PharmaZen

Good Health Healthy Future

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

2021

1 Contents

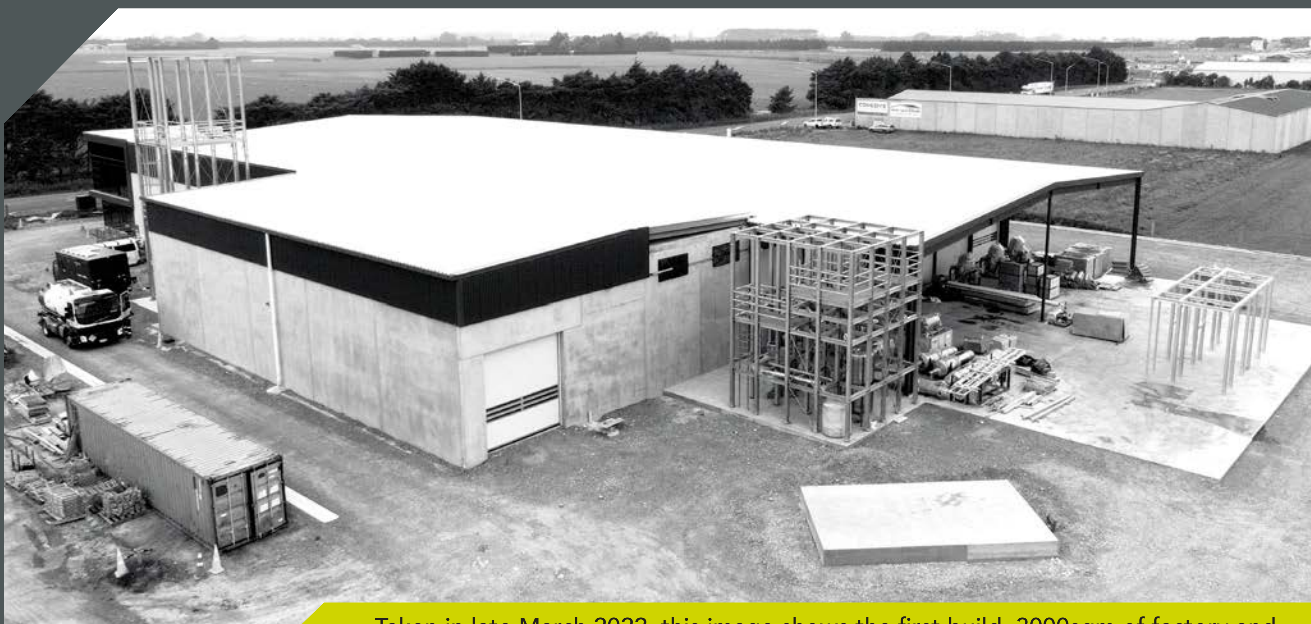
2 Company Directory

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 G P Shepherd D C Petrie (appt. 29 January 2021) M N Callagher (appt. 25 May 2021)
Bankers	Bank of New Zealand Limited Christchurch
Solicitors	Wynn Williams and Co. Christchurch
Auditors	Deloitte Limited Christchurch

3 Summary of the Year

Key financials

	Sales	Underlying EBITDA*	Gross Profit
2021	20,485	2,323	6,442
2020	21,506	6,705	9,514
	($000's)	($000's)	($000's)



Taken in late March 2022, this image shows the first build, 3000sqm of factory and offices, at our 2 hectare site at Tawhiri, Rolleston.

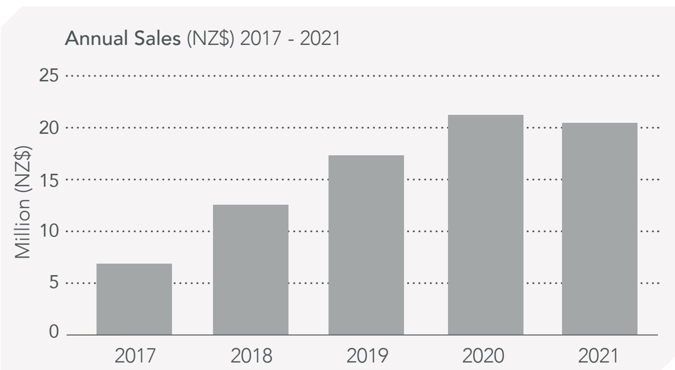
*Underlying EBITDA is Earnings before Interest, Tax, Depreciation, Amortisation, and non-trading costs. Non-trading costs includes any costs associated with the $14 million capital raise in January 2021, when CIBUS joined the share register and the IFRS treatment of this investment and any costs associated with the employee share scheme implemented in the year.

4 Chairman's Report

Dear Shareholders,

The 2021 year has demonstrated the strength of PharmaZen's business model, our products and our people. It has also further highlighted and validated our strategy.

Despite the many challenges posed by the pandemic, PharmaZen has emerged a more robust business. We are seeing potential for some of the strongest demand in our history and decisions to progress with expansion plans during the pandemic mean we are well positioned to take advantage of increased opportunities.



