Te Ripoata ā Tau
Rua Bioscience
Annual Report 2022

RUA

Pohiritia ra nga Iwi - Haere mai ki Rua Bioscience
Welcome to Rua Bioscience

In this report we review the strides Rua Bioscience has made in the past 12 months, outline our current performance and share our aspirations for the future.

We'll give you insight into our industry and the ever-changing environment within which we operate as an ambitious medicinal cannabis start-up.

We'll also explore our deep connection to Te Tairāwhiti and the responsibilities we carry as a company established to have a positive impact on our people and our whenua.

Rua is committed to reporting openly and honestly on our performance, providing information that is clear and easily understood. If you have any feedback on our report please email info@ruabio.com.

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Sunrise over Mangaoporo.
Photo credit: Eru Walker

Nga Kiianga ā ngā Ringatohu

Directors' Statement

The Directors are pleased to present Rua Bioscience Limited's Annual Report and Financial Statements for the year ended 30 June 2022.

The Directors are not aware of any circumstances since the end of the year that have significantly affected or may significantly affect the operations of Rua Bioscience. This Annual Report is dated 14 September 2022 and is signed on behalf of the Board by:

Trevor Burt
Chairman

Brett Gamble
Chair Audit, Finance and Risk

Rārangi Kōrero
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Te Ripoata ā te Heamana
Chairman's Report

Tēna tātou katoa. He rahi ngā hua o te tau kua hipa, he maha hoki ngā uauatanga. Koinei tētahi o ngā tau whakahirahira rawa atu o te kamupene nei.

FY22 was our most satisfying and challenging year yet. To ensure a pathway to sustainable revenue, Rua started the year with three key objectives:

- **To build a clearer view of the regulatory environment**
- **To secure product supply at scale**
- **To further develop key markets**

While there is no doubt we have experienced delays and that our commercial milestones are not as advanced as we had expected, our team made excellent progress on all key indicators.

Rua's Strategy
Rua's strategic framework is robust and remains relevant. Creating new product and plant IP remains central to our commercial success as we seek to create a trusted and high-value range of medicines. Mangaoporo, Rua's centre of excellence in Ruatorea and home to our genetic breeding programme, is key to these aspirations.

Our ability to obtain medicinal cannabis supply at scale through our partner network has been secured with the FY22 acquisition of Zalm and their contract with Cann Group. Cann's ability to grow Rua-developed strains and to cultivate and manufacture finished GMP-certified medicines at scale affords us a significant opportunity.

The developing European medicinal cannabis market is estimated to be worth €2.3b by 2026[1] and presents a substantial opportunity. Rua further advanced its export strategy in FY22. We are poised to launch in Germany, Europe's largest and most advanced medicinal cannabis market, by year's end. We've also advanced key relationships in high-value markets across Europe. The Board expects these relationships will add significant value from FY23. Australia continues to be a market of interest.

Rua's Financial Position
Shareholders will note Rua reported a loss before tax of $7.49m in FY22. This position

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1 The European Cannabis Report: 7th edition: Reports. Prohibition Partners. (2022, April 8). Retrieved May 25, 2022.

was in line with the Board's expectations as Rua remains pre-revenue. Protecting our cashflow runway will be critical as we seek to build a sustainable company capable of creating intergenerational change. In FY23, Rua will continue to build revenue streams and the team will continue its robust approach to financial management, creating efficiencies across the business.

Governance
The Board's succession plan is designed to align with Rua's commercial pathway, ensuring Directors collectively have the appropriate skills required to govern through key phases of business growth.

In FY22, the Board recruited Teresa Ciprian, who brings a critical skill set as Rua transitions to commercialisation and further activates its export strategy. Teresa has an exceptional background in the highly competitive global FMCG market. She also brings strong governance capability having served on boards including Firstlight Foods Ltd, AgResearch, Prolife Foods, Food Standards Australia and New Zealand and Zespri. Teresa has a track record of helping develop highly capable leaders and strong brands, accumulating IP and seeing organisations flourish through continuous improvement. Teresa took up her position on 1 August 2022 (early FY23).

In August 2022, Martin Smith decided to retire as an Independent Non-Executive Director. Martin's retirement will be effective after our 2022 Annual General Meeting on 12 October 2022. Martin joined Co-founders, Manu Caddie and Panapa Ehau when Rua was at the conceptual stage and has been a key part of the governance team, guiding the business through to our NZX listing and preparing us for export markets. We wish Martin all the best for his future.

Farewelling Our CEO
In July, Rob Mitchell announced his retirement. Since his appointment as CEO in February 2020, Rob has built a world-class team, leading them through significant milestones and developing new strategic partnerships. Under Rob's leadership, Rua launched on the NZX, gained GMP certification, launched our first product in New Zealand, and developed new global market opportunities. The Board would like to thank Rob for his leadership and continued commitment to the vision of Rua's Co-founders, keeping kaupapa and community at the heart of the business.

While the Board looks to appoint a new Chief Executive Officer, Rua Director Anna Stove will lead the business as Managing Director. Her leadership and expertise in the pharmaceutical sector and deep knowledge of the company will enable Rua to maintain momentum.

The NZ Regulatory Environment
When we started our medicinal cannabis journey no one expected it would be as hard as it is, nor take as long as it has. COVID 19 has been a complicating factor, but the regulatory pathway has been torturous. One of the attractive things about New Zealand as a medicinal cannabis-producing country is our rigorous patient-focused regime. Rua welcomes the rigour, but we believe there is room for pragmatism. In FY23, we will continue to work with the regulators to create an environment that fosters commercial success.

Finally, on behalf of the Board, I would like to thank the Rua team, shareholders and stakeholders. It has been a year of significant success set against a challenging and ever-evolving backdrop. We look forward to the year ahead as we seek to build a global brand.

Trevor Burt
Chairman

Tēna tatou e hika ma, ko te hao o te ngākau e noho ora ana koutou katoa. Kei te mihi ki a koutou e tautoko ana i tenei kamupene.

Ahakoa ngā piki me ngā heke o te wā, ka kawe tonu matou i ngā mahi kia whakatutuki i nga wawata i wawatatia mō tēnei taonga.

In FY22, Rua remained focused on our key strategic priorities of GMP certification, commercialisation and supply. This has seen us launch our first medicine in New Zealand, develop a number of new export opportunities in Europe and further develop our team expertise.

Obtaining Good Manufacturing Practice (GMP) certification in September 2021 was a major milestone in itself, and the first step in our pharmaceutical manufacture and supply strategy. Twelve months later, we remain one of only two NZ medicinal cannabis companies that have managed to achieve this. It's a testament to our team navigating a pain-staking and time-consuming process to meet the highest possible international standards for pharmaceuticals.

GMP is the term used to describe the systems manufacturers of medicines are required to have in place to ensure their products are consistently safe, effective and meet minimum quality standards[2].

GMP certification led to our first medicine, which was manufactured in Gisborne and launched in New Zealand along with the country's first compassionate access programme in April 2022.

As part of our cultivation and supply strategy we bought Zalm Therapeutics (Zalm), which gave us access to Cann Group's (ASX: CAN) (Cann) dried flower. Cann's current cultivation capacity is 12,500kg. This gives us the ability to grow Rua genetics indoors at scale and to compete on the global stage. This was an extremely important step in our grower partner strategy.

In June 2022, we received our narcotics licence through Nimbus Health GmbH (Nimbus) for the distribution and marketing of our first product (a high THC flower) for the German cannabis market. This was another first for the NZ medicinal cannabis industry.

In July, we signed a five-year agreement with European cannabis distributor, Motagon, giving us the opportunity to supply the high value European market with a full portfolio of medicines including dried cannabis flower and full spectrum oils. Rua will be Motagon's exclusive NZ and Australian supplier in what is forecast to be a USD13.7b market by 2027[3].

Looking back at my 2 ½ years as Chief Executive, I am very proud of our company's achievements and the team who have been instrumental in making them happen. Taking over from our Co-founders, Manu and Panapa, dealing with the local and global impact of COVID 19, and listing Rua on the NZX made for a tough but exciting first 12 months.

We continued those achievements into 2021 and followed up in 2022, blazing a trail as an ambitious medicinal cannabis start up in what is an ever-changing and challenging environment. We never lost sight of our connection to Te Tairāwhiti and the responsibilities we carry as a company.

I look forward to my retirement knowing that the company, because of its people, is well positioned to enter a new phase as a competitive, innovative and commercially-focused pharmaceutical company founded on principles and values articulated by our Co-founders. Thank you for the opportunity to be part of this journey - it has been an honour.

Nōku te hōnore kia arahina i te kamupene o Rua i nga tau kua taha ake nei, kua tae te wā kia aro ahau ki nga kaupapa a whānau i te wā o te whakatā. Tenei ka mihi ki a koutou katoa.

Rob Mitchell
Chief Executive Officer

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2 www.medsafe.govt.nz/regulatory/guideline/nzgmpcodepart1intro.asp
3 www.marketdataforecast.com/market-reports/europe-medical-cannabis-market

Te Poari Ringatohu
Board of Directors

Rua Bioscience's Board of Directors brings together some of New Zealand's most experienced business people who collectively have the skills and attributes to govern the company in the interests of our shareholders. They possess a wealth of domestic and international expertise and are heavily invested in the Rua kaupapa.

