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Rua Bioscience Limited

Consolidated Financial Statements
For the year ended
30 June 2023

Rua Bioscience Limited

Contents

Company Directory
For the year ended 30 June 2023

Country of incorporation of company:	New Zealand
Company Number:	6484092
Legal form:	NZ Limited Company
Principal activities:	Pharmaceutical Distribution
Registered office:	1 Commerce Place Awapuni Gisborne
Directors:	Anna STOVE - Chair Panapa EHAU Teresa FARAC-CIPRIAN (appointed 1 August 2022) Tony BARCLAY (appointed 1 May 2023)
Directors who retired during the last 12 months:	Trevor BURT (retired 1 May 2023) Brett GAMBLE (retired 30 June 2023) Martin SMITH (retired 12 October 2022)
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 subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2023, 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 2023;
- 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.

Other than in our capacity as auditor we have no relationship with, or interests in, 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
Business restructure As described in Note 2(f) of the financial statements, the Group has gone through a significant restructure during the period, including changing its business operating model and ceasing manufacturing. This has resulted in: - a change to focus on key export markets, primarily Europe and Australia; - a reduction of headcount to resize the workforce with the closure of the manufacturing facility; and - plant and equipment related to the manufacturing process being written down by $0.84m (Note 12). The change in focus has resulted in a re-forecast of future sales and related key assumptions. This is particularly challenging to forecast, requiring judgement, as the Group are in the early stages of market entry. As at 30 June 2023 a number of assets related to the manufacturing process have been written down to their recoverable value. Post year end they are being considered for potential sale. Given the specialised nature of the property, plant and equipment, when applying their judgements and assumptions to determine the recoverable value, and the impairment amount, management's estimation for certain assets has been made in the absence of comparable external sales data. This increases the associated estimation uncertainty risk. Due to the level of audit effort, particularly in relation to assessing future sales growth, the estimation and judgement involved with impairing assets to their recoverable amount, and potential for asset sales, the business restructure is recognised as a Key Audit Matter within our Audit Report.	In considering the appropriateness of impacts of the business restructure on the financial statements, we have: ● Met with management and discussed sales strategies and status in key export markets with reference back to sales contracts and agreements; ● Assessed management's forecast sales for 2024 and performed down side sensitivity analysis; ● Tested restructure related expenditure; ● Assessed management's consideration of the sale of assets, particularly given their specialised nature; ● Obtained management's assessment of the recoverable value for plant and equipment, with reference to available information, and considered the impairment applied; ● Considered the judgements and assumptions used by management when impairing assets, and applied sensitivities to the estimates that were arrived at in the absence of external sales data; ● Considered management's assessment that the plant and equipment related to manufacturing did not meet the recognition requirements for disclosure as held for sale assets at year end; and ● Considered the adequacy of the related disclosures in the financial statements against the requirements of NZ IFRS.

Description of the key audit matter	How our audit addressed the key audit matter
Impairment of Intangible Assets - supply contract As described in Note 14, as part of the Zalm Therapeutic Limited acquisition made in 2022, a supply contract intangible (to supply both flower and oils) was recognised in the purchase price allocation. The contract as at 30 June 2022 was valued at $5.02m. Forecasting product demand can be inherently difficult when entering new markets, particularly where the products are new and/or being developed. During the 2023 financial year, management assessed market opportunities as part of their updated sales strategy, and noted that the demand for oils is not yet at the levels they were previously forecasting when valuing the intangible asset in the prior year. In addition, management has noted the supply price they are paying is no longer expected to reduce as anticipated in the sale and purchase agreement. Both of these matters were factors which management considered when undertaking an impairment assessment in respect of the intangible asset, which has resulted in an impairment of $4.73m. This has reduced the balance at 30 June 2023 to $0.29m. Given the level of audit effort and judgement involved, this matter is recognised as a Key Audit Matter within our Audit Report.	Our audit procedures have focused on the key judgements included in the impairment assessment. To audit the intangible asset impairment, we have: ● Assessed the inputs into the valuation model including: ○ Meeting with management to discuss changes from the prior year, demand for products, and plans for future sales and cost of sales; ○ Challenging management's assumptions in relation to the changes to the valuation model based on available data; ○ Assessing the reduction in volumes from the prior year with reference to the change in business model, and the actual and forecast sales; ○ Agreeing the quantities to supporting information; and ○ Agreeing cost of sales to supporting documentation, including the original valuation. ● Understood management's impairment assessment, challenged the assumptions, and re-performed calculations within, and adjustments to, the valuation model to ensure mathematical accuracy; ● Reviewed the supply agreement and sale and purchase agreement with regards to the requirements for the reduction in the supply price of the inventory; and ● Assessed management's revised sales models.

Our audit approach

Overview

Overall group materiality: $68,600, which represents 1% of Total Expenses excluding one off impairments.

