to NZ IFRS Standards 2018-2020* (Amendments to NZ IFRS 1, NZ IFRS 9, NZ IFRS 16 and NZ IAS 41); and
- *References to Conceptual Framework* (Amendments to NZ IFRS 3);
- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current* (Deferral of Effective Date)
- *NZ IFRS 17 Insurance Contracts* (effective 1 January 2023);
- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current* (effective 1 January 2023);
- *Amendments to NZ IFRS 17* (effective 1 January 2023);
- *Disclosure of Accounting Policies (Amendments to NZ IAS 1 and IFRS Practice Statement 2)* (effective 1 January 2023);
- *Definition of Accounting Estimate (Amendments to NZ IAS 8)* (effective 1 January 2023);
- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to NZ IAS 12 Income Taxes (*effective 1 January 2023);
- *Initial Application of NZ IFRS 17 and NZ IFRS 9 – Comparative Information (*effective 1 January 2023);
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) (effective 1 January 2025).

The Group does not expect these new and amended standards to have a material impact on the Group.

The Group is in the process of identifying the impact of climate change on the business and its assets. Rua has engaged the services of Toitu Envirocare to assist in the development of carbon and environmental reporting processes. Our annual report will set out the key targets for Rua's sustainability programme.

2. Basis of preparation (continued)

(e) Accounting estimates and judgements made

The preparation of the consolidated financial statements, in conformity with NZ IFRS, 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 on-going basis, with revisions to accounting estimates recognised in the period in which the estimates are revised and in any future periods affected.

Details of significant judgements and estimates made by management include:

Judgements

- Recognition (or not) of deferred tax assets related to carried forward tax losses (note 8).
- Classification of contingent consideration (note 13)
- Identification and valuation of intangible assets arising on business combinations (note 13)
- Useful life of externally acquired intangible assets (note 14)
- Recognition of research and development tax credits and research and development expenses (notes 6 & 7).
- Preparation of the financial statements on a going concern basis (note 2(f)).

Estimates

- Identification and valuation of intangible assets arising on business combinations (note 13)
- Estimation of contingent consideration (note 13)

(f) Going Concern

The consolidated financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The Group incurred a net loss of $8,636,052 during the year ended 30 June 2022 (2021: net loss of $4,417,960).

The purchase of Zalm Therapeutics Limited in February 2022 creates a significant opportunity for the Group. Zalm's contract with Cann Group provides a scalable and sustainable supply of range of cannabinoid medicines at a very competitive cost base.

With the market for cannabis derived medicines continuing to show strong growth globally it is forecast the Group will be able to capture a proportion of the market in key jurisdictions and that the sales of the Group's products will increase.

In FY22, the Group obtained key licenses that allowed it to commercialise its first product and create the foundation for further commercial opportunities. The key licenses obtained in the period include License to Manufacture Medicine (GMP) and New Medical Cannabis Product Application (CBD100).

2. Basis of preparation (continued)

(f) Going Concern (continued)

Currently there are no indications that the Group will not be able to continue as a going concern. The Group has net current assets and the Directors are of the opinion that the Group is able to settle liabilities as they fall due.

There are risks related to the assumptions being made, particularly around the timing of regulatory approvals and supplying product to markets, sales volumes, and the sales price of these products. The Group is monitoring and managing these risks, however there is no indications at this point in time that they will affect the Group's ability to continue as a going concern.

(g) Estimates and assumptions

– Fair value measurement

The fair value of certain assets and liabilities included in the Group's consolidated financial statements is disclosed.

Determining the fair value of these assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- *Level 1*: Quoted prices in active markets for identical items (unadjusted)
- *Level 2*: Observable direct or indirect inputs other than Level 1 inputs
- *Level 3*: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

- Borrowings, disclosure of fair value (note 4)
- Financial assets and liabilities at amortised cost, disclosure of fair value (note 4)
- Contingent consideration (note 13)
- Valuation of intangible assets in a business combination (note 13)
- Share-based payments measured at fair value (note 23).

2. Basis of preparation (continued)

(h) Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present" power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any element of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the "acquisition method" (refer to note 13). In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained, and are subsequently deconsolidated from the date on which control ceases.

(i) Impairment of non-financial assets

The carrying amounts of the Group's property, plant and equipment (note 12), intangible assets (note 14) and right-of-use assets (note 15) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

The estimated recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are reversed when there is a change in the estimate used to determine the recoverable amount and there is an indication that the impairment loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All other impairment losses are reversed through profit or loss.

3. Segment Reporting

The Group operates in one segment, its primary business being research and development and the sale and manufacture of pharmaceutical products in New Zealand.

The chief operating decision maker has been identified as the Chief Executive Officer (CEO), as they make all the key strategic resource allocation decisions related to the Group's segment.

The Group currently derives revenue from customers through the sale of goods to a single distributor in New Zealand. The Group currently only derives revenue from a single product line and therefore revenue is not disaggregated further.

4. Financial instruments and Financial Risk Management and Capital Management

This note describes:

(A) The Group's accounting policies with respect to financial instruments recognised in the Group's consolidated financial statements, and detail of those balances.

(B) The nature of the financial risk that the Group is exposed to, and the Group's objectives, policies and processes for managing those risks, the methods used to measure them, and sensitivity analysis to movements in rates (where applicable).

(C) The nature of the Group's Capital Management policies.

(A) Financial instruments recognised

The Group recognises financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

Financial Assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired (i.e. the business model) and the contractual terms of the cash flows.

Amortised Cost

These represent financial assets where the objective is to hold these assets in order to collect contractual cash flows that represent solely payments of principal and interest. These comprise cash and cash equivalents, other receivables and term deposit investments.

Cash and cash equivalents comprise of cash on hand and demand deposits, as well as highly liquid deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with terms of 90 days or less. Otherwise, deposits with a term greater than 90 days but less than 1 year are presented as "investments".

These financial assets are:

- Initially measured at fair value, plus directly attributable transaction costs.
- Subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Cash and cash equivalents and investments are held with "investment grade" financial institutions and are deemed to have no significant increase in credit risk in terms of impairment.
- Derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred.

4. Financial instruments - Risk Management *(continued)*

Financial liabilities

The Group classifies its financial liabilities depending on whether (or not) it meets the definition of a financial liability at fair value.

Financial liabilities at fair value through profit and loss

These comprise contingent consideration recognised in the consolidated statement of financial position and are carried at fair value. Changes in fair value are recognised in the consolidated statement of comprehensive income.

Other financial liabilities at amortised cost

These include trade and other payables, borrowings, and lease liabilities recognised in the consolidated statement of financial position.

These financial liabilities are:

- Initially measured at fair value, plus directly attributable transaction costs.
- Subsequently measured at amortised cost using the effective interest rate method.
- Derecognised when the contractual obligation to settle the obligation is discharged, cancelled, or expires.

Categories and fair values of the Group's financial instruments

2022	**Financial Assets at Amortised Cost**	**Financial Liabilities At Amortised Cost**	**Financial Liabilities at Fair Value through Profit or Loss**	**Total Carrying Amount**	**Fair Value**
	$	**$**	**$**	**$**	**$**
Investments	8,041,493			8,041,493	*(a)*
Cash and cash equivalents	1,897,285			1,897,285	*(a)*
Other Receivables	575,000			575,000	*(a)*
Trade and other payables		(438,378)		(438,378)	*(a)*
Lease liabilities		(824,002)		(824,002)	*(b)*
Contingent consideration			(7,641,832)	(7,641,832)	*n/a*
Total	**10,513,778**	**(1,262,380)**	**(7,641,832)**		

(a) Due to their short-term nature, the carrying value of these financial instruments approximates their fair value

(b) Not required to be disclosed per NZ IFRS 7.