Trevor Burt
Independent Non-Executive Chairman

Heamana Whakatū Pū Wehe Kē

BSc Chemistry

Trevor brings extensive corporate executive and governance experience to Rua Bioscience, having served in global executive roles with a Fortune 500 company, on the boards of innovative agricultural companies such as NZX-listed PGG Wrightsons, Silver Fern Farms and Market Gardeners NZ, and as Chair of Lyttleton Port and Ngai Tahu Holdings and the New Zealand Lamb Company. Trevor was appointed as Director and Chairman of Rua in August 2019.

Panapa Ehau
Executive Director, Co-Founder

Kaiwhakaū /Ringatohu
Ngāti Uepohatu, Ngāti Porou

BBS Management, PG Dip Marketing

Co-founder of Rua Bioscience, Panapa also established New Zealand's first tertiary training course for cannabis cultivation via the Eastern Institute of Technology. From Ruatorea, with a degree in management, Panapa is a co-founder of numerous social enterprises and holds governance roles across numerous for-profit and charitable organisations. Panapa lives in Te Tairāwhiti and has a focus on developing economic opportunities alongside his people. He has been a Director of Rua since its inception in October 2017.

Brett Gamble
Non-Executive Director

Ringatohu Whakatū Pū Wehe Kē

BCom Accounting and Finance, Chartered Accountant (CA)

Brett is an investment and finance specialist with global connectivity having lived and worked in USA, UK, Australia, and New Zealand. He is currently CEO of Gough Investments and Executive Director of Alvarium Investments (NZ). Brett is also a current Director of Alvarium Investments Australia, Mike Greer Homes and Mobile Medical Technologies and was previously Chair of Enable Networks and a director of Southbase Construction. Brett also Chairs a South Island based cancer charity Chalky Carr Trust. Brett was appointed a Director of Rua in November 2019.

Martin Smith
Independent Non-Executive Director

Ringatohu Whakatū Pū Pehe Kē

BCom Marketing, MInstD

Martin is a professional director with more than 25 years' experience in the consumer goods sector. He is the former Chief Executive of L'Oreal NZ and is a previous Regional Director for L'Oreal Asia Pacific, Western Europe, Africa, India and the Middle East. He has worked in London, Paris and Shanghai. Martin is currently on the boards of Damar Industries, Reefton Distilling Company, Mojo Coffee and Mons Royale. Martin was also on the board of a leading NZ cancer charity. Martin has been a Director of Rua since November 2018.

Anna Stove
Independent Non-Executive Director

Ringatohu Whakatū Pū Pehe Kē

Dip Nursing

Anna has a successful 25+ year track record leading and driving transformational change within the pharmaceutical sector. She has held various senior executive roles within NZ, the Asia Pacific and Europe, most recently as NZ General Manager for GlaxoSmithKline. She has a strong passion for improving the quality of life for all and to improve the outcome of businesses through driving strategic growth. Anna is a Director of Pacific Edge Ltd and Deputy Chair of TAB New Zealand. Her previous governance roles include Chair of Global Women NZ, Director of Medicines New Zealand, Vice-Chair of Pukekohe Park and Vice-Chair of Shooting Star Children's Hospice London, UK. Anna has been a director of Rua since May 2019 and was appointed Manging Director in August 2022 on the announcement of Rob Mitchell's retirement and as such is not currently an Independent Director.

Ngā Pou Matua
Senior Management

Our Executive Team strives for operational excellence with an unwavering focus on our company's crucial deliverables.

Rob MItchell
Chief Executive Officer

Kaiwhakahāere Matua

PG Dip Business

Rob is a highly experienced senior executive, having spent over 35 years in leadership roles for major global pharmaceutical companies, based both overseas and in New Zealand. He was a Senior Vice President, Head of Asia Pacific for The Medicines Company and Senior Vice President, Global Innovation Group Leader – Infectious Disease, based in New Jersey, USA. Prior to that Rob spent 18 years with Swiss pharmaceutical company F Hoffman La Roche (Roche), including roles as Managing Director of Roche Products (NZ), General Manager Roche Thailand and most recently as Head of Global Product Strategy, Roche based in San Francisco. Before joining Rua, Rob was CEO of NZ diagnostic healthcare start-up Caldera Health Limited. Rob started with Rua in February 2020.

Manu Caddie
Co-Founder / Innovation and Regulation

Kaiwhakaū / Kaihautu

Ngāti Pūkenga, Ngāti Hauā

BDes, PG Dip Education

As a member of the Ministerial Advisory Group that developed the regulations for New Zealand, Manu has been recognised as one of New Zealand's most trusted authorities on medicinal cannabis. He has contributed to the development of regulations in other countries, presented at the UK House of Commons and at a range of global cannabis and pharmaceutical industry events. Manu was elected three times by industry peers as Chair of the New Zealand Medical Cannabis Council. As Co-Founder and first CEO, he recruited a skilled team to establish Rua Bioscience as a sustainable business with global reach. Manu became an employee in August 2018.

Hamish White
Chief Financial Officer

Āpiha Kaiwhakahāere Pūtea

Ngāti Ruanui

CA, BCom, PG Dip Business

Hamish has been a key leader in the development of Rua Bioscience. He has been with the company from its early beginnings overseeing the company's financial evolution from crowd funding through to listing the company on the NZX. Hamish is a Chartered Accountant and has previously worked for BDO & PwC in business advisory, risk assurance and information systems roles. Hamish is experienced in working with ambitious start-ups and has been involved in developing the NZ medicinal cannabis industry, helping form the New Zealand Medicinal Cannabis Council (NZMCC) and serving as Treasurer. Hamish has grown up in Tairawhiti and has deep connections in the local community. Hamish became an employee in August 2018.

Paul Naske
Chief Operations Officer

Āpiha Kaitohutohu Matua

BSc, PG Dip Business

Paul has held a range of leadership positions in business strategy and development, including roles as General Manager of Corson Grain and as a Business Unit Manager at Fletcher Building. In his current role at Rua, Paul is responsible for the development of the GMP facilities and managing aspects of the company's day-to-day operations. Paul joined Rua in February 2019.

Dr Andrea Grant
Chief Commercial Officer

Āpiha Kaihoko Matua

PhD Molecular Neurobiology

Andi has carved out an international career commercialising medical innovations in the pharmaceutical and biotech industries. She came to Rua from Janssen Cilag Pty NZ, where she was the Market Access Manager commercialising innovative medicines for NZ patients. Her global experience includes senior business development roles at Incyte and Galapagos, as Management Director of Living Cell Technologies and at Roche as Government Affairs and Public Policy Manager. Andi joined Rua in June 2021.

Dr Jessika Nowak
Chief Research Officer

Āpiha Kairangahau Matua

PhD Food Microbiology

Born and raised in Germany, Jess joined the team at Rua having discovered the East Coast while travelling. Jess started her career as a pharmacist in Germany, having gained a licence to practice after completing her studies at the Eberhard Karl University of Tübingen in Germany. She started her PhD in Pharmaceutical Technology in Austria, developing new drug delivery systems, and completed her PhD in Food Microbiology at Massey University. Jess came to Rua from Leaderbrand in 2019.

Te Ara o Rua
Our Roadmap

Rua's journey started in 2015 as a result of the hard work and foresight of the Hikurangi Takiwa Trust. The Company was born out of a desire to increase the wellbeing of whānau and the whenua by providing sustainable, safe, well-paid employment to the people of Te Tairāwhiti, particularly Ruatorea.

2015-17

2015 Hikurangi Enterprises Limited formed as a result of public hui focusing on high value, environmentally sustainable opportunities for the East Coast.

2016 HBLP receives licence to cultivate Hemp.

2016 HEL forms Hikurangi Bioactives Limited Partnership (HBLP) to commercialise bioactive extracts from indigenous organisms and support local economic development in Te Tairāwhiti.

2017 Hikurangi Hemp Company Limited (HHCL) was incorporated.

2018

January HHCL renamed Hikurangi Cannabis Company Ltd.

March HBLP harvests 5,000 industrial hemp plants in preparation for transition to medicinal cannabis.

August First private company in NZ to receive a research licence to cultivate medical cannabis for research purposes.

August Research/ breeding programme established in Ruatorea.

August $2m of capital raised from WIL via crowdfunding.

September The company joins NZMCC as a founding member, Manu Caddie is president.

November $7m of capital raised from wholesale investors.

December Misuse of Drugs (Medicinal Cannabis Amendment Bill) passes, directing the government to establish a commercial medicinal cannabis regime.

2019

January Manu Caddie appointed to the Ministry's Medicinal Cannabis Advisory Group.

April Rua imports high THC seeds into NZ for planting.

August Trevor Burt appointed as Independent Chairman.

October HCCL renamed and rebranded to Rua Bioscience.

November First harvest completed under the medical cannabis research licence.

December Govt passes regulatory scheme for medicinal cannabis in NZ.

December $4m additional capital raised.

Our bid to spur rural economic growth from within, to look to innovation and a more sustainable way of creating wealth in Te Tairāwhiti is not new. We stand on the shoulders of giants and beside some inspiring companies, organisations and individuals.

2020

February Rob Mitchell appointed CEO.

February $3m of additional capital raised.

July Binding sales agreement with Nimbus.

August Gisborne manufacturing facility completed.

August Medicinal Cannabis Licence received.

October Ruatorea cultivation facility commissioned.

October $20m of additional capital raised at IPO.

November Rua began its GMP certification process.

2021

February First trial export to Germany.

April Recruited CCO, Dr Andrea Grant.

May Recruited Product Development Manager Dawn Smith.

June Hyperspectral Imaging project with the University of Waikato announced.

September Obtained GMP certification from Medsafe.

November Received an initial $376,000 grant from Callaghan Innovation to underpin Rua's $1.3m research fund.