Financial overview

As outlined to the market, our operating conditions were negatively impacted by COVID-19. While we did not experience the revenue growth rate of previous years, our overall financial position remains strong with sales broadly in line with 2020 - buoyed by a much stronger second half.

The most notable COVID-19 impact was felt in the first four months of 2021 where PharmaZen ran at a loss at EBITDA level. This was caused by COVID-19 related travel and freight restrictions, along with a four-month shut down of the Company's largest freeze dryer to install an additional dryer without overseas engineering support.

In the second half of the year these challenges reduced somewhat however, like most other businesses, general COVID-19 challenges continued and were exacerbated by higher-than-normal staff vacancy rates (over 20%).

Revenue for 2021 at $20.5m was largely in line with 2020 sales of $21.5m.

Revenue for 2021 at $20.5m was largely in line with 2020 sales of $21.5m when adjusted for exchange impact. This was an outstanding outcome given the often-severe COVID-imposed operating constraints during the year. There was an 18% sequential improvement in second half revenue to $11.1m, offsetting the weaker $9.4m result in the first half when disruptions to production were at their peak.

Underlying EBITDA for the year dropped from $6.7m in 2020 to $2.3m, however the turnaround in the second half saw underlying EBITDA up more than $1.5m from the $776,000 achieved in the first six months. For 2021, PharmaZen recorded a net loss before tax of $609,000.

The net profit was adversely impacted by three large non-trading items:

- Non-recurring/one-off costs associated with the CIBUS capital raise of $650,000.
- Non-cash costs of the accounting treatment of the employee share scheme of $664,000.
- Non-cash revenue item of the accounting treatment of the CIBUS investment of $145,000.

Without these items, net profit before tax would have been $560,000.

Margin for the year of 31% was impacted by higher COVID-related freight costs and high staff vacancies as well as an increase in indirect costs for anticipated future growth. We expect our current level of core indirect costs will be sufficient to manage expected increases in sales and on this basis we would expect to increase percentage margin achieved as volume increases.

4 Chairman's Report (Cont.)

A contributor to the reduced margins for 2021 followed a conscious decision by the Company to absorb the majority of the cost increases where appropriate instead of passing these to customers. The Board of Directors in conjunction with the management team recognised that our customers already faced up to a tripling of freight prices and increased transit times - by months in some cases.

The concern was that these challenges could result in customers revisiting supply channels to minimise their exposure and our priority was to ensure we do whatever possible to reduce this potential. This included assistance with freight and extended terms reflecting transit times. With significant capacity coming on stream in 2022 the priority was maintaining our customer base.

The unfavourable NZD/USD exchange rate compared to 2020 also impacted the margin for 2021 and this is likely to remain volatile into the future.

The Company remains underpinned by a strong balance sheet and prudent cash flow management.

After 12 months securing freight our newest 'out-rigger' design freeze dryer finally delivered.

Nuttall Drive installation schematic.

4 Chairman's Report (Cont.)

Key business highlights

Key achievements in 2021 included:

- The completion of the Nuttall Drive facility.
- The installation of a new 2,000kg dryer at the Port Hills Road facility.
- The installation of a new Energy Hub at the Port Hills Road facility.
- Completion of the Tawhiri building to a stage ready for installation and internal fitout.
- The introduction of a long-term incentive plan which includes staff at all levels of the business.

Demand for our premium nutritional products continues to grow.

The majority of the new equipment for our site at Tawhiri is now in New Zealand with the exception of two energy hubs and three new freeze dryers.

Demand for our premium nutritional products continues to grow. Opportunities continue to present in terms of what we would describe as our traditional ranges but also in wider market opportunities where we are seeing an upswing in enquiries for contract processing – be it freeze drying, extraction or spray drying.

We believe our strong culture has played an important role in ensuring continued motivation and focus during challenging times. In addition, we are pleased to have introduced a long-term incentive plan in which we have included staff at all levels of the business. This plan will increase staff retention and incentivises staff to have the same drivers as shareholders.

Our second 2000kg freeze dryer installed at our Port Hills Road facility, Christchurch.

4 Chairman's Report (Cont.)

Looking ahead

We are well positioned to continue the recovery we have seen in the second half of the financial year and into 2022 with the caveat that uncertainty in the external environment remains. Challenges continue with price pressures on raw material and shipping and while we have seen some improvement in labour availability, we are wary of the potential drift of some of our labour market to Australia as restrictions ease.

The Board continually reviews operational needs in the context of a fast-changing environment. Over the last year we have expanded our management team and the Board is very pleased with the calibre and experience of the new talent hired.

Given that demand for the Company's products continues to outstrip supply, we are now reviewing options for bringing forward the commencement of the build at the second facility at Tawhiri. We are targeting the dryers at the Port Hills Road site to be operational by the end of June, Nuttall Drive facilities to be running in the third quarter and operational from the Tawhiri site in the fourth quarter. This will result in an increase of more than two and a half times our current freeze drying capacity.

