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***HEALTH HOUSE INTERNATIONAL LIMITED***  
***ABN 65 149 197 651***

*ANNUAL REPORT*  
*For the Year Ended*  
*30 June 2022*

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All announcements and financial reports are available on our website: [www.healthhouse.com.au](http://www.healthhouse.com.au).

## **CORPORATE DIRECTORY**

### ***NON-EXECUTIVE DIRECTORS***

Christopher Mews  
Hon Michael Rann

### ***EXECUTIVE DIRECTORS***

David Wheeler (Chairman)  
Dr Henrik Sprengel (resigned 16 November 2022)

### ***COMPANY SECRETARY***

Tim Slate

### ***PRINCIPAL & REGISTERED OFFICE***

Level 3, 101 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA  
Telephone: +61 8 6558 0886

### ***AUDITORS***

HLB Mann Judd (WA Partnership)  
Level 4, 130 Stirling Street  
PERTH WA 6000  
AUSTRALIA

### ***SHARE REGISTER***

Link Market Services  
Central Park Level 4  
152 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA  
Telephone: +61 8 6160 4455

### ***SECURITIES EXCHANGE LISTING***

Securities of Health House International Limited are listed on the Australian Securities Exchange.  
ASX Code: HHI

### ***BANKERS***

Westpac Banking Corporation  
109 St George Terrace  
PERTH WA 6000  
AUSTRALIA

### ***ATTORNEYS***

Blackwall Legal LLP  
Level 26, 140 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA

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**DIRECTORS' REPORT**

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The directors present their report together with the financial statements of the Group consisting of Health House International Limited (**HHI or the Company**) and the entities it controlled for the financial year ended 30 June 2022. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

**DIRECTORS**

The names of the directors who held office during or since the end of the year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated:

David Wheeler	Executive Chairman
Christopher Mews	Non-Executive Director
Hon Michael Rann	Non-Executive Director
Dr Henrik Sprengel	Executive Director (Appointed 10 August 2021, resigned 16 November 2022)

Details on the background and qualifications of directors is contained elsewhere in this report.

**COMPANY SECRETARY**

Mr. Tim Slate was appointed as Company Secretary on 19 March 2021. Mr. Slate has a Bachelor of Commerce from the University of Western Australia, is a Chartered Accountant, is an Associate Member of the Governance Institute of Australia and is a Graduate of the Australian Institute of Company Directors. Mr. Slate provides accounting and secretarial advice to private and public companies. Mr Slate has over fifteen years' experience in chartered accounting.

**PRINCIPAL ACTIVITIES**

Health House International Limited is an international pharmaceutical distributor specialising in, but not limited to, the distribution of medicinal cannabis products across Australasia, United Kingdom and Europe.

The Company is a fully licenced and regulated specialised importer, exporter, consolidator and distributor of medicinal cannabis products, currently distributing medicinal cannabis products to pharmacies, prescribers, specialist medicinal cannabis clinics and researchers across Australasia. With its Wholesale Dealers and Controlled Drugs licences the Company supplies pharmacies, hospital, government departments and other wholesalers with medicinal cannabis and general pharmaceutical products across the UK and Europe.

Health House has supply agreements in place with a number of EU Good Manufacturing Practice (GMP) certified manufacturers and producers of high-quality medicinal cannabis products. The EU GMP licence is issued by the European Medicines Agency and is the most highly credentialled in the world for compliance for the production and manufacturing of pharmaceutical grade medicinal products.

## **DIRECTORS' REPORT**

Health House provides the following services and features to the pharmaceutical products supply chain:

- warehouse management –Health House enters all products into a warehouse management system for accurate inventory management
- controlled drugs storage –Health House has special access areas and procedures in place to deal with controlled drugs. Regular inventory checks are made to ensure secure storage
- delivery –Health House conducts daily deliveries made through secure logistics companies and couriers
- pharmacy support –Health House provides inventory management and support logistics solutions to empower pharmacists to focus on patients and remain competitive in the market
- efficiency –Health House creates efficiency in the healthcare system. Pharmacists do not need to order separately from multiple manufacturers nor manage inventory, saving time and costs
- safety & security –Health House ensures that medicines are properly and securely handled, stored and delivered
- reliability –Health House ensures its medicines are delivered in a time-efficient manner to a range of pharmacies, care homes and clinics.

## **RESULTS**

A summary of the operating results for the year ended 30 June 2022 is as follows:

- Revenue from ordinary activities was \$15,644,524 representing an 85.2% increase on FY2021 \$8,449,564
- Loss after tax was \$16,958,770 representing a 219.5% increase on FY2021 \$5,307,296. This was mainly due to the one-off write off of \$8,779,251 representing the impairment of the carried investment in the CanPharma Group and associated operating costs in Europe.
- Following the sale of the CanPharma Group on 16 November 2022, like for like loss after tax was \$4,552,440 representing an 14% reduction on FY2021 (loss \$5,307,296)
- Net cash outflow from operating activities was (\$4,079,666) representing a 70.6% increase on FY2021 (\$2,391,078)

The table below sets out summary information about the consolidated entity's earnings and movement in shareholder wealth for the three years to 30 June 2022.

		<b>30 June 2022</b>	<b>30 June 2021</b>	<b>30 June 2020</b>
EBITDA <sup>1</sup>	\$	(16,287,652)	(4,738,298)	(2,039,866)
Net profit/(loss) before tax	\$	(17,006,569)	(5,322,572)	(2,588,622)
Net profit/(loss) after tax	\$	(16,958,770)	(5,307,296)	(2,524,775)
Share price at start of year	cps	14.50	N/A	N/A
Share price at end of year	cps	1.20	14.50	N/A
Basic and Diluted loss per share	\$	(0.09)	(0.04)	(0.04)
Return on Capital	\$	(2.72)	(0.68)	(1.22)

## **DIRECTORS' REPORT**

Note 1: EBITDA is a non-IFRS measure which represents earnings before interest, tax, depreciation and amortisation. This is unaudited.

		30 June 2022	30 June 2021	30 June 2020
Net profit/(loss) after tax	\$	(16,958,770)	(5,307,296)	(2,524,775)
Income tax benefit	\$	47,799	15,276	63,847
Finance costs	\$	(133,200)	(55,086)	(55,472)
Interest Revenue	\$	3,667	3,031	337
Depreciation and amortisation	\$	(589,384)	(532,219)	(493,621)
EBITDA <sup>1</sup>	\$	(16,287,652)	(4,738,298)	(2,039,866)

### **DIVIDENDS PAID OR RECOMMENDED**

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

### **REVIEW OF OPERATIONS**

#### **Operating results**

The consolidated loss of the group after providing for income tax attributable to owners of the parent entity amounted to \$16,958,770 (2021: \$5,307,296).

On 10 August 2021, the group completed on the acquisition of CanPharma GmbH (CanPharma), a German medicinal cannabis sales, distribution and manufacturing company. This represents the start of the implementation of a growth strategy to build a leading presence in Europe, the global region with the highest potential for medicinal cannabis sales.

Highlights of the CanPharma acquisition include:

- CanPharma provides a path to the patient in the only European medicinal cannabis market of scale: Germany
- One of the few German companies specialising in medicinal cannabis to hold a GMP manufacturing licence enabling repackaging, branding and release of product into the EU
- Led by a team of seasoned entrepreneurs and pharma-industry veterans
- CanPharma is a sales and distribution company that is integrating pharma-industry best practice to build brand and educate doctors and patients
- Has been distributing medicinal cannabis in Germany since 2019 and has recently launched its own branded range of extracts in May 2021
- Owns Kalapa Clinic, the pioneer medicinal cannabis consultancy in the EU, with online services available in six languages. In addition to patient consultancy activities, Kalapa also provides educational training to health care professionals
- Based in Spain, the Kalapa Clinic provides a strong position from which to expand into the Spanish market when legislation allows.

#### Australia

Health House Australia continued to be one of the leading sources of education to doctors and patients. Health House considers its education as a key driver to grow both the Australian medicinal sector as well as strengthening the Health House brand to increase sales.

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## ***DIRECTORS' REPORT***

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Health House Australia expanded its activities in Victoria to provide direct support to pharmacists to obtain the right product for their customers. This is in addition to its well-established activities in Queensland, Western Australia and New South Wales. Furthermore, Health House Australia has expanded its range of products to enhance a “one-stop-shop” offering to pharmacists.

### Germany

CanPharma has continued scaling its operations and implementing its strategy, which includes:

- Continuing the building out of its sales force in key strategic regions in Germany: this team will market CanPharma branded and third-party products direct to doctors
- Selling cannabis flower and extracts under CanPharma brand as well as flower from Bedrocan
- Developing regulatory pathways in order to bring a number of innovative products into the German market
- Started with build out of “pharma-focused” strategy to differentiate within the market:
- Implemented an observational trial into the effect of CanPharma brand extracts on patients’ quality of life and doctors’ prescribing habits
- Agreed to provide training courses to doctors within the region of North Rhine as a pilot for wider collaboration across the country
- Becoming a preferred supplier to a number of statutory insurance companies for the supply of extracts
- Enhance portfolio of products to provide comprehensive offer to medical professionals

### United Kingdom

Health House's UK business achieved strong revenue growth in the period across both its wholesale customer base and NHS pharmacy. Within the UK, the return to normal conditions following the COVID-19 pandemic has enabled the company to grow its provision of medical supplies to events-based medical professionals along with consistent growth from the pharmacy, which focusses on supplying medicines to care and residential homes.

The Company continues to work closely with its customer in the EU to provide security of supply through the changing regulatory environment post-BREXIT.

### Corporate

Upon completion of the CanPharma acquisition, Dr Henrik Sprengel was appointed as a director and Mr David Attwood as the chief executive officer of the Company. Mr Attwood and Dr Sprengel are both based in Europe and were focussed on growing the Company’s European business.

The Company issued the following securities:

- Under the terms of the CanPharma Acquisition
  - 18,000,000 shares and 18,000,000 performance shares to the CanPharma vendors as consideration.
  - 18,000,000 performance shares to CanPharma management as an incentive.
  - 450,000 fully paid ordinary shares and 900,000 Performance Shares to Gemelli Nominees Pty Ltd.
- 666,666 fully paid ordinary shares to a consultant as part consideration for business and development services;
- 233,333 fully paid ordinary shares to a consultant as part consideration under the terms of asset purchase agreement entered into with Gees Pharmacy;

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**DIRECTORS' REPORT**

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- 5,000,000 unquoted options, as partial compensation for employment services; and
- 3,289,946 unquoted options exercisable at \$0.01 were also issued on 28 June 2022 to Zelira Therapeutics Limited.

**Significant events**

In February 2022, Health House entered into a binding term sheet with Zelira Therapeutics Limited (ASX: ZLD) ('Zelira'), under which it was proposed that Zelira would acquire 100% of the shares in Health House by way of a Scheme of Arrangement to be undertaken by Health House (the 'Scheme'). The Scheme would be subject to shareholder and Court approval in accordance with the requirements of Part 5.1 of the Corporations Act 2001 (Cth). To assist Health House with its short-term working capital requirements, Zelira provided a \$1.5 million short-term loan facility to Health House.

On 22 June 2022, Health House International and Zelira Therapeutics agreed to terminate the scheme of arrangement announced on 23 February 2022. As a result of this termination, Health House made an immediate payment of \$50,000 to Zelira and agreed to repay Zelira the \$1.5 million working capital facility loan pursuant to the terms of the Zelira working capital facility loan agreement. 3,289,946 unquoted options exercisable at \$0.01 were also issued on 28 June 2022 under the terms of the Zelira short-term loan facility following the termination of the Scheme of Arrangement.

There were no significant changes in the state of affairs other than that disclosed above.

**AFTER BALANCE DATE EVENTS**

The following occurred after the Balance Date:

***Scheme Implementation Deed***

On 21 November 2022, executed the scheme implementation deed pursuant to which Creso proposes to acquire Health House by way of a scheme of arrangement (Transaction and Scheme).

Health House believes that by joining the Creso group, the combined business will create an organisation with strong medicinal cannabis product and distribution capabilities.

The Transaction will result in Creso issuing Health House shareholders Scheme Consideration of 80,939,256 Creso shares and 20,234,814 Creso options expiring four years after the date of issue and exercisable at \$0.08, which may be further reduced subject to certain debts outstanding at the Implementation Date.

