PharmaZen

Good Health Healthy Future

Annual Report

For the year ended 31 December 2022

2022

INTRODUCTION

Where we are from

Based in Christchurch, New Zealand PharmaZen is an innovative developer, manufacturer and marketer of science based, natural nutritional ingredients.

Actively selling into global markets for more than 20 years, PharmaZen's ingredients are world renowned for their quality and purity.

Raw materials for PharmaZen's products are sourced from New Zealand's pristine natural environment where levels of traceability are second to none.

PharmaZen was formed in November 2001 to commercialise a range of animal remedies in New Zealand and international markets that had been developed by Zenith Technology in conjunction with Otago University.

In 2002 it acquired Waitaki Biosciences International, a private company whose roots dated back to the 1970's.


Greenshell™ Mussel farms in the Marlborough Sounds


Kiwifruit vines, Tauranga


Cattle farm, Canterbury


Waitaki River and the Southern Alps, Canterbury

CONTENTS

SECTION 1.

Company Directory

COMPANY NUMBER

1168773

ISSUED CAPITAL

219,493,482 Ordinary Shares

35,000,000 Preference Shares

REGISTERED OFFICE

3 Desi Place

Hillsborough, 8022

Christchurch

SHAREHOLDERS

Listed on the USX

(Unlisted Securities Exchange)

DIRECTORS

K W Fergus (Chairman)

C L McIntosh

Dr W L Burt

P W Dobbs

D C Petrie

M N Callagher

G P Shepherd (resigned 28 February 2023)

BANKERS

Bank of New Zealand Limited

Christchurch

SOLICITORS

Wynn Williams and Co.

Christchurch

AUDITORS

Grant Thornton New Zealand Audit Limited

Christchurch

SECTION 2.

Year in Review

PERFORMANCE

2022 SALES

$24.6M

16% INCREASE [1] OVER FY2021

GROSS MARGIN

34%

2 PERCENTAGE POINTS INCREASE OVER FY2021

UNDERLYING EBITDA

$3.75M

45% INCREASE [1][2] OVER FY2021

NET PROFIT BEFORE TAX

$1.1M

$1.4M TURNAROUND FROM PRIOR YEAR

[1] The 2021 sales and Underlying EBITDA were reported as $20,485,000 and $2,323,000 respectively when preparing the FY21 Annual Report. There is a restatement to prior periods as set out in note 24 which impacts on FY21 sales and Underlying EBITDA. If the FY22 sales and Underlying EBITDA are compared to the numbers as reported when preparing the FY21 Annual Report the increase in sales would be 20% and the increase in Underlying EBITDA would be 61%.

[2] Underlying EBITDA is Earning Before Interest, Tax, Depreciation and Non–trading costs. Non–trading costs include any revenue or expense items recognised as a result of the IFRS treatment of the CIBUS investment in the Company in January 2021 and any costs associated with the employee share scheme.

SECTION 3.

Chairman's Report

Kiwifruit vines, Tauranga

Kiwifruit is well known for its nutritional benefits when it comes to gut and digestive health – and New Zealand grows some of the best green kiwifruit in the world.

The increasing understanding of the link between the gut and brain has placed an even larger focus on bowel and digestive health.

We concentrate the enzyme in kiwifruit, actinidin, which goes on to break down the protein in the gut and aid digestion to avoid bloating.

CHAIRMAN'S REPORT

Dear Shareholders,

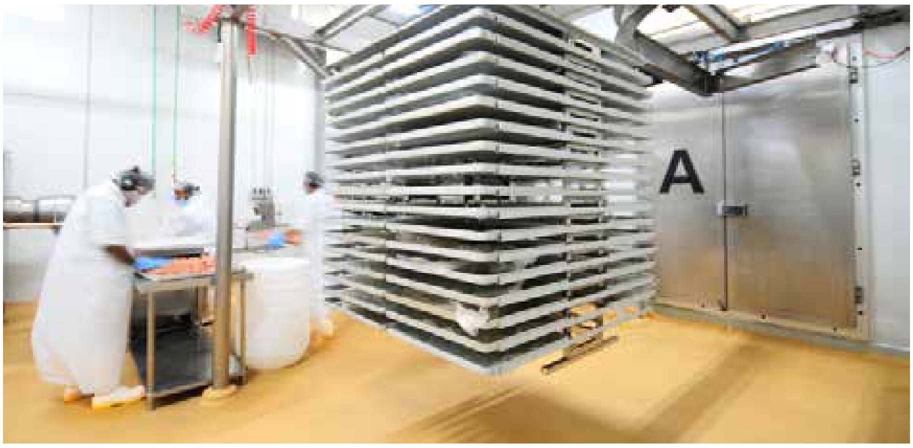
The 2022 year ended with some major milestones achieved in what continues to be a challenging environment.

December saw both the new 2,000kg freeze–dryers and energy hub operational. The magnitude of this project cannot be understated and the fact that it was achieved by our own staff without the on-site assistance of overseas suppliers speaks volumes about the quality of the team we have built at PharmaZen.

These dryers allow us to go into 2023 with double the operational freeze–drying capacity of 2022.

a.

b.



December also saw us negotiating an agreement for a sale and lease back of our first building at Tawhiri for $9 million, releasing funds to commence Tawhiri 2 and further investment in plant and equipment. These negotiations were completed after year end.

The initial lease term for the property sold is 18 years with 72 years of renewal options providing great certainty while enabling us to shift funds into the development of additional capabilities and capacity.

c.

a. 2 x 2000kg freeze–dryers
b. Traying up a gantry
c. Energy hub

$ '000	FY22	FY21	Increase
Sales	$24,598	$21,199	+16%
Underlying EBITDA	$3,751	$2,592	+45%

Financial Overview

Demand for our product remained extremely strong and beyond what we were able to supply as we faced multiple challenges stemming from the tight labour market.

A considerable percentage of the animal derived material we work with is at the lower end of the value chain for our suppliers and typically labour intensive to collect. These suppliers faced the same challenges in terms of staffing and it is an unfortunate consequence of the market that the collection of this material drops off.

From an operational perspective we ran the entire year short–staffed and the issues this created were compounded by high staff turnover, which was exacerbated closer to year end.

The other challenge came in terms of our extraction business where our key partner's new boat was delayed due to COVID disruptions and will now not be fishing until the start of 2024. This restricted supply during the year however will be remedied by 2024.

Despite these challenges, we were able to achieve a 45% increase in Underlying EBITDA[1] over prior year and a 16% increase in sales, an achievement that given the staffing issues faced, highlights the strength of the core business.

d.

e.

f.

d./e. Pet treat freeze drying
f. New pet treat freeze Dryer

[1] Underlying EBITDA is Earnings before Interest, Tax, Depreciation, Amortisation and non–trading costs as defined elsewhere in this report.

CHAIRMAN'S REPORT

g.

h.

g. Tawhiri 1 and Tawhiri 2
h. Internal Tawhiri 1 fit out

Prior Period Restatement

While covered in the financial statements, I will draw attention to the impact of a change in interpretation of year end revenue recognition as approved by our new Auditors, Grant Thornton. In previous years revenue recognition was based around when our product was ready for shipment and had been QC cleared.

After further consideration and input from our auditors, revenue is now recognised at the time goods are shipped which has required a restatement in prior year results. This has meant that some goods sold and paid for but still on-site were not included as sales for the year.

In the current year the net impact of this change in interpretation is a reduction in sales of $694k and an associated reduction in Underlying EBITDA of $408k.

Looking Ahead

Returning from Christmas shutdown saw the most challenging staffing issues the Company has ever experienced. We had 25% vacancy rates and ongoing attendance issues from staff in the factory so undertook a radical overhaul of our recruitment process and incentive plans.

This included 'finders fees' for staff recruiting new employees and a refining of the factory bonus structures. This has been extremely successful with 15 new staff employed by the end of March and we are looking to move to an 'overstaffed' position by the end of May in anticipation of winter illnesses and in preparation for Rolleston coming online.

The high turnover is stretching our training capabilities, however the new approach is seeing improvements in quantity and quality of applicants which will ease pressure on our extremely capable core team who have been carrying operations throughout this period.

The new freeze dryers took longer to commission than anticipated largely as a result of the rigorous compliance process for the energy hub's high pressure ammonia and CO2 compressors, however we commence 2023 with certainty around operational freeze drying capacity.