December Medsafe verification that our first medicinal cannabis product meets Medsafe's minimum quality standards.

December Rua welcomed the East Coast Cannabis Company (E3C) as its first local cultivation partner.

2022

February Purchase of Zalm securing access to a supply contract for GMP-grade medicinal cannabis with Australian producer Cann Group.

April Rua launched its first medicine and a compassionate access programme, believed to be the first such programme for medicinal cannabis patients in Aotearoa, NZ.

June Rua received its narcotic license through Nimbus for distribution and marketing of its first product in Germany.

July Rua signs a five-year agreement with European distributor, Motagon.

Rua is a truly unique medicinal cannabis company - creating medicines for global patients, while creating sustainable economic opportunities for the people of Te Tairāwhiti for generations to come.

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Pete Sollitt - Ngāti Porou
Grower Technician

Darylene Rogers - Ngāti Porou
Kaiarahi, Community Engagement Coordinator

Our Vision

Creating cannabinoid-derived medicines that change people's lives; from right here in Te Tairāwhiti.

As New Zealand's premier medical cannabis company, Rua combines local knowledge and genetics, strategic global partnerships and ground-breaking intellectual property to create quality GMP-certified medicines for domestic and export markets. Our strategic focus includes:

Creating Unique Product and Plant IP

We will differentiate ourselves in the market by developing unique commercially viable cultivars. Working alongside respected research partners, we will create unique, sustainable and protected IP and cultivation techniques.

Developing New Products and Markets

Rua will achieve sustainable revenue by creating new and protected product formulations and developing new, attractive markets.

Optimising Cultivation and Processing

Our position as a trusted producer of medicines will be underpinned by operational excellence in cultivation and processing, obtaining the necessary licences and approvals for all processes, products and markets. We will achieve scale by developing key cultivation partnerships.

Developing our People

We will build a capable and committed team driven by kaupapa. A sustainable business model will provide employment pathways for the people Te Tairāwhiti now and into the future.

Delivering Long-term Value

Rua will deliver long-term value for our investors by seeking out credible commercial opportunities across the value chain, ensuring business resilience and prudent financial management, and championing social and environmental performance.

Nga Uara
Our Values

Are values define who we are and underpin everything we do as a successful, sustainable and trusted partner creating value for our people.

Ponotanga
We value diversity and act with integrity.

Whakawhanaungatanga
We collaborate for success.

Māuitanga
We're future-focused, celebrating courage, curiosity and innovation.

Oranga
We're passionate about the health of whānau and our whenua.

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Dried flower from Mangaoporo.
Photo credit: Eru Walker

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In FY22, Rua significantly advanced its entry into the German medicinal cannabis market. The company expects to be marketing dried flower by the close of calendar year 2022.

Ngā Kōrero mō ngā Pūtea
FY22 Financial Commentary

In FY22, Rua focused on preparing for market entry – securing partners and developing the frameworks and strategies that will give the company the best chance of success both in New Zealand and globally. By the close of the year, Rua had launched its first product in New Zealand and established an end-to-end cultivation and supply solution that is both flexible and scalable.

Mergers and Acquisitions
FY22 was marked by the acquisition of Zalm Therapeutics, throwing further weight behind Rua's ambition to become New Zealand's premier medicinal cannabis company.

In January 2022, shareholders overwhelmingly approved the purchase, through the issue of 28,735,632 shares over three years to Zalm Therapeutics shareholders based on the achievement of agreed milestones.

The acquisition provided Rua with a long-term supply contract for GMP-grade medicinal cannabis through Cann Group, using our unique cultivars. Cann's new AUD 120m cultivation and processing facility at Mildura is considered one of the largest and most advanced in Australasia. The first stage of its construction capable of producing 12,500 kilograms of dried cannabis flower per year and ultimately up to 70,000kg of dried cannabis flower per year.

Combining speed to market, with long-term preferential access, to substantial volumes of very competitively priced product will allow Rua to build a meaningful market presence faster and with a greater economy of scale. This is a major competitive advantage as Rua seeks to establish new markets.

Income
Rua's total income for FY22 was $646k, derived from contracts from customers and funding from NZTE, Callaghan Innovation, and the Research Development Tax Incentive.

Rua received revenue for its first New Zealand medicine late in the financial year. These sales have begun to show strong growth. The New Zealand prescriber environment is best described as emerging but increasingly engaged as the market better understands the role cannabinoids can play in mainstream medicine. Rua will support this evolving market and build market share in the new financial year, increasing the volumes and range of medicines it delivers to New Zealand patients.

Europe remains the world's most advanced medicinal cannabis market, primarily driven by increasing prescriber recognition of its medical and therapeutic benefits. In the next financial year, Rua expects to drive export revenue as the company enters new high-value markets right across Europe.

Research and Development
R&D is the lifeblood of any pharmaceutical company. If Rua is to succeed in the long term, the company must also focus on those projects that will drive value in the medium to longer term. This year, the company increased its investment in research and development to $2.98m, with a particular focus on developing medicinal cannabis products that are unique to the global market.

Rua's search for unique medicines starts at Mangaoporo, Rua's cultivation centre of excellence and plant science. In FY22, Rua's indoor cultivation team continued to develop the unique varieties Rua will cultivate at scale in Cann's GMP-certified facility in Mildura.

Their work indoors was complemented by that of Rua's cultivation partner, the East Coast Cannabis Company, which grew approximately 100kgs of medicinal cannabis at Rua's 3,000m^2 outdoor trial facility.

In FY22, the addition of a product development manager and quality assurance enabled Rua to expand the R&D capacity of the company's manufacturing site in Gisborne.

Loss for the Year
In line with the company's expectations, Rua had a net loss before tax for the year ended 30 June 2022 of $7.49m.

Balance Sheet
Rua remains well capitalised with investments, cash and cash equivalents on hand at the end of the year of $9.94m.

The company constantly monitors cashflow to ensure it has the appropriate resources to meet key milestones. As Rua moves to invest in sales and marketing and the building of revenue streams, the company will continue its cautious approach to financial management.

In FY22, Rua included the acquisition of Zalm Therapeutics in its financial results. Notably, Rua recognised intangible assets related to the favourable supply contract with Cann Group and resulting goodwill. As the contract is milestone based, Rua also recognised two contingent liabilities, both of which are subject to particular milestone achievements.

As at the end of the financial year, the total assets of the Group were $33.6m with total liabilities of $9.38m, resulting in net assets of $24.2m.

Māwhiti mai ki ngā Whakatutukitanga
Achievements at a Glance

Rua received Good Manufacturing Practice (GMP) certification from Medsafe.

Rua received verification that its first medicinal cannabis product meets Medsafe's quality standards.

Rua welcomed the East Coast Cannabis Company (E3C) as its first local cultivation partner.

Rua shareholders overwhelmingly approved the purchase of Zalm and its supply contract for GMP-grade medicinal cannabis with Australian producer Cann Group.

Rua launched its first medicine for New Zealand patients.

Rua received its narcotic license through Nimbus Health GmbH (Nimbus) for the distribution and marketing of its first product for the German medicinal cannabis market.

Subsequent Activity

Rua signed five-year agreement with European Medicinal Cannabis Distributor, Motagon to become its preferred Australia/NZ supplier of medicinal cannabis products.

Māwhiti mai ki ngā Hua Nui
Results at a Glance

Cash, Cash Equivalents and Investments
$9.94m

Total Income
$0.65m

Investment in R&D
$2.98m

Loss before tax
-$7.49m

Net assets
$24.2m

Talmage Herbert – Ngāti Porou, Te Rārawa
Grower Technician Kaitipu

Mātauranga Ahumahi
Industry Insights

Aotearoa

New Zealand's regulatory framework, the Medicinal Cannabis Scheme, took effect on 1 April 2020 enabling the research, manufacture and supply of medicinal cannabis products in New Zealand. The introduction of the scheme also enabled a dynamic world-class industry, with companies such as Rua pioneering this emerging sector.

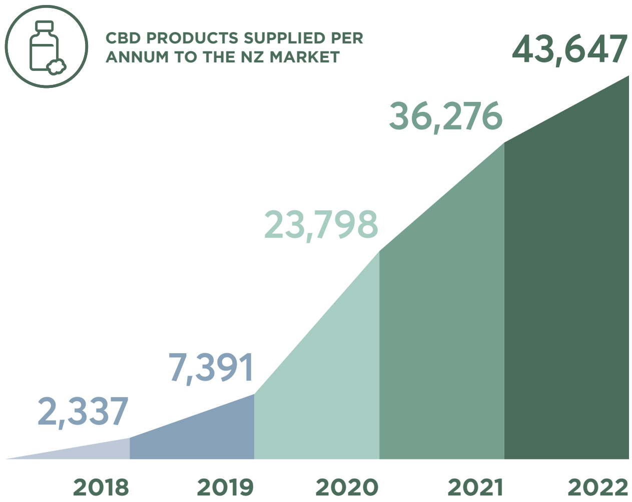
Data released by Manatū Hauora, the Ministry of Health, shows that the number of packs of medical cannabis prescribed and supplied in New Zealand is growing at an average rate of 228% annually. The number of packs supplied in New Zealand in the year to April 2022 was just over 43,500 compared to 36,000 in 2021.

New Zealand prescribers are increasingly engaged and curious as they better understand the role cannabinoids can play in conventional medicine. While not always considered a first-line treatment, practitioners are increasingly willing to trial medicinal cannabis where patients are not responding to, or are intolerant of, standard treatments. In FY22, the medicinal cannabis prescriber base was further bolstered by a rise in the number of specialist clinics dedicated to prescribing cannabinoid-derived medicines for a range of painful and highly complex medical conditions.