The Scheme is not subject to finance and is subject only to conditions and provisions customary for transactions of this type, including exclusivity arrangements (with relevant fiduciary carve outs) and provisions for payment of break fees of \$100,000 in certain circumstances, no material adverse change, court approval, and the requisite Health House shareholder approval.

The Scheme is subject to Health House shareholder approval to be sought at a general meeting which is expected to be convened in February 2023.



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**DIRECTORS' REPORT**

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***Creso Facility Agreement***

On 5 September 2022, the Company entered into the Debt Facility for \$700,000, which was increased to \$3,400,000 on 21 November 2022, which will be used to as follows:

- \$1,050,000 – already advanced to Health House for working capital purposes;
- in accordance with the terms of a deed of settlement between Health House, Creso and Zelira (Zelira Deed):
  - \$550,000 – paid to Zelira Therapeutics Limited (Zelira) in cash (in partial settlement of a debt owing by Health House to Zelira); and
  - \$800,000 – comprised of Creso Shares to be issued to Zelira in partial satisfaction of a debt owing by Health House to Zelira, subject to approval of Creso's shareholders; if Creso shareholder approval is not obtained on or prior to 31 December 2022, Health House will remain liable to Zelira to repay this amount;
- \$400,000 – assumed debt obligation of Health House to Celtic Capital Pty Ltd (Celtic) in accordance with a deed of settlement between Health House, Creso and Celtic; and
- up to \$450,000 – additional funding for Health House's general corporate purposes and working capital.

***Convertible Note issue***

On 5 September 2022, Health House has also raised \$400,000 via the issue of a convertible note (Note). The Note was used to repay \$400,000 to Zelira Therapeutics Limited (ASX:ZLD).

The Note had a term of one (1) year and is convertible into ordinary shares of the Company at the lesser of \$0.01 per share (representing a 20% discount to Company's current share price) or 80% of the issue price of the most recent capital raising undertaken by the Company prior to conversion. The Note carries a 10% per quarter coupon payable in advance.

The Note was settled as part of the increase of the Creso Facility Agreement.

***Sale of CanPharma***

On 16 November 2022, Health completed the sale of CanPharma GmbH (CanPharma) to Ms Sabine Jacker. The sale of CanPharma removed actual and contingent liabilities of approx. €2,887,000 (AUD\$4,456,000) from the Health House group's balance sheet.

**KEY RISKS**

There are a number of business-specific risks associated Group, as set out below.

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**DIRECTORS' REPORT**

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***Risk of adverse publicity***

The distribution of controlled substances by HHI and the regulatory approvals needed to continue the enterprise may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, the HHI's activities. These pressures could also limit or restrict the introduction and marketing of HHI's products. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable by HHI's products. The nature of HHI's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, HHI's reputation may be harmed.

***Loss of key relationships***

The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. It is expected that this consolidation and strategic partnering will continue. Acquisitions or other consolidating transactions could harm HHI in a number of ways, including:

- (i) loss of strategic relationships if third parties with whom HHI has arrangements are acquired by or enter into relationships with a competitor (which could cause HHI to lose access to necessary resources);
- (ii) the relationships between HHI and third parties may deteriorate and have an adverse impact on HHI's business; and
- (iii) HHI's current competitors could become stronger, or new competitors could form, from consolidations.

Any of these events could put HHI at a competitive disadvantage, which could it us to lose access to markets. Consolidation could also force HHI to expend greater resources to meet new or additional competitive threats, which could also harm HHI's results.

***Risk of adverse events or other safety issues associated with product***

If any of the products sold by the company cause serious or unexpected side effects, or are associated with other safety risks such as misuse, abuse or diversion, a number of potentially significant negative consequences could result, including:

- (i) regulatory authorities may withdraw their approval, or require more onerous labelling statements for any product that is approved;
- (ii) HHI could be sued and held liable for harm caused to patients; or
- (iii) HHI's reputation may suffer.

HHI's distribution activities may voluntarily be suspended or terminated if at any time Creso believes that they present an unacceptable risk to consumers, or that they are unlikely to receive regulatory approval or unlikely to be successfully commercialised.

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**DIRECTORS' REPORT**

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***Risk of changes to laws and regulations***

HHI's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving globally and has been identified as possibly posing risks in relation to law enforcement and government regulation. It is likely that governments worldwide, including in Australia, the UK and the European Union, will continue to explore the benefits, risks, regulations and operations of companies involved in medicinal cannabis industry. While, to the knowledge of management, HHI is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of HHI may cause adverse effects to its operations.

The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of the company and its shares. In addition, there is a risk that legal action may be taken against the company in relation to commercial, legal, regulatory or other matters.

**Exposure to product liability claims, regulatory action and litigation**

These risks will arise if HHI's product is alleged to have caused significant loss or injury. In addition, the manufacture of medicinal cannabis involves the risk of injury to consumers due to tampering by unauthorised third parties or product contamination. Previously unknown adverse reaction resulting from human consumption of medicinal cannabis alone or in combination with other medications or substances could occur. HHI may be subject to various product liability claims, including among other products distributed by HHI caused injury or illness, inadequate instructions for use or warnings concerning possible side effects. A product liability claim or regulatory action against the company could result in increased costs, could adversely affect the company's reputation with its clients and consumers generally and could have a material adverse effect on the company's results of operations and financial conditions.

**Product liability and uninsured risks**

Through its intended business, HHI is exposed to potential product liability risks which are inherent in undertaking research into the clinical efficacy of, and the manufacture and supply of medicinal cannabis products. It will be necessary to secure insurance to help manage such risks. HHI may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, HHI's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although HHI endeavours to work to rigorous standards there is still the potential for adverse events. These events could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, and injury to HHI's reputation or increased insurance costs.

If HHI fails to meet its clients' expectations, its reputation could suffer and it could be liable for damages.

## ***DIRECTORS' REPORT***

Further, HHI is exposed to the risk of catastrophic loss to necessary equipment or facilities which would have a serious impact on its operations. HHI gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

### **Unforeseen expenditure risk**

Expenditure may need to be incurred that has not been taken into account. Although HHI is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of HHI.

### **Loss of key personnel**

The responsibility to oversee the day-to-day operations and the strategic management of HHI depends substantially on its senior management and its key personnel. There can be no assurance that there will be no detrimental effect on HHI if one or more of these employees cease their employment.

### **Management of growth**

There is a risk that management of HHI will not be able to implement its growth strategy after Implementation. The capacity of HHI's management to properly implement and manage the strategic direction of HHI may affect its financial performance.

## ***MEETINGS OF DIRECTORS***

The number of directors' meetings (including committees) held during the financial year and the number of meetings attended by each director are:

<b>Directors' Meetings</b>		
<b>Director</b>	<b>Number Eligible to Attend</b>	<b>Meetings Attended</b>
David Wheeler	13	13
Christopher Mews	13	13
Hon Michael Rann	13	13
Dr Henrik Sprengel	12	12

## ***INFORMATION ON DIRECTORS***

<b>Name</b>	<b>David Wheeler</b>
<b>Appointed</b>	14 April 2020
<b>Qualifications</b>	BA (Bus), FAICD
<b>Experience</b>	Mr Wheeler has more than 30 years executive management experience, through general management, CEO and Managing Director roles across a range of companies and industries. He has worked on business projects in the USA, UK, Europe, New Zealand, China, Malaysia, and the Middle East (Iran). Mr Wheeler has been a Fellow of the Australian Institute of Company Directors (FAICD) since 1990.
<b>Interest in Shares</b>	4,985,930 Fully Paid Ordinary Shares

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**DIRECTORS' REPORT**


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Name	<b>Christopher Mews</b>
Appointed	13 July 2018
Qualifications	CPA, Bachelor of Business degree (Accounting) and is a Chartered Company Secretary
Experience	Mr Mews has been in financial services for over 20 years and is experienced in the financial operation, governance and compliance of Managed Investment Schemes, ASX listed companies and unlisted companies. Mr Mews has held senior positions in finance, corporate secretarial and compliance. In these roles he has been a member of senior management and participated in the due diligence and acquisition of Managed Investment Schemes and participated in various capital raisings for Managed Investment Schemes, ASX listed companies and unlisted companies.
Interest in Shares	12,500 Fully Paid Ordinary Shares
Name	<b>Hon Michael Rann AC CNZM</b>
Appointed	19 March 2021
Qualifications	BA and MA (Hons) from the University of Auckland
Experience	Mr Rann served as a politician in Australia for 26 years where he held senior roles dealing with state, national and international relations including ambassadorial roles to the UK and then Italy. Before that he was Premier of South Australia and Minister for Economic Development for almost a decade. Mr Rann now resides in Italy as well as Australia. He is the Global and UK Chair of The Climate Group. He is also Visiting Professor at the Policy Institute of King's College London. He also holds the positions of CEO to his London based business consultancy, Rann Strategy Group.
Interest in Shares	226,085 Fully Paid Ordinary Shares
Name	<b>Dr Henrik Sprengel</b>
Appointed	10 August 2021
Qualifications	Postgraduate degrees in law (LLM, PhD) and an MBA (INSEAD, Fontainebleau/Singapore)
Experience	Dr Sprengel is co-founder of both CanPharma and Kalapa Clinic where he has gained extensive experience in the field of medicinal cannabis. Before founding CanPharma, he was CEO of the company builder Grupo HS3, which successfully launched several international projects across a number of industries, with a focus on internet and technology. Henrik started his career as a lawyer at Clifford Chance; he later held several international senior management positions in global media publishing company Bertelsmann, and as country manager for Spain and Mexico for a German media and tech company
Interest in Shares	5,816,250 Fully Paid Ordinary Shares
Performance Rights	3,877,500 Performance Rights A – see Note 21 4,338,750 Performance Rights B – see Note 21 4,800,000 Performance Rights C – see Note 21

## **DIRECTORS' REPORT**

### **Directorships of other listed companies**

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

<b>Name</b>	<b>Company</b>
David Wheeler	<p>Current directorships:</p> <p>Cycliq Group Ltd – Executive Director from June 2021</p> <p>Health House International Ltd - Executive Chairman from April 2021</p> <p>Protean Energy Ltd – Non-Executive Chairman from May 2017</p> <p>PVW Resources (previously Thred Ltd) - Non-Executive Chairman from August 2017</p> <p>Ragnar Metals Ltd - Non-Executive Director from December 2017</p> <p>Avira Resources Ltd - Non-Executive Chairman from September 2018</p> <p>Tyranna Resources Ltd - Non-Executive Director - from October 2019</p> <p>Delecta Ltd - Non-Executive Director from June 2020</p> <p>Athena Resources Ltd - Non-Executive Director from June 2021</p> <p>Cradle Resources Ltd – Non -Executive Director from October 2021</p> <p>OZZ Resources Ltd – Non-Executive Director from May 2022</p> <p>Former directorships:</p> <p>Syntonic Ltd from November 2019 to May 2022</p> <p>Blaze International Ltd from March 2020 to November 2021</p> <p>Antilles Oil and Gas NL – Non-Executive Director from February 2016 to November 2018</p> <p>Ultracharge Ltd – from December 2015 to August 2019</p> <p>No other listed directorships have been held by Mr Wheeler in the previous three years.</p>
Christopher Mews	<p><b>Current directorships:</b></p> <p>Non-Executive Director – Auscann Group Holdings Ltd from December 2019</p> <p>Non-Executive Director – Cycliq Resources Ltd from June 2021</p>
Hon Michael Rann	<p><b>Current directorships:</b></p> <p>Non-Executive Director – Spacetalk Ltd – appointed 1 July 2022</p>
Dr Henrik Sprengel	None

### **REMUNERATION REPORT (AUDITED)**

This report outlines the remuneration arrangements in place for the key management personnel of the Company for the financial year ended 30 June 2022. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel (“KMP”) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

## **DIRECTORS' REPORT**

### **Key Management Personnel**

#### **Directors**

David Wheeler

Christopher Mews

Hon Michael Rann

Dr Henrik Sprengel (appointed 10 August 2021, resigned 16 November 2022)

#### **CEO**

David Attwood (appointed 10 August 2021, resigned effective 19 March 2023)

### **Remuneration philosophy**

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

### **Remuneration committee**

While the Company does not currently have a formal Remuneration Committee, the Board has adopted a Remuneration Committee Charter, which determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

### **Remuneration structure**

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

### **Service Agreements**

#### **Executive Directors Remuneration**

<b>Executive Name</b>	<b>Remuneration</b>
David Wheeler	Executive fee of \$120,000 per annum. No service period in contract.
Dr Henrik Sprengel	2-year fixed term consultancy services agreement for EUR 13,330 per month. Dr Sprengel resigned on 16 November 2022.