4. Financial instruments - Risk Management *(continued)*

2021	**Financial Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**	**Total Carrying Amount**	**Fair Value**
	$	**$**	**$**	**$**
Investments	13,041,549		13,041,549	*(a)*
Cash and cash equivalents	3,359,479		3,359,479	*(a)*
Other Receivables	75,000		75,000	*(a)*
Trade payables		(510,167)	(510,167)	*(a)*
Borrowings		(10,762)	(10,762)	*(b)*
Lease liabilities		(944,078)	(944,078)	*(c)*
Total	**16,476,028**	**(1,465,007)**		

(a) Due to their short-term nature, the carrying value of these financial instruments approximates their fair value.

(b) Due to the market rate of lending for the remaining term and outstanding balance not being materially different from the current effective interest rate, the carrying value of these financial instruments approximates their fair value.

(c) Not required to be disclosed per NZ IFRS 7.

(B) Financial risk management

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal finance team also review the risk management policies and processes and report their findings to the Audit, Finance & Risk Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies as they relate to the specific financial risks that the Group is exposed to are set out below:

Through its operations, the Group is exposed to the following financial risks:

(a) Credit risk

(b) Market risk
- ***i.*** *Interest rate risk*
- ***ii.*** *Foreign exchange risk, and*
- ***iii.*** *Price risk*

(c) Liquidity risk.

4. Financial instruments - Risk Management *(continued)*

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial asset fails to meet their contractual obligations. The Group's exposure to credit risk is represented by the carrying amount of cash and cash equivalents, other receivables and investments.

The Group only holds cash and cash equivalents and investments with financial institutions that are independently determined credit ratings of "A" or higher. Other receivables comprise contingent consideration receivable held in escrow with the Group's lawyers in relation to the acquisition of Zalm Therapeutics Limited (refer to note 13 for details).

The Group has an Audit, Finance & Risk Committee that monitors credit risk as part of its wider duties.

Cash and cash equivalents and investments held with financial institutions are presented in the table below:

			30 June 2022		
	Credit rating [(a)]	**Cash and cash equivalents $**	**Investments $**	**Other receivables**	**Total $**
Kiwibank	A1, AA	1,897,285	8,041,493	-	9,938,778
ANZ	AA, A+	-	-	500,000	500,000
Total		**1,897,285**	**8,041,493**	**500,000**	**10,438,778**

			30 June 2021	
	Credit rating [(a)]	**Cash and cash equivalents $**	**Investments $**	**Total $**
Kiwibank	A1, AA	3,359,479	13,041,549	16,401,028
Total		**3,359,479**	**13,041,549**	**16,401,028**

(a) *Standard & Poor's, Moody's, Fitch*

Interest rates on interest bearing cash and cash equivalents and investments range between 0.35% - 1.80% (2021: 0.35% - 1.00%).

4. Financial instruments - Risk Management *(continued)*

(b) Market risk

Market risk arises from the Group's:

- Use of interest-bearing borrowings (interest rate risk)
- Credit sales and purchases in foreign currencies (foreign currency risk), and
- Prices of key commodity inputs (price risk)

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk from its fixed-rate borrowings and lease liabilities, with rates between 4.00% - 7.50% (2021: 3.90% - 7.50%).

The Group manages its interest rate risk by placing surplus funds on medium term interest-returning investments with financial institutions (per above).

ii. Foreign exchange risk

The Group currently does not have any sales transactions denominated in foreign currencies, however this is likely to change in subsequent reporting periods.

There are no open forward exchange contracts at the end of the reporting period (2021: no open forward exchange contracts).

The net foreign exchange loss recognised for the year was $2,993 (2021: $1,266).

4. Financial instruments - Risk Management *(continued)*

(c) Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this the Group maintains a monthly forecast on its future cash position to ensure it can meet financial obligations when they fall due.

The Board receives monthly financial statements which include statements of financial position, performance, and cash flow, as well as budget/forecast variance reports, to ensure it holds or will hold cash equivalents to meet its obligations.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

As at 30 June 2022	Up to 3 Months	Between 3 and 12 months	Between 1 and 2 year	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$	$
Trade and other payables	319,488	-	-	-	-	319,488
Lease liabilities	47,585	113,981	119,464,	317,169	374,021	972,220
Total	**367,073**	**113,981**	**119,464**	**317,169**	**374,021**	**1,291,708**
As at 30 June 2021						
Trade and other payables	510,167	-	-	-	-	510,167
Borrowings	10,832	-	-	-	-	10,832
Lease liabilities	43,367	130,102	147,470	330,910	479,744	1,131,593
Total	**564,366**	**130,102**	**147,470**	**330,910**	**479,744**	**1,652,592**

(C) Capital Management

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to fund activities for the purposes of deriving sustainable returns to its shareholders and other stakeholders.

The Group's capital structure 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 continually reviews the capital structure of the Group. As part of this review, the Board considers the availability and cost of capital and the risks associated therein.

5. Revenue from contracts with customers

The Group recognises revenue from the sale of goods at a point-in-time when control of the goods has transferred to the customer. The Group identifies the point which control passes based on the following indicators:

- Whether physical delivery of the products to the agreed location has occurred;
- Whether the Group no longer has physical possession;
- Whether the Group has a present right to payment;
- Whether the Group has transferred legal title to the customer;
- Whether the customer has accepted the goods; and
- Whether the Group retains any of the significant risks and rewards of the goods in question.

Where goods are sold through distributors, judgement is required to assess whether control passes:

(i) When the goods are delivered to the distributor (in which case, the distributor is the Group's customer, and is acting as a "principal" in its own right), or instead

(ii) To a party further in the supply chain (in which case, the distributor is acting as the Group's "agent", rather than as a "principal", and the Group's "customer" (referred to as the 'end customer') may be a retailer, wholesaler or approved prescriber).

The Group has assessed that control passes to the distributor, and therefore is acting as a "principal" in its own right and as such the Group's customer, based on the assessment of the following indicators:

- The Distributor is responsible for fulfilling the promise to provide goods to the end customer;
- The Distributor takes physical possession of the goods before they are delivered to the end customer, and assumes all substantive inventory risk associated with the goods; and
- The Distributor has discretion to set the price for goods sold to the end customer.

Determining the transaction price - Variable consideration

The terms of the Group's contracts with customers include elements of variable consideration which constrain the amount of revenue recognised at a point in time:

- Certain contracts provide customers with a limited right of return over expired products (products typically have an expiry of no more than 9 months from the date of purchase). Payment terms are 60 days from invoice.

  The Group estimates the value of goods that are expected to be returned using the *expected value method* such that it is highly probable that there will not be a reversal of previously recognised revenue when goods are returned.

  A refund liability is recognised where cash received exceeds the revenue recognised.

- Contracts containing pricing adjustments, rebates and other fees paid to customers are recognised as a reduction in revenue at the time that the related sale is recognised.

  These arrangements include instances where the Group reimburses its distributors for discounts provided to their customers.

5. Revenue from contracts with customers (*continued*)

Repurchase agreements

The Group's arrangements also include clauses allowing the Group to repurchase goods transferred to customers giving rise to a call option. These call options are not conditional. Because goods are repurchased at the original selling price, this constitutes a financing arrangement and the Group recognises a contract liability for the amounts which it expects to repay. Revenue is recognised once the call option expires or is recognised. Because these arrangements are short-term in nature, the Group does not consider this to be a significant financing arrangement and does not account for the time value of money.

