Rua Bioscience Limited

Interim financial report

For the six months ended 31 December 2023

Rua Bioscience Limited

Contents

Company Directory
For the six months ended 31 December 2023

Country of incorporation of company:	New Zealand
Company Number:	6484092
Legal form:	NZ Limited Company
Principal activities:	Pharmaceutical Distribution and Marketing
Registered office:	1 Commerce Place Awapuni Gisborne
Directors:	Anna STOVE – Chair Panapa EHAU Teresa FARAC-CIPRIAN Tony BARCLAY
Auditor:	PricewaterhouseCoopers
Bankers:	Kiwibank
Solicitors:	Lowndes Jordan

Rua Bioscience Limited

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 31 December 2023

	Note	For the six months ended 31 December 2023 (unaudited) $	For the six months ended 31 December 2022 (unaudited) $
Revenue from contracts with customers	**5**	16,988	62,819
Other income	**6**	124,418	191,586
Changes in inventories of finished goods and work in progress		(20,249)	(122,240)
Research and development expenses		(558,400)	(981,059)
Other expenses		(1,883,277)	(2,621,990)
Impairment expense	**8,9**	(8,609,935)	-
Net fair value gains/(losses) on financial liabilities at fair value through profit or loss	**4(ii)**	-	4,100,932
(Loss)/profit before net financing costs		**(10,930,455)**	**630,048**
Interest income		87,491	101,265
Interest expense - leases		(8,866)	(12,610)
Net finance income		**78,625**	**88,655**
(Loss)/profit before tax		**(10,851,830)**	**718,703**
Income tax expense	**7**	-	-
(Loss)/profit after tax		**(10,851,830)**	**718,703**
Other comprehensive income		-	-
Items that will may be reclassified to profit or loss:			-
- Exchange gains arising on translation of foreign operations		1,820	
Total comprehensive (loss)/profit for the period attributable to shareholders		**(10,850,010)**	**718,703**
Earnings per share attributable to the ordinary equity holders of the parent			
(Loss)/profit from operations			
Basic ($)		**(0.069)**	**0.005**
Diluted ($)		**(0.069)**	**0.004**

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

Rua Bioscience Limited

Condensed Consolidated Statement of Changes in Equity
For the six months ended 31 December 2023

	Note	Share capital	Foreign currency translation reserve	Share option reserve	Accumulated losses	Total equity
		$	$	$	$	$
Opening balance at 1 July 2023 (audited)		**43,702,717**	**38**	**212,062**	**(23,794,552)**	**20,120,265**
Total comprehensive loss for the period						
- Loss for the period		-	-	-	(10,851,830)	(10,851,830)
- Other comprehensive income		-	1,820	-	-	1,820
Total comprehensive loss for the period		**-**	**1,820**	**-**	**(10,851,830)**	**(10,850,010)**
Transactions with owners						
- Issue of share capital		-	-	-	-	-
- Employee share options expense		-	-	205,853	-	205,853
- Share options vested and exercised		-	-	-	-	-
Total transactions with owners		**-**	**-**	**205,853**	**-**	**205,853**
Balance at 31 December 2023 (unaudited)		**43,702,717**	**1,858**	**417,915**	**(34,646,382)**	**9,476,108**

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

Rua Bioscience Limited

Condensed Consolidated Statement of Changes in Equity
For the six months ended 31 December 2022

	Note	Share capital	Share option reserve	Accumulated losses	Total equity
		$	$	$	$
Opening balance at 1 July 2022 (audited)		**41,891,677**	**141,686**	**(17,835,272)**	**24,198,091**
Total comprehensive loss for the period					
- Profit for the period		-	-	718,703	718,703
- Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**718,703**	**718,703**
Transactions with owners					
- Issue of share capital		1,790,800	-	-	1,790,800
- Employee share options expense		-	(15,679)	-	(15,679)
- Share options vested and exercised		-	-	-	-
Total transactions with owners		**1,790,800**	**(15,679)**	**-**	**1,775,121**
Balance at 31 December 2022 (unaudited)		**43,682,477**	**126,007**	**(17,116,569)**	**26,691,915**