### **Non-executive Director remuneration**

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be as determined from time to time by a general meeting. The latest determination was prior to the companies commencement of quotation on the ASX on July 2011 when shareholders approved an aggregate remuneration of \$500,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from

## DIRECTORS' REPORT

external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

### **Fixed remuneration**

Fixed remuneration consists of base remuneration (salary or consulting fees) including any FBT charges as well as employer contributions to superannuation funds, where applicable. There was no use of remuneration consultants during the year.

Remuneration levels are reviewed annually by the Board of Directors.

### **Performance linked remuneration**

Long-term incentives can be provided as ordinary shares, options over ordinary shares or performance rights convertible into ordinary shares of the Company. As determined, shareholders in a general meeting will be asked to approve specific grants of shares, options and performance rights to Non-Executive and Executive Directors as a form of remuneration.

### **Assessing performance**

The Board of Directors is responsible for assessing performance against KPIs and determining the STI and LTI to be paid.

### **Consequences of performance on shareholders wealth**

In considering the Group's performance and benefits for shareholder wealth, the Board of Directors considers revenue, profit before tax, changes in share price and return of capital. The overall level of key management personnel's remuneration takes into account the expected performance of the Group over a number of years.

### **Details of the nature and amounts of emoluments of key management personnel**

#### **2022 Financial Year**

	SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT	EQUITY BASED RENUMERATION	REMUNERATION
Key Management Person	Salary & Fees	Consulting Fees	Non Monetary	Superannuation Contribution	Total	Total
	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Christopher Mews	42,000	-	-	-	-	42,000
Hon Michael Rann	64,140	-	-	-	-	64,140
<i>Executive Directors:</i>						
David Wheeler	120,000	25,000	-	-	-	145,000
Dr Henrik Sprengel (i)	222,729	-	-	-	-	222,729
<i>CEO:</i>						
David Attwood (i)	216,197	-	-	-	-	216,197
	<b>665,066</b>	<b>25,000</b>	-	-	-	<b>690,066</b>

(i) Represents remuneration from 10 August 2021 to 30 June 2022



## DIRECTORS' REPORT

### 2021 Financial Year

	SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT	EQUITY BASED RENUMERATION	REMUNERATION
Key Management Person	Salary & Fees	Consulting Fees	Non Monetary	Superannuation Contribution	Total	Total
	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Christopher Mews	62,000	-	-	-	-	62,000
Hon Michael Rann (i)	16,337	-	-	-	-	16,337
Justin Klintberg (ii)	-	-	-	-	-	-
<i>Executive Directors:</i>						
David Wheeler	120,000	-	-	-	-	120,000
Leanne Graham (ii)	31,500	45,000	-	-	-	76,500
	<b>229,837</b>	<b>45,000</b>	-	-	-	<b>274,837</b>

(i) Represents remuneration from 19 March 2021 to 30 June 2021

(ii) Resigned 19 March 2021

### Performance Based Remuneration

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
David Wheeler	100%	100%	-	-	-	-
Christopher Mews	100%	100%	-	-	-	-
Hon Michael Rann	100%	100%	-	-	-	-
Dr Henrik Sprengel	100%	-	-	-	-	-
David Attwood	100%	-	-	-	-	-
Leanne Graham	-	100%	-	-	-	-

### Shares Issued to Key Management Personnel on Exercise of Options

No key management personnel exercised options during the years ended 30 June 2022 or 30 June 2021.

### Shareholdings of Key Management Personnel

Number of shares held by Directors and Executives during the year as follows:-

**DIRECTORS' REPORT****2022 Financial Year**

	Balance 01/07/2021	Options Exercised	Acquired during period (i)	At Appointment/ (Resignation)	Net Change Other (1 for 50 share consolidation)	Balance 30/06/2022
David Wheeler	4,985,930	-	-	-	-	4,985,930
Christopher Mews	12,500	-	-	-	-	12,500
Hon Michael Rann	226,085	-	-	-	-	226,085
Dr Henrik Sprengel	-	-	-	5,816,250	-	5,816,250
David Attwood	-	-	-	1,608,660	-	1,608,660

**2021 Financial Year**

	Balance 01/07/2020	Options Exercised	Acquired during period (i)	At Appointment/ (Resignation)	Net Change Other (1 for 50 share consolidation)	Balance 30/06/2021
David Wheeler	-	-	4,985,930	-	-	4,985,930
Christopher Mews	625,000	-	-	-	(612,500)	12,500
Hon Michael Rann	-	-	-	226,085	-	226,085
Leanne Graham	666,667	-	-	(13,333)	(653,334)	-

(i) Vendor and IPO Acquisition

**Option Holdings of Key Management Personnel**

There were no option holdings held by KMP in current or prior year.

**Performance Rights Holdings of Key Management Personnel****2022 Financial Year**

	Balance 01/07/2021	Performance Rights Granted	Acquired	At Appointment/ (Resignation)	Balance 30/06/2022	Number vested and exercisable
Dr Henrik Sprengel:						
Performance Shares – Class A	-	6,345,000	-	-	6,345,000	-
Performance Shares – Class A	-	5,572,500	-	-	5,572,500	-
Performance Shares – Class C	-	4,800,000	-	-	4,800,000	-
David Attwood:	-	-	-	-	-	-
Performance Shares – Class A	-	1,072,440	-	-	1,072,440	-
Performance Shares – Class A	-	2,936,220	-	-	2,936,220	-
Performance Shares – Class C	-	4,800,000	-	-	4,800,000	-

## DIRECTORS' REPORT

### 2021 Financial Year

	Balance 01/07/2020	Performance Rights Granted	Acquired	At Appointment/ (Resignation)	Balance 30/06/2021	Number vested and exercisable
Dr Henrik Sprengel (i)	-	-	-	-	-	-
David Attwood (i)	-	-	-	-	-	-

(i) Received performance rights subsequent to year end. Refer to Note 21

### Other transactions and balances with Key Management Personnel

Pathways Corporate Pty Ltd, a company of which Mr David Wheeler is a Director, charged the Group Rent of \$18,000 (2021: \$4,000) during the year on normal commercial terms and conditions. At balance date \$nil (2021: \$1,500) remained payable.

Grupo HS3 S.L., KSK Labs S.L., Lemongrass SL and Brank-worx SL, Spanish limited companies of which Dr. Henrik Sprengel has a relevant interest, since the acquisition of CanPharma has charged the Group €152,505 (2021: \$nil) for rent and professional services. At balance date (30 June 2022) €81,756 (2021: \$nil) remained payable.

During the period, Director Henrik Sprengel and his related parties received the following ordinary and performance shares in relation to the acquisition of CanPharma GmbH :

	#	Grant date fair value	Value
Equity and debt consideration shares	9,517,500	0.115	1,094,513
Performance Shares – Class A <sup>1</sup>	6,345,000	0.115	729,675
Performance Shares – Class B <sup>2</sup>	5,572,500	0.115	640,838
Performance Shares – Class C <sup>3</sup>	4,800,000	0.115	552,000
<b>Total</b>	<b>26,235,000</b>		<b>3,017,026</b>

<sup>1</sup> Conditions associated with class A shares were assessed as having 100% probability of being achieved.

<sup>2</sup> Conditions associated with class B shares were assessed as having 100% probability of being achieved.

<sup>3</sup> Conditions associated with class C shares were assessed as having 100% probability of being achieved.

During the period, CFO David Attwood received the following performance shares in relation to the acquisition of CanPharma GmbH :

	#	Grant date fair value	Value
Equity and debt consideration shares	1,608,660	0.115	184,996
Performance Shares – Class A <sup>1</sup>	1,072,440	0.115	123,331
Performance Shares – Class B <sup>2</sup>	2,936,220	0.115	337,665
Performance Shares – Class C <sup>3</sup>	4,800,000	0.115	552,000
<b>Total</b>	<b>10,417,320</b>		<b>1,197,992</b>

<sup>1</sup> Conditions associated with class A shares were assessed as having 100% probability of being achieved.

<sup>2</sup> Conditions associated with class B shares were assessed as having 100% probability of being achieved.

<sup>3</sup> Conditions associated with class C shares were assessed as having 100% probability of being achieved.

### Voting of shareholders at last year's annual general meeting

Health House International Limited received 96.9% of "yes" votes on its remuneration report for the 2021 financial year. The Group did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

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**DIRECTORS' REPORT**

**This concludes the Remuneration Report.**

**ENVIRONMENTAL ISSUES**

The Group is not subject to any significant environmental legislation.

**INDEMNIFYING OFFICERS**

The Company has in place an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to the insurers has not been disclosed. This is permitted under Section 300(9) of the Corporations Act 2001.

*Indemnity and insurance of auditor*

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES**

Section 307C of the Corporations Act 2001 requires the Group's auditors to provide the Directors of Health House International Limited with an Independence Declaration in relation to the audit of the financial report. A copy of that declaration is included on page 19 of the Annual Report.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

On behalf of the Board



**David Wheeler**  
Chairman

**Perth, 22 December 2022**

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Health House International Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia  
22 December 2022



**D I Buckley**  
Partner

**hlb.com.au**

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2022**

		2022	2021
	NOTE	\$	\$
<b>Revenue from continuing operations</b>			
Revenue	4	15,644,524	8,449,564
Interest revenue	5	3,667	3,031
Other revenue	5	201,818	53,828
<b>Expenses</b>			
Cost of Sales	5	(12,496,466)	(6,680,531)
Administration	5	(9,611,618)	(4,599,322)
Directors' fees		(219,400)	(116,837)
Depreciation and amortisation expense		(589,384)	(532,219)
Finance costs		(133,200)	(55,086)
Impairment		(8,779,251)	-
Share based payment	28	(1,027,259)	(1,845,000)
(Loss) from continuing operations		(17,006,569)	(5,322,572)
Income tax benefit	6	47,799	15,276
<b>Net (Loss) after income tax</b>		(16,958,770)	(5,307,296)
Other comprehensive (loss) / income			
Foreign currency recognised on conversion		646,350	(73,310)
<b>Total Comprehensive (Loss) for the Year</b>		(16,312,420)	(5,380,606)
<b>(Loss) per share, attributable to the owners</b>			
Basic and diluted (loss) per share	22	(0.09)	(0.04)

*The accompanying notes form part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2022**

	NOTE	2022 \$	2021 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	990,715	5,224,961
Trade and other receivables	9	1,755,229	1,314,329
Inventory	11	761,405	297,985
<b>TOTAL CURRENT ASSETS</b>		<b>3,507,349</b>	<b>6,837,275</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	545,847	720,010
Financial assets at amortised cost	10	222,138	250,974
Investments	13	125,000	125,000
Intangible assets	14	1,839,900	2,050,588
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,732,885</b>	<b>3,146,572</b>
<b>TOTAL ASSETS</b>		<b>6,240,234</b>	<b>9,983,847</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	5,220,702	1,607,646
Lease liabilities	16	138,854	181,030
Borrowings	17	4,165,915	493,031
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,525,471</b>	<b>2,281,707</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	16	293,786	411,832
Borrowings	17	1,033,766	382,063
Deferred tax liability	6	66,502	117,816
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,394,054</b>	<b>911,711</b>
<b>TOTAL LIABILITIES</b>		<b>10,919,525</b>	<b>3,193,418</b>
<b>NET ASSETS (LIABILITIES)</b>		<b>(4,679,291)</b>	<b>6,790,429</b>
<b>EQUITY</b>			
Share capital	18	21,464,938	19,236,538
Translation reserve		674,799	28,449
Other reserves	19	(2,028,187)	(4,642,487)
Accumulated losses		(24,790,841)	(7,832,071)
<b>TOTAL EQUITY</b>		<b>(4,679,291)</b>	<b>6,790,429</b>

*The accompanying notes form part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2022**