Affordability and equity remain issues. It has been estimated that around 5% of New Zealand's adult population uses illegally sourced cannabis for medicinal purposes, with pain, anxiety and depression being the leading reasons for self-medicating[4,5]. The extent to which these medicinal cannabis users will transition to the legal prescribed medicinal cannabis regime will depend on a range of factors, including the perceived affordability and availability of prescriptions[6].

To ensure a successful, sustainable and patient-focused future, Rua remains committed to delivering a range of products to the NZ market as well as working with the industry and the regulator to remove unnecessary barriers to patient access. As the industry begins its review Rua will continue to advocate for:

1. Subsidies for cannabis-derived medicines.
2. Provisional consent for medicines with Phase 1 and 2 clinical trial data, enabling some marketing to healthcare professionals.
3. Low-dose CBD (which has a low-risk profile) made available over the pharmacy counter.
4. ACC and MSD to fund legitimate medicinal cannabis prescriptions for their clients.
5. New Zealand Government recognition of the production standards and requirements of each export jurisdiction on a case-by-case basis.



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4 Pledger M, Martin G, Cumming J. New Zealand Health Survey 2012/13: characteristics of medicinal cannabis users. NZ Med J. 2016;129(1433):25-36.
5 Rychert M, Wilkins C, Parker K, Graydon-Guy T. Exploring medicinal use of cannabis in a time of policy change in New Zealand. New Zealand Medical Journal. 2020;133(1515):54-69.
6 Rychert M, Parker K, Wilkins C, Graydon-Guy T. (n.d.). Predictors of medicinal cannabis users' willingness to utilise a new prescription medicinal cannabis scheme in New Zealand. New Zealand Medical Journal. Retrieved September 2, 2022, from journal.nzma.org.nz/journal-articles/predictors-of-medicinal-cannabis-users-willingness-to-utilise-a-new-prescription-medicinal-cannabis-scheme-in-new-zealand.

Mātauranga Ahumahi
Industry Insights

Europe

From its outset, Rua has understood that it must go global to support local and has had its eye on the developing European medicinal cannabis market, which is estimated to be worth €2.3b by 2026[7].

In addition to Germany, where Rua will launch product later this year, there are a number of tier one countries within which a viable domestic medicinal cannabis market has been established and where export-focused companies, like Rua, might expect to expand.

GERMANY

€7.7b by 2028

60,000 Currently

Established in 2017, Germany is by far the largest and most developed medicinal cannabis market in Europe.

Here, clinicians can prescribe medicinal cannabis for a variety of conditions and around 60-70% of those prescriptions are paid for (reimbursed) by Statutory Health Insurers. Reimbursed sales are complimented by a substantive private paying market.

In Germany, 72% of medicinal dried cannabis flower prescriptions are issued for the treatment of pain. 77% of those prescriptions are for high THC flower.

To succeed in Germany, companies require differentiated product and a strong domestic sales and marketing presence. The market shows a lot of promise. Analysts expect the German market to be worth €450m and to have grown to 147,000 patients by the close of 2023 and to be worth €7.7b by 2028[8].

POLAND

€2b by 2028

4,122 Currently

The Polish medicinal cannabis market was established in 2017 and is widely regarded as having a burgeoning domestic market being a major importer of dried flower. In some instances, Polish medicinal cannabis patients have their prescriptions funded by Statutory Health Insurance.

The Polish medicinal cannabis market is expected to be worth at least €2b by 2028[9].

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7 The European Cannabis Report: 7th edition: Reports. Prohibition Partners. (2022, April 8). Retrieved May 25, 2022.
8 The German Cannabis Report. Prohibition Partners (October, 2019).
9 Prohibition Partners. (2022). (rep.). The Poland Cannabis White Paper. Retrieved June 3, 2022.

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Inside Cann Group's Mildura facility. Photo courtesy of Cann Group

CZECHIA

€5m by 2023

2,833 Currently

The Czech Republic is one of the most progressive medicinal cannabis markets in Europe. It has seen steady growth over the last five years, largely thanks to a comprehensive public reimbursement programme whereby up to 90% of medical cannabis costs are covered by the Government[10].

In Czechia, doctors with a specialist qualification in areas such as oncology, neurology and geriatrics can prescribe medicinal cannabis for specific indications. 80% of the prescriptions issued here are for chronic pain.

Because the domestic supply chain is relatively immature, Czechia holds a lot of promise for exporters. Recent reports suggest the Czech market will be worth €5m and to have grown to 7,000 patients by the end of 2023.

THE UNITED KINGDOM

€1b by 2029

2,900 Currently

The United Kingdom's medicinal cannabis market was established in 2018 and has been driven by a handful of market access and cannabis manufacturing startups. The market relies heavily on imported flower and full spectrum extracts.

The UK's National Institute for Health and Care Excellence (NICE) has set strict guidelines around the indications for which medicinal cannabis can be prescribed. Responsibility for prescriptions lies mostly with individual doctors, who must be specialists in the field of the indication.

Despite its challenges, the market is expected to grow to €49m and 19,000 patients by the close of 2023 and could be worth €1b in the next seven years.

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10 The European Cannabis Report: 7th edition: Reports. Prohibition Partners. (2022, April 8). Retrieved May 25, 2022.

Whakamāramatanga mahi
Operational Insights

Te Whakaterenga o te Hua Tuatahi o Rua ki nga Tūroro kei Aotearoa
Rua Launches First Product for New Zealand Patients

The launch of Rua's first medicine in New Zealand in April 2022 was a milestone for patients, prescribers and the medicinal cannabis industry.

At the time, Rua was one of just two companies in New Zealand locally manufacturing medicinal cannabis to the minimum quality standards as set out by the Medicinal Cannabis Agency.

The product launch was complemented by the launch of our compassionate access programme, which has proven to be a meaningful way to enable prescribers to supply medicinal cannabis to those in our community who are most in need of it.

Rua is committed to creating a range of quality medicines with significant health benefits. We have invested significantly in a full product pipeline destined for local and global markets. We're delighted to now play our part in expanding patient choice here in Aotearoa.

Te Whakawhanake Huanga hei Ratonga ki ngā Mākete o te Ao Whānui
Developing Production Capacity to Service Further Global Markets

In FY22, Rua acquired Zalm and developed an end-to-end cultivation and supply solution. The company believes this will prove a major competitive advantage as new markets are established and as the company seeks to build a sustainable business model that creates intergenerational change.

Approved in January 2022, the acquisition of Zalm provides Rua with a long-term supply contract for GMP-grade medicinal cannabis through Cann Group. Cann's new AUD 120m cultivation and processing facility at Mildura is considered one of the largest and most advanced in Australasia. Mildura is currently capable of producing 12,500 kilograms of dried cannabis flower per year. Once fully commissioned, it will produce up to 70,000kg of dried cannabis flower per year.

Working at scale with an Australian cultivation partner enables Rua to build sustainability on multiple horizons.

Through Cann, Rua has preferential access to substantial volumes of very competitively priced product, which allows Rua to build a meaningful market presence faster and with a greater economy of scale. Rua will begin exporting from Australia to Germany at the end of calendar year 2022. Additionally, this acquisition immediately enabled Rua to advance relationships in emerging, high-growth markets including the Czech Republic, Poland and the UK.

This arrangement also gives Rua the ability to export its unique East Coast genetics currently under development by the company's cultivation team at Mangaoporo. Consistent with Rua's original capital-light business model, this enables Rua to supply global patients with unique, Rua-developed medicinal cannabis products in a range of platforms, without the need to invest heavily in infrastructure.

—

Top right: Aerial of Mangaoporo
Bottom right: Gisborne facility

E hanga ana i tētahi kamupene rongoā toa o te ao, mai tuawhenua
Developing a World-class Pharmaceutical Company on the World's Edge

In September 2021, Rua received Good Manufacturing Practice (GMP) certification from Medsafe, enabling the company to manufacture its first medicinal cannabis product. GMP certification is the global standard for all pharmaceuticals and certifies that Rua can manufacture a product that is consistently safe and of acceptable quality. GMP is a prerequisite for both domestic and export medicine sales.

Since the launch of Rua's first product in April, the company's Gisborne-based production team has been focused on the company's immediate commercial priorities, ensuring Rua's New Zealand patients have consistent access to Rua medicines.

In FY22, Rua's Gisborne-based team also furthered critical projects related to plant science and product development. R&D is critical for all pharmaceutical companies and especially for Rua as we look to develop medicinal cannabis products that are unique to the global market. The team is undertaking innovative ventures including the existing hyperspectral imaging project, which looks to revolutionise crop management practice; advancements in CO_2 extraction; and DNA tracking and protection of unique Rua cultivars.

Rua's cultivation centre of excellence at Ruatorea continues to drive unique cultivar development. The facility at Mangaoporo includes six growing rooms with specialist seed production capability as well as a 3,000m^2 outdoor production and research growing facility.

In FY22, Rua's indoor cultivation team continued to establish the varieties that Rua will be able to grow at scale in Cann's GMP-certified facility in Mildura and produce R&D crops for our Gisborne team. Additionally, our new cultivation partner the East Coast Cannabis Company produced an exceptional 100kg outdoor trial crop.

Together our cultivation and manufacturing teams are an incubator of medicinal cannabis innovation, furthering Rua's aspiration to produce next-generation pharmaceuticals.