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

Rua Bioscience Limited

Condensed Consolidated Statement of Financial Position
As at 31 December 2023

	Note	As at 31 December 2023 (unaudited) $	As at 30 June 2023 (audited) $
Current assets			
Cash and cash equivalents		972,266	2,529,338
Government grants receivable		340,347	641,011
Other receivables and current assets		126,443	221,980
Prepayments		221,064	163,361
Inventory		248,559	14,319
Investments		1,527,888	2,032,055
Assets in disposal groups classified as held for sale	**16**	1,406,791	-
Total current assets		**4,843,358**	**5,602,064**
Non-current assets			
Property, plant and equipment	**8**	2,750,199	4,438,681
Goodwill	**9**	2,194,947	10,448,082
Intangible assets	**9**	5,105	286,168
Right-of-use lease assets	**8**	162,134	100,577
Other receivables		75,000	75,000
Total non-current assets		**5,187,386**	**15,348,508**
Total assets		**10,030,744**	**20,950,572**
Current liabilities			
Trade and other payables		206,374	522,544
Employee benefit liabilities		157,586	180,083
Lease liabilities	**10**	43,661	46,722
Liabilities in disposal groups classified as held for sale	**16**	22,990	
Deferred grant income		-	13,103
Total current liabilities		**430,611**	**762,452**
Non-current liabilities			
Lease liabilities	**10**	124,025	67,855
Total non-current liabilities		**124,025**	**67,855**
Total liabilities		**554,636**	**830,307**
Net assets		**9,476,108**	**20,120,265**
Equity			
Share capital	**15**	43,702,717	43,702,717
Accumulated losses		(34,646,382)	(23,794,552)
Foreign currency translation reserve		1,858	38
Share option reserve		417,915	212,062
Total equity		**9,476,108**	**20,120,265**

The condensed consolidated financial statements on pages 4 to 20 were approved and authorised for issue by the Board of Directors on 29th February 2024 and were signed on its behalf by:

______________________ (Director)   ______________________ (Director)

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

Rua Bioscience Limited

Condensed Consolidated Statement of Cash Flows
For the six months ended 31 December 2023

	Note	For the six months to 31 Dec 2023 (unaudited) $	For the six months to 31 Dec 2022 (unaudited) $
Cash flows from operating activities			
Receipts from customers		99,929	60,756
Grant income received		409,825	34,378
Sundry income received		2,152	10,837
Payments to suppliers and employees		(2,643,734)	(3,770,172)
Net cash outflows from operating activities		**(2,131,828)**	**(3,664,201)**
Cash flows from investing activities			
Interest income		91,658	92,647
Proceeds from maturing investments		2,000,000	8,000,000
Proceeds from release of financial assets in escrow		-	500,000
Proceeds from the sale of property, plant and equipment		33,708	2,504
Purchase of property, plant and equipment		(1,208)	(46,875)
Investment deposits made		(1,500,000)	(5,000,000)
Net cash inflows from investing activities		**624,158**	**3,548,276**
Cash flows from financing activities			
Repayment of lease liabilities		(40,957)	(60,563)
Interest paid		(8,866)	(12,610)
Net cash outflows from financing activities		**(49,823)**	**(73,173)**
Net decrease in cash and cash equivalents		**(1,557,493)**	**(189,098)**
Cash and cash equivalents at beginning of the period		2,529,338	1,897,285
Exchange (losses)/gains on cash and cash equivalents		421	-
Cash and cash equivalents at end of the period		**972,266**	**1,708,187**

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

1. Reporting Entity

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

Rua Bioscience Limited (“the Company”) is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The address of the Company’s registered office and principal place of business is 1 Commerce Place, Awapuni, Gisborne.

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

These unaudited interim consolidated financial statements have been prepared for the six months ended 31 December 2023. These interim consolidated financial statements provide an update on the interim performance of the Group, and should be read in conjunction with the full year consolidated financial statements presented for the year ended 30 June 2023 from which the same accounting policies and methods of computation have been followed.