	Issued Capital \$	Accumulated Losses \$	Foreign Currency Reserve \$	Other Reserves \$	Total \$
<b>Balance as at 1 July 2020</b>	<b>8,885,038</b>	<b>(2,524,775)</b>	<b>101,759</b>	<b>(4,642,487)</b>	<b>1,819,535</b>
Loss for the year	-	(5,307,296)	-	-	(5,307,296)
Other comprehensive income	-	-	(73,310)	-	(73,310)
Total comprehensive loss for the year	-	(5,307,296)	(73,310)	-	(5,380,606)
Shares issued during the year	2,028,353	-	-	-	2,028,353
Deemed Consideration of issue of ordinary shares by VPCL as purchase consideration of HH (UK)	5,215,176	-	-	-	5,215,176
Shares issued under prospectus	3,500,000	-	-	-	3,500,000
Transaction costs relating to issue of shares	(392,029)	-	-	-	(392,029)
<b>Balance at 30 June 2021</b>	<b>19,236,538</b>	<b>(7,832,071)</b>	<b>28,449</b>	<b>(4,642,487)</b>	<b>6,790,429</b>
<b>Balance as at 1 July 2021</b>	<b>19,236,538</b>	<b>(7,832,071)</b>	<b>28,449</b>	<b>(4,642,487)</b>	<b>6,790,429</b>
Loss for the year	-	(16,958,770)	-	-	(16,958,770)
Other comprehensive loss	-	-	646,350	-	646,350
Total comprehensive loss for the year	-	(16,958,770)	646,350	-	(16,312,420)
18,000,000 Ordinary Shares issued on the acquisition of CanPharma	2,070,000	-	-	-	2,070,000
Shares issued for consultancy services	68,400	-	-	-	68,400
Shares issued for introduction fees	90,000	-	-	-	90,000
Issue of options for employment services	-	-	-	43,309	43,309
Issue of 12,000,000 Class A performance shares to CanPharma vendors as part of the acquisition	-	-	-	1,242,000	1,242,000
Issue of 6,000,000 Class B performance shares to CanPharma vendors as part of the acquisition	-	-	-	345,000	345,000
Performance shares issued for employment incentives and introduction fees	-	-	-	964,677	964,677
Issue of options to Zelira	-	-	-	19,314	19,314
<b>Balance at 30 June 2022</b>	<b>21,464,938</b>	<b>(24,790,841)</b>	<b>674,799</b>	<b>(2,028,187)</b>	<b>(4,679,291)</b>

*The accompanying notes form part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2022**

	NOTE	2022 \$	2021 \$
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		15,219,277	9,220,642
Payments to suppliers and employees		(18,914,545)	(11,627,461)
Interest received		589	353
Interest paid		(98,039)	(39,614)
CanPharma Acquisition costs		(362,893)	-
Other income		75,945	55,002
<i>Net cash used in operating activities</i>	23	<u>(4,079,666)</u>	<u>(2,391,078)</u>
<b>Cash Flows from Investing Activities</b>			
Loans to CanPharma prior to completion of the acquisition		(484,221)	-
Cash acquired as part of CanPharma acquisition	21	305,588	-
Purchase of property, plant and equipment		(1,048)	-
Cash balance of subsidiary acquired		-	2,951,841
Proceeds from disposal of property, plant and equipment		3,467	-
Proceeds from the disposal of investments		7,809	-
Purchase of other non-current assets		(59,244)	(80,989)
Purchase of intangible assets		(351)	(2,053)
<i>Net cash from investing activities</i>		<u>(228,000)</u>	<u>2,868,799</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		-	968,078
Proceeds from issue of shares under prospectus		-	3,500,000
Issue costs associated with issue of shares		-	(392,029)
Proceeds from loans		1,803,654	570,752
Payments under financing arrangements		(1,514,588)	(148,732)
Payments of lease liabilities		(193,529)	(234,301)
<i>Net cash from financing activities</i>		<u>95,537</u>	<u>4,263,768</u>
<b>Net increase in cash and cash equivalents</b>		(4,212,129)	4,741,489
Effect of exchange rate fluctuations on cash held		(22,117)	(11,452)
<b>Cash and cash equivalents at beginning of financial year</b>		5,224,961	494,924
<b>Cash and cash equivalents at end of financial year</b>		<u>990,715</u>	<u>5,224,961</u>

*The accompanying notes form part of these consolidated financial statements.*

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF ACCOUNTING POLICIES

#### (a) Statement of significant accounting policies

The following is a summary of the significant accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

For the purposes of preparing the financial report the Group is a for-profit entity.

The financial report covers the consolidated entity of Health House International Limited ("the legal Parent") and its subsidiaries ("the Group" or "Consolidated Entity"). Health House International Limited (Health House International Limited) is a listed public company, incorporated and domiciled in Australia. The entity's principal activities are detailed in the Directors Report.

#### **Reporting basis and conventions**

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied where relevant.

The financial statements are presented in Australian dollars which is Health House International Limited's functional and presentation currency.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

#### **Critical accounting estimates**

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

#### **(b) Adoption of new and revised standards**

##### **Changes in accounting policies on initial application of Accounting Standards**

##### ***Standards and Interpretations applicable to 30 June 2022***

In the year ended 30 June 2022, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore, no material change is necessary to Group accounting policies.

##### ***Standards and Interpretations in issue not yet effective***

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet effective for the year ending 30 June 2022. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet effective on the Group and therefore no material change is necessary to Group accounting policies.

#### **(c) Going concern**

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, the Group had a working capital deficiency of \$5,484,860 (2021: working capital surplus \$4,555,568), incurred a loss of \$16,958,770 (2021: \$5,307,296) which included non-cash impairment of \$8,779,251 (2021: \$nil) and had operating cash outflows of \$4,079,666 for the year ended 30 June 2022 (2021: \$2,391,078). As at 30 June 2022, the Group's held cash and cash equivalents of \$974,080 (2021: \$5,224,961). These conditions indicate the existence of material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

On 21 November 2022, the Group executed the scheme implementation deed pursuant to which Creso proposes to acquire Health House by way of a scheme of arrangement (Transaction and Scheme).

Health House has entered in to a Debt Facility with Creso for up to \$3,400,000 on 21 November 2022, which will be used to as follows:

- \$1,050,000 – already advanced to Health House for working capital purposes;
- in accordance with the terms of a deed of settlement between Health House, Creso and Zelira (Zelira Deed);
- \$550,000 – paid to Zelira Therapeutics Limited (Zelira) in cash (in partial settlement of a debt owing by Health House to Zelira); and

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

- \$800,000 – comprised of Creso Shares to be issued to Zelira in partial satisfaction of a debt owing by Health House to Zelira, subject to approval of Creso's shareholders; if Creso shareholder approval is not obtained on or prior to 31 December 2022, Health House will remain liable to Zelira to repay this amount;
- \$400,000 – assumed debt obligation of Health House to Celtic Capital Pty Ltd (Celtic) in accordance with a deed of settlement between Health House, Creso and Celtic; and
- up to \$450,000 – additional funding for Health House's general corporate purposes and working capital.

On 16 November 2022, Health completed the sale of CanPharma GmbH (CanPharma) to removing actual and contingent liabilities of approximately €2,887,000 (AUD\$4,456,000) from the Health House group's balance sheet.

The ability of the entity to continue as a going concern is dependent on Health House continuing to grow revenue through increasing its distribution range as the market matures within Australia, the UK maintaining its supply to the National Health Service in the United Kingdom and continuing to secure supply contracts with the Malta government, and completing the Scheme with Creso or securing additional funding through capital raising activities to continue its operational and marketing activities. Should these be unsuccessful, there is a material uncertainty relating to the Group's ability to continue as a going concern.

The directors have reviewed the Group's financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will complete the Scheme with Creso and be able to generate sufficient revenue or secure funds to meet its commitments.

#### **(d) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including,

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including
- voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the profit or loss and other from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to

the owners of the Company and to the non-controlling interests even if this results in the controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members are eliminated in full on consolidation.

#### ***Changes in the Group's ownership interest in existing subsidiaries***

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF ACCOUNTING POLICIES (CONT.)****(e) Foreign Exchange*****Foreign currency transactions***

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. The Directors have determined that the functional currency of the Group is Australian Dollars.

***Foreign operations***

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**(f) Revenue Recognition**

The Group enters into contracts for the sale and distribution of medicinal cannabis products and other medical supplies. Revenue is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of supplies to the customer, and the transaction price is allocated to the number of units delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

**(g) Other income and expenses*****Interest income***

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

***Government grants***

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

***Other income***

Other income is recognised when it is received or when the right to receive payment is established.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF ACCOUNTING POLICIES (CONT.)****(h) Income Tax**

The charge for current income tax expenses is based on the profit/loss for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions or deductibility imposed by the law.

**(i) Other Taxes**

Revenues, expenses and assets are recognised net of the amount of GST / Sales tax / VAT except:

- when the GST / Sales tax / VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST / Sales tax / VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST / Sales tax / VAT included.

The net amount of GST / Sales tax / VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST / Sales tax / VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST / Sales tax / VAT recoverable from, or payable to, the taxation authority.

**(j) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Health House International Ltd.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF ACCOUNTING POLICIES (CONT.)****(k) Earnings per share*****Basic earnings (loss) per share***

Basic earnings per share ("EPS") is calculated as net profit or loss, attributable to members, adjusted to exclude any costs of servicing equity.

***Diluted earnings (loss) per share***

Diluted EPS earnings is calculated by adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average price.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations, not net profit or loss and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

**(l) Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**(m) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

#### **(n) Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

#### **(o) Financial assets**

##### ***Recognition and derecognition***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### ***Classification and initial measurement of financial assets***

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF ACCOUNTING POLICIES (CONT.)

#### **Subsequent measurement of financial assets**

##### *Financial assets at fair value through profit or loss (FVTPL)*

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in unlisted and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of AASB 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

#### **(p) Impairment of Assets**

At each reporting date, the Group reviews the carrying values of tangible assets and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### **(q) Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Finished goods – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### **(r) Property, Plant and Equipment**

Plant and equipment is stated at historical cost or fair value less accumulated depreciation and impairment.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Plant and machinery	5 – 20 years
Computer equipment	5 years
Office equipment	3 years
Right of use asset	Length of lease

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

#### **(s) Right-of-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

#### **(t) Intangible Assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

#### **Amortisation methods and useful lives**

The Group amortises intangible assets with a limited useful life, using the straight-line method over the following periods:

Website costs	10 years
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Customer contracts	2-3 years
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Customer contracts were acquired as part of a business combination (see Note 14 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

#### **(u) Goodwill**

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### **(v) Trade and other payables**

##### ***Trade and other payables***

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

##### ***Employee leave benefits***

Wages, salaries, annual leave and sick leave

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in employee related payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### **(w) Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF ACCOUNTING POLICIES (CONT.)****(x) Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**(y) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

**(z) Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

**(aa) Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 25.

**(bb) Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF ACCOUNTING POLICIES (CONT.)****(cc) Reverse Acquisition**

A reverse acquisition occurs when the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when a private entity arranges to have itself 'acquired' by a smaller public entity as a means of obtaining a stock exchange listing. Although legally the issuing entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the accounting acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

In a reverse acquisition, the cost of the business combinations is deemed to have been incurred by the legal subsidiary in the form of equity instruments issued to the owners of the legal parent. The published price of the equity instruments of the acquirer is used to determine the cost of the combination, or where this is not available, the deemed fair value of its shares, and a calculation shall be made to determine the cost of the combination, or where this is not available, the deemed fair value of its shares, and a calculation shall be made to determine the number of equity instruments that acquirer would have to issue to provide the same percentage ownership interest of the combined entity to the owners/shareholders of the acquirer as they have in the combined entity as a result of the reverse acquisition. The fair value of the number of equity instruments so calculated shall be used as the cost of the combination.

On 19 March 2021, VPCL Limited (now Health House International Limited, the legal parent entity) acquired 100% of the issued shares of Health House Holdings Limited (an unlisted entity). VPCL Limited changed its name to Health House International Limited on 29 January 2021. Under the principles of AASB3 Business Combinations, Health House Holdings Limited (the unlisted entity) is the accounting acquirer in the deemed business combination and therefore, the transaction has been accounted for as a Share-based Payment (asset acquisition) under reverse acquisition principles. Refer to Note 21 for details of the reverse acquisition and its financial effects during the current financial year.