—

Right: Inside Cann Group's Mildura facility. Photo courtesy of Cann Group

Te Kōkiritanga a Rua ki te Mākete o Tiāmana
Rua Significantly Advances German Market Entry

In June 2022, Rua received its narcotic license through Nimbus Health for the distribution and marketing of the company's first product for the German medicinal cannabis market – a move understood to make Rua the first medicinal cannabis company from New Zealand to take such a step. The approval of the application will enable Nimbus to distribute and market our products in Germany by the end of calendar year 2022.

At its launch, the company believes Rua's flower will be one of the highest THC dried flower medicines on the market, which will give Rua a significant competitive advantage. Through its partnership with Cann Group, and with Nimbus as a distribution partner, Rua is well-positioned to provide German patients with sustainable access to its product for many years to come.

Kua rite a Rua hei kaiwhakarato Rautini ki nga motu o Ūropi
Rua set to become a substantive Australasian supplier of cannabis-based medicines across Europe

In FY22, Rua's commercial team significantly advanced the company's export strategy, announcing in early FY23 that the company had signed an agreement with European medicinal cannabis distributor, Motagon, to become its preferred Australia/NZ supplier of medicinal cannabis products.

The agreement will see Rua and Motagon form a five-year manufacturing and supply agreement giving Rua the first opportunity to supply the European distributor with a full portfolio of medicines, including dried cannabis flower and full spectrum oils, in a range of high-value European markets.

Under the deal, Motagon and Rua reach supply agreements for each product and territory. From there, the necessary regulations will be worked through to launch Rua and Motagon medicines in those territories.

This agreement with Motagon gives Rua access to high-value European markets, backed by a leading distributor of cannabis-based medicines in the European Union.

Motagon is a subsidiary of Heaton, a Czech pharmaceutical company with 20 year's experience in the pharmaceutical industry. Motagon is focused on introducing a broad range of cannabis-based medicines to the European Union. The company is active in 20 countries across Central and Eastern Europe in countries including Poland, the Czech Republic, Malta and Croatia.

The European medicinal cannabis market is valued at USD 4.96b and is expected to reach USD 13.37b by 2027[11].

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11 www.marketdataforecast.com/market-reports/europe-medical-cannabis-market

Whai Hua mo Apōpō
Towards Sustainability

What does sustainability mean at Rua?

Like many rural populations, the East Coast of New Zealand has been impacted by decades of slow economic growth – opportunities in urban centres encouraging our people away from whānau and whenua. The options for haukāinga (those who have remained), particularly in the primary industries are often unsafe and unsustainable.

As a business with a deep sense of kaitiakitanga, Rua believes it is responsible for protecting and nurturing the environment and sharing the benefits of a successful business with its community. Rua's intergenerational view comes from a deep-seated belief that great business is good for the land and its people.

The Rua Sustainability Framework guides Rua's sustainability programme. It shapes the way the company engages with stakeholders; supports sustainable decision-making processes at all levels of the company; shapes business strategy; guides innovation; drives better performance; creates value and attracts investment.

Taking Action on Climate Change

During FY22, Rua progressed its Toitū Envirocare journey. The Board has taken the first steps to impactful climate action by approving Rua's carbon transition plan and building the company's understanding of how much carbon its operations generate.

The company has begun to measure its greenhouse emissions with a view to strategically managing emissions from its every day activities. Rua is measuring all operational emissions required under the international standard for carbon footprints, ISO 14064-1, including vehicles, business travel, fuel and electricity, paper, and waste. The company is also assessing significant impacts in the supply chain, and considering how best to meet the Greenhouse Gas Protocol requirements for corporate accounting and reporting. We are exploring Science Based Targets initiative requirements for reduction target setting, and CDP requirements for disclosure.

Cultivation Quality Assurance

Good Agricultural and Collection Practices (GACP) is a key quality assurance step in the growing of medicinal cannabis. GACP is a series of technical guidelines for the best-practice cultivation and collection of medicinal plants and for the recording of data so that growers can create high quality, consistent products that later pass authorization by agencies that are in charge of licensing the manufacture and sale of pharmaceutical products. Rua requires all commercial grower partners to hold GACP certification. While Mangaoporo focuses on the cultivation of R&D crops and genetic development GACP is not required.

Developing Sustainable Pathways

Rua aspires to develop pathways into high-value jobs within our company and across the medicinal cannabis industry. In FY21 the company developed its internship programme, offering a cultivation internship in Ruatorea and progressing plans for another in Gisborne. Rua scholarships were awarded to inspiring rangatahi undertaking graduate and post graduate study in areas related to Rua's business or kaupapa. More details on the internships, scholarships and further work in the community can be found on the following pages.

Aligning Governance

In FY22, Rua focused on strengthening its approach to ethical governance. A Code of Ethics was added to Rua's Code of Conduct and a Modern Slavery Policy was adopted. Diversity and Inclusion and Ethics training was scoped and will be rolled out company-wide in FY23.

Measuring Impact

In FY22, Rua's Community Engagement team established a framework by which the company will measure its impact across a range of deliverables. The framework will provide transparency to our community, shareholders, management and board by monitoring those impacts central to our kaupapa and social licence to operate.

Rua's priorities for FY23 are as follows:

Photo credit: Damon Meade

Impact Area	Target
Environmental	Complete the Toitū Envirocare carbon audit as the base year.
	Improve the quality of data captured for carbon reporting while simplifying data collection.
	Analyse key emissions factors (Category 1 & 2) for reduction opportunities that are consistent with commercial objectives.
	Investigate renewable energy utilisation.
Social	Monitor worker health and wellbeing and create a mechanism to support staff in managing their health and wellness.
	Implement base year of data collection points for community impact monitoring.
	Continue to contribute to cannabis law and regulations reform with a focus on deregulation of CBD.
	Develop a safe and trustworthy path for NZ cannabis genetics to enter a research and development pathway, with opportunities for commercial cultivation.
	Provide scholarships and further education and training opportunities to local rangatahi aligned with Rua kaupapa.
Governance	Establish an Anti-corruption policy.
	Implement board succession plan to enhance overall capabilities.
	Define what diversity means for Rua and set objectives for diversity in the management team and board group.
	Continue with aspiring director development programme.

Whakapā atu ki te Iwi Whānui
Community Engagement

Rua Bioscience is focused on increasing the wellbeing of whānau and the whenua by providing sustainable, safe, well-paid employment to the people of Te Tairāwhiti, particularly Ruatorea.

While the environment within which Rua operates is ever-evolving, the company's mission remains constant – to maximise the potential of the emerging medicinal cannabis industry to enhance health, heal the whenua and restore prosperity.

In 2020, Trust Tairawhiti committed $50,000 over two years to Rua's community capability development projects. This funding was matched by Rua and managed by the company's Community Engagement Coordinator. The fund supported the Rua Bioscience Scholarships, Careers Series, Rua Internships, Student exposure visits and the industry exposure visits.

In FY22, Rua continued its commitment to effective change focusing on inspiring the next generation of scientists and entrepreneurs.

Rua Bioscience Scholarships

In 2021/2022, Rua awarded eight *He ara atawhai – He Kākano Undergraduate Scholarships* and two *He ara Atawhai – He Puāwai Postgraduate Scholarships.*

The undergraduate scholarship recipients are studying a range of subjects including Dentistry, Sociology, Te Reo Maori, Indigenous Studies, Psychology, Agribusiness, Business and Engineering. Rua's post graduate scholarship recipients are completing a Post Graduate Diploma in Teaching based in Ruatorea and Cannabis Research at Victoria University.

"The 'cost of living' was something I was concerned about as a new student in a new town. The scholarship helped me with those costs."
– Manaia Beach Undergraduate Scholarship recipient

Student Exposure Visits to Rua Bioscience

This year, Rua guided four kura from Te Tairāwhiti through its Mangaoporo cultivation facility as part of the company's student exposure visits. The students experienced first-hand the indoor cultivation process and heard about the potential career pathways available to them here at home.

Rautini
Renaming Medicinal Cannabis

The phrase *taru rongoā* is commonly used as the translation for medicinal cannabis in Aotearoa but is not one that Rua has actively embraced. While *rongoā* generally refers to medicines, the use of *taru* has perplexed the team.

Taru refers to a weed or plant of little significance and carries forward negative connotations from the illicit market where marijuana is referred to as *taru kino* or bad weed. It is the company's view that this isn't an appropriate phrase to use in a pharmaceutical context so, in FY22, Rua sought expertise in reo Māori translation to find a more fitting word.

Rautini is a term coined by Ngarimu Parata, which he gifted to Rua Bioscience as the Māori name for medicinal cannabis.

Ngarimu is a man versed in Te Reo me nga tikanga o Ngati Porou, he is an official translator with Te Taura Whiri i te Reo Māori and is currently the Chief Advisor Māori at the Reserve Bank of New Zealand.

The term *Rautini* considers the plant, its functions, and its medicinal properties and better reflects its pharmaceutical use. *Rautini* describes the photosynthetic functions and the multitude of medicinal and healing properties of the cannabis plant.

Rua has trademarked the name to ensure its protection against commercialisation, infringement and damage of reputation. With the blessing of Ngarimu Parata, Rua has also gifted the name to the New Zealand Medicinal Cannabis Council (NZMCC) so that *Rautini* can be used in place of medicinal cannabis industry wide.

Tēnei te mihi ki a Ngarimu Parata, nāna tēnei kupu ataahua i tākoha mai, nāna anō te whakamāramatanga o te kupu.