The first of the three freeze dryers for Tawhiri arrived in December, the second in April and both the new energy hubs are on-site.

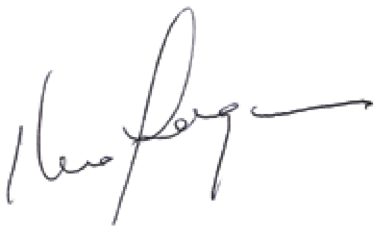
The site at Tawhiri makes the installation process significantly easier due to the learnings from the Port Hills Road installations. We anticipate having the first freeze dryer at Tawhiri operational early in the fourth quarter 2023 with the second one late in the fourth quarter. The facility itself will be operational for processing early August as we migrate processes not requiring freeze drying.

The Tawhiri 2 build is underway with the plan being to utilise for storage and engineering teams while we complete the installation and commissioning at Tawhiri 1. With completion scheduled early 2024, the team will convert the Tawhiri 2 facility to accommodate further processing expansion.

I wish to thank you, our Shareholders and our customers for your continued support.

The Board extends its thanks and appreciation to the staff and management, led by Managing Director Craig McIntosh, for their efforts and contribution in a difficult year. In particular, we would like to call out our development team, led by Raumira Pohatu on the successful commissioning of our energy hub.

The board is excited by the opportunities the market offers and believe that the increase in capacity that the Company has put in place has put us in a strong position to capitalise on these opportunities.



K W Fergus
Chairman

SECTION 4.

Directors' Report

Principal Activity

The Company manufactures and sells advanced human and animal nutritional ingredients.

Dividend

No dividend was declared or paid during the period.

Directors' Interests

Directors' Fees

Directors' fees paid or payable to Directors of the Company during the year were $145,000 (2021: $107,500).

Directors' Loans

There were no loans by the Company to Directors.

Share Dealing

The table below records the PharmaZen Limited shares in which each Director had a relevant interest as at 31 December 2022 and 31 December 2021.

Number of Shares

Director	Beneficial		Non–Beneficial	
	2022	2021	2022	2021
K W Fergus	8,000,000	8,000,000	5,199,268	7,869,125
C L McIntosh	28,016,000	28,016,000	–	–
Dr W L Burt	30,450,919	30,500,000	–	–
P W Dobbs	1,978,674	1,978,674	–	–
G P Shepherd	2,067,282	2,067,282	–	–
D C Petrie	–	–	35,000,000	35,000,000
M N Callagher	–	–	–	–

Substantial Security Holders

The Company's register of substantial security holders at 31 December 2022 is as follows:

Name	Number of voting securities
MG Shepherd & LA Shepherd & Downie Stewart Trustee Ltd	35,092,204
Craig Lachlan McIntosh & Andrew James McIntosh & Glenn Alexander McIntosh	20,536,000
Citibank Nominees New Zealand Limited	14,500,000
BNP Paribas Nominees (NZ) Limited	14,500,000
Lee Paterson Family Trust Company Limited	11,557,312

Employee Remuneration

Twelve employees received remuneration in excess of $100,000 as follows:

$100,000 – $110,000	4 employees
$110,001 – $120,000	3 employees
$130,001 – $140,000	1 employee
$140,001 – $150,000	1 employee
$250,001 – $260,000	1 employee
$280,001 – $290,000	1 employee
$350,001 – $360,000	1 employee

SECTION 5.

Directors' Responsibility Statement

The Directors are pleased to present to shareholders the financial statements for PharmaZen Limited for the year ended 31 December 2022. The financial statements presented are signed for and on behalf of the Board, authorised for issue on the date below.

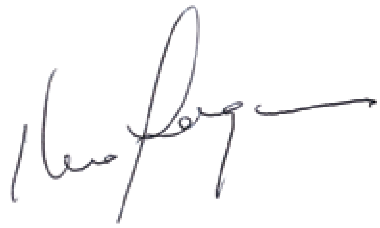
The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which materially reflect the financial position of the Company as at 31 December 2022 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the Company have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The financial statements are signed on behalf of the Board by:



K W Fergus
Chairman

C L McIntosh
Managing Director

10 May 2023

SECTION 6.

Statement of Profit and Loss

	Notes	2022	2021 Restated*
	$		$
Revenue			
Sales	3a	24,597,810	21,199,287
Cost of sales		16,347,213	14,487,966
Gross profit		8,250,597	6,711,321
Other income	3b	30,678	63,003
Expenses			
Trading Expenses			
Marketing		801,523	1,031,582
Occupancy		279,171	151,175
Administrative		1,377,230	1,102,885
Consultancy		414,598	303,843
Research		493,634	479,076
Net finance costs	3c	520,679	180,948
Depreciation	12	1,906,545	1,564,240
Amortisation of intangibles	13	25,912	18,425
Insurance		975,986	745,131
Other		187,926	367,869
Total Trading Expenses		6,983,204	5,945,174
Non–Trading Items	3e	219,244	1,169,366
Total Expenses		7,202,448	7,114,540
Net profit/(loss) before taxation from continuing activities		1,078,827	(340,216)
Taxation expense	4a	297,957	279,528
Net profit/(loss) for the year		780,870	(619,744)
Earnings Per Share			
Basic and diluted (cents per share)	14	0.36	(0.28)

*See note 24 for details of restatement of the prior period financial statements.

SECTION 7.

Statement of Comprehensive Income

	2022 $	2021 Restated* $
Net profit/(loss) for the year	780,870	(619,744)
Other Comprehensive Income	–	–
Total Comprehensive Income	780,870	(619,744)

SECTION 8.

Statement of Changes in Equity

	Notes	Fully Paid Ordinary Shares $	Share Option Reserve $	Retained Earnings Restated* $	Total Restated* $
Balance at 1 January 2021		12,063,805	–	8,100,052	20,163,857
Prior period restatement		–	–	(272,394)	(272,394)
Restated opening balance as at 1 January 2021		12,063,805	–	7,827,658	19,891,463
Shares issued in the year	14	420,000	–	–	420,000
Share options expense in the year	15	–	664,002	–	664,002
Net profit/(loss) previously stated		–	–	(813,600)	(813,600)
Current year restatement		–	–	193,856	193,856
Balance at 31 December 2021		12,483,805	664,002	7,207,914	20,355,721

	Notes	Fully Paid Ordinary Shares $	Share Option Reserve $	Retained Earnings $	Total $
Balance at 1 January 2022		12,483,805	664,002	7,286,452	20,434,259
Prior period restatement		–	–	(78,538)	(78,538)
Restated opening balance as at 1 January 2022		12,483,805	664,002	7,207,914	20,355,721
Options expensed during the period	15	–	783,756	–	783,756
Options expired during the period	15	–	(1,438)	1,438	–
Options expired during the period but not vested	15	–	(9,512)	–	(9,512)
Net profit/(loss) for the year		–	–	780,870	780,870
Balance at 31 December 2022		12,483,805	1,436,808	7,990,222	21,910,835

*See note 24 for details of restatement of the prior period financial statements.

SECTION 9.
STATEMENT OF FINANCIAL POSITION

	Notes	2022 $	2021 Restated* $	2020 Restated* $
Assets				
Current assets				
Cash and cash equivalents		4,433	1,552,613	328,910
Trade and other receivables	7	4,605,541	5,011,844	4,383,270
Assets held for sale	25	8,543,276	–	–
Prepayments		1,067,462	1,111,392	508,645
Inventories	8	4,390,362	4,825,875	3,950,503
Total current assets		18,611,074	12,501,724	9,171,328
Non–current assets				
Property, plant and equipment	12	52,953,825	48,456,572	29,028,235
Intangible assets	13	724,696	678,790	507,363
Total non–current assets		53,678,521	49,135,362	29,535,598
Total assets		72,289,595	61,637,086	38,706,926
Liabilities				
Current liabilities				
Bank overdraft		5,132,170	920,048	1,385,369
Accounts payable and accruals	9	5,729,831	3,989,000	3,388,133
Lease liabilities		222,072	207,389	98,446
Current tax liabilities	4c	325,217	1,235,662	2,296,462
Borrowings	10	3,174,014	2,298,960	1,005,120
Warrants	11	374,000	691,000	–
Total current liabilities		14,957,304	9,342,059	8,173,530
Non–current liabilities				
Borrowings	10	21,145,790	17,283,122	9,582,190
Lease liabilities		633,207	772,141	383,830
Redeemable convertible preference shares	11	12,926,000	13,164,000	–
Deferred tax liability	4d	716,459	720,043	675,913
Total non–current liabilities		35,421,456	31,939,306	10,641,933
Total liabilities		50,378,760	41,281,365	18,815,463
Owners' Equity				
Share capital	14	12,483,805	12,483,805	12,063,805
Share option reserve	15	1,436,808	664,002	–
Retained earnings	16	7,990,222	7,207,914	7,827,658
Total equity		21,910,835	20,355,721	19,891,463
Total liabilities and Owners' Equity		72,289,595	61,637,086	38,706,926

*See note 24 for details of restatement of the prior period financial statements.