**(dd) Fair Value Measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES (CONT.)**

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

#### **(ee) Share based payment transactions**

For equity-settled share-based payment transactions, the Group measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or service received cannot be estimated reliably, the Group measure their value and the corresponding increase in equity, indirectly, by reference to the fair value of the equity granted.

#### **(ff) Issued Capital**

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates:

#### ***Goodwill and other indefinite life intangible assets***

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Refer to Note 14 for further information.

#### ***Lease term***

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT.)**

whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

#### ***Incremental borrowing rate***

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

#### ***Estimation of useful lives of assets***

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

#### ***Share based payments***

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

### **3. OPERATING SEGMENTS**

#### ***Identification of reportable operating segments***

The consolidated entity is organised into three operating segments based on geographic location of operations: Australia United Kingdom and Germany/Spain. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

#### ***Intersegment receivables, payables and loans***

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. OPERATING SEGMENTS (CONT.)

#### Major Customers

During the year ended 30 June 2022, approximately \$3.8m (2021: \$2.2m) of the Group's external revenue was derived from sales to one customer in the UK operating segments.

#### Operating segment information

#### 2022

<b>Segment Revenue</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Sale of goods	6,980,932	7,400,489	1,263,103	15,644,524
Interest revenue	146	3,521	-	3,667
Other revenue	-	75,672	126,146	201,818
<b>Total revenue</b>	<b>6,981,078</b>	<b>7,479,682</b>	<b>1,389,249</b>	<b>15,850,009</b>

<b>Segment Result</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
EBITDA	(2,115,572)	(1,911,535)	(12,260,545)	(16,287,652)
Depreciation and amortisation	(32,471)	(411,640)	(145,273)	(589,384)
Interest revenue	146	3,521	-	3,667
Finance costs	(1,266)	(131,422)	(512)	(133,200)
<b>Loss before income tax expense</b>	<b>(2,149,163)</b>	<b>(2,451,076)</b>	<b>(12,406,330)</b>	<b>(17,006,569)</b>
Income tax benefit	-	47,799	-	47,799
<b>Loss after income tax expense</b>	<b>(2,149,163)</b>	<b>(2,403,277)</b>	<b>(12,406,330)</b>	<b>(16,958,770)</b>

<b>Segment assets and liabilities</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Total assets	1,332,545	3,721,099	1,186,590	6,240,234
Total liabilities	(3,907,085)	(2,235,121)	(4,777,319)	(10,919,525)
<b>Net assets (liabilities)</b>	<b>(2,574,540)</b>	<b>1,485,978</b>	<b>(3,590,729)</b>	<b>(4,679,291)</b>

#### Other information

Additions to non-current assets excluding financial instruments and deferred tax	1,048	-	-	1,048
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#### 2021

<b>Segment Revenue</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Sale of goods	3,603,177	4,846,387	-	8,449,564
Interest revenue	185	2,846	-	3,031
Other revenue	50,175	3,653	-	53,828
<b>Total revenue</b>	<b>3,653,537</b>	<b>4,852,886</b>	<b>-</b>	<b>8,506,423</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. OPERATING SEGMENTS (CONT.)

<b>Segment Result</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
EBITDA	(2,551,467)	(2,186,831)	-	(4,738,298)
Depreciation and amortisation	(29,736)	(502,483)	-	(532,219)
Interest revenue	185	2,846	-	3,031
Finance costs	(3,055)	(52,031)	-	(55,086)
<b>Loss before income tax expense</b>	<b>(2,584,073)</b>	<b>(2,738,499)</b>	<b>-</b>	<b>(5,322,572)</b>
Income tax benefit	-	15,276	-	15,276
<b>Loss after income tax expense</b>	<b>(2,584,073)</b>	<b>(2,723,223)</b>	<b>-</b>	<b>(5,307,296)</b>

<b>Segment assets and liabilities</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Total assets	5,707,061	4,276,786	-	9,983,847
Total liabilities	(1,025,769)	(2,167,650)	-	(3,193,419)
<b>Net assets (liabilities)</b>	<b>4,681,292</b>	<b>2,109,136</b>	<b>-</b>	<b>6,790,428</b>

#### Other information

Additions to non-current assets excluding financial instruments and deferred tax	301,348	1,094,270	-	1,395,618
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### 4. REVENUE

	<b>2022</b>	<b>2021</b>
	\$	\$
Revenue from contracts with customers		
Sale of goods	15,644,524	8,449,564

	<b>2022</b>	<b>2021</b>
	\$	\$
Timing of revenue recognition		
Goods transferred at a point in time	15,644,524	8,449,564

The Group enters into contracts for the sale and distribution of medicinal cannabis products and other medical supplies. Revenue is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of supplies to the customer, and the transaction price is allocated to the number of units delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

The disaggregation of revenue from contracts with customers is as follows:

Consolidated -2022

<b>Geographical regions</b>	<b>Australia</b>	<b>UK</b>	<b>Europe</b>	<b>Total</b>
	\$	\$	\$	\$
Sale of goods	6,980,932	7,400,489	1,263,103	15,644,524

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****4. REVENUE (CONT.)**

Consolidated -2021

<b>Geographical regions</b>	<b>Australia \$</b>	<b>UK \$</b>	<b>Europe \$</b>	<b>Total \$</b>
Sale of goods	3,603,177	4,846,387	-	8,449,564

**5. OTHER INCOME AND EXPENSES**

	<b>2022 \$</b>	<b>2021 \$</b>
<b>(a) Revenue</b>		
Interest revenue	3,667	3,031
Other revenue:		
Government grants	201,818	53,828
<b>(b) Expenses</b>		
Cost of sales:		
- Direct costs	12,458,980	6,611,065
- Registrations	28,203	64,470
- Commissions payable	9,283	4,996
	<u>12,496,466</u>	<u>6,680,531</u>
Administration expenses:		
- Salaries and other employee costs	3,918,468	2,482,743
- Audit and accountancy fees	514,325	286,238
- Legal and professional fees	1,084,258	111,380
- Consulting fees	695,966	649,541
- Reconciliation and acquisition	11,610	304,752
- Other administration expenses	3,386,991	764,668
	<u>9,611,618</u>	<u>4,599,322</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****6. INCOME TAX**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Income tax expense		
Current tax	-	-
Deferred tax	47,799	15,276
Total income tax benefit	<u>47,799</u>	<u>15,276</u>

- (a) The prima facie income tax on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Loss for the year	<u>(17,006,569)</u>	<u>(5,322,572)</u>
Income tax charge/(benefit) calculated at 25% (2021: 26%)	(4,251,642)	(1,383,868)
Non-deductible expenses	556,439	544,672
Non-assessable income	-	(13,000)
Other deductible expenses	(118,300)	(120,658)
Difference in tax rate of subsidiaries	(291,960)	74,889
Other losses not recognised – impairment of goodwill	2,194,813	-
Unused tax losses not recognised as a deferred tax asset	1,862,851	882,689
<b>Income tax expense/(benefit) reported in the Statement of Profit or Loss and Other Comprehensive Income</b>	<u>(47,799)</u>	<u>(15,276)</u>

- (b) Deferred tax liabilities comprise:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Intangibles	<u>66,502</u>	<u>117,816</u>
	<u>66,502</u>	<u>117,816</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. INCOME TAX (CONT.)

(c) Unrecognised deferred tax balances:

	2022	2021
	\$	\$
The following deferred tax assets have not been brought to account:		
Unrecognised deferred tax asset – Australian tax losses*	496,957	249,540
Unrecognised deferred tax asset – foreign tax losses	1,615,907	1,158,074
Unrecognised deferred tax asset – other – impairment of goodwill	2,194,813	-
Unrecognised deferred tax asset – other temporary differences	50,019	32,915
<b>Net deferred tax assets not brought to account</b>	<u>4,357,696</u>	<u>1,440,529</u>

\* There are potential further deferred tax assets in respect of tax losses (with an estimated potential value of \$5.9m) of the holding company that are subject to meeting the business continuity tests contained in the Income Tax Assessment Act 1997 and therefore are not included above due to their uncertainty.

The taxation benefits of tax losses and timing not brought to account will only be obtained if:

- (i) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- (ii) conditions for deductibility imposed by the law are complied with; and
- (iii) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

### 7. KEY MANAGEMENT PERSONNEL

#### Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2022	2021
	\$	\$
Short-term employee benefits	<u>690,066</u>	<u>274,837</u>

Pathways Corporate Pty Ltd, a company of which Mr David Wheeler is a Director, charged the Group Rent of \$18,000 (2021: \$4,000) during the year on normal commercial terms and conditions. At balance date \$nil (2021: \$1,500) remained payable.

Grupo HS3 S.L., KSK Labs S.L., Lemongrass SL and Brank-worx SL, Spanish limited companies of which Dr. Henrik Sprengel has a relevant interest, since the acquisition of CanPharma has charged the Group €152,505 (2021: \$nil) for rent and professional services. At balance date (30 June 2022) €81,756 (2021: \$nil) remained payable.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****8. CASH AND CASH EQUIVALENTS**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Cash at bank and on hand	990,715	5,224,961

Cash at bank earns interest at fixed and floating rates based on daily bank and term deposit rates.

**9. TRADE AND OTHER RECEIVABLES**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade and other receivables	1,120,421	624,110
GST / VAT receivable	139,681	156,011
Prepayments	147,116	394,880
Other	348,011	139,328
	1,755,229	1,314,329

**Group**

The above amounts do not bear interest and the Directors consider that the carrying amount is equivalent to their fair value.

The Group applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's primary customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The other customer base relates to State customers, with no history of default, therefore, the lifetime expected losses are considered to be \$nil.

The rent deposits of \$117,767 (2021: \$129,633) will be fully refundable after the lease agreement ends on 30 June 2025.

No material past due, not impaired balances exist within trade and other receivables.

**Company**

All amounts due from subsidiary undertakings are repayable on demand, and are non-interest bearing. No allowances for ECL's have been made during the year ended 30 June 2022 (2021: \$Nil).

**10. FINANCIAL ASSETS AT AMORTISED COST**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Bonds	-	-
<b>Non-current</b>		
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Bonds	222,138	250,974

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. FINANCIAL ASSETS AT AMORTISED COST (CONT.)

On 2 June 2020, the Group entered into a loan agreement with the Ministry for Health Central Procurement and Supplies Unit of Malta. The bond is unsecured and bears no interest and is held in Euros. The bond is renewable on an annual basis.

### 11. INVENTORIES

Current	2022 \$	2021 \$
Finished goods – at cost	761,405	297,985

### 12. PROPERTY PLANT AND EQUIPMENT

	Computer Equipment	Office Equipment	Plant & Machinery	Right of Use Asset Restated	Motor Vehicles	Total
	\$	\$	\$	\$	\$	\$
<i>Cost</i>						
Balance as at 1 July 2021	27,350	19,042	102,860	831,389	13,816	994,457
Additions	4,787	1,048	4,788	-	-	10,623
Additional extension option	-	-	-	23,488	-	23,488
Balance as at 30 June 2022	32,137	20,090	107,648	854,877	13,816	1,028,568
<i>Accumulated depreciation</i>						
Balance as at 1 July 2021	6,749	6,618	14,212	244,565	2,303	274,447
Charge for the year	6,100	6,488	11,518	174,582	9,586	208,274
Balance as at 30 June 2022	12,849	13,106	25,730	419,147	11,889	482,721
Net book value as at 30 June 2022	19,288	6,984	81,918	435,730	1,927	545,847
Net book value as at 30 June 2021	20,601	12,424	88,648	586,824	11,513	720,010

### 13. INVESTMENTS

	2022 \$	2021 \$
<b>Non-Current</b>		
Pro 9 Global Pty Ltd – at fair value	125,000	125,000

The investment is measured at fair value using level 2 hierarchy using a recent capital raise price.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****14. INTANGIBLES**

	<b>Website Costs</b>	<b>Customer Contracts Restated</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>				
At 1 July 2021	77,036	1,438,651	1,365,034	2,880,721
Additions	-	69,563	-	69,563
Movement in FX rates	(3,291)	(60,475)	-	(63,766)
At 30 June 2022	73,745	1,447,739	1,365,034	2,886,518
<b>Amortisation</b>				
At 1 July 2021	11,567	818,566	-	830,133
Charge for the year	7,384	243,577	-	250,961
Movement in FX rates	(493)	(33,983)	-	(34,476)
At 30 June 2022	18,458	1,028,160	-	1,046,618
Net book value as at 30 June 2022	55,287	419,579	1,365,034	1,839,900
Net book value as at 30 June 2021	65,469	620,085	1,365,034	2,050,588

Customer contracts of £240,001 (AUD\$436,659) have been capitalised as part of the acquisition of trade and assets from Gees Pharmacy Limited on 1 September 2020 (see Note 21 for details). The customer contracts have been recognised at their fair value at the date of acquisition, and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 2 year projection period approved by management and extrapolated for a further 3 years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model:

- 13.3% pre-tax discount rate;
- 10% per month projected revenue growth rate for the 2023 year;
- 10% per annum increase in operating costs and overheads

The discount rate of 13.3% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 10% monthly in 2022 revenue growth rate is conservative, based on growth in the market and Group historic growth.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INTANGIBLES (CONT.)

