

IRUA

B I O S C I E N C E

Rua Bioscience Limited

Financial Statements
For the year ended
30 June 2021

Rua Bioscience Limited

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Company Directory
For the year ended 30 June 2021

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



Independent auditor's report

To the shareholders of Rua Bioscience Limited

Our opinion

In our opinion, the accompanying financial statements of Rua Bioscience Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2021, 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 financial statements comprise:

- the statement of financial position as at 30 June 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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 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 Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Key audit matters

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



Description of the key audit matter	How our audit addressed the key audit matter
<p>Recoverability of Deferred Tax Asset</p> <p>As disclosed in Note 7, the Company has a deferred tax asset of \$2.55m that has arisen largely from the recognition of \$2.3m of tax losses. The tax losses have been incurred during the pre-revenue, research and development stage of the Company's business in the medicinal cannabis industry.</p> <p>NZ IAS 12 <i>Income Taxes</i> 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. Key to this is meeting milestones as the Company progresses towards commercialisation, including obtaining and retaining licenses to operate.</p> <p>Recoverability of deferred tax asset is considered a key audit matter due to the significance of the balance to the financial statements and the inherent estimation uncertainty due to the nature of the balance.</p>	<p>We focussed our audit response on the evaluation of the Company's assessment regarding the recoverability of the deferred tax asset. This included:</p> <ul style="list-style-type: none"> - obtaining and understanding the Company's assessment and plans, including management's profit and loss forecast; - discussing with management the Company'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 forecasted profitability; and - assessing the mathematical accuracy of management's profit and loss forecast. - reviewing the appropriateness of the disclosure in Note 7. <p>From our procedures performed, we have no matters to report.</p>

Our audit approach

Overview

<p>Materiality</p>	<p>Overall materiality: \$66,000, which represents 1% of total expenses.</p> <p>We chose total expenses as the benchmark because, in our view, it is most representative of the current operations and performance of the Company in the view of the users of the financial statements. The Company 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.</p>
<p>Key audit matters</p>	<p>As reported above, we have one key audit matter, being:</p> <ul style="list-style-type: none"> ● Recoverability of Deferred Tax Asset

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

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 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 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

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:

A handwritten signature in black ink that reads 'Maxwell John Dixon'.

Chartered Accountants
29 August 2021

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Rua Bioscience Limited
Statement of profit or loss
and other comprehensive income
For the year ended 30 June 2021

	Note	2021 \$	2020 \$ <i>Restated</i>
Research and development expenses	6	(1,897,126)	(1,289,662)
Other expenses	6,20	(4,744,082)	(3,053,818)
Operating loss before net financing income		<u>(6,641,208)</u>	<u>(4,343,480)</u>
Other income	5	450,971	727,948
Interest income		47,560	35,716
Interest expense		(9,699)	(3,230)
Interest expense - leases		(21,859)	(14,523)
Net finance income		<u>16,002</u>	<u>17,963</u>
Loss before tax		<u>(6,174,235)</u>	<u>(3,597,569)</u>
Income tax credit	7,20	1,756,275	784,517
Loss after tax		<u>(4,417,960)</u>	<u>(2,813,052)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to shareholders		<u>(4,417,960)</u>	<u>(2,813,052)</u>
Earnings per share attributable to the ordinary equity holders of the Company			
Loss from operations			
Basic (\$)	9	(0.03)*	(0.03)**
Diluted (\$)	9	(0.03)*	(0.03)**

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

** Share and per share amounts have been retrospectively restated for the prior period to reflect the 5.882:1 share split completed on 15 September 2020 and the prior period error disclosed in Note 20.

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

Rua Bioscience Limited
Statement of Changes in Equity
For the year ended 30 June 2021


	Note	Share capital \$	Share option reserve \$	Accumulated losses \$	Total equity \$
Opening balance at 1 July 2019		12,480,242	-	(1,968,208)	10,512,034
Total comprehensive loss for the year					
- Loss for the year		-	-	(2,900,035)	(2,900,035)
- Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	-	(2,900,035)	(2,900,035)
Transactions with owners of the Company					
- Issue of share capital		7,000,948	-	-	7,000,948
- Costs of issuing share capital		(558,277)	-	-	(558,277)
- Employee share options expense		-	336,108	-	336,108
Total transactions with owners of the Company		6,442,671	336,108	-	6,778,779
Balance at 30 June 2020		18,922,913	336,108	(4,868,243)	14,390,778
Opening balance at 1 July 2020		18,922,913	336,108	(4,868,243)	14,390,778
- Correction of prior period error	20	-	(75,800)	86,983	11,183
Restated 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 of the Company					
- 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		-	354,459	-	354,459
Total transactions with owners of the Company		18,495,586	354,459	-	18,850,045
Balance at 30 June 2021		37,418,499	614,767	(9,199,220)	28,834,046

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

Rua Bioscience Limited
Statement of Financial Position
As at 30 June 2021

	Note	2021 \$	2020 \$ <i>Restated</i>
Current assets			
Cash and cash equivalents	4	3,359,479	3,937,501
Other receivables	13	605,927	800,837
Prepayments		110,527	81,998
Investments	4	13,041,549	-
Total current assets		17,117,482	4,820,336
Non-current assets			
Property, plant and equipment	10	6,174,610	5,658,360
Goodwill	11	4,000,000	4,000,000
Right-of-use lease assets	12	929,897	252,955
Other receivables	13	75,000	197,256
Deferred tax asset	7,20	2,554,480	798,205
Total non-current assets		13,733,987	10,906,776
Total assets		30,851,469	15,727,112
Current liabilities			
Trade and other payables	14	510,167	578,182
Employee benefit liabilities	15	233,862	169,406
Lease liabilities	4,12	133,958	68,935
Borrowings	4	10,762	78,169
Deferred grant income		-	91,636
Share-based payment liability	20	286,647	12,277
Total current liabilities		1,175,396	998,605
Non-current liabilities			
Borrowings	4	-	10,762
Lease liabilities	4,12	810,120	190,928
Share-based payment liability	20	31,907	124,856
Total non-current liabilities		842,027	326,546
Total liabilities		2,017,423	1,325,151
Net assets		28,834,046	14,401,961
Equity			
Share capital	16	37,418,499	18,922,913
Accumulated losses		(9,199,220)	(4,781,260)
Share option reserve	20	614,767	260,308
Total equity		28,834,046	14,401,961