We also have a number of other well researched and considered new product development opportunities that the Board is very excited by. These opportunities, coupled with continuing strong demand for our existing products, an easing of border restrictions and our newly developed engineering capabilities, position PharmaZen for substantially better growth in 2022.

I want to thank you, our shareholders and our customers, for your continued support.

The Board extends its particular thanks and appreciation to management, led by Managing Director Craig McIntosh and all of the staff for their efforts and contribution in a difficult year. Staff commitment to PharmaZen is no better illustrated than by their response to the COVID-19 outbreak and the additional workload and changes in practices required as a result. We have no doubt our shareholders will benefit from the resilience of a team with such experience in navigating the business through these challenging times.

K W Fergus
Chairman

5 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 $107,500 (2020: $55,000).

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 2021 and 31 December 2020.

	Number of Shares			
Director	Beneficial		Non–Beneficial	
	2021	**2020**	**2021**	**2020**
K W Fergus	8,000,000	8,000,000	7,869,125	5,659,996
C L McIntosh	28,016,000	28,016,000	–	–
Dr W L Burt	30,500,000	32,000,000	–	–
P W Dobbs	1,978,674	1,978,674	–	–
G P Shepherd	2,067,282	2,067,282	–	–
D C Petrie	–	–	35,000,000	–
M N Callagher	–	–	–	–

Substantial Security Holders

The Company's register of substantial security holders at 31 December 2021 is as follows:

Name	Number of voting securities
MG Shepherd & LA Shepherd & Downie Stewart Trustee Ltd	35,092,204
CIBUS Oscar Limited	35,000,000
Craig Lachlan McIntosh & Andrew James McIntosh & Glenn Alexander McIntosh	20,536,000
Citibank Nominees New Zealand Limited	16,000,000
Dr Wayne Leonard Burt	14,500,000
Lee Paterson Family Trust Company Limited	11,557,312

Employee Remuneration

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

$100,000 – $110,000	4 employees
$120,001 – $130,000	2 employees
$130,001 – $140,000	1 employee
$240,001 – $250,000	1 employee
$380,001 – $390,000	1 employee

6 Directors' Responsibility Statement

The Directors are pleased to present to shareholders the financial statements for PharmaZen Limited for the year ended 31 December 2021. 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 2021 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

29 April 2022

7 Statement of Profit and Loss

	Notes	2021 $	2020 $
Revenue			
Sales	3a	20,485,499	21,506,147
Cost of sales		14,043,423	11,991,872
Gross profit		6,442,076	9,514,275
Other income	3b	63,003	535,947
Expenses			
Trading Expenses			
Marketing		1,031,582	885,586
Occupancy		151,175	104,198
Administrative		1,102,885	1,023,663
Consultancy		303,843	200,878
Research		479,076	363,801
Net finance costs	3c	180,948	188,590
Depreciation	12	1,564,240	1,291,844
Amortisation of intangibles	13	18,425	14,575
Insurance		745,131	552,713
Other		367,869	213,983
Total Trading Expenses		5,945,174	4,839,831
Non-Trading Items	3e	1,169,366	–
Net Profit/(Loss) Before Taxation from Continuing Activities		(609,461)	5,210,391
Taxation expense	4a	204,139	1,337,913
Net profit/(loss) for the year		(813,600)	3,872,478
Earnings Per Share			
Basic and diluted (cents per share)	14	(0.37)	1.77

8 Statement of Comprehensive Income

	2021 $	2020 $
Net profit/(loss) for the year	(813,600)	3,872,478
Total Comprehensive Income	(813,600)	3,872,478

9 Statement of Changes in Equity

	Notes	Fully Paid Ordinary Shares $	Share Option Reserve $	Retained Earnings $	Total $
Balance at 1 January 2020		12,063,805	–	4,227,574	16,291,379
Net profit for the year		–	–	3,872,478	3,872,478
Balance at 31 December 2020		12,063,805	–	8,100,052	20,163,857
Balance at 1 January 2021		12,063,805	–	8,100,052	20,163,857
Shares issued in the year	14	420,000	–	–	420,000
Share options expense in the year	15	–	664,002	–	664,002
Net profit/(loss) for the year		–	–	(813,600)	(813,600)
Balance at 31 December 2021		12,483,805	664,002	7,286,452	20,434,259