SECTION 10. STATEMENT OF CASH FLOWS

	Notes	2022 $	2021 $
Cash Flows from Operating Activities			
Cash was provided from (applied to):			
Receipts from customers and other income		24,427,836	20,171,627
Interest received		1,149	–
Taxation (paid) – net		(1,211,986)	(1,295,943)
Payments to suppliers and employees		(18,044,537)	(19,186,352)
Payment of interest		(1,242,505)	(559,973)
Net cash inflow/(outflow) from operating activities	22	3,929,957	(870,641)
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Payment for property, plant and equipment		(14,143,172)	(19,911,873)
Payment for intangible assets		(78,481)	(291,427)
Net cash outflow applied to investing activities		(14,221,653)	(20,203,300)
Cash Flows from Financing Activities			
Cash was provided from (applied to):			
Proceeds from borrowings		5,148,264	10,001,760
Lease liability		(206,328)	(204,425)
Repayment of loans		(410,542)	(1,034,370)
Proceeds from issuing RCPS and warrants		–	14,000,000
Net cash outflow (applied to)/inflow from financing activities		4,531,394	22,762,965
Net increase/(decrease) in cash and cash equivalents		(5,760,302)	1,689,024
Cash and cash equivalents at the beginning of the year		632,565	(1,056,459)
Cash and cash equivalents at the end of the year		(5,127,737)	632,565
Comprised of:			
Cash and cash equivalents		4,433	1,552,613
Bank overdraft		(5,132,170)	(920,048)
Net cash		(5,127,737)	632,565

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

1) Summary of Accounting Policies

Reporting entity

PharmaZen Limited ("PharmaZen" or "Company") is a profit–oriented entity incorporated and domiciled in New Zealand.

The principal activity of the Company is formulating, manufacturing and marketing specialised animal and human health products based on immune protective bioactive components and other novel bioactive ingredients.

As an issuer, the Directors have determined that the Company is a FMC reporting entity.

These financial statements comply with the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP, the Company is a for–profit entity. They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit–oriented entities.

The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of Preparation

The financial statements have been prepared on the basis of historical cost unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements are presented rounded to the nearest whole dollar in New Zealand dollars which is the Company's functional and presentation currency.

Critical Judgements and Estimates in Applying Accounting Policies

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates are disclosed, where applicable, in the relevant notes to the financial statements.

The key areas where judgement is required are:

- Revenue Recognition (refer to Judgement – Sale of goods note and Judgement – Processing services note).
- Inventory Costings (refer to Judgement – Inventories note).
- Recognition of the cost associated with the Employee Share Scheme – refer to note 15 Share Option Reserve.
- Fair value measurement of financial liabilities measured at fair value through profit or loss (refer to Judgement – Measurement of RCPS and warrants note).

Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation and presentation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

Property, Plant and Equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, other than land.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimates of useful lives are used in the calculation of depreciation:

• Buildings	6–50 years
• Furniture, fixtures and fittings	3–15 years
• Motor vehicles	7 years
• Plant and machinery	3–50 years
• Right of use assets	2–7 years

Accounting policies relating to right of use lease assets are separately disclosed.

Assets in the course of construction for use in the production or supply of goods, or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal, or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Fixed assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell.

Impairment of Non–financial Assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash–generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Intangible Assets

Intangible assets relate to expenditure on patents and trademarks that are expected to have an enduring benefit to the Company. Intangible assets are stated at their accumulated historical cost until such time as confirmation has been received that the patent or trademark to which the expenditure relates has been approved. From that time the cost is amortised on a straight–line basis over the expected useful life of the asset for intangible assets with a finite useful life. Any amortisation is based on an expected useful life of ten (10) years for both patents and trademarks.

Where an application is declined and management decides not to take the matter further, the accumulated expenditure is expensed in the year that decision is taken. Management assesses all intangible assets for impairment on an annual basis and any necessary adjustments are made to carrying values.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

Internally–generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally–generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use.
- The intention to complete the intangible asset and use it.
- The ability to use the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally–generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally–generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally–generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Revenue Recognition

Sale of Goods

PharmaZen sells human and animal nutritional products to customers in the United States, Asia, Europe, New Zealand and Australia. Revenue is recognised and the transaction price is allocated by the Company when it passes control of the goods, which occurs at the time risk passes to the customer dependent on relevant shipping terms for the customer. This represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is made. The transaction price is defined as the amount of consideration the Company expects to be entitled to in exchange for providing the goods.

Judgement – Sale of Goods

The Company concluded that control of the goods passes to the customer upon transfer of risk under Incoterms.

Processing Services

PharmaZen provides contract processing services to external customers. Revenue is recognised and the transaction price is allocated by the Company when it passes control of the goods, which occurs at the time risk passes to the customer dependent on relevant shipping terms for the customer. This represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is made. The transaction price is defined as the amount of consideration the Company expects to be entitled to in exchange for providing the service.

Judgement – Processing Services

The Company concluded that control of the services passes to the customer upon transfer of risk under Incoterms.

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

Other Income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured, regardless of when the payment is received. Other income is measured at the fair value of the consideration received or receivable.

Grants are recognised where it is probable that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Interest Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or taxable loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity respectively.

At the moment of initial recognition of a right of use asset the deferred tax liability is not recognised as at the time of the transaction there is no impact on either accounting profit or taxable profit (tax loss). At the moment of initial recognition of a lease liability the deferred tax asset is not recognised as at the time of the transaction there is no impact on either accounting profit nor taxable profit (tax loss).

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost in respect to work in progress and finished goods are determined using standard costing. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Judgement – Inventories

The Company has determined that the standard costing method of stock valuation is the most appropriate method for the Company.

Goods and Services Tax (GST)

All items in the balance sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the income statement are stated exclusive of GST.

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, bank overdraft, demand deposits, other short–term highly liquid investments (with a maturity less than three months) that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade Receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss at an amount equal to lifetime expected credit losses.

Expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Financial assets are deemed to be impaired when there is objective evidence of impairment at the reporting date.

Held for sale assets

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs. Direct issue costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers and printing and distribution costs.

Accounts Payable

Trade payables and other accounts payable are recognised at fair value when the Company becomes obliged to make future payments resulting from the purchase of goods and services. These are recorded at fair value.

Borrowings

Borrowings are recorded at fair value, plus transaction costs.

Financial Liabilities

All financial liabilities are measured at amortised cost using the effective interest method or at fair value through profit or loss.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

Financial Liabilities Measured at Amortised Cost

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial Liabilities Measured at Fair Value Through Profit or Loss

The Company has Redeemable Convertible Preference Shares (RCPS) which may be settled in cash or a variable number of ordinary shares and therefore are classified as liabilities. See note 11 for more information.

In addition, the Company has also issued warrants, which are derivative liabilities and are therefore measured at fair value through profit or loss.

All transaction costs related to financial instruments designated as at fair value through profit or loss are expensed as incurred.

Judgement – Measurement of RCPS and Warrants

There is judgment regarding the input variables and measurement methodology for the recognition of the RCPS and warrants.

Employee Benefits

Provisions are recognised for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Share Based Employee Remuneration

The Company operates an equity–settled share–based remuneration plan for its employees. None of the Company's plans are cash–settled. All share–based remuneration is ultimately recognised as an expense in profit or loss with the expense allocated over relevant expected vesting periods.

Financial Assets

The Company's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents and accounts receivable are classified in this category.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using a monthly exchange rate that is set at the start of each month and is used to approximate the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

Leases

The Company uses leases for some real property, plant and machinery and motor vehicles.