The financial statements on pages 8 to 50 were approved and authorised for issue by the Board of Directors on 29 August 2021 and were signed on its behalf by:



(Director)



(Director)

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

Rua Bioscience Limited
Statement of Cash Flows
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Cash flows from operating activities			
Grant income received		691,261	182,790
Payments to suppliers and employees		(5,138,432)	(3,810,610)
Net cash inflows/(outflows) from operating activities	8	(4,447,171)	(3,627,820)
Cash flows from Investing activities			
Interest income		69,277	47,619
Proceeds from sale of plant and equipment		15,739	2,400
Proceeds from maturing investments		2,001,420	2,000,000
Investment deposits made		(15,117,969)	-
Purchase of property, plant and equipment		(1,402,258)	(5,020,661)
Net cash inflows/(outflows) from investing activities		(14,433,791)	(2,970,642)
Cash flows from financing activities			
Issue of ordinary shares		20,000,000	7,000,948
Proceeds from borrowings		-	44,200
Repayment of borrowings		(78,169)	(48,451)
Principal elements of lease payments		(82,914)	(59,909)
Interest paid		(27,789)	(19,444)
Share issue costs paid		(1,508,188)	(554,503)
Net cash inflows/(outflows) from financing activities	8	18,302,940	6,362,841
Net increase/(decrease) in cash and cash equivalents		(578,022)	(235,621)
Cash and cash equivalents at beginning of year		3,937,501	4,173,122
Cash and cash equivalents at end of year	4	3,359,479	3,937,501

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

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

1. Reporting Entity

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

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

2. Basis of preparation

(a) Statement of compliance

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

These financial statements include non-NZ GAAP financial measures that are not prepared in accordance with NZ IFRS. The Company presents Net Tangible Assets, in Note 22. The Company believes that this non-NZ 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-NZ GAAP measures as reported by the Company may not be comparable to similarly titled amounts reported by other companies.

The financial statements are presented in New Zealand dollars (\$), which is also the Company’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 financial statements.

(c) Basis of measurement

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

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

2. Basis of preparation (*continued*)

(d) *New standards, interpretations and amendments*

(i) Adopted during the period

New standards that have become mandatorily effective in the annual financial statements for the year ended 30 June 2021, but have not had a significant effect on the Group are:

- *COVID-19-Related Rent Concessions* (Amendments to NZ IFRS 16);
- *Definition of a Business* (Amendments to NZ IFRS 3);
- *NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment - Disclosure Initiative - Definition of Material);
- *Going Concern Disclosures* (Amendments to FRS-44); and
- Revisions to the *Conceptual Framework for Financial Reporting*.

(ii) Issued, but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future accounting periods that the Company 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).

The following is a list of other new and amended standards which, at the time of writing, had been issued by the NZ ASB but which are effective in future periods:

- *NZ IFRS 17 Insurance Contracts* (effective 1 January 2023); and
- *Amendments to IAS 1 - Classification of Liabilities as Current or Non-current* (effective 1 January 2023).

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

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

2. Basis of preparation (continued)

(e) Accounting estimates and judgements made

The preparation of the 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 7).
- Recognition of research and development tax credits and research and development expenses (notes 5 & 6).
- Preparation of the financial statements on a going concern basis (note 2(f)).
- Impacts from COVID-19 (note 2(g))

(f) Going Concern

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

The Company incurred a net loss of \$4,417,960 during the year ended 30 June 2021 (2020: net loss of \$2,813,052).

In October 2020, the Company successfully completed a listing on the New Zealand Stock Exchange (NZX) raising \$20 million in capital. This capital provides a sufficient runway for the company to continue operating as a going concern while it continues the development of its research projects, product suite and sales opportunities.

In the coming years the Company plans to move into commercialisation where the income generated from products will begin to fund the operations of the company to the point where the Company is financially sustainable and begins to generate profits.

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

The Company currently has a Licence to Sell Medicines by Wholesale & a Medical Cannabis Licence issued by the Ministry of Health. The Company has submitted applications for a Licence to Deal in Controlled Drugs, Licence to Manufacture Medicine (GMP) and a New Medical Cannabis Product Application. Once these licenses are approved, the company will be able to manufacture and sell products to earn revenues. It is forecast that the licenses required will all be obtained in the 2021 calendar year. Further licenses will be required as the Company continues its business and product development.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

2. Basis of preparation (continued)

(f) *Going Concern (continued)*

Currently there are no indications that the Company will not be able to continue as a going concern. The Company has net current assets and the Directors are of the opinion that the Company is able to settle liabilities as they fall due. There are risks related to the assumptions being made, particularly around obtaining GMP certification for products, obtaining regulatory approvals of products in local and in international markets. The timing of supplying product to markets, product volumes and the sales price of these products. The Company is monitoring and managing these risks, however there is no indications at this point in time that they will affect the Company's ability to continue as a going concern.

(g) *Impact of COVID-19*

The impact of COVID-19 has been considered for all balances and areas of judgements made in relation to the preparation of the financial statements. The COVID-19 wage subsidy extension was received in FY 2020 but as related to wages in FY 2021, was recognised in profit or loss in FY 2021, see note 5. No other material impacts have been identified as a result of COVID-19.

(h) *Estimates and assumptions*

– Fair value measurement

The fair value of certain assets and liabilities included in the Company's 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)
- Share-based payments measured at fair value (note 20).

3. Segment Reporting

The Company operates in one segment, its primary business being pharmaceutical manufacturing 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 Company's segment.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

4. Financial instruments and Financial Risk Management and Capital Management

This note describes:

- (A) The Company's accounting policies with respect to financial instruments recognised in the Company's financial statements, and detail of those balances.
- (B) The nature of the financial risk that the Company is exposed to, and the Company'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 Company's Capital Management policies.

(A) Financial instruments recognised

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

Financial Assets

The Company 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 these are presented as "investments").