10 Statement of Financial Position

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents		1,552,613	328,910
Trade and other receivables	7	5,011,844	4,383,270
Prepayments		1,111,392	508,645
Inventories	8	4,647,848	3,327,933
Total current assets		12,323,697	8,548,758
Non–current assets			
Property, plant and equipment	12	48,456,572	29,028,235
Intangible assets	13	678,790	507,363
Total non–current assets		49,135,362	29,535,598
Total assets		61,459,059	38,084,356
Liabilities			
Current liabilities			
Bank overdraft		920,048	1,385,369
Accounts payable and accruals	9	3,701,892	2,387,237
Lease liabilities		207,389	98,446
Current tax liabilities	4c	1,266,205	2,402,394
Borrowings	10	2,298,960	1,005,120
Warrants	11	691,000	–
Total current liabilities		9,085,494	7,278,566
Non–current liabilities			
Borrowings	10	17,283,122	9,582,190
Lease liabilities		772,141	383,830
Redeemable convertible preference shares	11	13,164,000	–
Deferred tax liability	4d	720,043	675,913
Total non–current liabilities		31,939,306	10,641,933
Total liabilities		41,024,800	17,920,499
Owners' Equity			
Share capital	14	12,483,805	12,063,805
Share option reserve	15	664,002	–
Retained earnings	16	7,286,452	8,100,052
Total equity		20,434,259	20,163,857
Total liabilities and Owners' Equity		61,459,059	38,084,356

11 Statement of Cash Flows

	Notes	2021 $	2020 $
Cash Flows from Operating Activities			
Cash was provided from (applied to):			
Receipts from customers and other income		20,171,627	20,656,293
Interest received		–	1
Taxation (paid) – net		(1,295,943)	(175,679)
Payments to suppliers and employees		(19,186,352)	(16,508,235)
Payment of interest		(559,973)	(452,892)
Net cash inflow/(outflow) from operating activities	22	(870,641)	3,519,488
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Payment for property, plant and equipment		(19,911,873)	(6,652,968)
Payment for intangible assets		(291,427)	(207,261)
Net cash outflow applied to investing activities		(20,203,300)	(6,860,229)
Cash Flows from Financing Activities			
Cash was provided from (applied to):			
Proceeds from borrowings		10,001,760	3,960,000
Lease liability		(204,425)	(163,462)
Repayment of loans		(1,034,370)	(1,097,220)
Proceeds from issuing RCPS and warrants		14,000,000	–
Net cash outflow (applied to)/inflow from financing activities		22,762,965	2,699,318
Net increase/(decrease) in cash and cash equivalents		1,689,024	(641,423)
Cash and cash equivalents at the beginning of the year		(1,056,459)	(415,036)
Cash and cash equivalents at the end of the year		632,565	(1,056,459)
Comprised of:			
Cash and cash equivalents		1,552,613	328,910
Bank overdraft		(920,048)	(1,385,369)
Net cash		632,565	(1,056,459)

12 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.

14

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 in New Zealand dollars.

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.

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:

	Years
• Buildings	6–50
• Furniture, fixtures and fittings	1–15
• Motor vehicles	7
• Plant and machinery	2–44
• Right of use assets	2–7

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.

12 Notes to the Financial Statements (Cont.)

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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash–generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash–generating unit) 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 (cash–generating unit) 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 (cash–generating unit) 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. Management believe there is a probable economic benefit based on their market forecasts.

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 Asia, Australia, Europe, New Zealand and the United States.

Revenue is recognised by the Company when it passes control of the goods, which occurs at the time a customer's order has been fulfilled in all aspects, including the physical specifications (based on lab testing results) at which time the customer will be invoiced. 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.

Judgement – Sale of goods

The Company concluded that control of the goods passes to the customer upon invoicing at the point the customer's order requirements, including detailed product specifications, have been fully complied with. At that point in time the Company concluded that the customer is considered to have accepted the goods and that the actual acceptance of the customer is a formality that would not affect the Company's determination of when the customer has obtained the goods.

12 Notes to the Financial Statements (Cont.)

Processing services

PharmaZen provides contract processing services to external customers. Revenue is recognised by the Company over time as these services are being performed. There are no other obligations to perform services under such contracts that will impact the revenue being recognised as services are performed.

Judgement – Processing services

The Company concluded that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. The Company determined that the output method is the best method in measuring progress of the processing services (based on the quantity of goods processed), because there is a direct relationship between the Company's effort and the transfer of services to the customer.

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 or sale. 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).

Inventories

Inventories are valued at the lower of cost and net realisable value where cost is determined using standard costing. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand on a first in, first out basis. 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.

12 Notes to the Financial Statements (Cont.)

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, 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 changes in value.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. 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.

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 initially recorded at fair value and subsequently at amortised cost using the effective interest rate.

Borrowings

Borrowings are initially recorded at fair value, plus transaction costs and subsequently at amortised cost using the effective interest rate method.

Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method or at FVTPL.

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 exactly 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, annual leave and accumulating sick 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 expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

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.

17

12 Notes to the Financial Statements (Cont.)

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.

Leases

The Company assesses whether a contract is, or 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 (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight–line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

18

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 Company did not make any such adjustments during the periods presented.

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.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. To the extent that the costs relate to a right–of–use asset, the costs are included in the related right–of–use asset, unless those costs are incurred to produce inventories.

Right–of–use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right–of–use asset reflects that the Company expects to exercise a purchase option, the related right–of–use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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.

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.

12 Notes to the Financial Statements (Cont.)

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. Overdraft is considered to be part of the Company's cash management, therefore, included in the cash flow statement.

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.