	2022 $	2021 $
Sale of goods – point in time	24,226	-
Total Revenue from Contracts with Customers	**24,226**	**-**

Contract Balances

	Contract Liability 2022 $	**Contract Liability 2021 $**
As at 1 July	**-**	**-**
Amounts included in opening contract liabilities that were recognised as revenue during the period	**-**	**-**
Cash received and/or trade debtors recognised in advance of performance and not recognised as revenue as at period end	**2,062**	**-**
As at 30 June	**2,062**	**-**

6. Other income

(i) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. They are recognised as other income rather than reducing the costs that they are intended to compensate.

The Group currently receives government grants in the form of R&D tax incentive credits, received from the Inland Revenue Department (IRD).

R&D tax incentive credits are accounted for as government grant income as opposed to income tax credits as the benefit is independent of the taxable profit or tax liability where the Group is eligible for a cash refund; specific conditions exist for the Group, the R&D activities and the expenditure to be eligible for the tax credits; and the tax credits are not structured as an additional deduction in computing taxable profit.

The Group has reasonable assurance at the reporting date that the R&D tax incentive will be received and all attached conditions will be complied with. The Group expects to receive the tax credit when the return is filed subsequent to the end of the reporting period.

6. Other income *(continued)*

Other income streams recognised by the Group include:

	2022 $	2021 $
Research and development grant income	584,180	357,366
NZTE grant income	36,689	-
COVID-19 wage subsidy	-	91,636
Total government grant income	**620,869**	**449,002**
Gain on sale of property, plant and equipment	1,003	-
Other Income	-	1,969
Total other income	**621,872**	**450,971**

7. Expenses

	Note	**2022 $**	**2021 $**
Specific expenses included in operating loss before net financing costs for the year:			
Cultivation costs		875,738	611,045
Extraction and manufacturing		578,740	584,502
Changes in inventories of finished goods and work in progress		128,643	-
Accommodation and travel		36,665	58,740
Communications		236,278	32,253
Depreciation of property, plant and equipment		645,502	596,698
Depreciation of right-of-use lease assets		171,101	97,904
Direct research and development expenses		628,023	308,433
General		256,811	204,315
Professional services		1,378,464	1,133,268
Insurance		132,788	126,180
Motor vehicle expenses		55,738	57,193
Charitable expenses		18,782	24,670
Licenses		46,515	22,670
Office expenses		64,737	69,267
Selling and marketing		131,959	57,741
Personnel costs		2,842,067	2,479,916
Marketing costs related to IPO		-	175,147
Foreign exchange loss		2,993	1,266
		8,231,544	**6,641,208**

7. Expenses (*continued)*

Included in the above:

Employee benefit expense

- Short term benefits (wages and salaries)	2,556,773	2,406,567
- Defined contribution plan	96,662	64,935
- Share-based payment expense	188,632	602,466
Total employee benefit expense	**2,842,067**	**3,073,968**

Research and development expenses

- Direct costs	628,023	296,803
- Indirect costs	2,349,499	1,600,323
Total research and development expenses	**2,977,522**	**1,897,126**

(i) Research and development

Research and development expenditure that do not meet the development criteria in NZ IAS 38 *Intangible Assets* for recognition as intangible assets are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Currently the Group is still in the research phase (refer to note 22 *Biological assets*) and related costs are recognised in profit or loss accordingly until such time as the Group moves into the development phase and the relevant recognition criteria are met.

(ii) Fees paid to auditors

Fees paid to auditors include payments to PricewaterhouseCoopers for the following:

	2022 $	2021 $
Audit and review of the financial statements		
- Audit of the financial statements	131,250	60,132
- Review of half year financial statements	27,143	27,635
Total fees paid to auditors	**158,393**	**87,767**

8. Income tax

Tax expense/(credit) comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

8. Income Tax *(continued)*

(i) Income tax recognised in profit or loss

The income tax expense/(credit) recognised for the year includes current and deferred tax as presented below:

	2022 $	2021 $
Current tax on profits for the year	-	-
Total current tax	**-**	**-**
Origination and reversal of temporary differences	190,642	(62,089)
Current year tax losses	-	(1,673,717)
Prior year tax losses not recognised	959,348	-
Prior period adjustments	77	(20,469)
Total deferred tax expense/(credit)	**1,150,067**	**(1,756,275)**
Total income tax expense/(credit)	**1,150,067**	**(1,756,275)**

(ii) Reconciliation of income tax expense/(credit)

The reconciliation of income tax expense/(credit) is presented below:

	2022 $	2021 $
Loss before income tax expense/(credit)	**(7,485,985)**	**(6,174,235)**
Tax expense/(income) @28%	**(2,096,075)**	**(1,728,786)**
Add/(less) reconciling items		
- Expenses not deductible for tax purposes	54,406	116,953
- Tax losses reinstated (R&D cash out credit adjustment)	-	(20,469)
- Non-assessable income	(121,826)	(123,973)
- Tax losses not recognised for deferred tax	3,313,485	-
- Prior period adjustments	77	-
Total income tax expense/(credit)	**1,150,067**	**(1,756,275)**

(iii) Imputation credits

The Company has $310,713 of imputation credits as at 30 June 2022 (2021: $194,087).

8. Income Tax *(continued)*

(iv) Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28%.

The movement on the deferred tax account is as shown below:

	2022 $	2021 $
Opening as at 1 July	**2,554,480**	**798,205**
Recognised in profit and loss		
- Recognition of temporary difference	(190,642)	62,089
- Recognition of tax losses	1,240,099	1,673,717
- Tax losses derecognised	(2,199,447)	-
- Adjustments from prior years	-	20,469
	(1,149,990)	1,756,275
Arising on business combination	(1,404,490)	-
Closing as at 30 June	**-**	**2,554,480**

8. Tax expense *(continued)*

(iv) Deferred tax (continued)

Details of the deferred tax asset and liability amounts recognised in profit or loss are as follows:

	Employee entitlements	Buildings	Intangible assets	Lease liabilities and Right-of-use lease assets	Share-based payments - cash settled	Share-based payments - equity settled	Carried forward tax losses	Total
	$	$	$	$	$	$	$	$
As at 1 July 2020	**30,922**	**37,692**	**-**	**1,934**	**38,397**	**72,886**	**616,374**	**798,205**
Amounts recognised								
- In profit or loss	937	(53,075)	-	2,036	50,798	61,393	1,694,186	1,756,275
- In OCI	-	-	-	-	-	-	-	-
At 30 June 2021	**31,859**	**(15,383)**	-	**3,970**	**89,195**	**134,279**	**2,310,560**	**2,554,480**
As at 1 July 2021	**31,859**	**(15,383)**	-	**3,970**	**89,195**	**134,279**	**2,310,560**	**2,554,480**
Amounts recognised								
- In profit or loss	13,049	(1,927)	-	3,653	(89,195)	(116,222)	(959,348)	(1,149,990)
- Arising on business combinations	-	-	(1,404,490)	-	-	-	-	(1,404,490)
- In OCI	-	-	-	-	-	-	-	-
At 30 June 2022	**44,908**	**(17,310)**	**(1,404,490)**	**7,623**	**-**	**18,057**	**1,351,212**	**-**

8. Income Tax *(continued)*

Significant management judgement has been exercised to determine that future taxable profits for the Group are beyond a reliable forecast horizon and that no net deferred tax asset should be recognised.

An amount of deferred tax asset of $959,348 (net) (2021: $nil) has been derecognised in the current year. The unrecognised deferred tax asset is comprised of tax losses of $3,494,307 (2021: $nil).