These financial assets are:

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

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

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

Financial liabilities

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

Other financial liabilities at amortised cost

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

These financial liabilities are:

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

Categories and fair values of the Company's financial instruments

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)		

(a) Due to their short-term nature, the carrying value of these financial instruments approximates their fair value. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty and own credit risk.

(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. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including own credit risk.

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

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

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

2020	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Total Carrying Amount	Fair Value
	\$	\$	\$	\$
Cash and cash equivalents	3,937,501		3,937,501	(a)
Trade and other payables		(578,182)	(578,182)	(a)
Borrowings		(88,931)	(88,931)	(b)
Lease liabilities		(259,863)	(259,863)	(c)
Total	3,937,501	(926,976)		

(a) Due to their short-term nature, the carrying value of these financial instruments approximates their fair value. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty and own credit risk.

(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. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including own credit risk.

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

(B) Financial risk management

The Board has overall responsibility for the determination of the Company'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 Company'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 Company'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 Company's competitiveness and flexibility. Further details regarding these policies as they relate to the specific financial risks that the Company 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.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

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

(a) Credit risk

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

The Company only holds cash and cash equivalents and investments with financial institutions that are independently determined credit ratings of "A" or higher.

The Company 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)	30 June 2021		
		Cash and cash equivalents \$	Investments \$	Total \$
Kiwibank	A1, AA	3,359,479	13,041,549	16,401,028
Total		3,359,479	13,041,549	16,401,028

	Credit rating ^(a)	30 June 2020		
		Cash and cash equivalents \$	Investments \$	Total \$
Kiwibank	A1, AA	3,937,501	-	3,937,501
Total		3,937,501	-	3,937,501

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

Interest rates on interest bearing cash and cash equivalents and investments range between 0.35% - 1.00% (2020: 1.00% - 3.45%).

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

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

(b) Market risk

Market risk arises from the Company's:

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

i. Interest rate risk

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

The Company is exposed to fair value interest rate risk from its fixed-rate borrowings and lease liabilities, with rates between 3.90% - 7.50% (2020: 3.00% - 7.50%).

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

A 1% change in interest rates would have increased or decreased equity and profit or loss by \$1,152 (2020: \$1,293) after tax (assuming all other variables remain constant).

ii. Foreign exchange risk

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

During the current reporting period the company has purchased plant and equipment with purchase prices denominated in foreign currencies (USD and AUD).

To mitigate foreign exchange risk on significant plant and equipment purchases, the Company enters into forward exchange contracts to match the timing and amount of payments due. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period with changes in fair value recognised in profit or loss.

The Company does not apply hedge accounting to these transactions, and they are classified as held for trading for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. They are considered level 2 fair value measurements being based on the present value of future cash flows based on the forward exchange rates at the reporting date.

There are no open forward exchange contracts at the end of the reporting period (2020: no open forward exchange contracts).

The net foreign exchange loss recognised for the year was \$1,266 (2020: \$1,265).

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

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

(c) Liquidity risk

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

The Company'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 Company maintains a monthly forecast on it's future cash position to ensure it can meet financial obligations when they fall due.

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

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

As at 30 June 2021	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	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
As at 30 June 2020						
Trade and other payables	578,182	-	-	-	-	578,182
Borrowings	10,832	32,497	10,832	50,830	-	104,992
Lease liabilities	20,826	62,478	83,304	81,151	56,250	304,009
Total	609,840	94,975	94,136	131,981	56,250	987,183

(C) Capital Management

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

The Board continually reviews the capital structure of the Company. As part of this review, the Board considers the availability and cost of capital and the risks associated therein. The Company has available funding from its capital raising activities during the year.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

5. Other income

(i) Revenue (from contracts with customers)

As the Company is still in its start-up research phase it presently has no revenue from contracts with customers.

(ii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Company 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 Company currently receives government grants in the form of general and COVID-19 related employee wage subsidies received from the Ministry of Social Development (MSD); and, research and development (R&D) tax losses cash out and R&D tax incentive credits, received from the Inland Revenue Department (IRD).

R&D tax losses cash out and 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 Company is eligible for a cash refund; specific conditions exist for the Company, 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.

R&D tax losses cash out is earned by cashing in R&D losses for the year and is repaid by the Company to the IRD from future taxable income or by paying R&D repayment tax if a loss recovery event occurs. R&D tax incentive credits that are not cashed out have no expiry, subject to shareholder continuity, and are carried forward and utilised against future taxable profits.

As at the 22 October 2020, the Company was no longer eligible for R&D tax loss cash outs.

The Company 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 Company expects to receive the losses cash out and tax credit when the return is filed subsequent to the end of the reporting period.

There are no unfulfilled conditions relating to the MSD grant income.

Revenue and other income streams recognised by the Company include:

	2021 \$	2020 \$
Research and development grant income	357,366	567,488
COVID-19 wage subsidy	91,636	135,654
Other grant income	-	24,080
Total government grant income	449,002	727,222
Gain on sale of property, plant and equipment	-	726
Other Income	1,969	-
Total other income	450,971	727,948

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

6. Expenses

	2021	2020
	\$	\$ <i>Restated</i>
Cultivation costs	622,676	306,556
Extraction and manufacturing	584,502	88,035
Accommodation and travel	58,740	132,601
Consultancy	1,063,505	1,042,813
Depreciation of property, plant and equipment	596,698	149,634
Depreciation of right-of-use lease assets	97,904	65,179
Direct research and development expenses	296,803	288,576
General	225,562	164,775
Insurance	126,180	46,774
Motor vehicle expenses	57,193	50,237
Quality	182,427	280,845
Office expenses	72,689	45,174
Personnel costs	20 2,479,916	1,681,016
Marketing costs related to IPO	175,147	-
Foreign exchange loss	1,266	1,265
Total expenses	6,641,208	4,343,480

Included in the above:

Employee benefit expense

- Short term benefits (wages and salaries)	2,406,567	1,821,262
- Defined contribution plan	64,935	49,494
- Share-based payment expense	20 602,466	397,442
Total employee benefit expense	3,073,968	2,268,198

Research and development expenses

- Direct costs	296,803	288,576
- Indirect costs	1,600,323	1,001,086
Total research and development expenses	1,897,126	1,289,662

(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 Company is still in the research phase (refer to note 19 *Biological assets*) and related costs are recognised in profit or loss accordingly until such time as the Company moves into the development phase and the relevant recognition criteria are met.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

6. Expenses (continued)

(ii) Fees paid to auditors

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

	2021 \$	2020 \$
Audit and review of the financial statements		
- Audit of the financial statements	60,132	47,775
- Review of half year financial statements	27,635	8,925
Total audit and review fees	<u>87,767</u>	<u>56,700</u>
Other services		
- Business valuation services	-	19,950
Total other services	<u>-</u>	<u>19,950</u>
Total fees paid to auditors	<u>87,767</u>	<u>76,650</u>

Business valuation services were provided to the Company during the year ended 30 June 2020 but before the appointment of PricewaterhouseCoopers as the Company's auditors.