The interim consolidated financial statements are prepared in accordance with:
- NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.
- Generally Accepted Accounting Practice in New Zealand (NZ GAAP).
- The accounting policies and methods of computation in the most recent annual financial statements.
- The Financial Markets Conduct Act 2013, and NZX equity listing rules.

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

The consolidated interim financial statements are presented in New Zealand dollars ($), which is the company’s functional and also the Group’s presentational currency. All financial information presented has been rounded to the nearest dollar, except where otherwise indicated.

(b) Significant accounting policies

The accounting policies and computation methods used in the preparation of the consolidated interim financial statements are consistent with those used as at 30 June 2023 and 31 December 2022.

(c) Basis of measurement

The consolidated interim financial statements have been prepared on a historical cost basis, except for the following items (refer to individual accounting policies for details):
- Borrowings (fair value disclosed) – note 4
- Financial assets and liabilities at amortised cost (fair value disclosed) – note 4

2. Basis of preparation (continued)

(d) New standards, interpretations and amendments effective or applied for the first time

The Group has not adopted any significant new standards, interpretations and amendments in the interim period with a material impact on the financial statements.

(e) Accounting estimates and judgements made

As at 31 December 2023, the recoverable value of its cash-generating unit (CGU) is measured based on value-in-use (previously, fair value less costs of disposal) (refer to note 9).

With the exception of the goodwill impairment, there have been no material revisions to the nature and amount of estimates of, and judgements in relation to, amounts reported in prior periods.

(f) Going concern

The consolidated condensed 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 a period of at least 12 months from the date of signing these interim financial statements.

Given the Group's net operating loss of $10,851,830 and net operating cash outflow of $2,131,828 for the period ended 31 December 2023, and reduced liquid net asset position, the Board and management have prepared cash flow forecasts for the next 12 months which indicate that the Group will not have sufficient cash to meet its minimum expenditure commitments and support its current levels of activity.

These financial statements do not include any adjustments relating to the classification and recoverability of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

The challenges experienced resulting in a shortfall of funding are due in large part:

a) The extended time taken to bring products into the markets of Australia and New Zealand due to the complexities of local regulations.
b) The disruption in sales in the German market as a result of a partial product recall.
c) Supplier constraints in Australia resulting in reduced sales initially.

During the last 12 months the Group made the important strategic decision to cease GMP manufacturing operations in New Zealand which significantly reduced cash outflow. The Group refocused our efforts on developing unique genetics and outsourcing cultivation to trusted partners. This refined approach not only allows for effective scaling of operations, but also enhances profit margins by minimising capital outlays.

By adopting this strategy, the Group effectively lower the regulatory hurdles associated with entering new markets and streamline the logistics of shipping, ensuring a reduction in both time and resources spent. This strategic refinement further demonstrates the Groups commitment to environmental sustainability, reducing our carbon footprint through more localised production.

2. Basis of preparation (continued)

The manufacturing partners the Group are working with have significant scale and can provide high quality products at a lower cost compared to products manufactured in New Zealand, ultimately resulting in better margins for the Group.

The Board and Management firmly believe that this strategy is in the best interests of shareholders, positioning the Group for sustainable growth, operational efficiency, and enhanced shareholder value.

Accordingly, the Directors remain focused and committed to:

(i) Maximising sales opportunities in Australia, Germany and New Zealand to bring forward available cash needed for growth. This competitive edge originates from the Groups proprietary intellectual property (IP) in the genetics arena, complemented by Rua's unique foundational story and dedication to social objectives, marking the Group's distinct position in the industry.

(ii) Actively manage the ongoing working capital requirements, including focusing on ensuring an appropriate level of expenditure in line with the Group's available cash resources.

(iii) Freeing up capital invested in fixed assets that no longer meet the Groups immediate strategic goals. Specifically, Rua is actively marketing the Gisborne manufacturing assets to interested parties. (Refer to note 16 for details of the Groups non-current assets currently classified as available for sale).