We chose Total Expenses excluding one off impairments as the benchmark because, in our view, it is the benchmark against which the performance of the

	Group is most commonly measured by users, and is a generally accepted benchmark. We have excluded the impairment of intangible assets and property, plant and equipment as one off adjustments that are not expected to occur on a regular basis.
	Following our assessment of the risk of material misstatement, full scope audits were performed for all entities in the Group.
	As reported above, we have two key audit matters, being: ● Business restructure ● Impairment of Intangible Assets - supply contract

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

28 August 2023

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Rua Bioscience Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2023

	Note	2023 $	2022 $
Revenue from contracts with customers	5	357,675	24,226
Other income	6	323,905	621,872
Fair value gains	13	5,851,032	-
Total revenue and other income		**6,532,612**	**646,098**
Changes in inventories of finished goods and work in progress	7	(339,551)	(128,643)
Research and development costs	7	(1,587,704)	(2,977,522)
Other expenses	7	(10,746,913)	(5,123,241)
Total expenses before operating loss		(12,674,168)	(8,229,406)
Operating loss before net financing income		**(6,141,556)**	**(7,583,308)**
Interest income		202,129	138,145
Interest expense		-	(70)
Interest expense - leases		(19,079)	(40,752)
Net finance income		183,050	97,323
Loss before tax		**(5,958,506)**	**(7,485,985)**
Income tax expense	8	(774)	(1,150,067)
Loss after tax		**(5,959,280)**	**(8,636,052)**
Other comprehensive income:			
Items that will or may be reclassified to profit or loss:			
Exchange gains arising on translation of foreign operations		38	-
Other comprehensive income for the year, net of tax		**38**	**-**
Total comprehensive loss for the year attributable to shareholders		**(5,959,242)**	**(8,636,052)**
Earnings per share attributable to the ordinary equity holders of the Company			
Loss from operations			
Basic ($)	10	(0.04)	(0.06)
Diluted ($)	10	(0.04)	(0.06)

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 2023

	Note	Share capital $	Foreign currency translation reserve	Share option reserve $	Accumulated losses $	Total equity $
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**
Opening balance at 1 July 2022		**41,891,677**	**-**	**141,686**	**(17,835,272)**	**24,198,091**
Total comprehensive loss for the year						
- Loss for the year		-	-	-	(5,959,280)	**(5,959,280)**
- Other comprehensive income		-	38	-	-	**38**
Total comprehensive loss for the year		**-**	**38**	**-**	**(5,959,280)**	**(5,959,242)**
Transactions with owners						
- Issue of share capital	13, 19	1,790,800	-	-	-	1,790,800
- Employee share options expense	23	-	-	90,616	-	90,616
- Share options vested and exercised	23	20,240	-	(20,240)	-	-
Total transactions with owners		**1,811,040**	**-**	**70,376**	**-**	**1,881,416**
Balance at 30 June 2023		**43,702,717**	**38**	**212,062**	**(23,794,552)**	**20,120,265**

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

Rua Bioscience Limited
Consolidated Statement of Financial Position
As at 30 June 2023

	Note	2023 $	2022 $
Current assets			
Cash and cash equivalents	4	2,529,338	1,897,285
Trade and other receivables	16	862,991	1,070,323
Prepayments		163,361	166,521
Investments	4	2,032,055	8,041,493
Inventory	11	14,319	218,805
Total current assets		**5,602,064**	**11,394,427**
Non-current assets			
Property, plant and equipment	12	4,438,681	5,843,284
Goodwill	13,14	10,448,082	10,448,082
Intangible assets	14	286,168	5,016,035
Right-of-use lease assets	15	100,577	796,772
Other receivables	16	75,000	75,000
Total non-current assets		**15,348,508**	**22,179,173**
Total assets		**20,950,572**	**33,573,600**
Current liabilities			
Trade and other payables	17	522,544	438,378
Contract liabilities	5	-	2,062
Employee benefit liabilities	18	180,083	459,735
Lease liabilities	4,15	46,722	128,544
Deferred grant income		13,103	9,500
Contingent consideration payable	13	-	3,820,916
Total current liabilities		**762,452**	**4,859,135**
Non-current liabilities			
Contingent consideration payable	13	-	3,820,916
Lease liabilities	4,15	67,855	695,458
Total non-current liabilities		**67,855**	**4,516,374**
Total liabilities		**830,307**	**9,375,509**
Net assets		**20,120,265**	**24,198,091**
Equity			
Share capital	19	43,702,717	41,891,677
Accumulated losses		(23,794,552)	(17,835,272)
Foreign currency translation reserve		38	-
Share option reserve		212,062	141,686
Total equity		**20,120,265**	**24,198,091**

The consolidated financial statements on pages 9 to 57 were approved and authorised for issue by the Board of Directors on 28 August 2023 and were signed on its behalf by:

Ana Stove ____________________ (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 2023

	Note	2023 $	2022 $
Cash flows from operating activities			
Receipts from customers		278,085	24,280
Grant income received		104,378	696,171
Payments to suppliers and employees		(6,302,684)	(7,565,373)
Net cash inflows/(outflows) from operating activities	9	**(5,920,221)**	**(6,844,922)**
Cash flows from Investing activities			
Interest income		211,567	113,360
Proceeds from sale of plant and equipment		34,854	1,656
Proceeds from maturing investments	4	13,000,000	29,070,711
Cash acquired in acquisition of subsidiary (net of cash paid)		-	876,452
Proceeds from contingent consideration receivable	13	500,000	-
Investment deposits made		(7,000,000)	(24,070,711)
Purchase of property, plant and equipment		(73,772)	(400,103)
Net cash inflows/(outflows) from investing activities		**6,672,649**	**5,591,365**
Cash flows from financing activities			
Repayment of borrowings		-	(10,762)
Principal elements of lease payments		(101,296)	(153,284)
Interest paid		(19,079)	(44,591)
Net cash inflows/(outflows) from financing activities		**(120,375)**	**(208,637)**
Net increase/(decrease) in cash and cash equivalents		**632,053**	**(1,462,194)**
Cash and cash equivalents at beginning of year		1,897,285	3,359,479
Cash and cash equivalents at end of year	4	**2,529,338**	**1,897,285**

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 subsidiaries (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.