7. 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 Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company 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 Company 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.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

7. Income Tax (continued)

The Company has assessed the realisation of the deferred tax asset at the reporting date and considers that it is probable that future taxable profits will be available to realise the deferred tax asset. Key factors supporting the assessment include:

- Progress towards obtaining the required licences (refer to note 2(f)) including GMP certification, a key milestone, to commence commercial production and sales to target markets;
- Securing an export agreement with German distributor, Nimbus Health, and discussions with local distributors for selling to the key German and New Zealand target markets;
- Securing an initial supply agreement with a local grower and discussions with local growers to provide sufficient flower to sell to target markets;
- Completing the Company's cultivation and extraction facilities; and
- Forecasted taxable profits in the foreseeable future that are sufficient to utilise the deferred tax asset

The Directors have considered the likelihood of these key factors occurring and have determined that it is probable that the Company will commercialise its production and generate sufficient future taxable profits to realise the deferred tax asset.

(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:

	2021 \$	2020 \$ <i>Restated</i>
Current tax on profits for the year	-	-
Total current tax	-	-
Origination and reversal of temporary differences	(62,089)	(168,143)
Current year tax losses	(1,673,717)	-
Recognition of previously unrecognised deferred tax assets	-	(616,374)
Prior period adjustments	(20,469)	-
Total deferred tax expense/(credit)	(1,756,275)	(784,517)
Total income tax expense/(credit)	(1,756,275)	(784,517)

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

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

	2021 \$	2020 \$ <i>Restated</i>
Loss before income tax expense/(credit)	(6,174,235)	(3,597,569)
Tax expense/(income) @28%	(1,728,786)	(1,007,319)
Add/(less) reconciling items		
- Expenses not deductible for tax purposes	116,953	56,134
- Tax losses extinguished (R&D cash out credit)	-	370,232
- Tax losses reinstated (R&D cash out credit adjustment)	(20,469)	-
- Non-assessable income	(123,973)	(203,564)
Total income tax expense/(credit)	(1,756,275)	(784,517)

(iii) Imputation credits

The Company has \$194,087 of imputation credits as at 30 June 2021 (2020: \$23,400).

(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:

	2021 \$	2020 \$ <i>Restated</i>
Opening as at 1 July	798,205	13,688
<i>Recognised in profit and loss</i>		
- Recognition of temporary difference	62,089	168,143
- Recognition of tax losses	1,673,717	616,374
- Adjustments from prior years	20,469	-
	1,756,275	784,517
Closing as at 30 June	2,554,480	798,205

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

7. Tax expense (continued)

(v) Deferred tax (continued)

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

	Employee entitlements	Buildings	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 2019	12,756	-	932	-	-	-	13,688
Amounts recognised							
- In profit or loss	18,166	37,692	1,002	51,001	94,110	616,374	818,345
- In OCI	-	-	-	-	-	-	-
At 30 June 2020	30,922	37,692	1,934	51,001	94,110	616,374	832,033
As at 1 July 2020	30,922	37,692	1,934	51,001	94,110	616,374	832,033
Correction	-	-	-	(12,604)	(21,224)	-	(33,828)
As at 1 July 2020 - Restated	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

Tax losses available but not recognised as a deferred tax asset at reporting date are nil (2020: nil).

The Company 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.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

8. Notes supporting statement of cash flows

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

	2021 \$	2020 \$ <i>Restated</i>
Net loss for the year	(4,417,960)	(2,813,052)
<i>Adjustments for non-cash and non-operating activity items:</i>		
- <i>Add back:</i> Depreciation - Property, Plant & Equipment	596,698	149,634
- <i>Add back:</i> Depreciation - RoU lease asset	97,904	65,179
- <i>Deduct:</i> Deferred tax income	(1,756,275)	(784,517)
- <i>Deduct:</i> Gain on sale of Property, Plant & Equipment	-	(726)
- <i>Add back:</i> Loss on sale of Property, Plant & Equipment	4,396	-
- <i>Add back:</i> Share-based payment expense	535,879	397,442
- <i>Deduct:</i> Cash settled portion of salary sacrifice	(66,587)	-
- <i>Add back:</i> Interest expense	31,558	17,753
- <i>Deduct:</i> Interest income	(47,560)	(35,716)
	(603,987)	(190,951)
<i>Movements in working capital:</i>		
- (Increase)/decrease in other receivables ⁽¹⁾	370,451	(708,826)
- (Increase)/decrease in prepayments	(28,529)	(81,998)
- Increase/(decrease) in trade and other payables ⁽²⁾	260,033	49,820
- Increase/(decrease) in employee benefit liabilities	64,457	25,551
- Increase/(decrease) in deferred grant income	(91,636)	91,636
	574,776	(623,817)
Net cash outflows from operating activities	(4,447,171)	(3,627,820)

⁽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)

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

8. Notes supporting statement of cash flows (*continued*)

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

30 June 2021	Opening	NON-CASH	NON-CASH	CASH	CASH	CASH	Closing
		New leases	Unpaid accrued lease payments	Payment of prior year accrued interest	Drawdown	Payment	
	\$	\$	\$	\$	\$	\$	\$
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

30 June 2020	Opening	NON-CASH	NON-CASH	CASH	CASH	CASH	Closing
		New leases	Unpaid accrued lease payments	Payment of prior year accrued interest	Drawdown	Payment	
	\$	\$	\$	\$	\$	\$	\$
Borrowings	93,182	-	-	-	44,200	(48,451)	88,931
Lease liabilities	123,618	197,845	-	(1,691)	-	(59,909)	259,863
	216,800	197,845	-	(1,691)	44,200	(108,360)	348,794

Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

9. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit attributable to shareholders of the Company 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 Company 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 Company is loss-making, the impact of the outstanding share options granted is “anti-dilutive” (i.e. decreases the loss per share).