Adoption of new revised standards and interpretations

New and amended IFRS Standards that are effective for the current year

There were no new amendments to NZ IFRS Standards and Interpretations issued by the New Zealand Accounting Standards Board that were adopted by the Company in the current year.

The Company considered all the relevant new accounting standards and did not consider that they would have any impact on the financial statements of the Company.

New and revised IFRS Standards in issue but not yet effective

The Directors do not expect that the adoption of any new standards issued, but not effective will have a material impact on the financial statements of the Company in future periods.

12 Notes to the Financial Statements (Cont.)

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

	2021 $	2020 $
(a) Revenue		
Trading revenue consisted of the following items:		
Sales of goods and services	20,485,499	21,506,147
	20,485,499	21,506,147
(b) Other income		
Other income from operations consisted of the following items:		
COVID–19 wage subsidy	–	323,262
Grants received	55,280	51,638
Settlement of Legal Claim	–	158,338
Interest	–	1
Miscellaneous income	7,723	2,708
	63,003	535,947
(c) Finance costs		
Interest on borrowings	517,892	443,024
Interest on lease liabilities	42,081	9,868
Less capitalised interest	(379,025)	(264,302)
	180,948	188,590

Interest costs that are directly attributable to the acquisition of property, plant and equipment have been capitalised at an average interest rate of 3.3% (2020: 4.5%).

	2021 $	2020 $
(d) Specific expense disclosures		
Net profit before taxation includes the following specific expenses:		
Directors' fees	107,500	55,000
Short term and low value leases	23,720	146,712
Inventory written off/(on)	306,360	(12,871)
Employee benefits expensed (including share option expense per note 3e)	5,438,097	3,321,322
KiwiSaver employer contributions	136,009	95,114
(e) Non-trading items		
CIBUS Capital Raise Costs	650,364	–
Employee Share Option Expense	664,002	–
Fair value loss/(gain) on financial liabilities measured at fair value	(145,000)	–
	1,169,366	–

12 Notes to the Financial Statements (Cont.)

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:

	2021 $	2020 $
Profit/(loss) before taxation	(609,461)	5,210,391
Income tax expense calculated at 28% (2020: 28%)	(170,649)	1,459,443
Non–deductible expenses	351,466	1,016
Prior period adjustments	(522)	3,524
Other	23,844	(126,070)
Tax expense	204,139	1,337,913
Recognised as:		
Current tax	160,009	1,314,679
Deferred tax	44,130	23,234
	204,139	1,337,913

(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

	2021 $	2020 $
Current tax assets:	–	–
Income tax refundable – current year	–	–
Current tax liabilities:		
Income tax payable – current year	160,009	1,314,678
Income tax payable – prior years	1,106,196	1,087,716
	1,266,205	2,402,394

PharmaZen
Good Health Healthy Future

12 Notes to the Financial Statements (Cont.)

(d) Deferred tax balances

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

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)

2020	Opening Balance $	Charged to Income $	Closing Balance $
Property, plant and equipment	(738,363)	(30,312)	(768,675)
Employee entitlements	65,435	15,880	81,315
Provisions	20,249	(8,802)	11,447
	(652,679)	(23,234)	(675,913)

(e) Imputation credit account balances

	2021 $	**2020** $
Balance at beginning of the year	3,923,687	2,434,844
Income tax paid	1,295,943	175,679
Income tax payable – current year	87,090	2,402,394
Income tax payable – prior year	(2,402,394)	(1,089,502)
Other adjustments	118	272
	2,904,444	3,923,687

12 Notes to the Financial Statements (Cont.)

5) Remuneration of auditors

	2021 $	2020 $
Audit of the financial statements	63,078	49,500
	63,078	49,500

6) Key management personnel compensation

	2021 $	2020 $
Short–term employee benefits for Managing Director	384,350	317,454
Consulting fees to Directors	63,255	–
Share Options Expense for options issued to Directors	115,367	–
Directors' fees	107,500	55,000
	670,472	372,454

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

	2021 $	2020 $
Trade receivable (i)	4,315,672	3,938,797
Goods and Services Tax receivable	696,172	444,473
	5,011,844	4,383,270

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

The average age of these receivables at 31 December 2021 is 49 days (2020: 78 days). The expected credit losses are immaterial for both 2021 and 2020 as all material offshore receivables are insured.

8) Inventories

	2021 $	2020 $
Raw materials	2,904,116	1,808,293
Work in progress	507,539	762,649
Finished goods	1,236,193	756,991
	4,647,848	3,327,933

12 Notes to the Financial Statements (Cont.)

9) Accounts payable and accruals

	2021 $	2020 $
Accounts payable	2,238,190	1,741,610
Other payables and accruals	921,567	226,852
Employee entitlements	542,135	418,775
Total accounts payable and accruals	3,701,892	2,387,237

10) Borrowings

	2021 $	2020 $
Total borrowings at beginning of period	10,587,310	7,724,531
Accrued interest	27,382	–
Proceeds from borrowings during the year	10,001,760	3,960,000
Loans repaid during the year	(1,034,370)	(1,097,221)
Total borrowings at end of period	19,582,082	10,587,310
Borrowings repayable within one year at amortised cost		
Secured borrowings	2,298,960	1,005,120
	2,298,960	1,005,120
Borrowings repayable after one year at amortised cost		
Secured borrowings	17,283,122	9,582,190
	17,283,122	9,582,190

24

The secured borrowings mature between 31 January 2024 and 9 July 2026, bear interest at a weighted average rate of 3.5% (2020: 4.1%) and are secured by a mortgage over the Company's land and buildings at Port Hills Road, Nuttall Drive and Rolleston, 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 where favourable interest rates are available. This facility was not drawn against at 31 December 2021, (2020: $Nil). The Company is in compliance with all bank covenants.