The Company is principally engaged in the business of research and development, and pharmaceutical distribution and marketing.

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 26. 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 items detailed in note 2(h).

2. Basis of preparation *(continued)*

(d) New standards, interpretations and amendments

(i) New standards mandatorily effective during the period

New standards that have become mandatorily effective in the annual consolidated financial statements for the year ended 30 June 2023, none of which have had a significant effect on the Group are:

- *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);
- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to NZ IAS 37); and
- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current* (Deferral of Effective Date).

(ii) 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 2023:

- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current* (effective 1 January 2023);
- *Amendments to FRS 44 – Disclosure of Fees for Audit Firms' Services*
- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction - Amendments to NZ IAS 12 Income Taxes (*effective 1 January 2023)*;*
- *NZ CS 1 Climate-related Disclosures*
- *NZ CS 2 Adoption of Aotearoa New Zealand Climate Standards*
- *NZ CS 3 General Requirements for Climate-related Disclosures*

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

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 in the current period include:

Judgements

- Recognition (or not) of deferred tax assets related to carried forward tax losses (note 8).
- Classification of contingent consideration (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, note 7 and note 16).
- Determination of non-current assets held for sale and discontinued operations (note 2(l)).
- Recognition (or not) of renewal options in determining lease liabilities (note 15).
- Preparation of the financial statements on a going concern basis (note 2(g)).

Estimates

- Estimation of contingent consideration (note 13).
- Assessment of impairment for non-financial assets (note 12 and note 14).

The Group has performed an initial assessment of potential climate related risks and considered the location of facilities and other key operations in the region it operates in and concluded that there is no material impact on the current consolidated financial statements.

2. Basis of preparation (continued)

(f) Restructure

During the current reporting period, the Group made significant restructuring decisions whereby it decided to cease local GMP manufacturing and accelerate its global business strategy through the development of an international product pipeline built on the Group's existing and developing partnerships, and its ongoing research activities which are focussed on continuing to develop its unique sustainable and protected IP around cultivars and cultivation techniques.

The decision to move towards an export strategy is driven by higher growth potential in European and Australian markets which also allows the Group to shift to capital-efficient operation in the immediate term.

As a result of the restructure, the Group has firstly redeployed, where possible, its plant and machinery assets from its previous manufacturing operation in Gisborne to its ongoing cultivation, research and development operations in Ruatorea. The Board has also identified significant items of property, plant and equipment which are still being assessed for potential sale in future periods to free up further operating cash flows. The restructure has also resulted in changes to previous estimates and judgements associated with the Group's cash flows which is reflected in the Group's assessment for impairment with respect to certain non-financial assets (see note 12 and 14).

(g) 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 $5,959,242 for the year ended 30 June 2023.

In the past year the Group has refocused its strategy and made the difficult decision to stop manufacturing GMP medicine in Te Tairawhiti (see note 2(f)). The board and management believe this decision is in the best interests of its shareholders long term.

The Group can now focus efforts on generating sales and attracting higher margins in a capital light and more efficient manner. Utilising key cultivation partners for manufacture of Rua products in jurisdictions where the product will be sold reduces regulatory difficulties and saves significant amounts of time and resource on shipping. The manufacturing partners the Group is working with have significant scale and can provide products at a low cost compared to products manufactured in New Zealand, ultimately resulting in better margins for the Group.

The Group's capital raise in October 2020 has provided a sufficient runway for the Group to continue operating as a going concern while it focuses on global sales opportunities and continues the development of its genetic discovery program and product development innovations.

The purchase of Zalm Therapeutics Limited in February 2022 created a significant opportunity for the Group in terms of expansion of its product portfolio and the opportunity for scalable supply and revenue generation capability.

The Group's focus on commercialisation of cannabinoid medicines in multiple countries around the world will generate income and begin to fund the operations of the company to the point where the Group is financially sustainable and begins to generate profits.

2. Basis of preparation (continued)

(g) Going Concern (continued)

Over the six-month period to June 2023, the Group has progressed its commercial activities significantly and has launched product in Germany and has recently received licenses to distribute product in the Australian market. Establishing these pipelines in key target markets takes significant amounts of time and resources. The Group continues to progress its research and development with the goal of commercialising this intellectual property to offer new and exciting cannabis varieties around the world.

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 its liabilities as they fall due. There are risks related to future assumptions being made, particularly around the timeframes related to obtaining regulatory approvals for products, sales volumes and the sales price of these products. The Group also has a number of fixed assets from its previous GMP manufacturing activities that will likely be on-sold in future periods and the values associated with these assets is yet to be fully realised. The Group is monitoring and managing these risks.

Taking regard of the above and while acknowledging the uncertainties associated with the risks noted, the Directors consider these uncertainties do not represent a material uncertainty that would cast significant doubt on the Group's ability to continue as a going concern.