<i>Numerator</i>		2021	2020
		\$	\$
			<i>Restated</i>
(Loss) for the year and earnings (basic and diluted EPS)	20	(4,417,960)	(2,813,052)
<i>Denominator</i>		2021	2020
		No. shares	No. shares
Weighted average number of shares (basic and diluted EPS)		127,393,230	97,481,881*

* Number of shares has been retrospectively restated for the prior period to reflect the 5.882 share split completed on 15 September 2020.

10. 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 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 Company, 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.

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Notes forming part of the financial statements
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10. Property, plant and equipment (*continued*)

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 0% to 50% (2020: 8% to 20%)
- Cultivation Containers 10% (2020: 10%)
- Office Equipment 8% to 67% (2020: 13% to 67%)
- Plant and Equipment 8% to 100% (2020: 8% to 40%)
- Vehicles 20% to 40% (2020: 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 Company. Ongoing repairs and maintenance is expensed as incurred.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, 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.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

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

Year ended 30 June 2021	Buildings and fitout \$	Cultivation Containers \$	Office Equipment \$	Plant and equipment \$	Vehicles \$	Capital works \$	Total \$
Opening net book value	2,103,929	160,781	79,227	920,254	77,116	2,317,053	5,658,360
Additions	-	-	73,028	-	19,503	1,040,553	1,133,084
Depreciation charge	(303,192)	(14,356)	(33,216)	(213,317)	(32,617)	-	(596,698)
Disposals	-	(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

The assets under capital work-in-progress relate to the Company'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 Company is contractually committed to.

The Company's borrowings are secured over the vehicles.

Rua Bioscience Limited
Notes forming part of the financial statements
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10. Property, plant and equipment (*continued*)

Year ended 30 June 2020	Buildings and fitout \$	Cultivation Containers \$	Office Equipment \$	Plant and equipment \$	Vehicles \$	Capital works \$	Total \$
Opening net book value	-	147,480	28,015	60,528	104,082	185,221	525,326
Additions	232,890	-	20,475	8,118	20,000	5,002,860	5,284,343
Depreciation charge	(15,425)	(15,994)	(20,411)	(50,839)	(46,966)	-	(149,635)
Disposals (net book value)	-	-	(1,674)	-	-	-	(1,674)
Transfers	1,886,464	29,295	52,822	902,447	-	(2,871,028)	-
Closing net book value	<u>2,103,929</u>	<u>160,781</u>	<u>79,227</u>	<u>920,254</u>	<u>77,116</u>	<u>2,317,053</u>	<u>5,658,360</u>
Cost	2,119,354	178,825	106,724	973,739	143,872	2,317,053	5,839,567
Accumulated depreciation	(15,425)	(18,044)	(27,497)	(53,485)	(66,756)	-	(181,207)
Net book amount	<u>2,103,929</u>	<u>160,781</u>	<u>79,227</u>	<u>920,254</u>	<u>77,116</u>	<u>2,317,053</u>	<u>5,658,360</u>

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11. Goodwill and Business Combinations

The 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 in the prior year

On the 28th August 2018, the Company acquired the trade and net assets of Hikurangi Bioactives Limited Partnership (HBLP), an entity involved in the cultivation and the research & development of cannabis products. The resulting \$4,000,000 of goodwill (not deductible for tax purposes) is attributable to the value of the know-how embedded in the under development IP and acquired workforce, as well as the potential future profitability of the acquired business.

(ii) Impairment testing of goodwill

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

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

The recoverable value is based on an estimate of market value at the reporting date based on the quoted share price of \$0.41 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 2020, determination of the recoverable value of the Company (being the CGU) was based on the share issue price of capital proceeds received by the Company from related and third party investors during the period and the Company's development to the reporting date. The estimated share issue price at the reporting date was \$2.12 per share. Because the Company was not publicly listed, the estimated share price was an unobservable input and represented a "level 3" fair value measurement per the *fair value hierarchy*.

No impairment of goodwill has been recognised as at 30 June 2021 (2020: nil).

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

12. 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 Company'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 Company 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 company 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 Company 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 company did not receive (nor is it expected to receive) any COVID-19 related lease payment reductions during the year.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

12. Leases (*continued*)

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

<i>Expenses and income in the period</i>	2021 \$	2020 \$
Depreciation		
- Leases of property (land and buildings)	68,722	60,791
- Vehicles	29,182	4,388
Interest expense	21,859	14,520
 <i>Balance sheet and cash flow statements</i>		
Carrying amount of Right-of-use asset		
- Leases of property (land and buildings)	853,155	204,692
- Vehicles	76,742	48,263
Additions to Right-of-use assets	774,846	197,845
Total cash outflow related to leases	101,010	76,121

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

The Company 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 Company'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 (2020: nil) compared to the current period's cash outflow.

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

The Company has two property leases (2020: one property lease) where the Company has assessed it does not reasonably expect to exercise all available renewal options, resulting in a potential lease term in the range of 10 - 20 years (2020: 10 - 20 years) and potential future lease payments of between \$109,020 - \$689,160 (2020: \$150,000 - \$300,000) that are not currently included in measurement of the lease liability recognised for these leases.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

13. Other receivables

	Note	2021 \$	2020 \$
Non-trade receivables		75,000	-
Financial assets classified as amortised cost	4	75,000	-
GST receivable		85,861	124,386
Accrued interest income		-	-
Withholding tax receivable		1,683	23,400
Government grants receivable			
- Research and development tax credit		508,581	581,712
- COVID Wage subsidy		-	70,296
- Other		9,802	1,043
Other receivables		605,927	800,837
Government grants receivable			
- Research and development tax credit		-	197,256
Other receivables (non-current portion)		-	197,256
Total other receivables		680,927	998,093

14. Trade and other payables

	Note	2021 \$	2020 \$
Trade payables		453,388	512,014
Accruals		56,779	66,168
Financial liabilities classified as amortised cost	4	510,167	578,182
Total Trade and other payables		510,167	578,182

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

15. 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 Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

	2021 \$	2020 \$
Short term employee benefits payable		
- Wages and salaries	99,837	49,020
- Accrual for annual and sick leave	130,475	118,497
	<u>230,312</u>	<u>167,516</u>
Defined contribution plan payable	3,550	1,889
Total employee benefit liabilities	<u>233,862</u>	<u>169,406</u>

16. Share Capital

The Company'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.