Letters of Credit

The Company has 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 (2020: $130,000).

Other Borrowings

The Company has bank overdraft facilities with BNZ with a limit of $1,750,000 (2020: $1,750,000). At balance date the Company had drawn down $920,048 of that facility (2020: $1,385,369). 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 (2020: $59,500).

12 Notes to the Financial Statements (Cont.)

11) Financial liabilities measured at fair value through profit or loss

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

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

During the period 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 will 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 a three year period, 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

During the period, in conjunction with the 35,000,000 RCPS 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 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.

  (i) If exercised between the second and third year, $0.450 per RCPS.

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

12 Notes to the Financial Statements (Cont.)

12) Property, Plant and Equipment

2021	Cost 1 Jan 2021 $	Additions $	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 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

2020	Cost 1 Jan 2020 $	Additions $	Additions of Right of Use Asset in 2020 $	Transfers from work in progress $	Cost 31 Dec 2020 $	Accumulated depreciation 1 Jan 2020 $	Depreciation on all other Fixed Assets $	Depreciation on Right of Use Assets $	Accumulated depreciation 31 Dec 2020 $	Book value 31 Dec 2020 $
Land	1,911,004	171,902	–	–	2,082,906	–	–	–	–	2,082,906
Buildings	9,034,350	267,367	457,283	835,476	10,594,476	(1,201,116)	(330,793)	(143,879)	(1,675,788)	8,918,688
Plant and machinery	12,975,900	721,902	–	1,663,822	15,361,624	(4,876,366)	(776,349)	(18,912)	(5,671,627)	9,689,997
Motor vehicles	7,817	–	–	–	7,817	(3,618)	(1,117)	–	(4,735)	3,082
Furniture, fixtures, fittings	174,752	102,031	–	–	276,783	(143,223)	(20,793)	–	(164,016)	112,767
Construction in progress	5,066,025	5,654,068	–	(2,499,298)	8,220,795	–	–	–	–	8,220,795
Total property, plant and equipment	29,169,848	6,917,270	457,283	–	36,544,401	(6,224,323)	(1,129,052)	(162,791)	(7,516,166)	29,028,235

No impairment losses were recorded in 2021 or 2020.

The book value of the building right of use lease assets at 31 December 2021 is $932,407 (2020: $462,210), the book value of plant and machinery right of use lease assets at 31 December 2021 is $1,117 (2020: $16,343), and the book value of motor vehicles right of use lease assets at 31 December 2021 is $26,248 (2020: nil).

12 Notes to the Financial Statements (Cont.)

13) Intangible assets

Intangible assets of the Company comprise of internally generated patents and trademarks. At 31 December 2021 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.

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

2020	Progress costs for patents with finite useful life	Progress costs for trademarks	Total
Cost	$	$	$
Balance at beginning of the year	75,991	238,686	314,677
Additions	138,840	93,072	231,912
Balance at end of the year	214,831	331,758	546,589
Amortisation and impairment			
Balance at beginning of the year	–	–	–
Amortisation	–	(14,575)	(14,575)
Impairment	–	(24,651)	(24,651)
Balance at end of the year	–	(39,226)	(39,226)
Net balance of intangibles after amortisation and impairment	214,831	292,532	507,363

12 Notes to the Financial Statements (Cont.)

14) Share capital

	2021 No. of Shares	2021 $	2020 No. of Shares	2020 $
Balance at beginning of the year	218,769,344	12,063,805	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	218,769,344	12,063,805

The Company issued 724,138 new shares in the year to an advisor that introduced the CIBUS investment.

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

	2021 Cents/Share	2020 Cents/Share
Basic and diluted earnings per share	(0.37)	1.77

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

	2021 $	2020 $
Net profit/(loss) after tax	(813,600)	3,872,478
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share:	219,433,320	218,769,344

There are potential ordinary shares that will be issued as a result of the Company entering into a share option plan, an RCPS agreement and associated warrants. However, these are considered antidilutive in the current period and therefore have not been factored into diluted earnings per share.

15) Share Option Reserve

The Company has implemented 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 by 28 January 2028.

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.

12 Notes to the Financial Statements (Cont.)

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.