Management have increased costs in accordance with operational requirements in line with expected increased activity.

There were no other key assumptions.

From our above assessment for the reporting period 30 June 2022, we are satisfied that there is no indication that Goodwill may be impaired and the CGU being the Australian business to which it attaches.

### 15. TRADE AND OTHER PAYABLES

Current (unsecured)	2022 \$	2021 \$
Trade payables	3,948,423	1,236,139
Other Creditors	917,308	68,195
Accruals	137,988	195,189
Employee related payables	216,983	108,123
	<u>5,220,702</u>	<u>1,607,646</u>

Trade and other payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs and are non-interest bearing. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is chargeable on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that payables are paid within the credit timeframe. Due to the short-term nature of the trade payables the carrying amount approximates fair value.

Other payables are non-trade receivables, and are non-interest bearing. The above amounts do not bear interest and the Directors consider that the carrying amount is equivalent to their fair value.

All amounts due to group companies are repayable on demand, and are non-interest bearing.

### 16. LEASE LIABILITIES

	2022 \$	2021 \$
<i>Carrying value</i>		
Current liabilities	138,854	181,030
Non-current liabilities	293,786	411,832
	<u>432,640</u>	<u>592,862</u>

The total cash outflow for leases during the period was \$193,529 (2021: \$234,301).

The Group leases buildings, the average lease term of which is 5 years. None of the leases held by the group expired in the current financial year. Incremental borrowing rate used is 7% for Australian liabilities and 5% for UK liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. BORROWINGS

Current (secured)	2022	2021
	\$	\$
Other loans	-	-
<b>Current (unsecured)</b>		
Bank overdraft	-	-
Bank and other loans (i) (ii) (iii) (iv) (vi) (vii) (viii)	4,165,915	493,031
	<u>4,165,915</u>	<u>493,031</u>
<b>Non-current (secured)</b>		
Bank overdraft	-	-
Bank and other loans (viii) (v)	1,033,766	382,063
	<u>1,033,766</u>	<u>382,063</u>

Included in the above borrowings balance is:

(i) On 11 March 2020, the Group entered into a loan agreement with Gees Pharma Limited. This loan agreement is unsecured, and bears interest at a rate of 5% per annum, which is repayable at the end of the loan term. The loan is expected to be repaid by 30 June 2023, and as at 30 June 2022, the outstanding amount is £81,901 (AUD\$144,418) (30 June 2021: £74,556 (AUD\$137,334)).

(ii) On 2nd June 2020, the Group entered into a loan agreement with Gees Pharma Limited. This loan agreement is unsecured, and bears interest at a rate of 5% per annum, which is repayable at the end of the loan term. The loan is expected to be repaid by 30 June 2023, and as at 30 June 2022, the outstanding amount is £142,516 (AUD\$251,302) (30 June 2021: £136,771 (AUD\$251,936)).

(iii) During the year ended 30 June 2021, the Group received various funding from the UK government as support for the COVID-19 pandemic, totalling £170,919 (AUD\$314,838). Of this, £20,919 (AUD\$38,534) was an advanced payment from the Department of Health and Social Care, which was interest free and repaid in full during the year ended 30 June 2022 (30 June 2022: £nil repaid). The remaining £150,000 (AUD\$264,499) funding was provided under the CBILS loan scheme and bears an interest rate of 12.22% per annum. This loan is repayable by 13 August 2023, and under the CBILS loan scheme, the UK Government paid the interest accrued on this loan until 13 August 2021. During the year ended 30 June 2022, £70,807 (AUD\$124,856) was repaid (30 June 2022: £nil), and £91,919 (AUD\$162,083) was outstanding at the year end (30 June 2021: £150,000 (AUD\$276,304)). £13,947 (AUD\$24,593) of the debt is non-current at balance date.

(iv) Also included within unsecured loans is a balance of EUR 112,435 (AUD\$171,050) (30 June 2021: EUR 27,927 (AUD\$44,232)), which relates to the Group's credit facility with Market Finance. This balance represents funds received in advance from the credit facility, and there is no interest attached.

(v) Investitionsbank des Landes Brandenburg, Amount: \$911,000 plus interest of \$98,064, Interest rate: 7% Maturity date: 31 September 2026. The loan is part of the CanPharma sale, refer Note 29.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. BORROWINGS (CONT.)

(vi) Multiple private lenders, Amount: \$1,457,000 plus interest of \$198,053, Interest rate: 4.12% (Euribor plus 5%) Maturity date: 1 July 2023. The loan is part of the CanPharma sale, refer Note 29.

(vii) Zelira Therapeutics Limited, Amount \$1,500,000, Interest rate: 2%, Maturity date: 22 August 2022, Secured or unsecured: Unsecured. Settlement agreed between Health House, Creso and Zelira.

(viii) Banco Santander, Amount: \$5,100, Interest rate: 5.95% Maturity date: 20 July 2022. The loan is part of the CanPharma sale, refer Note 29.

The fair value of borrowings approximate their carrying amount at balance date.

### 18. ISSUED CAPITAL

			2022 \$	2021 \$
Issued Capital			21,464,938	19,236,538
	Year to 30 June 2022 No.	Year to 30 June 2021 No.	Year to 30 June 2022 \$	Year to 30 June 2021 \$
<i>Movements in ordinary shares on issue</i>				
At start of period	158,874,626	101,698,310	19,236,538	8,885,038
Share issued on incorporation		-		-
Ordinary shares issued		13,600,433		2,028,353
Elimination of legal acquiree share capital on reverse acquisition		(115,298,743)	-	-
Recognition of legal acquirer share capital on reverse acquisition		1,130,846,123	-	-
Consolidation of capital 50 to 1		(1,108,229,201)	-	-
Shares issued to advisors – acquisition related costs		3,458,961	-	-
Consideration shares		115,298,743		5,215,176
Shares issued under prospectus		17,500,000		3,500,000
Transaction costs relating to issue of shares	-	-		(392,029)
Ordinary Shares issued on the acquisition of CanPharma	18,000,000		2,070,000	
Ordinary Shares issued for consultancy services	899,999		68,400	
Ordinary Shares issued for introduction fees	450,000	-	90,000	-
At end of period	178,224,625	158,874,626	21,464,938	19,236,538

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. ISSUED CAPITAL (CONT.)

At shareholders' meetings, each ordinary share is entitled to one vote in proportion to the paid-up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

### 19. RESERVES

#### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

#### Performance Shares Reserve

This reserve is used to record the value of performance shares provided to employees, Directors and consultants as part of their remuneration or for the acquisition consideration. Refer to Note 28 for further details of these plans

#### Options Reserve

This reserve is used to record the value of options provided to employees, Directors and consultants as part of their remuneration or for the acquisition consideration. Refer to Note 28 for further details of these plans

At 30 June 2022, the Company had the following reserve accounts:

	Year to 30 June 2022		Year to 30 June 2021	
	Number	\$	Number	\$
Other reserve	-	(4,642,487)	-	(4,642,487)
Options	5,000,000*	62,623	-	-
Performance shares	36,900,000	2,551,677	-	-
<b>Balance at end of year</b>	<b>41,900,000</b>	<b>(2,028,187)</b>	<b>-</b>	<b>(4,642,487)</b>

\* Granted 29 June 2022 but issued after year end

#### Options Reserve Movement

	Year to 30 June 2022		Year to 30 June 2021	
	Number	\$	Number	\$
Movement of Company options:				
Balance at beginning of year	-	-	-	-
Options issued to Employees	5,000,000	43,309	-	-
Options issued to Zelira	3,289,946	19,314	-	-
<b>Balance at end of year</b>	<b>8,289,946</b>	<b>62,623</b>	<b>-</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. RESERVES (CONT.)

#### Performance Share Reserve Movement

	Year to 30 June 2022		Year to 30 June 2021	
	Number	\$	Number	\$
<i>Movement of issued performance rights:</i>				
Balance at beginning of year	-	-	-	-
Brought to account during the year	36,900,000	2,551,677	-	-
<b>Balance at end of year</b>	<b>36,900,000</b>	<b>2,551,677</b>	<b>-</b>	<b>-</b>

#### Other reserves

The other reserve was created as a result of the acquisition by the Company of the entire issued share capital of CliniCann Ltd. This acquisition was effected by a share-for-share exchange. In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded in an 'other' reserve on consolidation. This reserve is not considered to be distributable.

### 20. FINANCIAL INSTRUMENTS

The Group are exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

#### Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern whilst maximising the return to stakeholders. The Group is funded by both of its shareholders through equity financing.

The capital structure of the Group consists of cash and cash equivalents and equity, comprising issued capital and retained profits.

The Group has no externally imposed capital requirements.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies section of these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. FINANCIAL INSTRUMENTS (CONT.)

#### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables;
- Trade and other payables;
- Cash and cash equivalents;
- Financial assets at amortised cost; and
- Borrowings

#### Categories of financial instruments

2022	Variable interest rate	Maturity dates				Non-interest bearing	Total
		\$	Less than 1 year	1-2 years	2-5 years	Over 5 years	\$
			\$	\$		\$	
Financial assets:							
Trade and other receivables		1,755,229	-	-	-	1,755,229	1,755,229
Financial assets at amortised cost		-	222,138	-	-	222,138	222,138
Cash and cash equivalents		990,715	-	-	-	990,715	990,715
Investments		-	-	125,000	-	125,000	125,000
Financial liabilities:							
Trade and other payables		5,220,702	-	-	-	5,220,702	5,220,702
Borrowings	Note 17	3,632,653	561,898	1,005,130	-	-	5,199,681
Lease liabilities		138,854	293,786	-	-	-	432,640

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. FINANCIAL INSTRUMENTS (CONT.)

2021	Variable interest rate  \$	Maturity dates				Non- interest bearing	Total
		Less than 1 year \$	1-2 years \$	2-5 years	Over 5 years \$	\$	\$
<b>Financial assets:</b>							
Trade and other receivables		1,314,329	-	-	-	1,314,329	1,314,329
Financial assets at amortised cost		-	250,974	-	-	250,974	250,974
Cash and cash equivalents		5,224,961	-	-	-	5,224,961	5,224,961
Investments		-	-	125,000	-	125,000	125,000
<b>Financial liabilities:</b>							
Trade and other payables		1,607,646	-	-	-	1,607,646	1,607,646
Borrowings	Note 17	493,031	382,063	-	-	-	875,094
Lease liabilities		181,030	411,832	-	-	-	592,862

*Note: interest is immaterial to the Group and has not been included above.*

**Fair value measurements**

The information set out below provides information about how the Group and Company determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments are defined as any contract that gives rise to both the recognition of a financial asset in one entity and a financial liability or equity instrument in another entity. The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in the market. For the purpose of estimating the fair value of financial assets maturing in less than one year, the Group uses the market value. For other investments, the Group uses quoted prices in the market. In relation to financial liabilities, since most loans are taken at variable rates or fixed rates that approximate to market rates, the fair value of loans approximates their carrying value. The fair value disclosures relating to the Group's investments are disclosed in Note 13.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****20. FINANCIAL INSTRUMENTS (CONT.)****Financial risk management objectives**

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk assessments. These risks include credit risk, currency risk and capital risk.

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Group's trade receivables, other financial assets and its cash balances. The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's primary customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The other customer base relates to State customers, with no history of default, therefore, the lifetime expected losses are considered to be \$nil.

The concentration of the Group's credit risk is considered by counterparty, geography and currency. The Group holds the majority of its cash with one bank in each country of operation.