The Company assesses whether a contract contains a lease at inception of the contract. The Company recognises a right–of–use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short–term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For short–term and low value leases, the Company recognises the lease payments as an operating expense on a straight–line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in–substance fixed payments), less any lease incentives receivable.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by the lessee under residual value guarantees.
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options.
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right–of–use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right–of–use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right–of–use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The Company applies NZ IAS 36 to determine whether a right–of–use asset is impaired and accounts for any identified impairment loss as described in the 'impairment of non–financial assets' policy.

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right–of–use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in expenses in the profit or loss.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non–lease components and instead account for any lease and associated non–lease components as a single arrangement. The Company has used this practical expedient.

Statement of Cash Flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of profit and loss.

Definition of Terms Used in the Statement of Cash Flows

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non–current investments and any other non–current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity.

New and amended standard and interpretations

There are no new standards or interpretations material to the Company to be applied during the year. The Company does not anticipate adopting any standards prior to their effective date. There are no standards or amendments that have been issued but not yet effective that are expected to have a material impact on the Company.

Change in Accounting Policies

The Company previously recognised revenue from sales to customers at the time a customer's order had been fulfilled in all aspects including the physical specifications based on lab test results. This has been the Company's policy for several years and has been agreed by our previous auditors – Deloitte – as being an appropriate judgement. The Company reviewed this treatment in conjunction with our new auditors and agreed that under NZ IFRS 15 this is not an appropriate treatment. The Company has amended this policy to recognise revenue at the time risk passes to the customer which is dependent on specific customers' shipping terms.

There are no other changes in accounting policies.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

2) Going Concern

After reviewing internal management financial reports and budgets, the Directors believe the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3) Profit from Operations

	2022 $	2021 Restated $
(a) Revenue		
Trading revenue consisted of the following items:		
Sales of goods and services	24,597,810	21,199,287
	24,597,810	21,199,287
(b) Other Income		
Other income from operations consisted of the following items:		
MSD covid 19 reimbursement	11,518	–
Grants received	8,840	55,280
Interest	1,149	–
Miscellaneous income	9,171	7,723
	30,678	63,003
(c) Finance Costs		
Interest on borrowings	1,201,752	517,892
Interest on Lease Liabilities	40,753	42,081
Less capitalised interest	(721,826)	(379,025)
	520,679	180,948

Interest costs that are directly attributable to the acquisition of property, plant and equipment have been capitalised at an average interest rate of 4.2% (2021: 3.3%).

	2022	2021
(d) Specific Expense Disclosures		
Net profit before taxation includes the following specific expenses:		
Directors' fees	145,000	107,500
Short term and low value leases	12,212	23,720
Inventory written off/(back)	39,015	306,360
Employee benefits expense (including share option expense per note 3e)	6,092,163	5,438,097
KiwiSaver employer contributions	164,760	136,009
Doubtful debts expense	41,781	–
(e) Non–trading Items		
CIBUS Capital Raise Costs	–	650,364
Employee Share Option Expense	774,244	664,002
Fair value loss/(gain) on financial liabilities measured at fair value	(555,000)	(145,000)
	219,244	1,169,366

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

4) Income Taxes

(a) Income Tax Recognised in Profit or Loss

The prima facie income tax expense on pre–tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2022 $	2021 Restated $
Profit/(loss) before taxation	1,078,827	(340,216)
Income tax expense calculated at 28% (2021: 28%)	302,072	(95,260)
Non–deductible expenses	34,244	351,466
Prior period adjustments	(38,183)	(522)
Other	(176)	23,844
Tax expense	297,957	279,528
Recognised as:		
Current tax	301,541	235,398
Deferred tax	(3,584)	44,130
	297,957	279,528

(b) Income Tax Recognised in Other Comprehensive Income or directly in Equity

There was no current or deferred tax charged/(credited) directly to other comprehensive income or equity during the period.

(c) Current Tax Assets and Liabilities

	2022 $	2021 Restated $
Current tax assets:	–	–
Income tax refundable – current year	–	–
Current tax liabilities:		
Income tax payable – current year	301,541	235,398
Income tax payable – prior years	23,676	1,000,264
	325,217	1,235,662

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

(d) Deferred Tax Balances

Deferred tax assets/(liabilities) arise from the following:

2022	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(895,483)	(21,020)	(916,503)
Employee entitlements	102,585	24,272	126,857
Deferred Tax on Share Based Payments	34,349	(34,349)	–
Provisions	38,506	34,681	73,187
	(720,043)	3,584	(716,459)

2021	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(768,675)	(126,808)	(895,483)
Employee entitlements	81,315	21,270	102,585
Deferred Tax on Share Based Payments	–	34,349	34,349
Provisions	11,447	27,059	38,506
	(675,913)	(44,130)	(720,043)

(e) Imputation Credit Account Balances

	2022 $	2021 $
Balance at beginning of the year	2,904,444	3,923,687
Income tax paid	1,265,328	1,295,943
Income tax payable – current year	270,998	87,090
Income tax payable – prior year	(87,090)	(2,402,394)
Other adjustments	(52,974)	118
	4,300,706	2,904,444

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

5) Remuneration of Auditors

	2022 $	2021 $
Audit of the financial statements	83,266	63,078
	83,266	63,078

6) Key Management Personnel Compensation

	2022 $	2021 $
Short–term employee benefits for Managing Director	355,773	384,350
Consulting fees to Directors	46,200	63,255
Share Options Expense for options issued to Directors	182,171	115,367
Directors' fees	145,000	107,500
	729,144	670,472

There were no post employment benefits or termination benefits paid or payable in the period.

Key management is defined as the Directors, including the Managing Director.

7) Trade and Other Receivables

	2022 $	2021 $
Trade receivables (i)	4,180,372	4,315,672
Expected credit losses	(41,781)	–
Net trade receivables	4,138,591	4,315,672
Forward exchange contracts	376,584	–
Goods and services tax receivable	90,366	696,172
	4,605,541	5,011,844

(i) The average credit period on sale of goods is 69 days from invoice (2021: 72).

The average age of these receivables at 31 December 2022 is 32 days (2021: 49 days). The expected credit losses are not material for both 2022 and 2021 as all material offshore receivables are insured.

8) Inventories

	2022 $	2021 Restated $
Raw materials	2,657,634	2,904,116
Work in progress	273,365	507,539
Finished goods	1,459,363	1,414,220
	4,390,362	4,825,875

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

9) Accounts Payable and Accruals

	2022	2021 Restated
	$	$
Accounts payable	1,254,512	2,238,190
Other payables and accruals	2,915,512	901,420
Forward exchange contracts	–	20,147
Employee entitlements	578,668	542,135
Revenue invoiced in advance	981,139	287,108
Total accounts payable and accruals	5,729,831	3,989,000

10) Borrowings

	2022	2021
	$	$
Total borrowings at beginning of period	19,582,082	10,587,310
Accrued interest	–	27,382
Proceeds from borrowings during the year	5,148,264	10,001,760
Loans repaid during the year	(410,542)	(1,034,370)
Total borrowings at end of period	24,319,804	19,582,082
Borrowings repayable within one year		
at amortised cost		
Secured borrowings	3,174,014	2,298,960
	3,174,014	2,298,960
Borrowings repayable after one year		
at amortised cost		
Secured borrowings	21,145,790	17,283,122
	21,145,790	17,283,122

The secured borrowings mature between 31 January 2024 and 9 July 2026, bear interest at a weighted average rate of 5.5% (2021: 3.5%) and are secured by a mortgage over the Company's land and buildings at Port Hills Road, Nuttall Drive and Hoskyns Road Christchurch and all property currently owned and acquired in the future during the borrowing terms.

The Company entered into an export trade finance facility on 4 June 2015. This is a revolving credit facility allowing the Company to fund up to $1,200,000 of its total debt in foreign currencies. This facility was drawn against at 31 December 2022 to the extent of $650,024 (2021: Nil). The Company is in compliance with all bank covenant.

Letters of Credit

At December 2021 the Company had a Letter of Credit facility with Datacom Employer Services Limited securing the payment of wages and salaries to a maximum of $130,000 per pay period. This facility is no longer required and was terminated on 13 June 2022.

Other Borrowings

The Company has bank overdraft facilities with BNZ with a limit of $6,550,000 (2021: $1,750,000). At balance date the Company had drawn down $5,132,170 of that facility (2021: $920,048). Cash and cash equivalents are entitled to be set off against the bank overdraft as required.