	2021 Number	2020 Number
Opening shares	17,003,096	12,990,000
Shares issued	-	4,013,096
Total pre-share split*	<u>17,003,096</u>	<u>17,003,096</u>
Effect of share split*	83,009,129	N/A
Shares issued**	40,250,366	-
Total share capital	<u>140,262,591</u>	<u>17,003,096</u>

* 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.

At 30 June 2021, share capital comprised 140,262,591 authorised and issued ordinary shares (2020: 17,003,096). 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 Company, and rank equally with regard to the Company's residual assets.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

17. Related party transactions

(i) Company information

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

(ii) Transactions and balances with related parties

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

	Nature of transactions	Transaction amount	Amounts receivable (payable)
		\$	\$
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
30 June 2020			
Digital Accounting Limited	Purchases	972	-
EECOMS Ltd	Purchases	13,118	1,940
Mitchel Family Trust	Purchases	220	220

(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 company, including the directors) was as follows:

	2021 \$	2020 \$ <i>Restated</i>
Directors fees	248,700	235,894
Short-term employee benefits	961,677	669,448
Defined contribution plan payments	23,747	20,267
Share-based payment expense	500,128	258,418*
Total key management personnel compensation	1,734,252	1,184,027*

* Refer to Note 20 for details of the restatement.

The impact of the error to these specific line items as they relate to Key management personnel compensation is \$65,228.

Accordingly, the previous reported amounts for these line items were:

- Share-based payment expense	\$ 323,646
- Total key management personnel compensation	\$1,249,255

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

18. Contingent liabilities

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

19. Biological assets

The Company is currently still in a research and development phase and as such the plants and produce resulting from current operations are not being developed for sale, or for transformation into agricultural produce or additional biological assets. Under the Company'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 Company 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.

20. 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 amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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) Correction of prior period error

During the prior reporting period, the Company modified certain non-market vesting conditions related to Issue #1 and Issue #2 of its employee share option plans (ESOP), such that a portion (55,750) were denoted as having "vested automatically". Accordingly, the unamortised and incremental value associated with these share options were recognised in full, and disclosed as having vested but remaining unexercised as at 30 June 2020.

However, subsequent review and legal advice has identified and confirmed that while certain non-market vesting conditions were removed for these share options, they were still subject to the general vesting conditions which included a requirement of continued employment (service condition) over the original vesting period. Consequently, this expense should have continued to be recognised over the remaining service period. This error affected both the equity-settled and cash-settled components of these share options.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

20. Share-based payments (*continued*)

The impact of the error and relevant restated information is presented below:

(i) Impact to statement of financial position as at 30 June 2020

	2020 <i>As reported</i> \$	<i>Adjustment</i> \$	2020 <i>Restated</i> \$
Non-current assets			
Deferred tax asset	832,033	(33,828)	798,205
Current liabilities			
Share-based payment liability	(70,492)	58,215	(12,277)
Non-current liabilities			
Share-based payment liability	(111,653)	(13,203)	(124,856)
Equity			
Accumulated losses	(4,868,243)	86,983	(4,781,260)
Share option reserve	336,108	(75,800)	260,308

(ii) Impact to statement of profit or loss and other comprehensive income for the year to 30 June 2020

	2020 <i>As reported</i> \$	<i>Adjustment</i> \$	2020 <i>Restated</i> \$
Other expenses*	(3,174,629)	120,811	(3,053,818)
Income tax credit/(expense)**	818,345	(33,828)	784,517
Total comprehensive loss for the period	(2,900,035)	86,983	(2,813,052)

* *Employee benefit expense - Personnel costs* (Note 6)
Employee benefit expense - Share-based payment expense (Note 6)

** *Deferred tax* (Note 7)

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

20. Share-based payments (*continued*)

(b) Correction of prior period error (*continued*)

(iii) Impact to share option balances

	Issue #1 No.	Issue #2 No.	Issue #3 No.	Total No.
Opening (1 July 2019)	-	-	-	-
- Options issued (<i>As reported</i>)	408,000	75,000	42,564	525,564
- Options vested (<i>As reported</i>)	(51,000)	(4,750)	-	(55,750)
Adjustment	51,000	4,750	-	55,750
Options vested (<i>Restated</i>)	-	-	-	-
Options forfeited (<i>As reported</i>)	(51,000)	(4,750)	-	(55,750)
Closing (30 June 2020) (<i>Restated</i>)	357,000	70,250	42,564	469,814
Closing (30 June 2020) (<i>As reported</i>)	306,000	65,500	42,564	414,064

(c) Relevant information relating to the Company's share-based payments

- During the prior period the Company issued an employee share option plan (ESOP) in the form of equity-settled share options to its directors, senior management, and selected employees. This occurred in three separate "Issues".
- During the current period, the Company completed a 5.882:1 share split, resulting in a pro-rata increase in the number of share options.
- There were no additional share options issued during the current period.
- Additionally, certain tranches in *Issue #2* were modified subsequent to grant date, such that the affected share options were forfeited.
- The number of share options expect to vest for *Issue #1* and *Issue #2* has been adjusted to reflect share options attributed to employees who have terminated their employment, and thus forfeited their rights to share options, during the period.
- At reporting date, the number of unvested share options was 2,298,392.

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Notes forming part of the financial statements
For the year ended 30 June 2021

20. Share-based payments (*continued*)

(d) Key features and balances of ESOPs

All tranches of ESOPs:

- Are subject to a general service vesting condition (i.e. if the party terminates their directorship or employment with the company to share options are forfeited).
- Have a \$nil exercise price.
- Include tranches where the vesting conditions are yet to be confirmed between the parties.