Rautini Translation

Ra *– sun, or sun's rays.*

U *– is the absorption of the sun's rays into the leaf, it also refers to the female breast that provides milk and sustenance, this refers to the health benefits of the plant.*

Rau *- is the Māori word for leaf.*

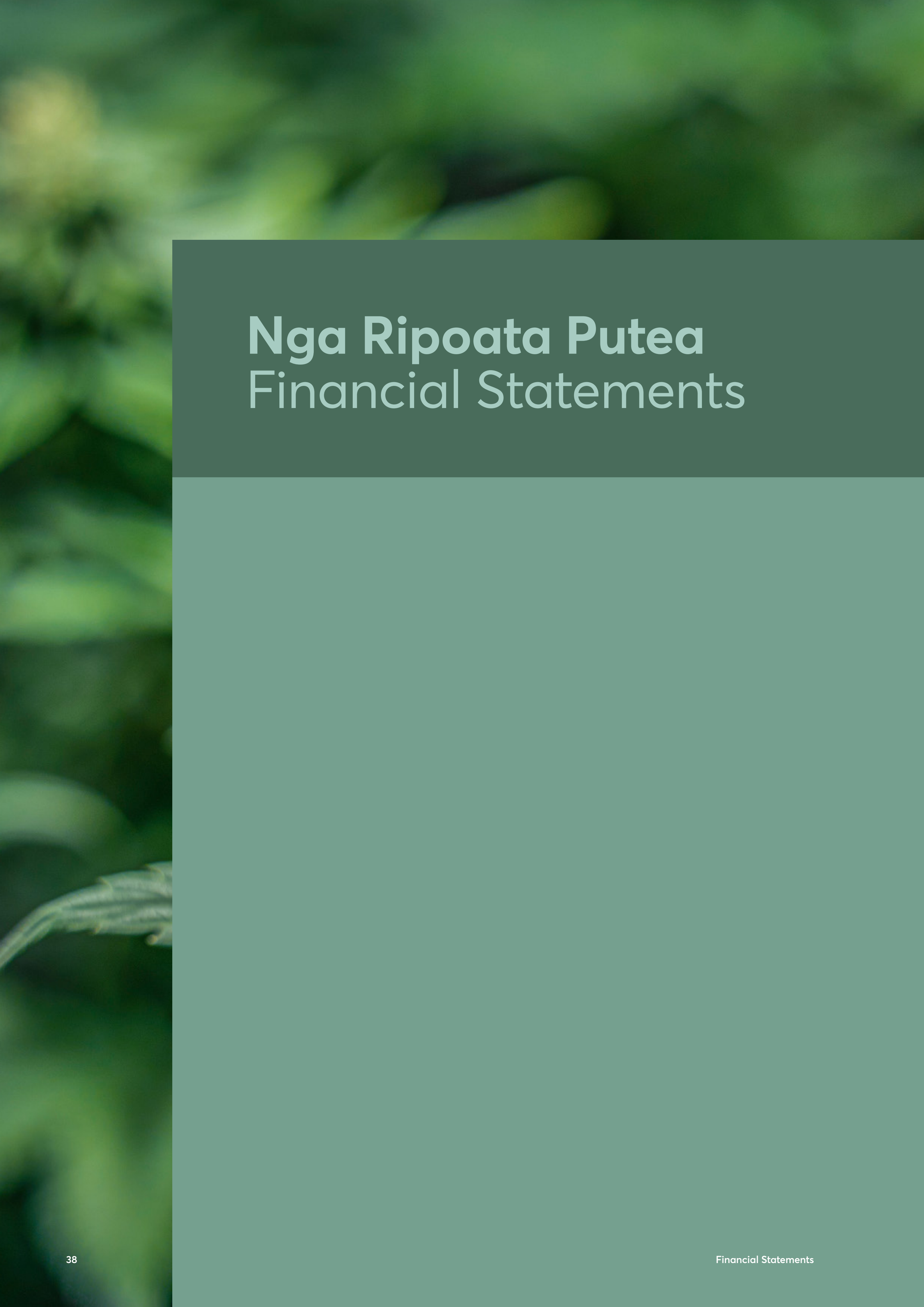
Rau *– also means 'hundreds' and to 'place into,' so its interpreted to mean 'where many innovations and ideas are placed into'.*

Tini *– means 'many' or 'multiple' and refers to the many health benefits of the plant.*

When you add the words 'Rau' and 'Tini' together it is 'multiples of multiples' and that reflects the multiple opportunities and possibilities of the plant and its medicinal qualities.

Industry Exposure Visit

Rua's Industry Exposure Trips involve facilitated visits to Rua's R&D partners at universities, CRIs, government agencies and other businesses. In FY22, Rua worked with Ngata Memorial College, taking nine students to visit industry partners in Auckland. The trip was hosted in September of FY23 and included visits to The University of Auckland, ESR, Plant and Food Research and Manaaki Whenua.



Nga Ripoata Putea
Financial Statements

Rārangi Pūrongo Pūtea
Index to the Financial Statements

OTHER INFORMATION

Independent auditor's report

To the shareholders of Rua Bioscience Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of Rua Bioscience Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers, Level 3, 6 Albion St, PO Box 645, Napier, 4110, New Zealand
T: +64 6 835 6144, pwc.co.nz

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

PwC

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

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

Our audit approach

Overview

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

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

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

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

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

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

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

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

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

Napier

29 August 2022

PwC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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2022

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

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

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

Consolidated Statement of Financial Position

As at 30 June 2022

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

The consolidated financial statements on pages 46 to 91 were approved and authorised for issue by the Board of Directors on 29 August 2022 and were signed on its behalf by:

______________ (Director) ______________ (Director)

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

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2022

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

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

Notes Forming Part of the Financial Statements

For the year ended 30 June 2022

1. Reporting Entity

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

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

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

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

(b) Significant accounting policies

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

(c) Basis of measurement

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

2. Basis of preparation (continued)

(d) New standards, interpretations and amendments

(i) Adopted during the period

Inventory and Revenue recognition

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

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

Consolidation

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

(ii) New standards mandatorily effective during the period

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

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

(iii) Issued, but not yet effective

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

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

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

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

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

2. Basis of preparation (continued)

(e) Accounting estimates and judgements made

The preparation of the consolidated financial statements, in conformity with NZ IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis, with revisions to accounting estimates recognised in the period in which the estimates are revised and in any future periods affected.

Details of significant judgements and estimates made by management include:

Judgements

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

Estimates

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

(f) Going Concern

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

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

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

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

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

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

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

2. Basis of preparation (continued)

(g) Estimates and assumptions

Fair value measurement

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

Determining the fair value of these assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):
- *Level 1:* Quoted prices in active markets for identical items (unadjusted)
- *Level 2:* Observable direct or indirect inputs other than Level 1 inputs
- *Level 3:* Unobservable inputs (i.e. not derived from market data)

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

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.
- Borrowings, disclosure of fair value (note 4)
- Financial assets and liabilities at amortised cost, disclosure of fair value (note 4)
- Contingent consideration (note 13)
- Valuation of intangible assets in a business combination (note 13)
- Share-based payments measured at fair value (note 23)

h) Basis of consolidation

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

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

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

(i) Impairment of non-financial assets

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

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

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

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

3. Segment Reporting

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

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

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

4. Financial Instruments and Financial Risk Management and Capital Management

This note describes:

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

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

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

(A) Financial instruments recognised

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

Financial Assets

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

Amortised Cost

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

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

4. Financial instruments - Risk Management (continued)

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.

Financial liabilities

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

Financial liabilities at fair value through profit and loss

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

Other financial liabilities at amortised cost

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

These financial liabilities are:

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

4. Financial instruments - Risk Management (continued)

Categories and fair values of the Group's financial instruments

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

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

2022: (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.
2021: (a) Due to their short-term nature, the carrying value of these financial instruments approximates their fair value.
(b) Due to the market rate of lending for the remaining term and outstanding balance not being materially different from the current effective interest rate, the carrying value of these financial instruments approximates their fair value.
(c) Not required to be disclosed per NZ IFRS 7.

4. Financial instruments - Risk Management (continued)

(B) Financial risk management

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

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

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

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

(a) Credit risk

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

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

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

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

	Credit rating[(a)]	Cash and cash equivalents	Investments	Other receivables	Total
30 June 2022	**$**	**$**	**$**	**$**	**$**
Kiwibank	A1, AA	1,897,285	8,041,493	-	9,938,778
ANZ	A1, A+	-	-	500,000	500,000
Total		**1,897,285**	**8,041,493**	**500,000**	**10,438,778**
30 June 2021	**$**	**$**	**$**	**$**	**$**
Kiwibank	A1, AA	3,359,479	13,041,549	-	16,401,028
Total		**3,359,479**	**13,041,549**	**-**	**16,401,028**

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

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

4. Financial instruments - Risk Management (continued)

(b) Market risk

Market risk arises from the Groups:

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

i. Interest rate risk

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

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

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

ii. Foreign exchange risk

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

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

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

(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.

4. Financial instruments - Risk Management (continued)

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

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

(C) Capital Management

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

The Group's capital structure consists of Equity of the Group (comprising issued capital and retained earnings). The Group is not subject to any externally imposed capital requirements.

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

5. Revenue from contracts with customers

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

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

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

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

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

5. Revenue from contracts with customers (continued)

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

- The Distributor is responsible for fulfilling the promise to provide goods to the end customer;

- The Distributor takes physical possession of the goods before they are delivered to the end customer, and assumes all substantive inventory risk associated with the goods; and

- The Distributor has discretion to set the price for goods sold to the end customer.