The Company operates credit card accounts, mainly for travelling expenses, with a combined credit limit of $59,500.

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

11) Financial Liabilities Designated at Fair Value Through Profit or Loss

The carrying value of the Company's financial liabilities designated at fair value through profit or loss are detailed below:

31 December 2022	RCPS $	Warrants $	Total $
Opening balance (1 January)	13,164,000	691,000	13,855,000
Issued during period	–	–	–
Fair value loss/(gain)	(238,000)	(317,000)	(555,000)
Settled during the period	–	–	–
Closing balance (31 December)	12,926,000	374,000	13,300,000

31 December 2021	RCPS $	Warrants $	Total $
Opening balance (1 January)	–	–	–
Issued during period	13,164,000	836,000	14,000,000
Fair value loss/(gain)	–	(145,000)	(145,000)
Settled during the period	–	–	–
Closing balance (31 December)	13,164,000	691,000	13,855,000

(a) Redeemable Convertible Preference Shares (RCPS)

In January 2001 the Company issued 35,000,000 RCPS at an issue price of 40 cents per share. Included as part of this transaction was the issuing of 10,000,000 warrants as set out in note 11b.

Key features of the RCPS are:

- The RCPS have the same rights as the ordinary shares of the Company in that they receive discretionary dividends as declared for ordinary shares and do not have a fixed annual return.
- The RCPS mandatorily convert to ordinary shares in certain specific circumstances relating to a liquidity event occurring and specified returns being made by the holder of the RCPS.
- Alternatively, after three years from date of issue, the RCPS convert into ordinary shares at the option of the investor.
- The conversion ratio is one RCPS for one ordinary share except as modified for any adjustments required under a dilution event, where the investor would maintain their rights to a shareholding position as if the dilution event had not occurred.
- The RCPS are redeemable into cash at the option of the investor if a Redemption Event occurs. Examples of Redemption Events include (but not limited to);

  (i) A liquidity event not occurring within six years of the issue of the RCPS.
  (ii) Where the Investor's nominated Director resigns or is removed and where the Investor's replacement Director is not appointed by the Company by at least two months from nomination.
  (iii) Specific "Reserved Matters" occurring without the consent of the investor.
  (iv) Breaches of RCPS terms.
  (v) Specific insolvency events.

Refer to note 23(j) regarding fair value measurement of these instruments.

(b) Warrants

At the same time the 35,000,000 RCPS were issued, the Company issued 10,000,000 warrants to acquire additional RCPS.

Key features of the warrants are:

- The warrants have a term of three years from date of issue that expires on 29 January 2024.
- The purchase price of the RCPS attached to the warrant varies depending on when during the three year term the warrant is exercised.
  (i) If exercised within the first year, $0.400 per RCPS.
  (ii) If exercised between the first and second year, $0.425 per RCPS.
  (iii) If exercised between the second and third year, $0.450 per RCPS.

Refer to note 23(j) regarding fair value measurement of these instruments.

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

12) Property, Plant and Equipment

2022	Cost 1 Jan 2022	Additions	Disposals	Transfers to Held for Sale Assets	Additions of Right of Use Asset in 2022	Transfers from work in progress	Cost 31 Dec 2022	Accumulated depreciation 1 Jan 2022	Depreciation on all other Fixed Assets	Depreciation on Right of Use Assets	Accumulated depreciation reversal on disposal	Accumulated depreciation 31 Dec 2022	Book value 31 Dec 2022
	$	$	$	$	$	$	$	$	$	$	$	$	$
Land	2,082,906	–	–	–	–	–	2,082,906	–	–	–	–	–	2,082,906
Buildings	12,215,010	287,929	–	–	57,423	3,420,881	15,981,243	(2,241,122)	(406,893)	(204,572)	–	(2,852,587)	13,128,656
Plant and machinery	16,404,683	3,636,334	(2,158,926)	–	24,653	4,334,256	22,241,000	(6,619,773)	(1,209,663)	(5,909)	2,158,926	(5,676,419)	16,564,581
Motor vehicles	43,543	–	–	–	–	–	43,543	(15,330)	(1,117)	(8,749)	–	(25,196)	18,347
Furniture, fixtures, fittings	372,865	69,973	–	–	–	–	442,838	(204,181)	(69,642)	–	–	(273,823)	169,015
Construction in progress	26,417,971	10,870,762	–	(8,543,276)	–	(7,755,137)	20,990,320	–	–	–	–	–	20,990,320
Total property, plant and equipment	57,536,978	14,864,998	(2,158,926)	(8,543,276)	82,076	–	61,781,850	(9,080,406)	(1,687,315)	(219,230)	2,158,926	(8,828,025)	52,953,825

2021	Cost 1 Jan 2021	Additions	Disposals	Transfers to Held for Sale Assets	Additions of Right of Use Asset in 2021	Transfers from work in progress	Cost 31 Dec 2021	Accumulated depreciation 1 Jan 2021	Depreciation on all other Fixed Assets	Depreciation on Right of Use Assets	Accumulated depreciation reversal on disposal	Accumulated depreciation 31 Dec 2021	Book value 31 Dec 2021
	$	$	$	$	$	$	$	$	$	$	$	$	$
Land	2,082,906	–	–	–	–	–	2,082,906	–	–	–	–		2,082,906
Buildings	10,594,476	505,033	–	–	665,954	449,547	12,215,010	(1,675,788)	(369,578)	(195,756)	–	(2,241,122)	9,973,888
Plant and machinery	15,361,624	823,496	–	–	–	219,563	16,404,683	(5,671,627)	(932,920)	(15,226)	–	(6,619,773)	9,784,910
Motor vehicles	7,817	–	–	–	35,726	–	43,543	(4,735)	(1,117)	(9,478)	–	(15,330)	28,213
Furniture, fixtures, fittings	276,783	96,082	–	–	–	–	372,865	(164,016)	(40,165)	–	–	(204,181)	168,684
Construction in progress	8,220,795	18,866,286	–	–	–	(669,110)	26,417,971	–	–	–	–	–	26,417,971
Total property, plant and equipment	36,544,401	20,290,897	–	–	701,680	–	57,536,978	(7,516,166)	(1,343,780)	(220,460)	–	(9,080,406)	48,456,572

No impairment losses were recorded in 2022 or 2021.

The book value of the building right of use lease assets at 31 December 2022 is $785,258 (2021: $932,407), the book value of plant and machinery right of use lease assets at 31 December 2022 is $19,861 (2021: $1,117), and the book value of motor vehicles right of use lease assets at 31 December 2022 is $17,499 (2021: $26,248).

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

13) Intangible Assets

Intangible assets of the Company comprise of internally generated patents and trademarks. At 31 December 2022 all such expenditure incurred related to projects that were either still in progress or have been completed at that date. Management is certain that all projects will receive appropriate approval and future economic benefits will be generated and flow to the Company.

2022	**Progress costs for patents with finite useful life**	**Progress costs for trademarks**	**Total**
Cost	**$**	**$**	**$**
Balance at beginning of the year	463,894	374,122	838,016
Additions	74,566	3,915	78,481
Balance at end of the year	538,460	378,037	916,497
Amortisation and impairment			
Balance at beginning of the year	(6,310)	(152,916)	(159,226)
Amortisation	(12,560)	(13,352)	(25,912)
Impairment	–	(6,663)	(6,663)
Balance at end of the year	(18,870)	(172,931)	(191,801)
Net balance of intangibles after amortisation and impairment	519,590	205,106	724,696

2021	**Progress costs for patents with finite useful life**	**Progress costs for trademarks**	**Total**
Cost	**$**	**$**	**$**
Balance at beginning of the year	214,831	331,758	546,589
Additions	249,063	42,364	291,427
Balance at end of the year	463,894	374,122	838,016
Amortisation and impairment			
Balance at beginning of the year	–	(39,226)	(39,226)
Amortisation	(6,310)	(12,115)	(18,425)
Impairment	–	(101,575)	(101,575)
Balance at end of the year	(6,310)	(152,916)	(159,226)
Net balance of intangibles after amortisation and impairment	457,584	221,206	678,790

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

14) Share Capital

	2022 No. of Shares	2022 $	2021 No. of Shares	2021 $
Balance at beginning of the year	219,493,482	12,483,805	218,769,344	12,063,805
Contributions of Equity net of Transaction Costs	–	–	724,138	420,000
Balance at end of the year	219,493,482	12,483,805	219,493,482	12,483,805

All shares are fully paid ordinary shares and carry equal voting rights. All shares participate equally in any dividend.