In these cases, the ESOPs are deemed to have been granted with respect to their requirement to be recognised, however, a grant-date fair value is not able to be determined.

Accordingly, until such time as the vesting conditions are confirmed, the Company estimates the fair value of the options at each reporting date.

In addition, the Company has elected to pay the PAYE tax associated with the share options, in addition to the share-options (i.e. no net settlement feature).

Accordingly, this feature of each ESOP is accounted for as a cash-settled share-based payment.

Further details are provided in the subsequent disclosures associated with each *Issue*.

(i) Share options balances

	Issue #1 No.	Issue #2 No.	Issue #3 No.	Total No.
Opening (1 July 2020) (Restated)*	357,000	70,250	42,564	469,814
- Net share-split impact	1,742,874	342,961	207,802	2,293,637
- Options issued	-	-	-	-
- Options vested	-	-	(250,366)	(250,366)
- Options forfeited	(102,935)	(111,758)	-	(214,693)
Closing (30 June 2021)	1,996,939	301,453	-	2,298,392

(ii) Vested share options balances outstanding

	Issue #1 No.	Issue #2 No.	Issue #3 No.	Total No.
Opening (1 July 2020) (Restated)*	-	-	-	-
- New options vested	-	-	250,366	250,366
- Options exercised	-	-	(250,366)	(250,366)
Closing (30 June 2021)	-	-	-	-

* Refer to Correction of Prior Period Error above.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

20. Share-based payments (continued)

(e) Specific ESOP details - Issue #1

(i) Originally issued

Tranche [Vesting period]	Vesting conditions	2021 Number	2020 Number
Tranche 1 [25 months] ¹	Non-market performance conditions relating to developing the company's intellectual property (IP), licencing the IP, and supplying GMP-grade biomass.	N/A ¹	102,000
Tranche 2 [25 months] ¹	Non-market performance conditions relating to achieving Medsafe NZ GMP Certification, dispatching commercial product to an EU approved EU conformance testing lab, and having granted and retaining all required certifications.	N/A ¹	102,000
Tranche 3 [25 months] ²	To be confirmed for each party prior to 5 September 2020	N/A ²	204,000

¹ In the prior period, subsequent to grant date, the vesting conditions attached to **Tranche 1** and **Tranche 2** were modified, such that:

- 25% (51,000 share options) were forfeited.
- 50% (102,000 share options) were split evenly between four new vesting conditions (12.5% each) (**Tranche 4A - 4D**, below).
- 25% (51,000 share options) were subject to only continued service conditions (**Tranche 4E**, below).

The modifications are beneficial to the employees and the new vesting conditions are taken into account in the determination of the share-based payment cost.

² During the period, the previously yet to be determined vesting conditions applicable to **Tranche 3** were confirmed, resulting in four separate tranches (25% each) with unique vesting conditions. These modified tranches are referred to as **Tranche 3A - 3D**, below.

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Notes forming part of the financial statements
For the year ended 30 June 2021

20. Share-based payments (continued)

(e) Specific ESOP details - Issue #1 (continued)

(ii) Currently issued

Tranche [Vesting period]	Vesting conditions	2021 Number *	2020 Number
Tranche 3A [25 months] ²	Non-market performance conditions relating to the Company receiving NZ Medsafe “Good Manufacturing Practice” (GMP) within a prescribed time frame.	285,277	N/A ²
Tranche 3B [25 months] ²	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.	285,277	N/A ²
Tranche 3C [25 months] ²	Non-market performance conditions relating to the Company achieving EU GMP certification within a prescribed timeframe.	285,277	N/A ²
Tranche 3D [25 months] ²	Non-market performance conditions relating to the Company achieving sales into the German market within a prescribed timeframe.	285,277	N/A ²
Tranche 4A [25 months] ¹	Non-market performance conditions relating to the establishment of a board-approved grower partner and collaboration agreement with a specified target party.	142,639	25,500
Tranche 4B [25 months] ¹	Non-market performance conditions relating to establishment of a commercialisation plan between the company and a specified target entity.	142,639	25,500
Tranche 4C [25 months] ¹	Non-market performance conditions relating to the company achieving various medicinal cannabis licences and authorities.	142,639	25,500
Tranche 4D [25 months] ¹	Non-market performance conditions relating to board-approved cash-flow and funding plans being confirmed.	142,639	25,500
Tranche 4E [25 months] ¹	Service condition.	285,277	51,000

* Includes impact for share split and forfeited share options.

¹ In the prior period, subsequent to grant date, the vesting conditions attached to **Tranche 1** and **Tranche 2** were modified, such that:

- 25% (51,000 share options) were forfeited.
- 50% (102,000 share options) were split evenly between four new vesting conditions (12.5% each) (**Tranche 4A - 4D**, below).
- 25% (51,000 share options) were subject to only continued service conditions (**Tranche 4E**, below).

The modifications are beneficial to the employees and the new vesting conditions are taken into account in the determination of the share-based payment cost.

² During the period, the previously yet to be determined vesting conditions applicable to **Tranche 3** were confirmed, resulting in four separate tranches (25% each) with unique vesting conditions. These modified tranches are referred to as **Tranche 3A - 3D**, below.

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20. Share-based payments (continued)

(e) Specific ESOP details - Issue #1 (continued)

(iii) 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		Cash-settled	
	2021	2020	2021	2020
Option pricing model used	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Weighted average share price				
➤ Tranche 4A - 4E	\$0.30	\$2.12	0.41	\$2.12
➤ Tranche 3A - 3D	\$0.50	\$2.12	0.41	\$2.12
Exercise price		\$nil		\$nil
Weighted average contractual life (in days)				
➤ Tranche 4A - 4E	93	848	184	549
➤ Tranche 3A - 3D	184	549	184	549
Volatility				
➤ Tranche 4A - 4E	96%	96%	78%	81%
➤ Tranche 3A - 3D	80%	81%	78%	81%

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.