(iv) Securing additional investment to ensure a sustainable business with a planned future capital raise. The Group has had previous success in 2020 in raising capital based on pre-revenue cash flow forecasts and believes that current investors remain committed to the success of the Group to achieve its strategy.

The Directors have a positive outlook for the Group. Management expect to execute on the above plans, the business to remain a going concern, additional time is required to determine the success of; the sustainable market demand for our products; the ability to dispose of the Gisborne manufacturing assets and the ability to execute on securing additional capital.

As such, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. These financial statements do not include any adjustments relating to the classification and recoverability of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

2. Basis of preparation (continued)

In considering the Group's ability to continue operation, the Board has adopted conservative revenue forecasts. It should be noted that these forecasts do not account for additional revenue opportunities such as emerging sales pipelines that have already been contracted in the UK, Poland, Czechia and Canada. In addition, the Rua brand, the kaupapa of the company, the close connections to the community of Ruatorea and the corresponding access to unique cannabis strains are ultimately some of the Group's most significant intangible assets which are a unique competitive advantage.

3. Segment Reporting

The Group operates in one segment, its primary business being research and development and the sale of pharmaceutical products in Germany, Australia 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 derives revenue from customers through the sale of goods in New Zealand, Germany and Australia. 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

(i) Categories and fair values of the Group's financial instruments

	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Total Carrying Amount	Fair Value
31 December 2023 (unaudited)	**$**	**$**	**$**	**$**
Investments	1,527,888	-	1,527,888	***(a)***
Cash and cash equivalents	972,266	-	972,266	***(a)***
Other receivables	75,000	-	75,000	***(a)***
Trade and other payables	-	(137,115)	(137,115)	***(a)***
Lease liabilities	-	(167,686)	(167,686)	***(b)***
Liabilities in disposal groups classified as held for sale	-	(22,990)	(22,990)	***(a)***
Total	**2,575,154**	**(327,791)**		
30 June 2023 (audited)				
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 and other payables	-	(276,801)	(276,801)	***(a)***
Lease liabilities	-	(114,577)	(114,577)	***(b)***
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 and Financial Risk Management, and Capital Management (continued)

(ii) Fair value information regarding contingent consideration

	Note	6 months to 31 Dec 2023 (unaudited) $	6 months to 31 Dec 2022 (unaudited) $
Opening balance		**-**	**7,641,832**
Arising on business combination		-	-
Change in fair value estimate		-	(4,100,932)
Consideration settled (shares)	**15**	-	(1,790,800)
Closing balance		**-**	**1,750,100**

5. Revenue from contracts with customers

Revenue streams recognised by the Group include:

	For the six months ended 31 Dec 2023 (unaudited) $	For the six months ended 31 Dec 2022 (unaudited) $
Sale of goods – New Zealand	2,249	62,819
Sale of goods – Australia	14,739	-
Total	**16,988**	**62,819**

6. Other income

Other income streams recognised by the Group include:

	For the six months ended 31 Dec 2023 (unaudited) $	For the six months ended 31 Dec 2022 (unaudited) $
Research and development grant income	122,265	167,654
Gain on early termination of lease	-	13,096
Sundry income	2,153	10,836
Total	**124,418**	**191,586**

7. Income tax

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.

The unrecognised deferred tax asset is comprised of tax losses of $7,028,257 (30 June 2023: $6,451,736) and other temporary differences of $148,542 (30 June 2023: $212,920).

8. Property, plant and equipment and Right-of-use lease assets

Significant transactions during the six months to 31 December 2023

- The Group sold of $44,760 of plant and equipment assets during the period for a net loss on disposal of $10,804.
- The Group has entered into a new lease agreement for the property at 1 Commerce Place in Gisborne. This has resulted in an addition of $116,514 in the right of use asset and corresponding lease liability
- The Group's manufacturing facility (carrying value: $1,387,517) has been reclassified to assets held for sale (refer to note 16 below) upon the property being marketed but not yet sold as at 31 December 2023.
- Plant and equipment which remains idle as a result of the Group's cessation of New Zealand manufacturing has been written down to its recoverable amount of $76,593, which was determined in reference to the fair value less of costs of disposal for the various assets as at 31 December 2023.