Determining the transaction price - Variable consideration

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

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

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

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

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

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

Repurchase agreements

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

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

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

6. Other Income

(i) Government grants

AGovernment 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:

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

7. Expenses

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

Included in the above:

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

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

7. Expenses (continued)

(i) Research and development

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

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

(ii) Fees paid to auditors

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

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

8. Income tax

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

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

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

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

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

(i) Income tax recognised in profit or loss

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

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

8. Income tax (continued)

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

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

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

(iii) Imputation credits

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

(iv) Deferred tax

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

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

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

8. Tax expense (continued)

(iv) Deferred tax (continued

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

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

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

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

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

9. Notes Supporting Statement of Cash Flows

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

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

(1) Excludes accruals for interest income (investing activity)
(2) Excludes accruals for interest expense (financing activity), and payables related to property, plant & equipment (investing activity)
(3) Depreciation of $1,931 (2021: nil) and amortisation of $ 207 (2021: nil) related to building facilities and plant and equipment used to manufacture products is included in changes in inventories of finished goods and work in progress.

9. Notes supporting statement of cash flows (continued)

(ii) Changes in the Group's liabilities arising from financing activities (cash and non-cash)

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

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

10. Earnings per share

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

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

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

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

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

11. Inventory

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

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

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

11. Inventory (continued)

Amounts recognised in profit or loss

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

Consignment stock

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

12. Property, plant and equipment

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

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

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

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

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

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

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

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

12. Property, plant and equipment (continued)

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

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

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

13. Goodwill and Business Combinations

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

Goodwill resulting from business combinations represents the excess between:

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

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

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

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

(i) Business combinations during the year

Acquisition of Zalm Therapeutics Limited

(a) Summary of the acquisition

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

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

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

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

(b) Purchase consideration

Details of the purchase consideration are as follows:

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

13. Goodwill and Business Combinations (continued)

(i) Ordinary shares issued

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

(ii) Contingent consideration payable - shares

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

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

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

Milestone 1

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

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

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

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

Milestone 2

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

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

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

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

13. Goodwill and Business Combinations (continued)

(iii) Contingent consideration payable - cash

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

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

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

(iv) Contingent consideration at reporting date

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

Valuation inputs and relationships to fair value

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

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

13. Goodwill and Business Combinations (continued)

(iii) Net cash flow from acquisition

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

(v) Net identifiable assets acquired

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

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

13. Goodwill and Business Combinations (continued)

Valuation inputs and relationships to fair value

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

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

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

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

(d) Goodwill recognised

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

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

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

Goodwill is not deductible for tax purposes.

(e) Revenue and profit contribution

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

13. Goodwill and Business Combinations (continued)

(iii) Impairment testing of goodwill

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

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

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

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

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

14. Intangible assets

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

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

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

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

14. Intangible assets (continued)

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

15. Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:
- Leases of low value assets; and
- Leases with a duration of 12 months or less.

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

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

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

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically make-good provisions on buildings)

Subsequent measurement
Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.
Right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Right-of-use assets are also subject to impairment assessment at reporting date.

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

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

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

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

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

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

15. Leases(continued)

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

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

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

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

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

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

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

16. Other Receivables

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

17. Trade and Other Payables

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

18. Employee Benefit Liabilities

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

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

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

19. Share Capital

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

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

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

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

** On 22 October 2020, the Company issued 40,000,000 shares by way of listing on the NZX. They also issued a further 250,366 shares through the vesting of the ESOP issue 3. During the year ended 30 June 2022:
- 1,476,676 vested share options were exercised into ordinary shares.
- 8,140,000 ordinary shares were issued as part of the consideration paid for the acquisition of Zalm Therapeutics Limited (see note 13).

20. Related Party Transactions

(i) Company information

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

(ii) Transactions and balances with related parties

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

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

(iii) Key management personnel compensation

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

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

21. Contingent liabilities

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

22. Biological assets

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

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

23. Share-based payments

(a) Accounting policy

Equity-settled share-based payments

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

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

Cash-settled share-based payments

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

(b) Key features and balances of ESOPs

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

23. Share-base payments (continued)

- 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-base 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 ;

23. Share-base payments (continued)

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

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

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

At reporting date, ESOP Issue #3 has fully vested and the associated number of options were awarded to eligible employees based on the service conditions satisfied at the vesting date. The weighted average share price on the exercise date was $0.54; and
- During the current period, the Company issued an employee share option plan (ESOP) in the form of equity-settled share options to senior management, and selected employees ("Issue #4").

All tranches of Issue #4:

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

(i) Number of share options

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

23. Share-base payments (continued)

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

(ii) Vested share options balances outstanding

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

* Refer to Correction of Prior Period Error above.

23. Share-base 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	 2021	Cash-settled 2022	 2021
Option pricing model used	N/A	Black-Scholes	N/A	Black-Scholes
Weighted average share price				
• Tranche 4A – 4E	N/A	$0.30	N/A	$0.41
• Tranche 3A – 3D	N/A	$0.50	N/A	$0.41
Exercise price		$nil		$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	 2021	Cash-settled 2022	 2021
Option pricing model used	N/A	Black-Scholes	N/A	Black-Scholes
Weighted average share price				
• Tranche 3A – 3D	N/A	$0.50	N/A	$0.41
• Tranche 4	N/A	$0.41	N/A	$0.41
• Tranche 5A – 5E	N/A	$0.36	N/A	$0.41
Exercise price		$nil		$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 – 3E	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-base payments (continued)

(c) Specific ESOP details (continued)

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

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

24. Events after the reporting date

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

25. Subsidiaries

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

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

26. Net tangible assets

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

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

Nga Kōrero mo nga Kaipupuri Hea
Shareholder Information

Rua's Statement of Corporate Governance as at 30 June 2022 can be found here: www.ruabio.com/investors

Spread of Shareholders

As at 31 August 2022

Range	Total Holders	Units	%Units
1 - 499	368	112,986	0.08
500 - 999	222	164,010	0.11
1,000 - 1,999	369	473,419	0.32
2,000 - 4,999	768	2,449,030	1.63
5,000 - 9,999	376	2,564,301	1.71
10,000 - 49,999	721	13,997,622	9.34
50,000 - 99,999	72	4,806,441	3.21
100,000 - 499,999	71	15,597,264	10.41
500,000 - 999,999	10	7,340,607	4.90
1,000,000 Over	19	102,373,587	68.30
Rounding			**-0.01**
Total	**2,996**	**149,879,267**	**100.00**

Top 20 Shareholders

As at 31 August 2022

Rank	Name	Units	% Units
1	FANG GROUP INVESTMENT LIMITED	23,584,939	15.74
2	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	19,713,279	13.15
3	TAILORSPACE CAPITAL LIMITED	11,129,375	7.43
4	HIKURANGI ENTERPRISES LIMITED	8,132,620	5.43
5	FNZ CUSTODIANS LIMITED	6,753,214	4.51
6	RIDINGS BROTHERS LIMITED	4,492,196	3.00
7	MICHAEL JOHN WILDING	4,254,778	2.84
8	HIKURANGI BIOACTIVES LIMITED PARTNERSHIP	4,000,000	2.67
9	CUSTODIAL SERVICES LIMITED	2,783,929	1.86
10	ENQUIRE LIMITED	2,682,192	1.79
11	WAKAROMA A/C (MARTIN SMITH & ANETA BIRD)	2,544,732	1.70
12	ROBERT IAN FYFE	2,153,030	1.44
13	FORSYTH BARR CUSTODIANS LIMITED	1,914,566	1.28
14	PATHFINDER CARESAVER - NZCSD	1,778,101	1.19
15	AORAKI HOLDINGS (NO 2) LIMITED	1,536,123	1.02
16	JOSEPH DAVENPORT	1,387,270	0.93
17	GREG ANTONY ANDERSON & NICOLA MARIE ANDERSON	1,273,510	0.85
18	YANLING HUANG	1,210,000	0.81
19	FNZ CUSTODIANS LIMITED	1,049,733	0.70
20	BREAKAWAY INVESTMENTS LIMITED	958,002	0.64
Totals: Top 20 holders of ORDINARY SHARES (Total)		**103,331,589**	**68.94**
Total Remaining Holders Balance		**46,547,678**	**31.06**

Substantial Security Holdings

According to Notices given under the Financial Markets Conduct Act 2013, the following were substantial security holders of Rua as at 30 June 2022.

Rank	Name	Units	% Units
1	FANG GROUP INVESTMENT LIMITED	23,584,939	15.74
2	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	19,278,339	12.86
3	TAILORSPACE CAPITAL LIMITED	11,129,375	7.43
4	HIKURANGI ENTERPRISES LIMITED	8,132,620	5.43

Directors Security Holdings

Rua Bioscience securities in which each Director has a relevant interest as at 30 June 2022 are:

Name	Units	% Units
WAKAROMA A/C (Martin Smith)	2,544,732	1.70
AORAKI HOLDINGS (NO 2) LIMITED (Brett Gamble)	1,536,123	1.02
BREAKAWAY INVESTMENTS LIMITED (Trevor Burt)	958,002	0.64
ANNA STOVE	763,896	0.51
PANAPA EHAU	473,498	0.32
POSITANO HOLDINGS LIMITED (Brett Gamble)	269,791	0.18
PANAPA EHAU (granted options as part of the ESOP)	59,800	Unvested

Directors Security Dealings

During the year ended 30 June 2022, there were the following Directors security transactions in respect of section 148(2) of the Companies Act 1993 and sections 297(2) and 298(2) of the Financial Markets Conduct Act 2013.