(h) Estimates and assumptions

- <u>Fair value measurement</u>

  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)
  - Impairment of non-financial assets (notes 12 and 14)
  - Contingent consideration (note 13)
  - Share-based payments measured at fair value (note 22).

2. Basis of preparation (continued)

(i) 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 consolidated 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 profit or loss and other comprehensive income from the date on which control is obtained and are subsequently deconsolidated from the date on which control ceases.

(j) 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.

2. Basis of preparation (continued)

(k) Foreign currency translation

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognised in profit or loss. Exchange gains and losses on non-monetary OCI financial assets form part of the overall gain or loss in OCI recognised in respect of that financial instrument.

On consolidation, the results of overseas operations are translated into New Zealand dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised in profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

2. Basis of preparation (continued)

(k) Foreign currency translation (continued)

(l) Non-current assets held for sale and discontinued operations

Non-current assets held for sale

Non-current assets are classified as held for sale when, and only when,:

- They are available for immediate sale;
- Management is committed to a plan to sell or distribute to owners;
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- An active programme to locate a buyer has been initiated;
- The asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- A sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the group's accounting policy; and
- Fair value less costs of disposal.

Following the classification as held for sale, non-current assets) are not depreciated.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the above held for sale criteria.

As at 30 June 2023, Management has determined that the Group’s non-current assets did not meet the criteria to be classified as held for sale and the previous local GMP manufacturing activities (note 2(f)) did not meet the definition of a discontinued operation.

3. Segment Reporting

The Group operates in one segment, its primary business being research and development and the sale of pharmaceutical products in Germany and 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 in New Zealand and Germany. The Group’s revenues are analysed by geography on the basis of the jurisdiction in which the goods are sold and have been disaggregated in this way in note 5.

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, certain trade and 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.

Impairment provisions for current trade receivables are recognised on the simplified approach within NZ IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process, the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of expected loss arising from default to determine the lifetime expected credit loss for the trade receivable. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised in profit or loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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 profit or loss and other comprehensive income.

Other financial liabilities at amortised cost

These include trade and other payables 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

2023	**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	2,032,055			2,032,055	*(a)*
Cash and cash equivalents	2,529,338			2,529,338	*(a)*
Trade and other receivables	173,620			173,620	*(a)*
Trade payables		(276,801)		(276,801)	*(a)*
Lease liabilities		(114,577)		(114,577)	*(b)*
Contingent consideration			-	-	*n/a*
Total	**4,735,013**	**(391,378)**	**-**		

(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)*

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 payables		(317,427)		(317,427)	*(a)*
Lease liabilities		(824,002)		(824,002)	*(b)*
Contingent consideration			(7,641,832)	(7,641,832)	*n/a*
Total	**10,513,778**	**(1,141,429)**	**(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.

(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 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, and*
  - ***ii.*** *Foreign exchange 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, trade and 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.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management.

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 2023			
	Credit rating [a]	Cash and cash equivalents $	Investments $	Other receivables $	Total $
Kiwibank	A1, AA	2,529,338	2,032,055	-	4,561,393
Total		**2,529,338**	**2,032,055**	**-**	**4,561,393**

		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**

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

Interest rates on interest bearing cash and cash equivalents and investments range between 1.15% - 5.00% (2022: 0.35% - 1.80%).

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 lease liabilities with rates between 6.00% - 11.10% (2022: 4.00% - 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 is exposed to movements in foreign exchange rates through transactions and balances denominated in foreign currencies. The Group's exposures to foreign exchange risk are as follows:

- Sales transactions of $268,207 (2022: $nil) denominated in foreign currencies, which are mainly denominated in Euro.
- Inventory purchase transactions of $208,222 (2022: $nil) denominated in foreign currencies, which are mainly denominated in Australian Dollar amounts.
- Net investments in foreign operations of $2,457 (2022: $nil).

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

There are no open forward exchange contracts at the end of the reporting period (2022: no open forward exchange contracts).

The net foreign exchange loss recognised for the year was $3,136 (2022: $2,993) (note 7).

Sensitivity analysis

The following table presents the Group's sensitivity from a reasonably possible strengthening or weakening NZD against foreign currencies, with all other variables held constant.

	30 June 2023		30 June 2022	
	Equity	Profit	Equity	Profit
	$	$	$	$
10% strengthening of the NZD	5,727	7,954	-	-
10% weakening of the NZD	(13,564)	(18,839)	-	-

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 2023	Up to 3 Months	Between 3 and 12 months	Between 1 and 2 year	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$	$
Trade payables	276,801	-	-	-	-	276,801
Lease liabilities	13,674	39,463	21,099	45,000	11,250	130,486
Total	**290,475**	**39,463**	**21,099**	**45,000**	**11,250**	**407,287**
As at 30 June 2022						
Trade payables	317,427	-	-	-	-	317,427
Lease liabilities	47,585	113,981	119,464,	317,169	374,021	972,220
Total	**365,012**	**113,981**	**119,464**	**317,169**	**374,021**	**1,289,647**

(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).

In order to determine whether or not control passes to the distributor, and the distributor is acting as a "principal" in its own right and as such, the Group's customer, the Group considers the following indicators:

- Whether the Distributor is responsible for fulfilling the promise to provide goods to the end customer;
- Whether 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
- Whether the Distributor has discretion to set the price for goods sold to the end customer.