9. Intangible assets and Goodwill

Intangible assets

During the period ended 31 December 2023, the Group was notified by Cann Group that they had given notice to terminate its existing in-place supply agreement. There is a 12-month notice period under the terms of the contract. As a result, an impairment charge of $280,207 has been recognised against the supply contract to reflect the remaining estimated volumes that the Group expects to purchase under the contract across the remaining 12-month period.

Goodwill

The Group tests whether goodwill has suffered any impairment on an annual basis or where there are specific indicators of impairment in the period.

As at 31 December 2023, the Group's market capitalisation exceeded the carrying value of the net assets of the cash-generating unit (CGU) and as such, the Group has undertaken a value-in-use calculation to determine the recoverable amount of the CGU.

Value-in-use calculations require the use of various estimates and judgements. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period which include consideration of the following:

- The existing competitive environment in the key markets which the Group currently operates in, including the Group's existing and projected market share, and indicators of overall growth in those markets.
- The current life-cycle stage of the medicinal cannabis industry and the continued trajectory towards maturity.
- The maturation of supply chains in the industry, as well as the Group's ability to exploit these going forwards.
- The Group's current loss-making position, reflecting its early commercial phase, and operating cashflow requirements as well as the steps taken to date to address these.

9. Intangible assets and Goodwill (continued)

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts in industry reports specific to the industry in which the CGU operates:

Assumptions and approach used to determine values	As at 31 December 2023
Forecasted sales and costs of sales	
This is based on current market share in existing sales channels as well as industry trends as at the reporting date.	
Cash flows for the next five-year period are extrapolated using annual estimated growth rates comprising a CAGR of 110%. This CAGR reflects the low base the business is beginning with, growth rates consistent with forecasts in industry reports specific to the industry in which the CGU operates, the supply agreements the business has in place and the markets in which the business currently has distribution agreements in place or employees in market.	110%
Pre-tax discount rate	
Reflects specific risks relating to the relevant activities of the Group.	25.13%
Long-term growth rate	
This is the weighted average growth rate used to extrapolate cash flows beyond the budget period.	2%

As at 31 December 2023, the carrying amount of the entire CGU was $13,354,348 which exceeded the recoverable amount of the CGU by $5,101,213.

As a result, an impairment loss of $8,253,135 (2022: $nil) was recognised against the carrying value goodwill.

This goodwill impairment, a significant portion of which was attributed to the historical acquisition of Zalm Therapeutics, stems from a comprehensive analysis conducted by Management and the Board. Through this analysis, which evaluated various growth scenarios, it became apparent that the acquisition has not delivered the expected financial returns.

10. Borrowings and Lease liabilities

Significant movements in the Group's debt balances (Borrowings and Lease liabilities) during the period are detailed in the tables below:

For the six months ended 31 Dec 2023 (unaudited)

		NON-CASH	NON-CASH	NON-CASH	NON-CASH	CASH	
	Opening	New leases	Lease remeasurements	Lease terminations	Reclassification (Note 16)[1]	Payment	Closing
	$	$		$	$	$	$
Lease liabilities	**114,577**	116,514	542	-	(22,990)	(40,957)	**167,686**
	114,577	**116,514**	**542**	**-**	**(22,990)**	**(40,957)**	**167,686**

[1] Lease liabilities reclassified to liabilities directly associated with assets classified as held for sale. Refer to note 16.

For the six months ended 31 Dec 2022 (unaudited)

		NON-CASH	NON-CASH	NON-CASH	NON-CASH	CASH	
	Opening	New leases	Lease remeasurements	Lease terminations	Reclassification	Payment	Closing
	$	$	$	$	$	$	$
Lease liabilities	**824,022**	-	(54,709)	(499,995)	-	(60,563)	**208,755**
	824,022	**-**	**(54,709)**	**(499,995)**	**-**	**(60,563)**	**208,755**

11. Related party transactions

Six Months to 31 December 2023 and 31 December 2022

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

During the period the Group entered into the below transactions with entities related to shareholders and key management personnel.