Options are exercisable at a price equal to the 100 day weighted average price of the ordinary shares of the Company at the time the options are issued to the employee, less a 15% discount or at such other price as 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:

2021	Number of share options	Weighted average exercise price
Outstanding at beginning of year	–	–
Granted during the year	17,175,000	66 cents
Forfeited during the year	–	–
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at the end of the year	17,175,000	66 cents
Exercisable at the end of the year	–	–

In 2021, options were granted on 1 July 2021. The aggregate of the estimated fair values of the options granted on that date is $4,755,984. There were no employee options at 31 December 2020.

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

Share price	77 cents
Exercise price	66 cents
Volatility	40.0%
Expected life	3.5 years
Risk–free rate	1.10%
Expected dividend yields	0%

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 six month average of the daily interest rate for five year New Zealand government bonds.

12 Notes to the Financial Statements (Cont.)

16) Retained earnings

	2021 $	2020 $
Balance at beginning of the year	8,100,052	4,227,574
Total comprehensive income/(loss) for the year	(813,600)	3,872,478
	7,286,452	8,100,052

17) Related party transactions

There were no 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 as part of its programme for broadening and expanding its production capacity. The expenditure committed to, but not yet incurred, as at 31 December 2021 is $1,032,000 (2020: $1,533,000).

(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.

	2021 $	2020 $
Not later than one year	11,215	14,561
Later than one year but not later than two years	–	8,162
Later than two years but not later than five years	–	–
Later than five years	–	–
	11,215	22,723

19) Contingent assets and liabilities

There are no contingent liabilities as at 31 December 2021 (2020: $Nil).

20) Subsequent events

There have been no material events requiring reporting since balance date.

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 but the manufacturing process is largely the same with the same plant and equipment being used irrespective of the origin of the raw materials.

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

12 Notes to the Financial Statements (Cont.)

The Company generally 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 2021

There were two customers that each comprised more than 10% of the Company's total revenue. Total sales to these two customers in 2021 was $9,803,273 (2020 also two customers with sales totaling $13,180,439).

12 Notes to the Financial Statements (Cont.)

22) Notes to the Cash Flow statement

	2021 $	2020 $
Reconciliation of net profit/(loss) after taxation with net cash flows from operating activities		
Net profit/(loss) for the year	(813,600)	3,872,478
Adjustments for non–cash items:		
Depreciation on property, plant and equipment and amortisation on intangibles	1,582,665	1,306,419
Write off inventory	306,360	(12,871)
Movement in deferred taxation	44,130	23,234
Interest capitalised	(379,025)	(264,302)
Share capital issued	420,000	–
Employee share option expense	664,002	–
Fair value loss/(gain) on financial liabilities measured at fair value	(145,000)	–
Other	101,575	–
	2,594,707	1,052,480
Movements in working capital:		
Accounts receivable and prepayments	(1,231,321)	(2,230,493)
Inventories	(1,626,275)	(1,462,764)
Employee entitlements	123,360	97,535
Current tax payable	(1,136,189)	1,139,000
Accounts payable and accruals	1,218,677	1,051,252
	(2,651,748)	(1,405,470)
Net cash inflow/(outflow) from operating activities:	(870,641)	3,519,488

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. Specific risk management objectives and policies are set out below:

(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

12 Notes to the Financial Statements (Cont.)

Company consists of debt, cash and cash equivalents including the 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 2020.

(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 2021 to the Company's exposure to risk or the manner in which the risks are measured or managed other than putting in place forward exchange contracts.

(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 2021 that are recorded as a liability of $20,147 at year end (2020: $Nil).

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

	Liabilities		Assets	
	2021	**2020**	**2021**	**2020**
	$	$	$	$
Euro	584	–	3,372	797,125
United States Dollar	35,682	–	4,982,009	2,544,389
Australian Dollar	–	–	48,150	47,438
Japanese Yen	–	1,616	106,595	–
	36,266	1,616	5,140,126	3,388,951

The table expresses the foreign currency amounts in New Zealand dollar equivalents using the exchange rate at 31 December 2021 and 31 December 2020.

12 Notes to the Financial Statements (Cont.)

(f) Other price risk

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

(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 2021 the Company's four largest customers accounted for 61% of total revenue (2020: 71%) and 64% of total accounts receivable (2020: 51%).

The maximum exposures to credit risk at balance date are:

	2021 $	**2020** $
Cash and cash equivalents	1,552,613	328,910
Accounts receivable	4,315,672	3,826,128
	5,868,285	4,155,038

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.

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.

12 Notes to the Financial Statements (Cont.)

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	–	3,159,757	–	–	–	3,159,757
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		(1,294,717)	(9,853,660)	(22,732,382)	–	(33,880,759)

2020	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	–	328,910	–	–	–	328,910
Accounts receivable	–	3,938,797	–	–	–	3,938,797
Financial liabilities:						
Bank overdraft	4.60%	1,385,369	–	–	–	1,385,369
Accounts payable	–	1,961,151	–	–	–	1,961,151
Secured borrowings (including interest)	4.12%	–	–	10,587,310	–	10,587,310
Lease liabilities	3.70%	98,446	61,185	197,323	125,323	482,276
Net position		822,741	(61,185)	(10,784,633)	(125,323)	(10,148,400)

12 Notes to the Financial Statements (Cont.)

(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 Euro, United States Dollar, Japanese Yen and Australian Dollar.