Where distributors demonstrate that they are responsible for the above indicators, including substantive inventory risk, they are considered to be acting as a principal, and therefore, customers of the Group.

Where distributors are acting as the Group's agent, the Group's customer is considered to be the end customer.

Typically, distributors in New Zealand are considered to be the Group's customer. Distributors in Germany are considered to be the Group's agents.

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

Determining the transaction price - Variable consideration

The terms of the Group's contracts with New Zealand 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.

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.

	2023 $	2022 $
Performance obligations satisfied at a point-in-time		
Sale of goods – New Zealand	89,467	24,226
Sale of goods - Germany	268,208	-
Total Revenue from Contracts with Customers	**357,675**	**24,226**

Contract Balances

	Contract Liability	
	2023 **$**	**2022** **$**
As at 1 July	**2,062**	**-**
Amounts included in opening contract liabilities that were recognised as revenue during the period	**(2,062)**	**-**
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.

Other income streams recognised by the Group include:

	2023 $	2022 $
Research and development grant income	289,204	584,180
NZTE grant income	-	36,689
Total government grant income	**289,204**	**620,869**
Gain on sale of property, plant and equipment	-	1,003
Gain on early termination of leases	13,096	-
Other Income	21,605	-
Total other income	**323,905**	**621,872**

7. Expenses

	Note	2023 $	2022 $
Specific expenses included in operating loss before net financing costs for the year:			
Cultivation costs		520,011	875,738
Extraction and manufacturing		437,849	578,740
Changes in inventories of finished goods and work in progress		339,551	128,643
Impairment expense	12, 14	5,568,718	-
Accommodation and travel		116,300	36,665
Communications		85,002	236,278
Depreciation of property, plant and equipment		580,764	645,502
Depreciation of right-of-use lease assets		101,260	171,101
Amortisation – intangible assets		2,960	-
Direct research and development expenses		290,324	628,023
General		275,238	256,811
Professional services		1,009,625	1,378,464
Insurance		157,050	132,788
Motor vehicle expenses		39,890	55,738
Charitable expenses		57,417	18,782
Licenses		51,324	46,515
Office expenses		68,690	64,737
Selling and marketing		935,047	131,959
Employee benefit expense		2,043,766	2,842,067
Foreign exchange loss		3,136	2,993
		12,683,922	**8,231,544**

Included in the above:

Employee benefit expense

		2023	2022
- Short term benefits (wages and salaries)		1,869,596	2,556,773
- Defined contribution plan		83,554	96,662
- Share-based payment expense		90,616	188,632
Total employee benefit expense		**2,043,766**	**2,842,067**

Research and development expenses

		2023	2022
- Direct costs		290,324	628,023
- Indirect costs		1,297,380	2,349,499
Total research and development expenses		**1,587,704**	**2,977,522**

Impairment expenses

	Note	2023	2022
- Property, plant and equipment	12	841,811	-
- Intangible assets	14	4,726,907	-
Total impairment expenses		**5,568,718**	**-**

7. Expenses *(Continued)*

(i) Research and development

Research and development expenditure that does not meet the development criteria in NZ IAS 38 *Intangible Assets* for recognition as intangible assets is 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:

	2023 $	2022 $
Audit and review of the financial statements		
- Audit of the financial statements	135,775	131,250
- Review of half year financial statements	30,149	27,143
Total fees paid to auditors	**165,924**	**158,393**

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:

	2023 $	2022 $
Current tax on profits for the year	774	-
Total current tax	**774**	**-**
Origination and reversal of temporary differences	(1,351,212)	190,642
Prior year tax losses not recognised	1,351,212	959,348
Prior period adjustments	-	77
Total deferred tax expense	**-**	**1,150,067**
Total income tax expense	**774**	**1,150,067**

(ii) Reconciliation of income tax expense

The reconciliation of income tax expense is presented below:

	2023 $	2022 $
Loss before income tax expense	**(5,958,506)**	**(7,485,985)**
Tax expense/(income) @28%	**(1,668,382)**	**(2,096,075)**
Add/(less) reconciling items		
- Expenses not deductible for tax purposes	22,428	54,406
- Non-assessable income	(1,704,973)	(121,826)
- Tax losses not recognised for deferred tax	3,351,701	3,313,485
- Prior period adjustments	-	77
Total income tax expense	**774**	**1,150,067**

(iii) Imputation credits

The Company has $769,357 of imputation credits as at 30 June 2023 (2022: $310,713).

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%.

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 $6,664,656 (2022: $959,348) has not been recognised. The unrecognised deferred tax asset is comprised of tax losses of $6,451,736 (2022: $3,494,307) and other temporary differences of $212,920 (2022: 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.