The Group offsets assets and liabilities if, and only if, it has a legal enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

9. Notes supporting statement of cash flows

(i) Reconciliation of net operating cash flows to profit/loss

	2022 $	2021 $
Net loss for the year	**(8,636,052)**	**(4,417,960)**
Adjustments for non-cash and non-operating activity items:		
- *Add back*: Depreciation – Property, Plant & Equipment(3)	643,571	596,698
- *Add back*: Depreciation – RoU lease asset(3)	170,894	97,904
- *Deduct*: Deferred tax income	-	(1,756,275)
- *Add back:* Deferred tax expense	1,150,067	-
- *Deduct*: Gain on sale of Property, Plant & Equipment	(1,003)	-
- *Add back:* Loss on sale of Property, Plant & Equipment	-	4,396
- *Deduct*: Share-based payment credit	(139,373)	-
- *Add back:* Share-based payment expense	-	535,879
- *Deduct*: Cash settled portion of salary sacrifice	-	(66,587)
- *Add back*: Interest expense	40,822	31,558
- *Deduct*: Interest income	(138,145)	(47,560)
- *Add back*: Cost of goods given away under CAS	18,782	-
- *Deduct*: Costs capitalised into ROU assets	(793)	-
	1,744,822	**(603,987)**
Movements in working capital:		
- (Increase)/decrease in other receivables (1)	99,119	370,451
- (Increase)/decrease in prepayments	(55,994)	(28,529)
- (Increase)/decrease in inventories	(237,587)	-
- Increase/(decrease) in trade and other payables (2)	3,335	260,033
- Increase/(decrease) in contract liabilities	2,062	-
- Increase/(decrease) in employee benefit liabilities	225,873	64,457
- Increase/(decrease) in deferred grant income	9,500	(91,636)
	46,308	**574,776**
Net cash outflows from operating activities	**(6,844,922)**	**(4,447,171)**

(1) *Excludes accruals for interest income (investing activity)*

(2) *Excludes accruals for interest expense (financing activity), and payables related to property, plant & equipment (investing activity)*

(3) *Depreciation of $1,931 (2021: nil) and amortisation of $ 207 (2021: nil) related to building facilities and plant and equipment used to manufacture products is included in changes in inventories of finished goods and work in progress.*

9. Notes supporting statement of cash flows *(continued)*
(ii) Changes in the Group's liabilities arising from financing activities (cash and non-cash)

30 June 2022		NON-CASH	NON-CASH	CASH	CASH	CASH	
	Opening	New leases	Unpaid accrued lease payments	Payment of prior year accrued interest	Drawdown	Payment	Closing
	$	$	$	$	$	$	$
Borrowings	10,762	-	-	-	-	(10,762)	-
Lease liabilities	944,078	36,977	-	(3,769)	-	(153,284)	824,002
	954,840	**36,977**	**-**	**(3,769)**	**-**	**(164,046)**	**824,002**

30 June 2021		NON-CASH	NON-CASH	CASH	CASH	CASH	
	Opening	New leases	Unpaid accrued lease payments	Payment of prior year accrued interest	Drawdown	Payment	Closing
	$	$	$	$	$	$	$
Borrowings	88,931	-	-	-	-	(78,169)	10,762
Lease liabilities	259,863	774,846	(7,717)	-	-	(82,914)	944,078
	348,794	**774,846**	**(7,717)**	**-**	**-**	**(161,083)**	**954,840**

10. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit attributable to shareholders of the Group by the weighted average number of ordinary shares on issue during the year, excluding shares held as treasury stock.

Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the denominator.

In both years, the Group has not adjusted the weighted average number of shares used in diluted EPS to reflect the impact of outstanding share-options granted, because as the Group is loss-making, the impact of the outstanding share options granted is “anti-dilutive” (i.e. decreases the loss per share).

Numerator	**2022 $**	**2021 $**
(Loss) for the year and earnings (basic and diluted EPS)	(8,636,052)	(4,417,960)

Denominator	**2022 No. shares**	**2021 No. shares**
Weighted average number of shares (basic and diluted EPS)	144,166,088	127,393,230

11. Inventory

Inventories are recognised at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. All inventories are held at their net realisable value at reporting date.

Inventories are measured on a first-in-first-out basis to determine the cost of ordinarily interchangeable items.

	2022 $	**2021 $**
Raw Materials	166,028	-
Consumables	8,098	-
Work in progress	20,967	-
Finished Goods	23,712	-
Total	**218,805**	**-**

Amounts recognised in profit or loss

Inventories recognised as an expense during the year amounted to $39,727 (2021: nil). The Group reported write-downs of inventory to net realisable value of $88,916 (2021: nil) in the statement of profit or loss and other comprehensive income.

Consignment stock

The Group operates a Compassionate Access Scheme (‘CAS’) whereby quantities of finished goods are held with distributors, and then distributed free of charge to eligible end consumers under direction of the Group. Because the distributor does not control these finished goods, the Group recognises consignment stock for the quantity of finished goods subject to the CAS at reporting date. The cost of goods distributed under the CAS are recognised as a charitable expense (refer note 7) within the consolidated statement of profit or loss and other comprehensive income, when the consumer receives the goods.

12. Property, plant and equipment

Property, plant and equipment are stated at historical cost less any accumulated depreciation and impairment losses. Costs includes expenditure directly attributable to the acquisition of assets, and includes the cost of replacements that are eligible for capitalisation when these are incurred.

Where self-constructed items take a substantial period of time to construct for their intended use ("qualifying asset") borrowing costs are capitalised to the initial cost of item, with associated cash flows presented within interest expense paid in the consolidated statement of cash flows.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of property, plant and equipment constructed by the Group, including capital work in progress, includes the cost of all materials used in construction, associated direct labour and an appropriate proportion of variable and fixed overheads, and where applicable borrowing costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset based on estimates by management. Assets' estimated useful life is reassessed annually. The following estimated depreciation rates have been used:

- Buildings and fitout 2% to 50% (2021: 0% to 50%)
- Cultivation Containers 10% (2021: 10%)
- Office Equipment 13% to 67% (2021: 8% to 67%)
- Plant and Equipment 8% to 100% (2021: 8% to 100%)
- Vehicles 40% (2021: 20% to 40%)

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

12. Property, plant and equipment *(continued)*

Year ended 30 June 2022	Buildings and fitout $	Cultivation Containers $	Office Equipment $	Plant and equipment $	Vehicles $	Capital works $	Total $
Opening net book value	**4,399,586**	**129,202**	**124,993**	**1,273,642**	**61,297**	**185,890**	**6,174,610**
Additions	-	-	16,121	-	3,321	296,911	316,353
Acquired on business combination	-	-	524	-	-	-	524
Depreciation charge	(351,214)	(12,921)	(39,798)	(216,939)	(24,629)	-	(645,501)
Disposals	-	-	(2,702)	-	-	-	(2,702)
Transfers	98,596	-	13,639	361,365	-	(473,600)	-
Closing net book value	**4,146,968**	**116,281**	**112,777**	**1,418,068**	**39,989**	**9,201**	**5,843,284**
Cost	4,816,799	159,197	206,617	1,901,808	161,195	9,201	7,254,817
Accumulated depreciation	(669,831)	(42,916)	(93,840)	(483,740)	(121,206)	-	(1,411,533)
Net book amount	**4,146,968**	**116,281**	**112,777**	**1,418,068**	**39,989**	**9,201**	**5,843,284**

The assets under capital work-in-progress relate to the Group's plant and equipment. The cost of the plant and equipment will be depreciated once the assets are commissioned and available for use. There are no (additional) costs to completion to which the Group is contractually committed to.