	2022 Cents/Share	2021 Restated Cents/Share
Basic and diluted earnings per share	0.36	(0.28)

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2022 $	2021 Restated $
Net profit/(loss) after tax	780,870	(619,744)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share:	219,493,482	219,433,320

There are potential ordinary shares that will be issued as a result of the Company entering into a share option plan, an RCPS agreement with associated warrants, however due to the terms and conditions in the underlying agreements these have not been factored into diluted earnings per share.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

15) Share Option Reserve

The Company has a share option plan for selected employees. The purpose of the plan is to incentivise employees to have the same drivers as shareholders – long term share price appreciation and to increase employee retention. In accordance with the terms of the plan, the selected employees are granted option rights that vest over time. Once an option right vests the employee is able to pay the exercise price to the Company to purchase ordinary shares in the Company.

The option rights initially granted vest in line with the schedule as below:

- 5% of initial option rights granted vest one year after the date of issue of the option rights.
- 5% two years after the date of issue of options.
- 5% three years after the date of issue of options.
- 10% four years after the date of issue of options.
- 5% five years after the date of issue of options.
- 5% six years after the date of issue of options.
- 10% seven years after the date of issue of options.
- The remaining 55% of the initial option grant will vest on a timetable provided by the Board if an "Intervening Event" has not occurred one year after the vesting date of the seventh tranche in the schedule above.

The vesting of the employee options accelerate if an "Intervening Event" occurs. For this purpose, an Intervening Event is any of the following:

(i) The holder of the RCPS issued by the Company in January 2021 to Cibus Oscar Limited either converting those shares into ordinary shares or those RCPS being redeemed by the Company or any other liquidity event arising in relation to those RCPS; or

(ii) The shares of the Company are listed on the NZX or ASX or a similar recognised exchange; or

(iii) More than 50% of the voting shares are transferred so control of the Company is held by one entity or group of associated entities; or

(iv) A takeover offer for the Company is successful; or

(v) A major transaction is entered into under which the assets of the Company are sold to another entity.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are payable by the employee on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted to each employee is determined by the Board based on the employee's value they add to the Company.

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

Options are exercisable at a price determined by the Board of the Company. Options are forfeited if the employee leaves the Company before the options vest and any vested options must be either exercised or forfeited within two months of an employee leaving the Company.

Details of the share options outstanding during the year are as follows:

	2022 Number of share options	**2022** Weighted average exercise price	**2021** Number of share options	**2021** Weighted average exercise price
Outstanding at beginning of year	17,175,000	66 cents	–	–
Granted during the year	1,280,000	66 cents	17,175,000	66 cents
Forfeited during the year	(562,500)	66 cents	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	17,892,500	66 cents	17,175,000	66 cents
Exercisable at the end of the year	842,500	66 cents	–	–

In 2022, 1,280,000 options were granted in July. The aggregate of the estimated fair value of the options granted on that date is $51,637. There were 17,175,000 employee options granted in July 2021. The fair value of the 2021 grant has been revised with each tranche now valued separately to consider the different inputs for each tranche. We have also separated options into cohorts to better reflect managements best estimate of employee behaviour. The aggregate of the estimated fair value of the options granted in July 2021 is $3,958,719 (previously $4,755,984).

Expected volatility was determined by calculating the volatility over the previous three years of a group of the Company's peers that are listed on the NZX.

The expected life used in the model has been adjusted, based on management's best estimate, for likelihood and timing of an Intervening Event, the estimate of forfeiture of options on employees leaving the Company and general employee behavioural considerations.

The risk free rate is based on a the Reserve Bank of New Zealand Wholesale Interest rates for the respective vesting periods.

The inputs into the Black Scholes pricing model are as follows (all weighted average):

	2022	**2021**
Share price	83 cents	77 cents
Exercise price	66 cents	66 cents
Volatility	40%	40%
Expected life	5.8 years	3.5 years
Risk–free rate	1.34%	1.10%
Expected dividend yields	0%	0%

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

16) Retained Earnings

	2022	2021 Restated
	$	$
Balance at beginning of the year	7,207,914	7,827,658
Options expired during the period	1,438	–
Total comprehensive income/(loss) for the year	780,870	(619,744)
	7,990,222	7,207,914

17) Related Party Transactions

The Company recognised sales of $73,120 of product to the NZ Blackcurrant Co–operative of which Director Mike Callagher is the General Manager. These sales were all made on normal commercial terms. There were no other related parties, including Directors, which provided or received services or supplies to or from the Company during the period, other than the Directors' remuneration and other key management personnel compensation set out in Note 6.

18) Commitments for Expenditure

(a) Capital expenditure commitments

The Company has committed to construction contracts and additional plant purchases as part of its programme for broadening and expanding its production capacity. The expenditure committed to, but not yet incurred, as at 31 December 2022 is $4,766,000 (2021: $1,032,000).

(b) Short term and low value asset lease commitments

The Company leases low value items of office equipment in the normal course of business. There were no restrictions imposed by lease arrangements for those assets. There are no sub–lease payments expected to be received at the end of the reporting period.

	2022	2021
	$	$
Not later than one year	3,053	11,215
Later than one year but not later than two years	–	–
Later than two years but not later than five years	–	–
Later than five years	–	–
	3,053	11,215

19) Contingent Assets and Liabilities

There are no contingent assets or liabilities as at 31 December 2022 (2021: $Nil).

20) Subsequent Events

The Company entered into a conditional agreement to sell the land and buildings on a sale and lease back arrangement of the Company's Tawhiri 1 site for $9,000,000 on 27 January 2023. The land sold is a total of 7,298 square metres leaving a balance of land at the Tawhiri still owned by the Company of 13,989 square metres. The book value as at year end of the land and building sold was $8,543,276. Settlement is expected in late May 2023, with the final date being dependent on LINZ registration of a boundary change and Code of Compliance being issued on the building.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

21) Segment Information

Products and services from which reportable segments derive their revenues

The Company operates in one industry, being the manufacture and sale of advanced human and animal nutritional ingredients from New Zealand. Raw materials may be of animal, marine or plant origin however the manufacturing process is largely the same with the same equipment being used irrespective of the origin of the raw materials.

The regulatory environment for the Company's products varies in different markets.

The Company manufactures to specifications and standards that meet the most stringent regulations in order to obtain the greatest flexibility in terms of the market for the product. Marketing initiatives target the global market without specific focus on location.

Segment revenues and results

As there is only one reportable segment for the Company the segment profit or loss represents profit or loss earned for the Company after all costs including administration costs, Directors' salaries, investment revenue, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Information about major customers

Included in total revenue are revenues which arose from sales to the Company's largest customers as follows:

31 December 2022

There were two customers that each comprised more than 10% of the Company's total revenue. Total sales to these two customers in 2022 was $12,786,138 (2021: also two customers with sales sales totalling $9,803,273).

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

22) Notes to the Cash Flow Statement

	2022 $	2021 Restated $
Reconciliation of net profit/(loss) after taxation with net cash flows from operating activities		
Net profit/(loss) for the year	780,870	(619,744)
Adjustments for non–cash items:		
Depreciation on property, plant and equipment and amortisation on intangibles	1,932,457	1,582,665
Write–off inventory	39,015	306,360
Movement in deferred taxation	(3,584)	44,130
Interest capitalised	(721,826)	(379,025)
Share capital issued	–	420,000
Employee share option expense	774,244	664,002
Fair value loss/(gain) on financial liabilities measured at fair value	(555,000)	(145,000)
Other	6,663	101,575
	1,471,969	2,594,707
Movements in working capital:		
Accounts receivable and prepayments	450,233	(1,231,321)
Inventories	396,498	(1,181,732)
Employee entitlements	36,533	123,360
Current tax payable	(910,445)	(1,060,800)
Accounts payable and accruals	1,704,299	504,889
	1,677,118	(2,845,604)
Net cash inflow/(outflow) from operating activities:	3,929,957	(870,641)

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

23) Financial Instruments

All of the Company's financial assets are measured at amortised cost.

All of the Company's financial liabilities are measured at amortised cost except for foreign exchange contracts, warrants and performance shares which are measured at fair value.