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 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**	**-**
As at 1 July 2022	**44,908**	**(17,310)**	**(1,404,490)**	**7,623**	**-**	**18,057**	**1,351,212**	**-**
Amounts recognised								
- In profit or loss	(16,404)	25,527	1,325,465	**(3,703)**	-	20,327	(1,351,212)	-
- Arising on business combinations	-	-	-	-	-	-	-	-
- In OCI	-	-	-	**-**	-	-	-	-
At 30 June 2023	**28,504**	**8,217**	**(79,025)**	**3,920**	**-**	**38,384**	**-**	**-**

9. Notes supporting statement of cash flows

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

	2023 $	2022 $
Net loss for the year	**(5,959,280)**	**(8,636,052)**
Adjustments for non-cash and non-operating activity items:		
- *Add back*: Depreciation – Property, Plant & Equipment[3]	580,764	643,571
- *Add back*: Depreciation – RoU lease asset[3]	101,265	170,894
- *Add back*: Amortisation – intangible asset	2,960	-
- *Add back*: Impairment expense	5,568,720	-
- *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	11,347	-
- *Deduct*: Gain on early termination of leases	(13,199)	-
- *Deduct*: Share-based payment credit	-	(139,373)
- *Add back*: Share-based payment expense	90,616	-
- *Add back*: Interest expense	19,079	40,822
- *Deduct*: Interest income	(202,129)	(138,145)
- *Add back*: Cost of goods given away under CAS	52,268	18,782
- *Deduct*: Fair value gain on contingent consideration	(5,851,032)	-
- *Deduct*: Costs capitalised into ROU assets	-	(793)
	360,659	**1,744,822**
Movements in working capital:		
- (Increase)/decrease in other receivables [1]	(292,629)	99,119
- (Increase)/decrease in prepayments	3,160	(55,994)
- (Increase)/decrease in inventories	152,217	(237,587)
- Increase/(decrease) in trade and other payables [2]	93,763	3,335
- Increase/(decrease) in contract liabilities	(2,062)	2,062
- Increase/(decrease) in employee benefit liabilities	(279,652)	225,873
- Increase/(decrease) in deferred grant income	3,603	9,500
	(321,600)	**46,308**
Net cash outflows from operating activities	**(5,920,221)**	**(6,844,922)**

(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 $5,790 (2022: $1,931) and amortisation of $3,583 (2022: $207) related to building facilities, plant and equipment and intangible assets used to manufacture and procure 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 2023		NON-CASH	NON-CASH	CASH	CASH	
	Opening	New leases	Lease remeasure-ments	Payment of prior year accrued interest	Payment	Closing
	$	$	$	$	$	$
Lease liabilities	824,002	-	608,129	-	(101,296)	**114,577**
	824,002	**-**	**608,129**	**-**	**(101,296)**	**114,577**

30 June 2022		NON-CASH	NON-CASH	CASH	CASH	
	Opening	New leases	Lease remeasure -ments	Payment of prior year accrued interest	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**

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	**2023** **$**	**2022** **$**
(Loss) for the year and earnings (basic and diluted EPS)	(5,959,280)	(8,636,052)

Denominator	**2023** **No. shares**	**2022** **No. shares**
Weighted average number of shares (basic and diluted EPS)	153,728,201	144,166,088

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.

	2023 **$**	**2022** **$**
Raw Materials	-	166,028
Consumables	-	8,098
Work in progress	-	20,967
Finished Goods	14,319	23,712
Total	**14,319**	**218,805**

Amounts recognised in profit or loss

Inventories recognised as an expense during the year amounted to $242,285 (2022: $39,727).

The Group reported write-downs of inventory to net realisable value of $97,266 (2022: $88,916) in the consolidated statement of profit or loss and other comprehensive income.

The write-down includes adjustments of $86,677 to finished goods which failed ongoing quality testing after reporting date.

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% (2022: 2% to 50%)
- Cultivation Containers 10% (2022: 10%)
- Office Equipment 13% to 67% (2022: 13% to 67%)
- Plant and Equipment 8% to 100% (2022: 8% to 100%)
- Vehicles 13% to 40% (2022: 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.

Impairment

As a result of the Group's restructuring during the year, the Group elected to cease its manufacturing activities in Gisborne. The associated assets, primarily comprised of the manufacturing facility buildings, and the associated plant and equipment, were therefore idle at reporting date while management consider potential options to dispose of these assets.

The building was written down to its recoverable amount of $1,407,732, which was determined in reference to the building's fair value less costs of disposal. The level 3 fair value of the building was derived using the income approach. The key inputs under this approach are an average market rent of $139,032 per annum based on recent comparable rentals (as determined by an independent valuer) and yield rates and discount rates of 8.50% and 9.50% respectively.

The plant and equipment was also written down to its recoverable amount of $517,040, which was determined in reference to the fair value less costs of disposal of the various assets. The level 2 fair value of these assets was derived using the sales comparison approach. The key input under this approach was the recent observable selling prices for assets of similar nature, adjusted for condition and location.

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

Year ended 30 June 2023	Buildings and fitout $	Cultivation Containers $	Office Equipment $	Plant and equipment $	Vehicles $	Capital works $	Total $
Opening net book value	**4,146,968**	**116,281**	**112,777**	**1,418,068**	**39,989**	**9,201**	**5,843,284**
Additions	11,488	-	8,321	24,169	20,591	-	64,569
Acquired on business combination	-	-	-	-		-	-
Depreciation charge	(313,899)	(11,629)	(24,497)	(213,600)	(17,138)	-	(580,763)
Impairment charge	(486,230)	-	-	(355,581)	-	-	(841,811)
Disposals	-	-	(19,294)	(27,304)	-	-	(46,598)
Transfers	-	-	-	9,201	-	(9,201)	-
Closing net book value	**3,358,327**	**104,652**	**77,307**	**854,953**	**43,442**	**-**	**4,438,681**
Cost	4,828,288	159,196	151,439	1,874,337	181,786	-	7,195,046
Accumulated impairment	(486,230)	-	-	(355,581)	-	-	(841,811)
Accumulated depreciation	(983,731)	(54,544)	(74,132)	(663,803)	(138,344)	-	(1,914,554)
Net book amount	**3,358,327**	**104,652**	**77,307**	**854,953**	**43,442**	**-**	**4,438,681**

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 (net book value)	-	-	(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**

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 prior year

Acquisition of Zalm Therapeutics Limited

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 provided 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 prior reporting period had finalised the commissioning of one of Australasia's largest and most technologically advanced indoor growing facilities.