12. Property, plant and equipment *(continued)*

Year ended 30 June 2021	Buildings and fitout $	Cultivation Containers $	Office Equipment $	Plant and equipment $	Vehicles $	Capital works $	Total $
Opening net book value	**2,103,929**	**160,781**	**79,227**	**920,254**	**77,116**	**2,317,053**	**5,658,360**
Additions	-	-	73,028	-	19,503	1,040,553	1,133,084
Depreciation charge	(303,192)	(14,356)	(33,216)	(213,317)	(32,617)	-	(596,698)
Disposals (net book value)	-	(17,223)	(208)	-	(2,705)	-	(20,136)
Transfers	2,598,849	-	6,162	566,705	-	(3,171,716)	-
Closing net book value	**4,399,586**	**129,202**	**124,993**	**1,273,642**	**61,297**	**185,890**	**6,174,610**
Cost	4,718,203	159,197	185,219	1,540,443	157,874	185,890	6,946,826
Accumulated depreciation	(318,617)	(29,995)	(60,226)	(266,801)	(96,577)	-	(772,216)
Net book amount	**4,399,586**	**129,202**	**124,993**	**1,273,642**	**61,297**	**185,890**	**6,174,610**

13. Goodwill and Business Combinations

The consolidated financial statements incorporate the results of business combinations using the acquisition method, as at the acquisition date.

Goodwill resulting from business combinations represents the excess between:

- The fair value of (i) the consideration paid, (ii) any previous held interest, and (iii) any remaining non-controlling interest, and
- The fair value of the net identifiable assets, and their associated acquisition date deferred tax balances.
- Acquisition-related costs are expensed as incurred.

On initial recognition, goodwill is allocated to the cash generating units ('CGU') that are expected to benefit from a business combination that gives rise to the goodwill (a CGU being the smallest group of assets for which there are separately identifiable cash flows).

Subsequently, a CGU to which goodwill has been allocated is tested for impairment on an annual basis, and at any other time where there is an indicator of impairment, by comparing the CGU's carrying amount to its recoverable amount.

Any impairment recognised against goodwill is not subsequently reversed in future periods where the recoverable amount of a CGU increases above its carrying amount.

(i) Business combinations during the year

Acquisition of Zalm Therapeutics Limited

(a) Summary of the acquisition

On 4 February 2022, the Company acquired 100% of the voting equity instruments of Zalm Therapeutics Limited ("Zalm").

Zalm is a New Zealand-based medicinal cannabis business with supply and distribution arrangements for Good Manufacturing Practice ("GMP")-grade cannabis products to New Zealand and global markets.

The acquisition provides the Company with significantly earlier access to cannabis derived medicines at scale, through Zalm's in-place supply agreement with one of Australia's leading listed medical cannabis companies (Cann Group Limited) who during the reporting period have finalised the commissioning of one of Australasia's largest and most technologically advanced indoor growing facilities.

Acquisition costs of $77,717 have been recognised as *general expenses* in *profit or loss*, and *operating cash outflows* in the consolidated *statement of cash flows*.

13. Goodwill and Business Combinations *(continued)*

(b) Purchase consideration

Details of the purchase consideration are as follows:

	$
Purchase consideration:	
Ordinary shares issued	$3,820,916
Contingent consideration payable - shares	$7,641,832
Contingent consideration payable – cash	-
Total purchase consideration	**$11,462,748**

(i) Ordinary shares issued

The fair value of the 8,140,000 ordinary shares issued as part of the consideration paid for Zalm ($3,820,916) was based on the volume-weighted average-price (VWAP) price on acquisition date, of $0.4694 share.

(ii) Contingent consideration payable - shares

The contingent consideration payable is made up of an additional 16,280,000 ordinary shares split into two equal tranches (8,140,000 ordinary shares each), that are contingent upon achieving two critical milestones ("Milestone 1", and "Milestone 2").

Achievement of Milestone 1 and Milestone 2 are not interdependent, such that both, one, or neither Milestone could ultimately be achieved.

As the conditions attached to Milestones result in potential contractual obligations to issue a variable number of ordinary shares, the contingent consideration is classified as a financial liability.

Milestone 1

The conditions attached to 8,140,000 Milestone 1 ordinary shares result in potentially, 100%, 75%, 50%, or 0% of the shares being issued ("Milestone 1 threshold") at 30 December 2022 (or earlier, if the conditions are met).

The potential undiscounted amount of future payments the Group could be required to make in respect of Milestone 1 ranges from $0 to $3,820,916 based upon the targets being met (or partially met) around technical documentation and quantity by Zalm's supplier, Cann Group.

The fair value of the Milestone 1 *contingent consideration payable* of $3,820,916 has been estimated by applying the probability weighted expected Milestone 1 threshold of 100% against the estimated ordinary share price of $0.4694 at the estimated expected Milestone 1 achievement date (December 2022).

Refer to (iv) below for further details on valuation inputs and relationships to determining the level 3 fair value of Milestone 1 contingent consideration payable.

13. Goodwill and Business Combinations *(continued)*

(ii) *Contingent consideration payable – shares (continued)*

Milestone 2

The conditions attached to 8,140,000 Milestone 2 ordinary shares result in potentially, 100%, 75%, 50%, 25%, or 0% of the shares being issued ("Milestone 2 threshold") at 31 March 2024 (or earlier, if the conditions are met).

The potential undiscounted amount of future payments the Group could be required to make in respect of Milestone 2 ranges from $0 to $3,820,916 based upon the targets being met (or partially met) around technical documentation, price and quatity by Zalm's supplier, Cann Group.

The fair value of the Milestone 2 *contingent consideration payable* of $3,820,916 has been estimated by applying the probability weighted expected Milestone 2 threshold of 100% against the estimated ordinary share price of $0.4694 at the estimated expected Milestone 2 achievement date (March 2024).

Refer to (iv) below for further details on valuation inputs and relationships to determining the level 3 fair value of Milestone 2 contingent consideration payable.

(iii) Contingent consideration payable - cash

An amount of $500,000 of Zalm's pre-acquisition cash is currently held in escrow by the Vendors' solicitors and will be released to Rua if, and only if, either Milestone 1 or Milestone 2 are met (including any and all accumulated interest). In all other circumstances, the amount is transferred to the Vendors (including any and all accumulated interest).

The $500,000 cash in escrow has not been recognised as part of the cash and cash equivalents balance acquired (refer **(c)** below).

The fair value of the *contingent consideration payable* of $0 has been estimated by applying the sum of the inverse of the probability weighted expectations of achieving Milestone 1 and Milestone 2 against the gross $500,000 cash amount potentially receivable as at the last Milestone achievement date (March 2024).

13. Goodwill and Business Combinations *(continued)*

(iv) Contingent consideration at reporting date

Level 3 fair values	Fair value $ Acquisition	Fair value $ Remeasurement gain / (loss)	Fair value $ 30 June 2022
Milestone 1	(3,820,916)	-	(3,820,916)
Milestone 2	(3,820,916)	-	(3,820,916)
Cash payable	-	-	-
Total	**(7,641,832)**	**-**	**(7,641,832)**

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for the contingent consideration payable in the Zalm acquisition:

Item	Unobservable inputs	Range of inputs Acquisition	30 Jun 2022	Relationship of unobservable inputs to fair value
Milestone 1	Probability of achievement	100%	100%	A decrease in the achievement probability of 25% would result in a fair value change of $955,229.
Milestone 2	Probability of achievement	100%	100%	A decrease in the achievement probability of 25% would result in a fair value change of $955,229.
Cash payable	Inverse of the higher of Milestone 1 and Milestone 2	0%	0%	As change in the inverse probability by +/- 25% results in a fair value change of $125,000.