	Nature of transactions	Transaction amount	Amounts receivable (payable)
		For the six months ended 31 Dec 2023 (unaudited) $	31 December 2023 (unaudited) $
Hikurangi Enterprises Limited	Asset Disposal	209	-
EECOMS	Asset Disposal	3,000	-

	Nature of transactions	Transaction amount	Amounts receivable (payable)
		For the six months ended 31 Dec 2022 (unaudited) $	31 December 2022 (unaudited) $
Alvarium Investments	Purchases	2,300	-
Mitchel Family Trust	Purchases	1,087	-

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:

	For the six months ended 31 December 2023 (unaudited) $	For the six months ended 31 December 2022 (unaudited) $
Directors' fees	120,000	131,423
Short-term employee benefits	131,649	793,816
Defined contribution plan payments	4,122	29,539
Share-based payment expense	81,004	27,470
Total key management personnel compensation	**336,775**	**982,248**

12. Contingent liabilities

There were no contingent liabilities at the end of the period (2022: nil).

13. Biological assets

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

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

14. Group restructure

On 13 September 2023, the net assets of Zalm Therapeutics Limited (a subsidiary of the Group) were transferred by way of a distribution to the Company, and then deregistered.

15. Share Capital

	31 December 2023 (unaudited) Number	30 June 2023 (audited) Number
Opening shares	158,136,265	149,879,267
Shares issued*	-	8,256,998
Total share capital	**158,136,265**	**158,136,265**

** 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 Milestone 1 consideration for the acquisition of Zalm Therapeutics Limited.*

16. Assets held for sale

Assets held for sale

In October 2023, the Group engaged real estate agent Bayleys to market its manufacturing facility for sale which resulted in the associated property, plant and equipment and right-of-use assets meeting the criteria for held for sale from that date.

The following assets and liabilities were reclassified as held for sale as at 31 December 2023 in relation to the Group's decision to market its manufacturing facility for sale as part of its wider operational restructure:

	Note	Net book value transferred to assets held for sale	Fair value loss	31 December 2023 (unaudited)
Assets classified as held for sale				
Property, plant and equipment	**8**	1,387,517	-	1,387,517
Right-of-use assets	**8**	19,274	-	19,274
Total assets held for sale		**1,406,791**	**-**	**1,406,791**
Liabilities classified as held for sale				
Lease liabilities	**10**	(22,990)	-	(22,990)
Total liabilities classified as held for sale		**(22,990)**	**-**	**(22,990)**
Total net assets held for sale		**1,364,527**	**-**	**1,364,527**

Assets classified as held for sale during the period ended 31 December 2023 were measured at the lower of their carrying value and fair value less costs to sell at the time of the reclassification. No write down to fair value has been recognised as the fair value less costs to sell exceed the current carrying value of the assets held for sale.

The fair value of the building and right-of-use asset associated with the lease of the land upon which the building sits was determined using an income capitalisation approach as undertaken by a registered value, and is a level 3 measurement.

The key inputs under this approach are an average market rent of $139,032 per annum based on recent comparable rentals and yield and discount rates of 8.5% and 9.5% respectively.

17. Events after the reporting date

Subsequent to the reporting date, the Group has served legal proceedings against Cannoperations Pty Limited ('Cann'), claiming damages for a breach of contractual rights to exclusively sell Cann Group's medical cannabis products in Australia. This follows several unsuccessful attempts to remedy this matter with Cann outside the courts.

The proceedings commenced by the Group in the Supreme Court of Victoria are in respect of a claim by the Group that Cann has breached an exclusive supply term provided for in the supply contract.

That exclusive supply term provides that Cann will supply specific medicinal cannabis products exclusively to the Group for re-sale in Australia and New Zealand during the term of the contract. Management and the Board are of the view that these breaches have caused the Group to suffer significant damages.