There are no other significant concentrations of credit risk at the Statement of Financial Position date.

At 30 June 2022, the Group held no collateral as security against any financial asset. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. At 30 June 2022, there were no financial assets, other than trade receivables, that were past their due date. As a result, there has been no impairment of other financial assets during the year.

The Group maintains good relationships with its bank, which has a high credit rating and its cash requirements are anticipated via both the annual budgetary process and the ongoing authorisation for expenditure process. At 30 June 2022 the Group had \$990,715 (2021: \$5,224,961) of cash reserves.

**Foreign currency risk**

The Group undertakes certain transactions denominated in foreign currencies hence exposures to exchange rate fluctuations arise. The Group does not manage these exposures with foreign currency derivative products. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****20. FINANCIAL INSTRUMENTS (CONT.)****British Pound Sterling (GBP)**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Assets	1,409,861	1,329,527
Liabilities	(1,903,967)	(842,803)
	<u>(494,106)</u>	<u>486,724</u>

**Euro (EUR)**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Assets	1,104,588	159,989
Liabilities	(4,788,214)	(174,092)
	<u>(3,683,626)</u>	<u>(14,103)</u>

The Group is exposed to British Pound Sterling (GBP) and Euro (EUR) currency fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit and equity where the Australian Dollar weakens against the respective currency. For a strengthening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and equity and the balances below would be negative.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. FINANCIAL INSTRUMENTS (CONT.)

#### 10% Increase

	2022	2021
	\$	\$
Profit/(loss) and equity – GBP	(49,411)	48,672
Profit/(loss) and equity – EUR	(368,363)	(1,410)
	<u>(417,774)</u>	<u>47,262</u>

#### 10% Decrease

	2022	2021
	\$	\$
Profit/(loss) and equity – GBP	49,411	(48,672)
Profit/(loss) and equity – EUR	368,363	1,410
	<u>417,774</u>	<u>(47,262)</u>

#### Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings (see Note 1 for going concern statement).

*Interest rate risk is not material to the Group.*

### 21. ACQUISITIONS

On 19 March 2021 Health House International Limited (Health House or HHI), formerly VPCL Limited completed the acquisition of Health House Holdings Limited, issuing 115,298,743 shares in the Company to the Health House vendors as consideration for the acquisition and 3,458,961 shares to advisors (the Acquisition). The Company changed its name to Health House International Limited following shareholder approval received at the Company's general meeting of shareholders held on 29 January 2021 and also changed its ASX name and code to Health House International Limited (ASX:HHI) effective from 24 March 2021.

Health House was reinstated to Official Quotation and commenced trading on the ASX on Friday, 16 April 2021, following its re-compliance with Chapters 1 and 2 of the ASX Listing Rules and successful completion of a public offer to raise \$3,500,000 (before costs).

Upon completion of the Acquisition, David Wheeler was appointed as Executive Chairman from Non-Executive Director, the Hon Michael Rann was appointed Non-Executive Director, with Christopher Mews continuing as a Non-Executive Director. Christopher Mews stepped down as Company Secretary with Tim Slate being appointed as Company Secretary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. ACQUISITIONS (CONT.)

Leanne Graham stepped down as Non-Executive Director and Chair.

On 11 May 2021, Health House International Limited announced the acquisition of 100% of the issued capital of CanPharma.

CanPharma is a Germany based pharmaceutical distribution business focussed on medicinal cannabis. CanPharma is a licenced manufacturer, pharmaceutical wholesale company and a licenced narcotic drug dealer under German legislation. CanPharma also has an office in Barcelona.

The company distributes cannabis flowers and extracts and provides expertise for testing and analysing medicinal cannabis products. It currently has a low volume of sales as set out below.

The transaction was completed on 10 August 2021.

Upon completion of the CanPharma acquisition, Dr Henrik Sprengel was appointed as Executive Director and Mr David Attwood was appointed as Chief Executive Officer.

Consideration transferred

The key terms of the acquisition of CanPharma are set out below:

- (a) Health House International Limited issued 11,753,061 fully paid ordinary shares to the vendors of CanPharma;
- (b) Health House International Limited issued 36 million Performance Shares; and
- (c) Health House International Limited issued 6,246,939 fully paid ordinary shares to settle certain debts owed by CanPharma to related parties of CanPharma.

On 20 August 2021, Health House International Limited issued 0.9 million Performance Shares and 0.45 million fully paid ordinary shares to Gemelli Nominees Pty Ltd ("Gemelli") as an introduction fee related to the Proposed Transaction.

Performance Shares

A total of 36.9 million Performance Shares were issued, as follows:

	Management CanPharma	Consideration Vendors of CanPharma	Introduction Fee Gemelli Nominees
Class A Performance Shares	-	12,000,000	300,000
Class B Performance Shares	6,000,000	6,000,000	300,000
Class C Performance Shares	12,000,000	-	300,000

The terms of the Performance Shares are set out below:

	Revenue Hurdle	Type of Revenue	Period of Revenue
Class A Performance Shares	€5,000,000	Cumulative	2 years
Class B Performance Shares	€10,000,000	Cumulative	2 years
Class C Performance Shares	€15,000,000	Cumulative	2 years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. ACQUISITIONS (CONT.)

Based on the table above, the Performance Shares will convert to ordinary fully paid shares if CanPharma generates cumulative revenue over a 2-year period from the Completion Date. The Completion Date is the date of approval by Health House International Limited shareholders.

The Performance Shares do not have rights to any of the following:

- a) Voting rights in Health House International Limited;
- b) Dividend rights in Health House International Limited;
- c) No rights to surplus profits or assets;
- d) No right to a return of capital;
- e) The Performance Shares are non-transferrable; and
- f) No right to participate in entitlements and bonus issues.

The Performance Shares do contain a “change of control” provision which means if there is a change of control event for Health House International Limited then the milestones will be deemed to have been met and the Performance Shares will automatically convert into shares at the date of the change in control event.

The Group has recognised the fair values of the identifiable assets and liabilities of CanPharma based upon the best information available as of the reporting date.

#### *Assets acquired and liabilities assumed:*

	\$
Cash and cash equivalents	305,588
Inventory	52,188
Intangibles	155,672
Property, plant and Equipment	45,221
Trade and other receivables	434,328
Trade and other payables	(6,115,248)
Net Liabilities assumed	(5,122,251)
Share-based payment	(3,657,000)
Acquisition date fair value of the excess over total consideration transferred	(8,779,251)

#### *Net cash inflow arising on acquisition*

	\$
Cash paid	-
Less: net cash acquired with the subsidiary	305,588
Net cash inflow	305,588
Goodwill Acquired / impaired	8,779,251

The goodwill has been fully impaired as internal reporting, including detailed budget and cashflow forecasts, indicate negative performance from the operations in Germany and Spain.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. ACQUISITIONS (CONT.)

If the acquisition was completed on 1 July it would have made an immaterial difference to Group loss for the year.

### 22. EARNINGS PER SHARE

	2022 \$	2021 \$
(a) (Loss) used in the calculation of basic and dilutive loss per share	(16,958,770)	(5,307,296)
<b>Basic loss per Share</b>	<b>Number of Shares</b>	<b>Number of Shares</b>
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share:	175,566,658	122,931,096
Basic (loss) per share	(0.09)	(0.04)
<b>Diluted loss per Share</b>	<b>Number of Shares</b>	<b>Number of Shares</b>
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted loss per share:	175,566,658	122,931,096
Diluted (loss) per share	(0.09)	(0.04)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. CASH FLOW INFORMATION

#### Reconciliation of net cash flow used in operating activities with profit / (loss) after income tax

	2022 \$	2021 \$
(Loss) for year	(16,958,770)	(5,307,296)
Cash flows in operating (loss)/profit classified as investing activities		
Non-cash flows in operating (loss)/profit		
- Share based payments	1,027,259	1,845,000
- Finance charges	133,200	55,086
- Depreciation and amortisation	589,384	532,219
- Impairment	8,779,251	-
- Income tax benefit	(47,799)	(15,276)
Cash flows not in operating (loss)/profit		
Changes in assets and liabilities:		
- (Increase)/Decrease in trade and other receivables	(440,900)	(221,061)
- (Increase)/Decrease in inventory	(463,420)	352,519
- Increase/(Decrease) in trade payables and other accruals	3,302,129	367,731
<b>Net cash used in operating activities</b>	<b>(4,079,666)</b>	<b>(2,391,078)</b>

#### Change in liabilities arising from financing liabilities

	Notes	Lease liability	Loans	Total
Balance at 1 July 2020		<b>140,734</b>	<b>469,332</b>	<b>610,066</b>
Acquisition of leases / loans		671,231	570,752	1,241,983
Repayments		(234,301)	(148,732)	(383,033)
Interest paid		24,477	6,159	30,636
Other adjustments		(9,279)	(22,417)	(31,696)
<b>Balance at 30 June 2021</b>		<b>592,862</b>	<b>875,094</b>	<b>1,467,956</b>
Acquisition of leases / loans		-	1,803,654	1,803,654
Repayments		(193,529)	(1,514,588)	(1,708,117)
Interest paid		7,531	90,508	98,039
Loans acquired on acquisition		-	3,591,185	3,591,185
Other adjustments – non cash		25,776	353,828	379,604
<b>Balance at 30 June 2022</b>		<b>432,640</b>	<b>5,199,681</b>	<b>5,632,321</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****24. AUDITORS REMUNERATION**

	<b>2022</b>	<b>2021</b>
	\$	\$
The auditors of the Company are PKF Littlejohn LLP (UK) / HLB Mann Judd WA Partnership (AUS)		
Remuneration of the auditor for:		
Auditing or reviewing the financial report – HLB Mann Judd (WA) Partnership (AUS)	81,262	30,000
Auditing or reviewing the financial report – PKF Littlejohn (UK)	64,802	89,392
Auditing of reviewing the financial report – Treuhand (Germany and Spain)	15,186	-
	<u>161,250</u>	<u>119,392</u>

**25. PARENT ENTITY INFORMATION**

The individual financial statements for the parent entity show the following aggregate amounts. The information presented has been prepared using accounting policies as disclosed in Note 1.

	<b>2022</b>	<b>2021</b>
	\$	\$
<b>Financial Position</b>		
Current assets	144,339	5,177,147
Non-current assets	124,993	1,317,671
Total assets	269,332	6,494,818
Current liabilities	(2,013,824)	(317,620)
Non-current liabilities	-	(119,188)
Total liabilities	(2,013,824)	(436,808)
Net Liability	(1,744,492)	6,058,010
Issued capital	(21,464,938)	(19,236,538)
Reserves	2,028,187	4,642,487
Accumulated losses	21,181,243	8,536,041
	<u>1,744,492</u>	<u>(6,058,010)</u>
<b>Financial Performance</b>		
Loss for the year	(12,645,202)	(8,536,041)
Total comprehensive loss	(21,181,243)	(8,536,041)

As at the 30 June 2022 the Company did not have any contingent liabilities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. INTERESTS IN SUBSIDIARY

The consolidated financial statements include the financial statements of Health House International Ltd and the subsidiaries in the following table.

	Country of Incorporation	% Equity Interest	
		2022	2021
HHI (Australia) Pty Ltd	Australia	100%	100%
Health House Australia Pty Ltd	Australia	100%	100%
CliniCann Limited	Australia	100%	100%
Health House Pharma Limited	UK	100%	100%
Health House Holdings Limited	UK	100%	100%
Health House Distribution UK Limited	UK	100%	100%
HHP Malta (P&D Pharma) Limited	Malta	100%	100%
THCinol/CBDinol CanPharma GmbH	Germany	100%	-
Kalapa Deutschland GmbH	Germany	100%	-
Kalapa Clinic S.L.	Spain	100%	-

### 27. RELATED PARTY INFORMATION

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

#### Transactions with director related entities:

Pathways Corporate Pty Ltd, a company of which Mr David Wheeler is a Director, charged the Group Rent of \$18,000 (2021: \$4,000) during the year on normal commercial terms and conditions. At balance date \$nil (2021: \$1,500) remained payable.

Grupo HS3 S.L., KSK Labs S.L., Lemongrass SL and Brank-worx SL, Spanish limited companies of which Dr. Henrik Sprengel has a relevant interest, since the acquisition of CanPharma has charged the Group €152,505 (2021: \$nil) for rent and professional services. At balance date (30 June 2022) €81,756 (2021: \$nil) remained payable.