(v) Net cash flow from acquisition

		$ 2022	$ 2021
Cash acquired at acquisition	13(c)	$876,452	-
Cash paid at acquisition	13(b)	-	-
Net cash inflow - investing activity		**$876,452**	**-**

13. Goodwill and Business Combinations *(continued)*

(c) Net identifiable assets acquired

Details of the assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $
Cash and cash equivalents	876,452
Non-trade receivables	524,026
GST receivable	14,649
Withholding tax receivable	77
Property, plant, and equipment.	524
Trade and other current payables	(12,607)
Intangible – Supplier contract (CANN)	5,016,035
NET IDENTIFIABLE ASSETS AND LIABILITIES	**6,419,156**
Deferred tax liability	(1,404,490)
Total net identifiable assets acquired	**5,014,666**

Valuation inputs and relationships to fair value

The identification and initial recognition and measurement of identifiable intangible assets acquired in a business combination requires the use of judgement and estimation. The Group uses valuation specialists in establishing an initial range of fair values based on estimates of various input parameters, to which judgement is then applied to select the most appropriate value within that range to be recognised in the Consolidated Statement of Financial Position.

The fair value of the Supplier Contract was determined using the comparative income differential method. This method involves comparing and assessing the difference in future earnings with or without the benefit of future access to or use of the intangible asset being valued. Key inputs are the expected sales volumes, preferential supplier pricing, alternative supplier pricing and the discount rate (which is based on the Group's weighted average cost of capital).

A 5% change in the inputs outlined above would have the following impact on the fair value, holding all other variables constant:

Key unobservable input	+5% movement	-5% movement
Expected sales volumes	250,802	(250,802)
Preferential supply price difference	250,802	(250,802)
Discount rate	(578,988)	687,717

13. Goodwill and Business Combinations *(continued)*

(d) Goodwill recognised

Goodwill from the acquisition of Zalm has been determined as follows:

		Fair value $
Purchase consideration	**13(b)**	11,462,748
Plus: Previous interest		-
Plus: Remain non-controlling interest		-
Less: Net identifiable assets acquired	**13(c)**	(5,014,666)
Goodwill recognised		**6,448,082**

Goodwill represents and is attributable to the workforce acquired and the expected future profitability that the acquisition will bring to the Company's overall operations.

Goodwill is not deductible for tax purposes.

(e) Revenue and profit contribution

The impact of the acquisition of Zalm Therapeutics Limited on the results of the Group for the period ended 30 June 2022 are not considered material and are therefore not disclosed in the consolidated financial statements.

13. Goodwill and Business Combinations *(continued)*

(iii) Impairment testing of goodwill

Goodwill is monitored at a company level, of a single cash-generating-unit (CGU).

The recoverable amount of the CGU has been determined based on *fair value less costs of disposal*, being the price that would be received between market participants at the measurement date, less any directly incremental transaction costs and costs to bring the CGU to a saleable condition.

The recoverable value is based on an estimate of market value at the reporting date based on the quoted share price of $0.33 per share. The share issue price at reporting date is based on the quoted price on the NZX listed exchange and represents a “level 1” fair value measurement per the *fair value hierarchy*.

In 2021, determination of the recoverable value of the Group (being the CGU) was based on an estimate of market value at the reporting date based on the quoted share price of $0.41 per share. The share issue price at reporting date is based on the quoted price on the NZX listed exchange and represents a “level 1” fair value measurement per the *fair value hierarchy*.

In determining the recoverable value of the CGU, the Group has headroom of $25,262,067 (2021: 28,689,821) over the carrying value. No impairment of goodwill has been recognised as at 30 June 2022 (2021: nil).

14. Intangible assets

Intangible assets are recognised on business combinations if they are separate from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using the appropriate valuation techniques (refer to note 13).

The significant intangibles recognised by the Group, their useful lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	**Useful economic life**	**Valuation method**
Supplier contracts	Finite – based on units of production (refer below)	Estimated discounted cash flow (comparative income differential method)

Supplier contracts are amortised on a units-of-supply basis, being the actual volume of units purchased for production relative to the expected volumes purchased over the life of the contract.

	Goodwill $	**Supplier Contracts $**	**Total $**
(i) Cost			
At 1 July 2021	**4,000,000**	**-**	**4,000,000**
Acquired through business combinations	6,448,082	5,016,035	**11,464,117**
At 30 June 2022	**10,448,082**	**5,016,035**	**15,464,117**
At 1 July 2020	4,000,000	-	4,000,000
At 30 June 2021	4,000,000	-	4,000,000
(ii) Accumulated amortisation and impairment			
At 1 July 2021	-	-	**-**
Amortisation charge	-	-	**-**
At 30 June 2022	**-**	**-**	**-**
At 1 July 2020	-	-	-
Amortisation charge	-	-	-
At 30 June 2021	-	-	-
(iii) Net book value			
At 1 July 2020	4,000,000	-	4,000,000
At 30 June 2021	4,000,000	-	4,000,000
At 30 June 2022	**10,448,082**	**5,016,035**	**15,464,117**

15. Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Initial measurement

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate, however in such cases the initial present value determination assumes that the variable element will remain unchanged throughout the lease term.

Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically make-good provisions on buildings)

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Right-of-use assets are also subject to impairment assessment at reporting date.

Remeasurement

When the Group revises its determination of the use (or non-use) of renewal and/or termination options, the carrying amount of the lease liability is adjusted to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, however this is discounted at the original discount rate.

In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being depreciated over the remaining (revised) lease term.

The Group did not receive (nor is it expected to receive) any COVID-19 related lease payment reductions during the year.

15. Leases *(continued)*

As discussed in Note 1, the Group has elected to apply the practical expedient introduced by the amendments to IFRS 16 to all rent concessions that satisfy the criteria.

The application of the practical expedient results in a reduction of the lease liabilities with reduction being recorded in profit or loss in the period in which the event or condition that triggers those payments occurred.

(i) Lease related balances as at period end, and amounts for the period

Expenses and income in the period	**2022 $**	**2021 $**
Depreciation		
- Leases of property (land and buildings)	114,247	68,722
- Vehicles	32,383	29,182
- Plant	24,472	
Interest expense	44,535	21,859
Balance sheet and cash flow statements		
Carrying amount of Right-of-use asset		
- Leases of property (land and buildings)	738,908	853,155
- Vehicles	44,362	76,742
- Plant	13,502	-
Additions to Right-of-use assets	37,977	774,846
Total cash outflow related to leases	209,304	101,010

(ii) Information regarding the Group's leases and leasing activity

The Group leases a number of properties including land, buildings, including commercial office premises, in the jurisdiction from which it operates.

As standard industry practice, several of the Group's property leases are subject to periodic CPI increases and/or market rent reviews. A 1% increase in these payments would result in an additional $907 cash outflow (2021: $907) compared to the current period's cash outflow.

The Group's property leases typically include renewal and termination options. The Group must assess whether it reasonably expects (or not) to exercise these when determining the lease term.

The Group has two property leases (2021: two property leases) where the Group has assessed it is does not reasonably expect to exercise all available renewal options, resulting in a potential lease term in the range of 10 - 20 years (2021: 10 - 20 years) and potential future lease payments of between $109,020 - $689,160 (2021: $109,020 - $689,160) that are not currently included in measurement of the lease liability recognised for these leases.