The purchase consideration paid for the acquisition of Zalm included contingent consideration payable which was classified as a financial liability and has been remeasured during the current financial year as follows:

Level 3 fair values	Fair value $ 30 June 2022	Fair value $ Remeasurement gain / (loss)	Fair value $ Settlement	Fair value $ 30 June 2023
Milestone 1	(3,820,916)	2,030,116	1,790,800*	-
Milestone 2	(3,820,916)	3,820,916	-	-
Total	**(7,641,832)**	**5,851,032**	**1,790,800**	**-**

*refer note 19

13. Goodwill and Business Combinations *(continued)*

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		Relationship of unobservable inputs to fair value
		30 Jun 2022	30 Jun 2023	
Milestone 2	Probability of achievement	100%	0%	A change in the achievement probability of 25% would result in a fair value change of +/- $955,229.

Probability of achievement is an unobservable input in the fair value measurement of Milestone 2. There has been a decrease in probabilities in the current reporting period as the likelihood of Zalm's supplier, Cann Group, meeting the technical documentation, price and quantity targets associated with Milestone 2 has decreased.

(ii) 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 $0.15 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 2023, 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 $0.15 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 $4,232,720 (2022: $25,262,067) over the carrying value. No impairment of goodwill has been recognised as at 30 June 2023 (2022: 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.

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 2022	10,448,082	5,016,035	15,464,117
Acquired through business combinations	-	-	-
At 30 June 2023	**10,448,082**	**5,016,035**	**15,464,117**
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**
(ii) Accumulated amortisation and impairment			
At 1 July 2022	-	-	-
Amortisation charge	-	(2,960)	**(2,960)**
Impairment charge	-	(4,726,907)	**(4,726,907)**
At 30 June 2023	**-**	**(4,729,867)**	**(4,729,867)**
At 1 July 2021	-	-	-
Amortisation charge	-	-	-
At 30 June 2022	-	-	-
(iii) Net book value			
At 1 July 2021	4,000,000	-	4,000,000
At 30 June 2022	10,448,082	5,016,035	15,464,117
At 30 June 2023	**10,448,082**	**286,168**	**10,734,250**

Impairment

The impairment charges recognised against the supply contract reflect the fact that the remaining estimated volumes that the Group expected to purchase under the supply contract had significantly decreased compared to the volumes previously estimated as part of its initial recognition. Estimates were revised due to external indicators that demand for certain products available under the supply contract were significantly reduced as a result of changes in the market during the reporting period.

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.

15. Leases *(continued)*

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

Expenses and income in the period	**2023 $**	**2022 $**
Depreciation		
- Leases of property (land and buildings)	47,545	114,247
- Vehicles	32,383	32,383
- Plant	21,333	24,472
Interest expense	19,087	44,535
Balance sheet and cash flow statements		
Carrying amount of Right-of-use asset		
- Leases of property (land and buildings)	88,606	738,908
- Vehicles	11,978	44,362
- Plant	-	13,502
Additions to Right-of-use assets	-	37,977
Total cash outflow related to leases	120,379	209,304

(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, one 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 $244 cash outflow (2022: $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 one property lease (2022: two property leases) where the Group has assessed it is does not reasonably expect to exercise all available renewal options, resulting in a potential additional lease term of 2 years (2022: 10 - 20 years) and potential future lease payments of $48,792 (2022: $109,020 - $689,160) that are not currently included in measurement of the lease liability recognised for these leases.

16. Trade and other receivables

	Note	2023 $	2022 $
Financial assets classified as amortised cost - current			
Trade receivables		98,620	-
Less: provision for impairment of trade receivables		-	-
Trade receivables – net		98,620	-
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	**173,620**	**575,000**
GST receivable		36,416	89,210
Other receivables		-	2,008
Withholding tax receivable		86,945	26,524
Government grants receivable			
- Research and development tax credit		641,010	398,408
- Other		-	54,173
Other receivables (current portion)		**764,371**	**570,323**
Total other receivables		**937,991**	**1,145,323**

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit loss on a collective basis, trade receivables are grouped based on similar credit risk and rating.

The expected loss rates are based on the Group's historical credit losses. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. At reporting date, none of the Group's trade receivables were past 30 days due.

17. Trade and other payables

	Note	2023 $	2022 $
Trade payables	4	276,801	317,427
Other payables		245,743	120,951
Total trade and other payables		**522,544**	**438,378**

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.

	2023 $	2022 $
Short term employee benefits payable		
- Wages and salaries	73,780	287,768
- Accrual for annual and sick leave	104,840	168,419
	178,620	**456,187**
Defined contribution plan payable	1,463	3,548
Total employee benefit liabilities	**180,083**	**459,735**

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.