Rua Bioscience Limited
Notes forming part of the financial statements
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20. Share-based payments (continued)

(f) Specific ESOP details - Issue #2

(i) Originally issued

Tranche [Vesting period]	Vesting conditions	2021 Number *	2020 Number
Tranche 1 [30 months] ³	Non-market performance conditions relating to developing the company's intellectual property (IP), licencing the IP, and supplying GMP-grade biomass.	N/A ³	9,500
Tranche 2 [30 months] ³	Non-market performance conditions relating to achieving Medsafe NZ GMP Certification, dispatching commercial product to an EU approved EU conformance testing lab, and having granted and retaining all required certifications.	N/A ³	9,500
Tranche 3 [30 months] ⁴	To be confirmed for each party prior to 1 October 2020.	N/A ⁴	28,000
Tranche 4 [30 months]	To be confirmed for each party prior to 1 October 2021.	117,640	28,000

* Includes impact for share split and forfeited share options.

³ In the prior period, subsequent to grant date, the vesting conditions attached to **Tranche 1** and **Tranche 2** were modified, such that:

- 25% (4,750 share options) were forfeited.
- 50% (9,500 share options) were split evenly between four new vesting conditions (12.5% each) (**Tranche 5A - 5D**, below).
- 25% (4,750 share options) were subject to only continued service conditions (**Tranche 5E**, below).

The modifications are beneficial to the employees and the new vesting conditions are taken into account in the determination of the share-based payment cost.

⁴ During the period, the previously yet to be determined vesting conditions applicable to **Tranche 3** were confirmed, resulting in four separate tranches (25% each) with unique vesting conditions. These modified tranches are referred to as **Tranche 3A - 3D**, below.

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20. Share-based payments (continued)

(f) Specific ESOP details - Issue #2 (continued)

(ii) *Currently issued*

Tranche [Vesting period]	Vesting conditions	2021 Number *	2020 Number
Tranche 3A [30 months] ⁴	Non-market performance conditions relating to the Company receiving NZ Medsafe “Good Manufacturing Practice” (GMP) within a prescribed time frame.	29,410	N/A ⁴
Tranche 3B [30 months] ⁴	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.	29,410	N/A ⁴
Tranche 3C [30 months] ⁴	Non-market performance conditions relating to the Company achieving EU GMP certification within a prescribed timeframe.	29,410	N/A ⁴
Tranche 3D [30 months] ⁴	Non-market performance conditions relating to the Company achieving sales into the German market within a prescribed timeframe.	29,410	N/A ⁴
Tranche 4 [30 months]	To be confirmed for each party prior to 1 October 2021.	117,640	28,000
Tranche 5A [30 months] ³	Non-market performance conditions relating to the establishment of a board-approved grower partner and collaboration agreement with a specified target party.	11,029	2,375
Tranche 5B [30 months] ³	Non-market performance conditions relating to establishment of a commercialisation plan between the company and a specified target entity.	11,029	2,375
Tranche 5C [30 months] ³	Non-market performance conditions relating to the company achieving various medicinal cannabis licences and authorities.	11,029	2,375
Tranche 5D [30 months] ³	Non-market performance conditions relating to board-approved cash-flow and funding plans being confirmed.	11,029	2,375
Tranche 5E [30 months] ³	Service condition.	22,058	4,750

* Includes impact for share split and forfeited share options.

³ In the prior period, subsequent to grant date, the vesting conditions attached to **Tranche 1** and **Tranche 2** were modified, such that:

- 25% (4,750 share options) were forfeited.
- 50% (9,500 share options) were split evenly between four new vesting conditions (12.5% each) (**Tranche 5A - 5D**, below).
- 25% (4,750 share options) were subject to only continued service conditions (**Tranche 5E**, below).

The modifications are beneficial to the employees and the new vesting conditions are taken into account in the determination of the share-based payment cost.

⁴ During the period, the previously yet to be determined vesting conditions applicable to **Tranche 3** were confirmed, resulting in four separate tranches (25% each) with unique vesting conditions. These modified tranches are referred to as **Tranche 3A - 3D**, below.

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20. Share-based payments (continued)

(f) Specific ESOP details - Issue #2 (continued)

(iii) Measurement information

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

ESOP Issue #2: Tranche 3A - 3D, 4, and 5A - 5E	Equity-settled		Cash-settled	
	2021	2020	2021	2020
	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Option pricing model used				
Weighted average share price				
> Tranche 3A - 3D	\$0.50	-	\$0.41	-
> Tranche 4	\$0.41	\$2.12	\$0.41	\$2.12
> Tranche 5A - 5E	\$0.36	\$2.12	\$0.41	\$2.12
Exercise price	\$nil	\$nil	\$nil	\$nil
Weighted average contractual life (in days)				
> Tranche 3A - 3D	645	1,010	549	-
> Tranche 4 (from reporting date - no confirmed conditions)	645	1,010	645	1,010
> Tranche 5A - 5E	549	914	549	914
Volatility				
> Tranche 3A - 3D	76%	80%	78%	-
> Tranche 4	78%	80%	78%	81%
> Tranche 5A - 5E	80%	81%	78%	81%

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.

Rua Bioscience Limited
Notes forming part of the financial statements
For the year ended 30 June 2021

21. Events after the reporting date

On 17 August 2021, the New Zealand Government reinstated Covid-19 Alert level 4 for the whole of New Zealand. The Alert Level 4 settings are applicable to the Auckland region until 31 August 2021 and for the rest of New Zealand until 27 August 2021. The level 4 lockdown in August 2021 does not affect the operations of the Company as Rua Bioscience Limited is in the business of medicine manufacturing and deemed as essential business. No adjustment for the lockdown has been included in the financial statements as this is treated as a non-adjusting subsequent event.

22. Net Tangible Assets

Net tangible assets per share is a non-NZ 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:

	2021	2020
	\$	\$
Total assets	30,851,469	15,727,112
(less): Intangible assets	(4,000,000)	(4,000,000)
(less): total liabilities	(2,017,423)	(1,325,150)
Net tangible assets	<u>24,834,046</u>	<u>10,401,962</u>
Number of shares issued at balance date	<u>140,262,591</u>	<u>17,003,096</u>
Net tangible assets per share	<u>0.18</u>	<u>0.61</u>