16. Other receivables

	Note	2022 $	2021 $
Financial assets classified as amortised cost - current			
Cash consideration held in Escrow	13	500,000	-
Financial assets classified as amortised cost - non-current			
Non-trade receivables		75,000	75,000
Financial assets classified as amortised cost - total	4	**575,000**	**75,000**
GST receivable		89,210	85,861
Other receivables		2,008	-
Withholding tax receivable		26,524	1,683
Government grants receivable			
- Research and development tax credit		398,408	508,581
- Other		54,173	9,802
Other receivables		**570,323**	**605,927**
Total other receivables		**1,145,323**	**680,927**

17. Trade and other payables

	Note	2022 $	2021 $
Trade payables		317,427	453,388
Other payables		120,951	56,779
Financial liabilities classified as amortised cost	4	**438,378**	**510,167**

18. Employee benefit liabilities

Short-term employee benefit liabilities represent those that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service.

For defined contribution plans (Kiwisaver), the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

	2022 $	2021 $
Short term employee benefits payable		
- Wages and salaries	287,768	99,837
- Accrual for annual and sick leave	168,419	130,475
	456,187	**230,312**
Defined contribution plan payable	3,548	3,550
Total employee benefit liabilities	**459,735**	**233,862**

19. Share Capital

The Group's ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects, including costs related to shares still to be issued.

	2022 Number	2021 Number
Opening shares	140,262,591	17,003,096
Effect of share split*	-	83,009,129
Shares issued**	9,616,676	40,250,366
Total share capital	**149,879,267**	**140,262,591**

***** *On 15 September 2020, the Company completed a 5.882:1 share split.*

****** *On 22 October 2020, the Company issued 40,000,000 shares by way of listing on the NZX. They also issued a further 250,366 shares through the vesting of the ESOP issue 3. During the year ended 30 June 2022:*

- *1,476,676 vested share options were exercised into ordinary shares.*
- *8,140,000 ordinary shares were issued as part of the consideration paid for the acquisition of Zalm Therapeutics Limited (see note 13).*

At 30 June 2022, share capital comprised 149,879,267 authorised and issued ordinary shares (2021: 140,262,591). All issued shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group, and rank equally with regard to the Group's residual assets. Dividends are unlikely to be declared whilst the Group is in the growth phase.

20. Related party transactions

(i) Company information

The Group has no ultimate parent entity. There are no individual shareholders holding more than 20% of the ordinary shares of the Group at reporting date.

(ii) Transactions and balances with related parties

During the year the Group entered into the below transactions with entities related to key management personnel.

	Nature of transactions	Transaction amount	Amounts receivable (payable)
		$	$
30 June 2022			
Alvarium Investments (NZ) Limited	Purchases	6,900	-
EECOMS Ltd	Purchases	314	-
Mitchel Family Trust	Purchases	4,752	-
30 June 2021			
Alvarium Investments (NZ) Limited	Purchases	1,492	-
EECOMS Ltd	Purchases	22,778	-
Hikurangi Enterprises Limited	Purchases	27,000	27,000
Mitchel Family Trust	Purchases	6,735	1,250

(iii) Key management personnel compensation

Compensation of key management personnel (being those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors) was as follows:

	2022 $	2021 $
Directors fees	270,000	248,700
Short-term employee benefits	1,425,080	961,677
Defined contribution plan payments	36,931	23,747
Share-based payment expense	138,641	500,128
Total key management personnel compensation	**1,870,652**	**1,734,252**

21. Contingent liabilities

There were no contingent liabilities at balance date that would affect the consolidated financial statements.

22. Biological assets

The Group currently still undertakes significant research and development activities and as such the plants and produce currently resulting from these operations are not being developed for sale, or for transformation into agricultural produce or additional biological assets. Under the Group's licensing requirements, plants must be destroyed and therefore hold no value at balance date. The plants are destroyed by way of being composted and as they are not able to be traded, they have no value from a product manufacturing perspective.

Accordingly, related costs are recognised in profit or loss rather than in the recognition of a biological asset in accordance with NZ IAS 41 *Agriculture*, until such time as the Group moves past the research and development phase. The agricultural assets will be recognised at fair value once the regulations allow commercial production and they are used for commercial production.

23. Share-based payments

(a) Accounting policy

Equity-settled share-based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees and directors is recognised as an expense, with a corresponding increase in equity (share-based payment reserve), over the vesting period of the awards.

The share-based payment cost recognised is generally determined by multiplying a value component to a number component. The value component reflects the possibility of not meeting market performance conditions. No adjustments are made for the likelihood of not meeting any service and/or non-market performance conditions. The number component reflects the number of equity instruments for which the service and any non-market performance conditions are expected to be satisfied.

Cash-settled share-based payments

Cash-settled share-based payments are measured at fair value and presented as a liability, with a corresponding amount recognised as an expense.

23. Share-based payments *(continued)*

(b) Key features and balances of ESOPs

The Group grants options to certain employees under a number of employee share option schemes (*Issues #1* and *#2*).

– ESOP Issue #1 was subject to the following conditions:

Tranche *[Vesting period]*	**Vesting conditions**
Tranche 3A *[25 months]*	Non-market performance conditions relating to the Company receiving NZ Medsafe “Good Manufacturing Practice” (GMP) within a prescribed time frame.
Tranche 3B *[25 months]*	Non-market performance conditions relating to the Company completing its first commercial harvest in relation to sales agreement with a specified customer within a prescribed timeframe.
Tranche 3C *[25 months]*	Non-market performance conditions relating to the Company achieving EU GMP certification within a prescribed timeframe.
Tranche 3D *[25 months]*	Non-market performance conditions relating to the Company achieving sales into the German market within a prescribed timeframe.
Tranche 4A *[25 months]*	Non-market performance conditions relating to the establishment of a board-approved grower partner and collaboration agreement with a specified target party.
Tranche 4B *[25 months]*	Non-market performance conditions relating to establishment of a commercialisation plan between the company and a specified target entity.
Tranche 4C *[25 months]*	Non-market performance conditions relating to the company achieving various medicinal cannabis licences and authorities.
Tranche 4D *[25 months]*	Non-market performance conditions relating to board-approved cash-flow and funding plans being confirmed.
Tranche 4E *[25 months]*	Service condition.

In addition, the Group has elected to pay the PAYE tax associated with the share options granted, in addition to the share options (i.e. no net settlement feature). Accordingly, this feature of ESOP Issue #1 is accounted for as a cash-settled share based payment.

At reporting date, ESOP Issue #1 has fully vested and the associated number of options were awarded to eligible employees based on the service conditions satisfied at the vesting date. All vested options have been exercised. The weighted average share price on the exercise date was $0.40;

23. Share-based payments *(continued)*

(b) Key features and balances of ESOPs *(continued)*

– ESOP Issue #2 was subject to the following conditions:

Tranche *[Vesting period]*	**Vesting conditions**
Tranche 3A *[30 months]*	Non-market performance conditions relating to the Company receiving NZ Medsafe “Good Manufacturing Practice” (GMP) within a prescribed time frame.
Tranche 3B *[30 months]*	Non-market performance conditions relating to the Company completing its first commercial harvest in relation to sales agreement with a specified customer within a prescribed timeframe.
Tranche 3C *[30 months]*	Non-market performance conditions relating to the Company achieving EU GMP certification within a prescribed timeframe.
Tranche 3D *[30 months]*	Non-market performance conditions relating to the Company achieving sales into the German market within a prescribed timeframe.
Tranche 4 *[30 months]*	To be confirmed for each party prior to 1 October 2021.
Tranche 5A *[30 months]*	Non-market performance conditions relating to the establishment of a board-approved grower partner and collaboration agreement with a specified target party.
Tranche 5B *[30 months]*	Non-market performance conditions relating to establishment of a commercialisation plan between the company and a specified target entity.
Tranche 5C *[30 months]*	Non-market performance conditions relating to the company achieving various medicinal cannabis licences and authorities.
Tranche 5D *[30 months]*	Non-market performance conditions relating to board-approved cash-flow and funding plans being confirmed.
Tranche 5E *[30 months]*	Service condition.