(a) Financial Risk Management Objectives

Exposure to credit, interest rate, foreign currency and liquidity risk arises in the normal course of the Company's business.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(b) Capital Risk Management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, cash, cash equivalents, bank overdraft, RCPS and equity comprising of issued capital, share option reserve and retained earnings as disclosed in the notes above.

The Company's Board of Directors reviews the capital structure on a regular basis. The Company is in compliance with all externally imposed capital requirements in the form of covenant requirements on external borrowings. These covenants relate to tangible asset ratios and earnings before interest and tax cover ratios. The Company's overall strategy remains unchanged from 2021.

(c) Market Risk

Market risk is the potential for change in the value of balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities. The Company's activities expose it primarily to market risk associated with changes in foreign currency rates and interest rates as set out below. The mechanisms to manage these risks are set out below. There have been no changes in 2022 to the Company's exposure to risk or the manner in which the risks are measured or managed.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

(d) Interest Rate Risk

The Company is exposed to interest rate risk as from time to time it borrows funds at floating interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments at fixed interest rates expose the Company to fair value interest rate risk. The Company does not hedge this risk.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. The Company does not hedge this risk.

The Company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

(e) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In the course of normal trading activities, the Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The Company had USD forward exchange contracts at 31 December 2022 that are recorded as an asset of $376,584 at year end (2021: liability of $20,147).

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance date are as follows:

	Liabilities		Assets	
	2022	2021	2022	2021
	$	$	$	$
Euro	–	584	366,016	3,372
United States Dollar	1,667	35,682	3,088,978	4,982,009
Australian Dollar	–	–	13,711	48,150
Japanese Yen	–	–	86,693	106,595
	1,667	36,266	3,555,398	5,140,126

The table expresses the foreign currency amounts in New Zealand dollar equivalents using the exchange rate at 31 December 2022 and 31 December 2021.

(f) Other Price Risk

The Company is not exposed to substantial other price risk arising from financial instruments.

SECTION 11. NOTES TO THE FINANCIAL STATEMENTS

(g) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. The Company has adopted a policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties are monitored on a regular basis.

The Company does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics, except that all cash deposit balances are held with the BNZ and that in 2022 the Company's four largest customers accounted for 65% of total revenue (2021: 61%) and 59% of total accounts receivable (2021: 64%).

The maximum exposures to credit risk at balance date are:

	2022	2021
	$	$
Cash and cash equivalents	4,433	1,552,613
Accounts receivable	4,138,591	4,315,672
	4,143,024	5,868,285

In assessing the Company's exposure to credit risk it has applied the NZ IFRS 9 simplified approach to measuring expected credit losses. This requires an assessment of the risk characteristics applying to all trade receivables and where applicable, grouping them based on those characteristics and the days past due.

The nature of the Company's business, the markets in which it operates and its credit policies means that credit losses are irregular, however could be significant if they occur. For that reason the Company carries insurance against credit losses in its export markets.

(h) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long–term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities using interest rates applying at year end.

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed later in this note.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non–derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will accrue to those assets or liabilities.

2022	Weighted Average Effective Interest Rate %	Less than 1 Year $	1–2 Years $	3–5 Years $	Later than 5 years $	Total $
Financial assets:						
Cash and cash equivalents	–	4,433	–	–	–	4,433
Accounts receivable	–	4,515,175	–	–	–	4,515,175
Financial Liabilities:						
Bank Overdraft	10.1%	5,132,170	–	–	–	5,132,170
Accounts Payable	–	5,729,831	–	–	–	5,729,831
Secured Borrowings (including interest)	5.5%	4,466,615	12,015,145	11,673,530	–	28,155,290
Redeemable Convertible Preference Shares	–	–	–	12,926,000	–	12,926,000
Lease Liabilities	4.3%	254,694	494,486	178,135	–	927,315
Net Position		(11,063,702)	(12,509,631)	(24,777,665)	–	(48,350,998)

2021	Weighted Average Effective Interest Rate %	Less than 1 Year $	1–2 Years $	3–5 Years $	Later than 5 years $	Total $
Financial assets:						
Cash and cash equivalents	–	1,552,613	–	–	–	1,552,613
Accounts receivable	–	4,315,672	–	–	–	4,315,672
Financial Liabilities:						
Bank Overdraft	5.00%	920,048	–	–	–	920,048
Accounts Payable	–	3,989,000	–	–	–	3,989,000
Secured Borrowings (including interest)	3.52%	2,850,443	9,390,556	9,180,007	–	21,421,006
Redeemable Convertible Preference Shares	–	–	–	13,164,000	–	13,164,000
Lease Liabilities	4.33%	232,754	463,104	388,375	–	1,084,233
Net Position		(2,123,960)	(9,853,660)	(22,732,382)	–	(34,710,002)

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

(i) Sensitivity

The Company is exposed to foreign currency risk arising from transactions denominated in currencies other than the Company's functional currency, arising from normal trading activities.

The majority of foreign currency related exposure relates to accounts receivable. The Company is mainly exposed to the United States Dollar, Euro and Japanese Yen.

The exchange rates adopted in converting foreign currency denominated assets and liabilities at 31 December 2022 were as follows:

	2022	**2021**
Euro	0.5900	0.6032
United States Dollar	0.6329	0.6832
Australian Dollar	0.9300	0.9421
Japanese Yen	83.00	78.61

Foreign currency exchange rate sensitivity is calculated at balance date assuming that the bank balances and accounts receivable balances denominated in foreign currencies had been converted to New Zealand dollars at rates above.

If exchange rates had been 10% higher/lower at balance date and all other variables held constant, the Company's:

- Profit for the 2022 year would decrease/increase by $48,847 (2021: Profit decrease/increase by $334,071)

- Equity for the 2022 year would decrease/increase by $48,847 (2021: Equity decrease/increase by $334,071).

The Company is exposed to interest rate risk arising from unhedged interest bearing liabilities at balance date. The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non–derivative instruments at the reporting date. For interest bearing liabilities, the analysis is prepared assuming the amount of liability outstanding at reporting date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Impact on net profit after tax and equity assumes that none of the floating interest rate borrowings were hedged.

	2022		**2021**	
	1%	–1%	1%	–1%
Impact on net profit after tax and equity	$(212,054)	$212,054	$(140,793)	$140,793

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

(j) Classification and Fair Value of Financial Instruments

(i) Financial assets

Classification
All of the Company's financial assets (cash and cash equivalents and accounts receivable) are classified at amortised cost.

Fair value
The Directors consider that the carrying amount of financial assets recorded at amortised cost in the financial statements approximate their fair values.

(ii) Financial liabilities

Classification
The Company's RCPS and warrants (refer note 11) are classified as measured at Fair value through profit or loss.

All other financial liabilities; bank overdraft, accounts payable, secured borrowings ("other financial liabilities"), are classified at amortised cost.

Fair value
The Directors consider that the carrying amount of those other financial liabilities approximate their fair values.

The Company's RCPS and warrants (refer note 11) are continuously measured at fair value and represent Level 2 and 3 fair value measurements, per the fair value hierarchy (below):

Level 1: The fair value of financial instruments traded in active markets and is based therefore on quoted market prices at the end of the reporting period.

Level 2: The fair value of financial instruments that are not traded in an active market and is therefore determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity–specific estimates.

Level 3: If one or more of the significant inputs is not based on observable market data.

There were no transfers of these instruments between fair value measurement levels during the period.

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

The table below summarises the valuation approaches used, key inputs and quantitative information about the significant unobservable inputs used in each of the above valuations:

Instrument	Valuation approach (Key inputs)	Significant unobservable input	Input value 2022	Input value 2021	Relationship of unobservable inputs to fair value
RCPS	(EBITDA, Earnings Multiple)	Market Multiple	9.3x	9.6x	An increase/(decrease) in the Market Multiple by 10% would increase/(decrease) fair value by 13%/(13%).
Warrants	Black Scholes option pricing model	Market Price	$0.38	$0.40	An increase/(decrease) in Market price by 10% would increase/(decrease) fair value by 50%/(39%).
	Market price, strike price, term, risk free rate, volatility	Volatility	35%	35%	An increase/(decrease) in the Volatility by 10% would increase/(decrease) fair value by 15%/(15%).