Name	Units	Consideration paid	Date Issued
BREAKAWAY INVESTMENTS LIMITED (Trevor Burt)	194,106 Ordinary Shares	Allotment	12/10/2021
PANAPA EHAU	194,106 Ordinary Shares	Allotment	12/10/2021
PANAPA EHAU	59,800 Options to acquire 59,800 Ordinary Shares		18/10/2021

Directors Interests

The following are details of general disclosures of interest by directors holding office as at 30 June 2022, pursuant to section 140(2) of the Companies Act 1993. The Director will be regarded as interested in all transactions between Rua Bioscience and the disclosed entities.

Name	Company	Position
Trevor Burt	The Lamb Company North America	Chair
	MHM Automation Ltd	Chair
	Market Gardeners Ltd	Director
	Landpower Group Ltd	Director
	Ben Gough Family Trust	Trustee
	NZ Drinks Ltd	Director
Panapa Ehau	Hikurangi Enterprises Ltd	Director
	Waiapu Investments Ltd	Director
	Hikurangi Huataukina Trust	Trustee
Brett Gamble	Alvarium Investments (NZ) and Related Companies	Director/Shareholder
	New Zealand Discretionary Investment Management Services Ltd	Director
	Newton Ross Ltd	Director
	Pathfinder Asset Management Ltd	Director
	Tailorspace	CEO
	Mobile Medical Technology Ltd	Director
	Mike Greer Homes	Director
Martin Smith	Mojo Coffee Cartel Ltd	Director
	Damar Industries Ltd	Director
	Reefton Distilling Company Ltd	Director
	Mons Royal Ltd	Director
Anna Stove	Pacific Edge Limited	Director
	TAB NZ	Deputy Chair

Changes in Director Interests

Directors made the following entries in the Directors Interests Register pursuant to section 140 of the Companies Act 1993 during the year ended 30 June 2022:

Director	Interests
Anna Stove	Stepped down as Chair of Global Women
Martin Smith	Mons Royal Ltd Mojo Coffee Cartel Ltd
Trevor Burt	NZ Drinks Ltd
Brett Bamble	Mike Greer Homes

Independent Directors

In order for a Director to be independent, the Board has determined that they must not be an employee of Rua or any of its subsidiaries and must have no disqualifying relationships. Independence is determined by the Board, in accordance with the independence requirements of the NZX Listing Rules and having regard to the factors described in the Code. Director independence is monitored by the Board on an ongoing basis.

NZX Listing Rules require that there must at all times be at least three directors of whom two are ordinarily resident in New Zealand and at least two are independent Directors.

Rua has five directors of whom three were considered to be independent as at 30 June 2022. Those three are: the Chair, Trevor Burt; Anna Stove and Martin Smith. Brett Gamble is CEO of Tailorspace which owns 7.43% of Rua. Panapa Ehau is a Director, employee and co-founder of Rua and director of Hikurangi Enterprises Ltd which owns 5.43% of Rua.

Board and Officer Gender Composition

The gender composition of Directors and the Senior Management Team was as follows:
As at 30 June 2022:

	30 June 2022		30 June 2021	
Position	Female	Male	Female	Male
Director	1 (20%)	4 (80%)	1 (20%)	4 (80%)
Senior Management Team	2 (29%)	5 (71%)	2 (29%)	5 (71%)

Evaluation of Performace Against Diversity Policy

Rua's approach to diversity is outlined in its Diversity and Inclusion Policy, which is available on Rua's website. Key areas of focus are:

- Attracting, selecting and retaining qualified and diverse applicants and aiming to have a focus on ethnic and gender diversity.
- Remunerating and rewarding in an equitable manner on the basis of skill, knowledge and merit.
- Maintaining a workplace that is accommodating of diverse and changing life situations and enables employees to manage their work and lives through flexible working arrangements.
- Striving for a diverse representation of different groups in society across all levels of Rua's business and based on Rua's origins and values (see the Code of Ethics for a description of Rua's values).

The Board does not currently have any set measurable objectives under the Diversity and Inclusion Policy (as recommended under Recommendation 2.5 of the NZX Corporate Governance Code). The Board recognises the critical nature of diversity and inclusion and has ensured this is a key consideration when making the skill-based appointments required to ensure robust governance as Rua transitions from start-up to commercialisation. The Board has reviewed Rua's diversity profile and considers that, at this time, there is good diversity on the factors that are most relevant to Rua and its employees:

- Understanding and adoption of a bi-cultural working environment is deeply embodied within Rua's culture. All recent company publications include content in English and Māori.
- The make-up of the Board is sufficiently diverse for the purposes of forming a strong team, providing specialised knowledge and expertise in relevant markets, and driving strong business performance.
- Of the 30 employees, 17 are female and 13 are male.
- 27 employees have a tertiary or higher qualification.

Meeting Attendance

	Board	**Audit, Finance and Risk Managment**	**Remuneration and Nominations**	**Disclosure**
	Attended	Attended	Attended	Attended
Trevor Burt	10 of 10	4 of 4	2 of 2	0 of 0
Panapa Ehau	10 of 10			
Brett Gamble	10 of 10	4 of 4	2 of 2	
Martin Smith	10 of 10		2 of 2	
Anna Stove	10 of 10	4 of 4	2 of 2	

Directors Remuneration

Director remuneration is made up of an annual base fee, an additional Chair fee (if applicable) and some Directors are participants in Rua's share option plan.

A director fee pool of $324,000 per annum was set for the 2022 financial year. Any increase to that pool requires shareholder approval. The base fee for the Chair is $90,000 and for a director is $45,000. Committee Chairs are paid a fee for the additional work the role requires. Members of Committees are not paid an additional fee.

Director	Position	Directors' Fees	Committee Fees	Total Remuneration
Trevor Burt	Chairman - Board	$90,000		$90,000
Brett Gamble	Chairman - ARC	$45,000	$4,500	$49,500
Martin Smith	Chairman - Rems	$45,000	$4,500	$49,500
Anna Stove		$45,000		$45,000
Panapa Ehau		$45,000		$45,000

In addition to his director's fee, Panapa Ehau also receives a salary as an employee of Rua. In FY22, his salary was $44,452, STI was $4,999, Employee Share Option Programme (which includes both equity and cash settled components) was $118,848 and Directors Fee was $45,000 for a total remuneration of $213,299. In addition to his director's fee, Trevor Burt also recieved the Employee Share Options Programme offer of $108,290 for a total remuneration of $198,290.

Employee Remuneration

Remuneration Range	Employees
100,000-110,000	2
110,001-120,000	3
160,001-170,000	2
220,001-230,000	1
250,001-260,000	2
260,001-270,000	2
320,001-330,000	1
550,001-560,000	1

The table above includes the equity settled ESOP issues.

CEO Remuneration

For the financial year ended 30 June 2022, the STI scheme for the CEO was set as a percentage of base cash remuneration, being 30%.

For the financial year ended 30 June 2022, the CEO received $346,921 in fixed annual remuneration. The STI Scheme payment for the CEO relating directly to the financial year was $77,867, being 77.5% of his maximum available STI. The CEO participated in the Employee Share Options Programme, this includes both equity and cash settled components and was $118,936. The CEO received other benefits of $15,300.

CEO Remuneration FY22

	Salary and	Other		Pay for performance			Total
2022	Fees	Benefits*	Subtotal	STI	LTI	Subtotal	Remuneration
CEO	$346,921	$15,300	$362,221	$77,867	$118,936	$196,812	$559,033

Two-Year Summary – CEO Remuneration

		Single Figure Remuneration	Percentage STI Against Maximum	Percentage LTI Against Maximum	Span of LTI Performance Period
2022	CEO	$559,033	77.5%	55%	2020 - 2021
2021	CEO	$398,250	60%	-	-

Donations

Compassionate Access Programme	$14,682
Medical Cannabis Awareness New Zealand	$3,000
Other Koha	$1,100
Total	**$18,782**

* Other benefits include the use of a company car only.

Auditor Fees

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

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

There were no other fees payable by the company for other serices provided by that firm for FY 2022.

Dividend Policy

The payment of dividends is not guaranteed, will be at the discretion of the Board, and dependent on a number of factors.

These factors include the general business environment, operating results and the financial condition of Rua, future funding requirements, any contractual, legal or regulatory restrictions on the payment of dividends by Rua and any other factors the Board may consider relevant.

NZX Disclosures

Rua has not applied for nor relied on any NZX waivers during the financial year ending 30 June 2022.

Photo credit: Damon Meade

Nga Mokamoka o te Kamupene
Contact Directory

Website
ruabio.com

Facebook
facebook.com/ruabioscience

Instagram
instagram.com/ruabioscience

LinkedIn
linkedin.com/company/rua-bioscience

Company Number
6484092

Issued Capital
149,879,267 Ordinary Shares

Registered Office
Rua Bioscience Limited
1 Commerce Place,
Awapuni, Gisborne 4071
Phone: 0800 RUABIO (782 246)

Share Registrar
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road,
Takapuna, Auckland 0622
Phone: +64 (9) 488 8700

Directors
Trevor Burt
Panapa Ehau
Brett Gamble
Martin Smith
Anna Stove

Managing Director
Anna Stove

Auditors
PricewaterhouseCoopers

Legal Advisers
Lowndes Jordan
Level 15, 188 Quay Street
Auckland 1010
Phone: +64 (9) 309 2500

Tēnei te mihi ki a koutou ngā kaitautoko o tēnei kamupene. Kei te kōkiri mātou i te kaupapa kia tutuki ai nga wawata i wawatatia.

RUA

BIOSCIENCE

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