	2023 No.	2022 No.
Opening shares	**149,879,267**	140,262,591
Shares issued***,****	8,256,998	9,616,676
Total share capital	**158,136,265**	**149,879,267**

***** *During the year ended 30 June 2023:*

- *116,998 vested share options were exercised into ordinary shares.*
- *8,140,000 ordinary shares were issued as part of the Milestone 1 consideration paid the acquisition of Zalm Therapeutics Limited (see note 13).*

****** *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 2023, share capital comprised 158,136,265 authorised and issued ordinary shares (2022: 149,879,267). 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	Sale/(purchase) amount	Amounts receivable (payable)
		$	$
30 June 2023			
Alvarium Investments (NZ) Limited	Purchases	(2,300)	-
Ciprian consulting	Purchases	(4,337)	-
Hikurangi Enterprises Limited	Sales	1,000	
Mitchel Family Trust	Purchases	(1,087)	-
30 June 2022			
Alvarium Investments (NZ) Limited	Purchases	(6,900)	-
EECOMS Ltd	Purchases	(314)	-
Mitchel Family Trust	Purchases	(4,752)	-

(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:

	2023 $	2022 $
Directors fees	261,462	270,000
Short-term employee benefits	1,164,683	1,425,080
Defined contribution plan payments	39,996	36,931
Share-based payment expense	127,426	138,641
Total key management personnel compensation	**1,593,567**	**1,870,652**

21. Contingent liabilities

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

22. Biological assets

The Group 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.

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.

– 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 ;

– In the prior period, ESOP **Issue #4** was issued and is subject to the following conditions:

- 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

23. Share-based payments *(continued)*

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

– During the year, the Group also awarded the following new ESOPs (**Issue #5** and **Issue #6**).

ESOP **Issue #5** is subject to the following conditions:

- Are subject to a general service vesting condition (i.e., if the party terminates their employment with the company, the unvested share options are forfeited);
- Have a $nil exercise price; and
- Vest to the participating employees daily such that each award constitutes a separate tranche with an equal number of options and identical terms and conditions.

ESOP **Issue #6** is subject to the following conditions:

- Are subject to a general service vesting condition (i.e., if the party terminates their employment with the company, the unvested share options are forfeited); and
- Have a $nil exercise price.

23. Share-based payments *(continued)*

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

(i) Balance of share options issued that are still yet to vest

	Issue #1 No.	Issue #2 No.	Issue #4 No.	Issue #5 No.	Issue #6 No.	Total No.
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**
At 1 July 2022	-	-	**2,317,200**	**-**	**-**	**2,317,200**
- Options issued	-	-	-	2,450,000	2,100,000	**4,550,000**
- Options vested	-	-	**-**	(272,721)	-	**(272,721)**
- Options forfeited	-	-	(1,617,800)	(933,002)	-	**(2,550,802)**
At 30 June 2023	-	-	**699,400**	**1,244,277**	**2,100,000**	**4,043,677**

23. Share-based payments *(continued)*

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

(ii) Balance of vested share options yet to be exercised

	Issue #1 No.	Issue #2 No.	Issue #4 No.	Issue #5 No.	Issue #6 No.	Total No.
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	-	-	-	-	-	-
At 1 July 2022	-	-	-	-	-	-
- New options vested	-	-	-	**272,721**	-	**272,721**
- Options exercised	-	-	-	**(116,998)**	-	**(116,998)**
At 30 June 2023	-	-	-	**155,723**	-	**155,723**

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:

ESOP Issue #1: Tranche 3A - 3D, and 4A - 4E	Equity Settled 2022	Equity Settled 2021	Cash-settled 2022	Cash-settled 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%**

ESOP Issue #2: Tranche 3A - 3D, 4, and 5A - 5E	Equity-settled 2022	Equity-settled 2021	Cash-settled 2022	Cash-settled 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

ESOP Issue #4	Equity Settled 2023	2022
Option pricing model used	Monte-Carlo	Monte-Carlo
Weighted average share price	$0.23	$0.23
Exercise price	$nil	$nil
Weighted average contractual life (in days)	*366*	*731*
Volatility	85%	85%

ESOP Issue #5	Equity Settled 2023	2022
Option pricing model used	Binomial	n/a
Weighted average share price	$0.17	n/a
Exercise price	$nil	n/a
Weighted average contractual life (in days)	*488*	n/a
Volatility	78%	n/a

ESOP Issue #6	Equity Settled 2023	2022
Option pricing model used	Binomial	n/a
Weighted average share price	$0.16	n/a
Exercise price	$nil	n/a
Weighted average contractual life (in days)	*187*	n/a
Volatility	81%	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

Subsequent to reporting date, a partial product recall has been initiated. Investigations are being undertaken to determine the cause and as such any impact is currently unknown, but not thought to be significant.

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**	
		2023	**2022**	**2023**	**2022**
Zalm Therapeutics Limited	New Zealand	100%	100%	-	-
Rua Bioscience PTY Limited	Australia	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:

	2023	**2022**
	$	**$**
Total assets	20,950,572	33,573,600
(less): Intangible assets	(10,734,250)	(15,464,117)
(less): total liabilities	(830,307)	(9,375,508)
Net tangible assets	**9,386,015**	**8,733,975**
Number of shares issued at balance date	158,136,265	149,879,267
Net tangible assets per share	**0.06**	**0.06**