SECTION 11.
NOTES TO THE FINANCIAL STATEMENTS

24) Restatement of Prior Period Financial Statements

In the preparation of the FY22 financial results, the Company identified that it had incorrectly applied the required treatment of IFRS 15 in previous years, in that revenue was historically recognised when the product was ready for shipment and had been QC cleared. Management have subsequently concluded that revenue should be recognised once shipped (in accordance with the relevant incoterms). As a result, the prior period results have been restated to correct the previous treatment. The impact of this is set out in the tables below.

Statement of profit and loss and other comprehensive income

	31 December 2021 $	Increase/ (Decrease) $	31 December 2021 Restated $
Sales	20,485,499	713,788	21,199,287
Cost of sales	14,043,423	444,543	14,487,966
Gross profit	6,442,076	269,245	6,711,321
Taxation expense	204,139	75,389	279,528

Statement of Financial Position

	1 January 2021 $	Increase/ (Decrease) $	1 January 2021 Restated $	31 December 2021 $	Increase/ (Decrease) $	31 December 2021 Restated $
Assets						
Inventories	3,327,933	622,570	3,950,503	4,647,848	178,027	4,825,875
Liabilities						
Accounts payables and accruals	2,387,237	1,000,896	3,388,133	3,701,892	287,108	3,989,000
Current tax liabilities	2,402,394	(105,932)	2,296,462	1,266,205	(30,543)	1,235,662
Owners Equity						
Retained earnings	8,100,052	(272,394)	7,827,658	7,286,452	(78,538)	7,207,914

25) Assets held for sale

During the 2022 year the Directors made the decision to offer the Company's Tawhiri 1 factory in Rolleston for sale on a sale and lease–back arrangement. As at 31 December 2022 the Company was in the process of negotiating with a party for the sale of this property. Based on NZ IFRS 5 the asset of the Tawhiri 1 factory was transferred out of fixed assets into current assets.

SECTION 12.

Statement of Corporate Governance

The Directors are responsible for the Corporate Governance of the Company. The Corporate Governance processes set out in this statement outline the governance policies and practices followed by the Company.

Financial Statements

The Directors are responsible for ensuring the financial statements materially reflect the financial position of the Company as at 31 December 2022 and its financial performance and cash flows for the year ended on that date. The external auditors are responsible for expressing an opinion on the financial statements, based on their assessment of the conclusions drawn from evidence obtained during the course of the audit.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

After reviewing internal management financial reports and budgets, the Directors believe that the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

The Board of Directors of PharmaZen Limited is elected by the shareholders to supervise the management of the Company. The Board establishes the Company's objectives, strategies for achieving these objectives, the overall policy framework within which the business of the Company is conducted, monitors management's performance and ensures that procedures are in place to provide effective internal financial control. The day–to–day management responsibilities of the Company have been delegated to the Managing Director.

The Directors have a diverse range of expertise and experience and are committed to use this to benefit the Company.

The primary responsibilities of the Board include:

- The approval of the annual financial report.
- The establishment of the long term goals of the Company and strategic plans to achieve those goals.
- Succession planning for the Managing Director and the Board.
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a regular basis.
- Monitoring environmental, social and economical performance.
- Ensuring that the Company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities.
- Ensuring legislative compliance.
- Monitoring executive management.
- Communicating with stakeholders.

Board Membership

At year end the Board comprised six non–executive Directors including the Chairman plus one executive Director. Seven formal Board meetings or regular operational meetings were held during the financial year.

Code of Conduct

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct as part of a Directors' Operations Manual to guide Directors and management in carrying out their duties and responsibilities.

The Directors' Operations Manual covers such matters as:

- Corporate governance matters.
- Role of the Board and Composition of the Board.
- Director responsibilities.
- Appointment of, responsibilities of and remuneration of a Managing Director.
- Confidentiality and the safeguarding of Company information.
- Compliance with laws and regulations.
- Shareholder participation.

Newly elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual.

Training is also provided to new and existing Directors, where this is required, to enable Directors to fulfil their responsibilities.

Conflicts of Interest

All Directors must disclose any specific and general interests which could be in conflict with their obligations to PharmaZen Limited.

Sub Committees

The Company has the following sub committees:

- Finance and Audit.
- People, Culture and Remuneration Committee.
- Environmental and Social Governance and Risk.

These committees met on an as required basis and presented to the full Board on relevant matters addressed in these meetings.

The Company has a Directors' Operations Manual that sets out a written charter in relation to:

- Appointment of external auditors.
- Monitoring the external audit of the Company's affairs.
- Reviewing the annual financial statements.
- Reviewing the Company's internal controls and systems.

The Board receives reports from the external auditors concerning any matters which arise in connection with the performance of their role. The full Board also monitors the independence of the external auditors and reviews and approves any services provided by the auditors other than in their statutory role.

Grant Thornton New Zealand Audit Limited
L3, Grant Thornton House
134 Oxford Terrace
Christchurch City, 8140

T +64 3 379 9580
www.grantthornton.co.nz

Independent Auditor's Report

To the Shareholders of PharmaZen Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PharmaZen Limited on pages 18 to 51 which comprise the statement of financial position as at 31 December 2022, and the statement of profit and loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 31 December 2022 year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PharmaZen Limited as at 31 December 2022 and its financial performance and cash flows for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. 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 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*) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 period. 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of employee share options Refer to Note 15 and 3(e) During the period, the Company issued additional employee share options under an employee share option scheme (the "scheme") under which employees can receive ordinary shares in PharmaZen Limited, subject to service conditions and payment of the exercise price.	**Our audit procedures included:** - Analysing the terms of the scheme and option offer letters to ensure that instruments have been classified and accounted for appropriately; - Engaging an internal technical expert to assist with challenging management's classification of the scheme as an equity-settled share-based payment under NZ IFRS 2 Share-based Payment; and

Key audit matter	How our audit addressed the key audit matter
The employee share options are classified as equity settled. The fair value of the share options was determined using a Black-Scholes valuation model. During the period, the Company recognised $774,244 of share-based payment expense. We have included the valuation of the employee share options as a Key Audit Matter due to the judgement required in determining the appropriate inputs to the option valuation model.	- Engaging an internal valuation expert to assess the reasonableness of the methodology applied and the inputs used, focusing on share price volatility assumption and taking into account staff churn rates as part of the key inputs.
Valuation of preference shares and warrants Refer to Note 11 and Note 23 (j)(ii) The Company's financial liabilities include 35,000,000 redeemable convertible preference shares and 10,000,000 warrants issued in the prior period for a total issue price of $14,000,000. The preference shares are classified as non-current liabilities and may be settled in cash in certain circumstances or may convert into a variable number of ordinary shares. The warrants are derivative liabilities and are therefore classified as current liabilities. These instruments are both carried at fair value through profit or loss and are therefore revalued at each reporting date. This process includes the use of valuation models that include market multiples, market prices, share price volatility and other unobservable inputs and therefore involve a significant level of judgement. As such, we include the valuation of Preference Shares and Warrants as a Key Audit Matter.	**Our audit procedures included:** - Examining the underlying agreements and analysing the key terms to ensure that the instruments have been classified and accounted for appropriately, including engaging our internal technical expert to challenge the classification of the preference shares as liabilities rather than equity; - Engaging an internal valuation expert to assess the reasonableness of the methodology applied and the inputs used, focusing on earnings forecast, discount rate, valuation multiples, share price volatility assumption; and - Undertaking our own internal benchmarking with regard to valuation inputs to assess reasonability of figures used.

Other Matter

The financial statements of PharmaZen Limited for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 29 April 2022.

Information Other than the Financial Statements and Auditor's Report thereon

The Directors are responsible for the other information. The other information comprises the Company Directory, Summary of the Year, Chairman's Report, Directors' Report and Directors' Responsibility Statement.

Our opinion on the financial statements does not cover the other information and we do 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities 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 New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determines 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 on behalf of the Company 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) 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 the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-2/

Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body, 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 opinion we have formed.

Grant Thornton New Zealand Audit Limited

Grant Thornton

B Smith

Partner

Christchurch, New Zealand

10 May 2023

NOTES

P.O. Box 19–727, Woolston, Christchurch 8241
3 Desi Place, Hillsborough, Christchurch 8022
T: +64 (0)3 337 6096

www.pharmazen.co.nz www.waitakibio.com www.aioranz.com www.stimucal.com