In addition, the Group has elected to pay the PAYE tax associated with the share options granted, in addition to the share options (i.e. no net settlement feature). Accordingly, this feature of ESOP Issue #2 is accounted for as a cash-settled share based payment.

At reporting date, ESOP Issue #2 was modified such that portions of the share options either (i) vested immediately or (ii) were forfeit immediately. As a result of this modification, any associated cash-settled share-based payment liability was also (i) settled or (ii) extinguished. All vested options have been exercised. The weighted average share price on the exercise date was $0.40 ;

– ESOP Issue #3 was subject to the following conditions:

Tranche *[Vesting period]*	**Vesting conditions**
Tranche 1 *[6 months]*	Service condition of remaining employment.

At reporting date, ESOP Issue #3 has fully vested and the associated number of options were awarded to eligible employees based on the service conditions satisfied at the vesting date. The weighted average share price on the exercise date was $0.54; and

23. Share-based payments *(continued)*

(b) Key features and balances of ESOPs *(continued)*

- During the current period, the Company issued an employee share option plan (ESOP) in the form of equity-settled share options to senior management, and selected employees ("Issue #4").

  All tranches of Issue #4:

  - Are subject to a general service vesting condition (i.e. if the party terminates their employment with the company, the share options are forfeited);
  - Are subject to a market condition based on the VWAP for the 10-trading-day prior to vesting date;
  - Grant a variable number of options subject to the market conditions met at the vesting date;
  - Have a $nil exercise price; and
  - Are subject to the following exercise dates:
    - One third can be exercised one month after vesting
    - One third can be exercised one year after vesting
    - One third can be exercised two years after vesting

(i) Number of share options

	Issue #1 No.	Issue #2 No.	Issue #3 No.	Issue #4 No.	Total No.
At 1 July 2020	**357,000**	**70,250**	**42,564**	**-**	**469,814**
- Options issued	1,742,874	342,961	207,802	-	**2,293,637**
- Options vested	-	-	(250,366)	-	**(250,366)**
- Options forfeited	(102,935)	(111,758)	-	-	**(214,693)**
At 30 June 2021	**1,996,939**	**301,453**	**-**	**-**	**2,298,392**
At 1 July 2021	**1,996,939**	**301,453**	**-**	**-**	**2,298,392**
- Options issued	-	-	-	2,478,400	**2,478,400**
- Options vested	(1,298,746)	(177,930)	-	-	**(1,476,676)**
- Options forfeited	(698,193)	(123,523)	-	(161,200)	**(982,916)**
At 30 June 2022	-	-	-	**2,317,200**	**2,317,200**

23. Share-based payments *(continued)*

(b) Key features and balances of ESOPs *(continued)*

(ii) Vested share options balances outstanding

	Issue #1 No.	Issue #2 No.	Issue #3 No.	Issue #4 No.	Total No.
At 1 July 2020	-	-	-	-	-
- New options vested	-	-	250,366	-	**250,366**
- Options exercised	-	-	(250,366)	-	**(250,366)**
At 30 June 2021	-	-	-	-	-
At 1 July 2021	-	-	-	-	-
- New options vested	1,298,746	177,931	-	-	**1,476,677**
- Options exercised	(1,298,746)	(177,931)	-	-	**(1,476,677)**
At 30 June 2022	-	-	-	-	-

23. Share-based payments *(continued)*

(c) Specific ESOP details

Measurement information

The following information is relevant in the determination of the fair value of share options granted:

	Equity Settled		Cash-settled	
ESOP Issue #1: Tranche 3A - 3D, and 4A - 4E	**2022**	**2021**	**2022**	**2021**
Option pricing model used	n/a	**Black-Scholes**	n/a	**Black-Scholes**
Weighted average share price				
➢ Tranche 4A - 4E	n/a	$0.30	n/a	0.41
➢ Tranche 3A - 3D	n/a	$0.50	n/a	0.41
Exercise price	n/a	$nil	n/a	$nil
Weighted average contractual life (in days)				
➢ Tranche 4A - 4E	***n/a***	***93***	***n/a***	***184***
➢ Tranche 3A - 3D	***n/a***	***184***	***n/a***	***184***
Volatility				
➢ Tranche 4A - 4E	**n/a**	**96%**	**n/a**	**78%**
➢ Tranche 3A - 3D	**n/a**	**80%**	**n/a**	**78%**

	Equity-settled		Cash-settled	
ESOP Issue #2: Tranche 3A - 3D, 4, and 5A - 5E	**2022**	**2021**	**2022**	**2021**
Option pricing model used	n/a	**Black-Scholes**	n/a	**Black-Scholes**
Weighted average share price				
➢ Tranche 3A - 3D	n/a	$0.50	n/a	$0.41
➢ Tranche 4	n/a	$0.41	n/a	$0.41
➢ Tranche 5A - 5E	n/a	$0.36	n/a	$0.41
Exercise price	n/a	$nil	n/a	$nil
Weighted average contractual life (in days)				
➢ Tranche 3A - 3D	***n/a***	***645***	***n/a***	***549***
➢ Tranche 4 *(from reporting date - no confirmed conditions)*	***n/a***	***645***	***n/a***	***645***
➢ Tranche 5A - 5E	***n/a***	***549***	***n/a***	***549***
Volatility				
➢ Tranche 3A - 3D	n/a	76%	n/a	**78%**
➢ Tranche 4	n/a	78%	n/a	**78%**
➢ Tranche 5A - 5E	n/a	80%	n/a	**78%**

23. Share-based payments *(continued)*

(c) Specific ESOP details *(continued)*

ESOP Issue #4	Equity Settled 2022	2021
Option pricing model used	**Monte-Carlo**	**n/a**
Weighted average share price	**$0.23**	n/a
Exercise price	$nil	n/a
Weighted average contractual life (in days)	***731***	n/a
Volatility	**85%**	n/a

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last 3 years and 6 months of stock movements at the date of issue, matching the time to expiry on the options.

24. Events after the reporting date

There were no events subsequent to reporting date that would materially affect the financial statements.

25. Subsidiaries

The principal subsidiary of Rua Bioscience Limited, which has been included in these consolidated financial statements, is as follows:

Name	**Country of incorporation and principal place of business**	**Proportion of ownership interest at 30 June**		**Non-Controlling interests ownership/voting interest at 30 June**	
		2022	**2021**	**2022**	**2021**
Zalm Therapeutics Limited	New Zealand	100%	-	-	-

26. Net tangible assets

Net tangible assets per share is a non-GAAP measure that is required to be disclosed by the NZX Listing Rules. The calculation of the Group's net tangible assets per share and its reconciliation to the consolidated balance sheet is presented below:

	2022	**2021**
	$	**$**
Total assets	33,573,600	30,851,469
(less): Intangible assets	(15,464,117)	(4,000,000)
(less): total liabilities	(9,375,508)	(2,017,423)
Net tangible assets	**8,733,975**	**24,834,046**
Number of shares issued at balance date	149,879,267	140,262,591
Net tangible assets per share	**0.06**	**0.18**