The exchange rates adopted in converting foreign currency denominated assets and liabilities at 31 December 2021 were as follows:

	2021	**2020**
Euro	0.6032	0.5880
United States Dollar	0.6832	0.7184
Australian Dollar	0.9421	0.9340
Japanese Yen	78.61	74.20

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 2021 year would decrease/increase by $334,071 (2020: Profit decrease/increase by $221,716).
- Equity for the 2021 year would decrease/increase by $334,071 (2020: Equity decrease/increase by $221,716).

The Company is exposed to interest rate risk arising from unhedged floating rate liabilities at balance date. The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non–derivative instruments at the reporting date. For floating rate 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.

	2021		**2020**	
	1%	–1%	1%	–1%
Impact on net profit after tax and equity	(140,793)	140,793	(86,203)	86,203

(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 as 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.

12 Notes to the Financial Statements (Cont.)

(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 as 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 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.

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	Significant unobservable input	Input value		Relationship of unobservable inputs to fair value
	(Key inputs)		2021	2020	
RCPS	(EBITDA, Earnings Multiple)	Market Multiple	9.6x	–	An increase/(decrease) in Market Multiple by 10% would increase/(decrease) fair value by 12%.
Warrants	Black Scholes option pricing model	Market Price	$0.40	–	An increase/(decrease) in Market Price by 10% would increase/(decrease) fair value by 34%.
	(Market price, strike price, term, risk free rate, volatility)	Volatility	35%	–	An increase/(decrease) in Volatility by 10% would increase/(decrease) fair value by 17%.

13 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 2021 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

The Board currently comprises six non–executive Directors including the Chairman plus one executive Director. Four formal Board meetings and 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 set up the following sub committees in the 2021 year:
- 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.

14 Independent Auditor's Report

Deloitte.

To the Shareholders of PharmaZen Limited

Opinion

We have audited the financial statements of PharmaZen Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2021, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 10 to 37, present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company, except that partners and employees of our firm deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Company that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company's financial statements as a whole to be $328,000.

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.

14 Independent Auditor's Report (Cont.)

Key audit matter

Classification and valuation of preference shares and warrants

Refer to Notes 11 and 23(j).

During the period, the Company issued 35 million redeemable convertible preference shares ('preference shares') and warrants to acquire an additional 10 million preference shares ('warrants') for a combined issue price of $14 million. The Preference Shares may be settled in cash in certain circumstances or may be converted into a variable number of ordinary shares. Based on their terms, the preference shares and warrants are both classified as financial liabilities. At balance date, the warrants are classified as current liabilities and the preference shares are classified as non-current liabilities.

Determining the appropriate classification of the preference shares and warrants as financial liabilities and the valuation of the instruments are significant judgements made by management.

We have included the classification of the preference shares and warrants and their valuation as a Key Audit Matter due to the complexity of the terms of the instruments and the judgement involved in determining both the appropriate classification of the instruments in accordance with the relevant accounting standards and the valuation of the instruments.

How our audit addressed the key audit matter

Refer to Notes 11 and 23(j).

Our audit procedures included:

- examining all underlying agreements;
- challenging management's position paper on the classification of the preference shares and warrants as financial liabilities based on the requirements of the applicable accounting standards;
- utilising our internal valuation specialists to challenge the valuation methodology used as well as the key valuation inputs such as EBITDA multiple and volatility; and
- assessing the adequacy of the Company's presentation and disclosures of the preference shares and warrants.

Valuation of employee share options

Refer to Note 15.

During the period, the Company established an employee share option scheme (the "scheme") under which employees receive ordinary shares in PharmaZen Limited, subject to service conditions and payment of the exercise price.

The employee share options are classified as equity-settled. The options were valued at the fair value of the equity instruments granted determined using a Black-Scholes valuation model. During the period, the Company recognised $664k 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 valuation model.

Our audit procedures included:

- examining the scheme terms and option offer letters and analysing their key terms to ensure that all instruments have been classified and accounted for appropriately;
- challenging management's classification of the scheme as an equity-settled share-based payment under NZ IFRS 2 *Share-based Payment*;
- engaging an internal valuation expert to assess the reasonableness of the methodology applied and the inputs used, focusing on assumed volatility relative to other companies in similar industries; and
- assessing the adequacy of the Company's presentation and disclosures relating to the scheme.

14 Independent Auditor's Report (Cont.)

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, 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 NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible 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 and 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 our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2 This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters 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's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Anthony Smith, Partner
for Deloitte Limited
Christchurch, New Zealand
29 April 2022

This audit report relates to the financial statements of PharmaZen Limited (the 'Company') for the year ended 31 December 2021 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 29 April 2022 to confirm the information included in the audited financial statements presented on this website.

PharmaZen

Good Health Healthy Future

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