During the period, Director Henrik Sprengel and his related parties received the following ordinary and performance shares in relation to the acquisition of CanPharma GmbH :

	#	Grant date fair value	Value
Equity and debt consideration shares	9,517,500	0.115	1,094,513
Performance Shares – Class A <sup>1</sup>	6,345,000	0.115	729,675
Performance Shares – Class B <sup>2</sup>	5,572,500	0.115	640,838
Performance Shares – Class C <sup>3</sup>	4,800,000	0.115	552,000
<b>Total</b>	<b>26,235,000</b>		<b>3,017,026</b>

<sup>1</sup> Conditions associated with class A shares were assessed as having 100% probability of being achieved.

<sup>2</sup> Conditions associated with class B shares were assessed as having 100% probability of being achieved.

<sup>3</sup> Conditions associated with class C shares were assessed as having 100% probability of being achieved.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. RELATED PARTY INFORMATION (CONT.)

During the period, CFO David Attwood received the following performance shares in relation to the acquisition of CanPharma GmbH :

	#	Grant date fair value	Value
Equity and debt consideration shares	1,608,660	0.115	184,996
Performance Shares – Class A <sup>1</sup>	1,072,440	0.115	123,331
Performance Shares – Class B <sup>2</sup>	2,936,220	0.115	337,665
Performance Shares – Class C <sup>3</sup>	4,800,000	0.115	552,000
<b>Total</b>	<b>10,417,320</b>		<b>1,197,992</b>

<sup>1</sup> Conditions associated with class A shares were assessed as having 100% probability of being achieved.

<sup>2</sup> Conditions associated with class B shares were assessed as having 100% probability of being achieved.

<sup>3</sup> Conditions associated with class C shares were assessed as having 100% probability of being achieved.

Refer Note 21 for further details.

### 28. SHARE BASED PAYMENTS

Options	Number	Grant date	Expiry date	Exercise Price	Vesting expense for year	Expiry date
				\$	\$	\$
Employee options	5,000,000	19 Oct 2021	24 Jun 2024	0.20 - 1.33	43,309	24 Jun 2024
Zelira Options	3,289,946	28 June 2022	28 June 2025	0.010	19,314	28 June 2025

The following share-based payment arrangements were in place during the period:

Performance shares	Number	Grant date	Expiry date	Value at grant date	Vesting expense for year	Vesting date
				\$	\$	\$
Issue to CanPharma MGMT (on going services) <sup>1</sup>	18,000,000	10 Aug 2021	10 Aug 2023	2,070,000	918,740	10 Aug 2023
Introductory services on CanPharma acquisition <sup>2</sup>	900,000	10 Aug 2021	10 Aug 2023	103,500	45,937	10 Aug 2023
Issue of CanPharma Acquisition – VENDORS <sup>3</sup>	18,000,000	10 Aug 2021	24 April 2023	1,587,000	1,587,000	24 April 2023

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 28. SHARE BASED PAYMENTS (CONT.)

<sup>1</sup> Amounts relate to 6,000,000 Class B performance shares and 12,000,000 Class C performance shares.

<sup>2</sup> Amounts relate to 300,000 Class A performance shares, 300,000 Class B performance shares and 300,000 Class C performance shares.

<sup>3</sup> Amounts relate to 12,000,000 Class A performance shares and 6,000,000 Class B performance shares.

Performance shares:

The fair value of performance shares was determined as the CanPharma acquisition date market price for HHI shares being \$0.115 per share.

Options:

The fair value of the options granted during the period are estimated as at the date of grant using an option pricing model taking into account the terms and conditions upon which the performance rights were granted as follows:

	Employee Options	Zelira Options
Dividend yield (%)	0%	0%
Expected volatility (%)	67%	1.0087%
Risk-free interest rate (%)	0.95%	3.86%
Expected life of option (years)	3	3
Exercise price (cents)	0.20 – 1.33	0.010
Grant date share price (cents)	0.105	0.012

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

### 29. EVENTS SUBSEQUENT TO REPORTING DATE

The following occurred after the Balance Date:

#### *Scheme Implementation Deed*

On 21 November 2022, executed the scheme implementation deed pursuant to which Creso proposes to acquire Health House by way of a scheme of arrangement (Transaction and Scheme).

Health House believes that by joining the Creso group, the combined business will create an organisation with strong medicinal cannabis product and distribution capabilities.

The Transaction will result in Creso issuing Health House shareholders Scheme Consideration of 80,939,256 Creso shares and 20,234,814 Creso options expiring four years after the date of issue and exercisable at \$0.08, which may be further reduced subject to certain debts outstanding at the Implementation Date.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29. EVENTS SUBSEQUENT TO REPORTING DATE (CONT.)**

The Scheme is not subject to finance and is subject only to conditions and provisions customary for transactions of this type, including exclusivity arrangements (with relevant fiduciary carve outs) and provisions for payment of break fees of \$100,000 in certain circumstances, no material adverse change, court approval, and the requisite Health House shareholder approval.

The Scheme is subject to Health House shareholder approval to be sought at a general meeting which is expected to be convened in February 2023.

*Creso Facility Agreement*

On 5 September 2022, the Company entered into the Debt Facility for \$700,000, which was increased on \$3,400,000 on 21 November 2022, which will be used to as follows:

- \$1,050,000 – already advanced to Health House for working capital purposes;
- in accordance with the terms of a deed of settlement between Health House, Creso and Zelira (Zelira Deed):
  - \$550,000 – paid to Zelira Therapeutics Limited (Zelira) in cash (in partial settlement of a debt owing by Health House to Zelira); and
  - \$800,000 – comprised of Creso Shares to be issued to Zelira in partial satisfaction of a debt owing by Health House to Zelira, subject to approval of Creso's shareholders; if Creso shareholder approval is not obtained on or prior to 31 December 2022, Health House will remain liable to Zelira to repay this amount;
- \$400,000 – assumed debt obligation of Health House to Celtic Capital Pty Ltd (Celtic) in accordance with a deed of settlement between Health House, Creso and Celtic; and
- up to \$450,000 – additional funding for Health House's general corporate purposes and working capital.

*Convertible Note issue*

On 5 September 2022, Health House has also raised \$400,000 via the issue of a convertible note (Note). The Note was used to repay \$400,000 to Zelira Therapeutics Limited (ASX:ZLD).

The Note had a term of one (1) year and is convertible into ordinary shares of the Company at the lesser of \$0.01 per share (representing a 20% discount to Company's current share price) or 80% of the issue price of the most recent capital raising undertaken by the Company prior to conversion. The Note carries a 10% per quarter coupon payable in advance.

The Note was settled as part of the increase of the Creso Facility Agreement.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29. EVENTS SUBSEQUENT TO REPORTING DATE (CONT.)***Sale of CanPharma*

On 16 November 2022, Health completed the sale of CanPharma GmbH (CanPharma) to Ms Sabine Jacker. The sale of CanPharma removed actual and contingent liabilities of approx. €2,887,000 (AUD\$4,456,000) from the Health House group's balance sheet.

There were no significant changes in the state of affairs other than that disclosed above.

**30. CONTINGENCIES**

As at the 30 June 2022 the Company did not have any contingent liabilities.

**DIRECTORS' DECLARATION**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



David Wheeler  
Chairman

Dated at Perth this 22 day of December 2022

**INDEPENDENT AUDITOR'S REPORT**

To the Members of Health House International Limited

**Report on the Audit of the Financial Report***Opinion*

We have audited the financial report of Health House International Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

*Material Uncertainty Related to Going Concern*

We draw attention to Note 1(c) in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern*, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Key Audit Matter	How our audit addressed the key audit matter
<b>Recoverable amount of goodwill</b>	
Refer to Note 14	
<p>The carrying amount of goodwill of \$1,365,034, recognised on acquisition of CliniCann Limited in a prior year is required to be tested for impairment annually in accordance with AASB 138 <i>Intangible Assets</i> and AASB 136 <i>Impairment of Assets</i>.</p> <p>It is due to size, complexity and judgement involved that this is considered a key audit matter.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>- We assessed the appropriateness of the allocated cash generating units;</li> <li>- We assessed the appropriateness of the methodology in the value in use model and the basis for key assumptions;</li> <li>- We assessed the value in use model for consistency with the requirements of Australian Accounting Standards;</li> <li>- We performed sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the value in use model;</li> <li>- We reviewed the mathematical accuracy of the model;</li> <li>- We compared the discounted cash flow value to the carrying amount of assets comprising the cash-generating unit;</li> <li>- We considered whether the assets comprising the cash-generating unit had been correctly allocated;</li> <li>- We assessed the reasonableness of forecast cash flows;</li> <li>- We considered the appropriateness of the discount rate used; and</li> <li>- We assessed the adequacy of the disclosures made in the financial report.</li> </ul>
<b>Acquisition of CanPharma GmbH</b>	
Refer to note 21	
<p>During the year, Health House International Limited acquired 100% of the issued capital of CanPharma GmbH.</p> <p>The transaction is a business combination and is recognised and measured in accordance with AASB 3 <i>Business Combinations</i>.</p> <p>No goodwill was recognised in relation to the acquisition as internal reporting, including detailed budget and cashflow forecasts, indicated negative performance from the operations of Germany and Spain. The excess of consideration over net liabilities assumed was immediately recognised in profit or loss.</p> <p>Accounting for this transaction and the disclosure requirements are sufficiently complex, requiring assumptions and judgements in determine the fair value of the consideration paid and net assets acquired.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>- We reviewed the relevant agreements in order to gain an understanding of the key terms and conditions of the transaction;</li> <li>- We reviewed management's assessment of the fair value of the gross consideration paid, and agreed the assessment to the relevant supporting information ;</li> <li>- We ensured that the acquisition date assets and liabilities of were fairly stated; and</li> <li>- We assessed the adequacy of the Group's disclosures in respect to this transaction.</li> </ul>



### *Information Other than the Financial Report and Auditor's Report Thereon*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Health House International Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**HLB Mann Judd**  
**Chartered Accountants**

**Perth, Western Australia**  
**22 December 2022**



**D I Buckley**  
**Partner**

## CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement is current as at 22 December 2022 and has been approved by the Board of the Company.

This Corporate Governance Statement discloses the extent to which the Company will follow the recommendations set by the ASX Corporate Governance Council in its *Corporate Governance Principles and Recommendations 4<sup>th</sup> Edition* (Recommendations). The Recommendations are not mandatory, however the Recommendations that will not be followed have been identified and reasons for not following them, along with what (if any) alternative governance practices have been adopted in lieu of the Recommendation.

The Company has adopted Corporate Governance Policies which provide written terms of reference for the Company's corporate governance practices. The Board of the Company has not yet formed an audit committee and risk management committee.

The Company's Corporate Governance Policies are available on the Company's website at [www.healthhouse.com.au](http://www.healthhouse.com.au)

### ***Principle 1: Lay solid foundations for management and oversight***

#### ***Roles of the Board & Management***

The Board is responsible for evaluating and setting the strategic direction for the Company, establishing goals for management and monitoring the achievement of these goals. The Chief Executive Officer (or equivalent) is responsible to the Board for the day-to-day management of the Company.

The principal functions and responsibilities of the Board include, but are not limited to, the following:

- Appointment, evaluation and, if necessary, removal of the Chief Executive Officer, any other executive directors, the Company Secretary and the Chief Financial Officer and approval of their remuneration;
- Determining, in conjunction with management, corporate strategy, objectives, operations, plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- Establishing appropriate levels of delegation to the Chief Executive Officer to allow the business to be managed efficiently;
- Approval of remuneration methodologies and systems;
- Monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level to understand at all times the financial and operating conditions of the Company;
- Monitoring the performance of senior management, including the implementation of strategy and ensuring appropriate resources are available;
- Identifying areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- Overseeing the management of safety, occupational health and environmental issues;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately;
- Ensuring that appropriate internal and external audit arrangements are in place and operating effectively;
- Authorising the issue of any shares, options, equity instruments or other securities within the constraints of the Corporations Act and the ASX Listing Rules; and
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the

Company has adopted, and that its practice is consistent with, a number of guidelines including:

- Code of Conduct;
- Continuous Disclosure Policy;
- Diversity Policy;
- Performance Evaluation Policy;
- Procedures for Selection and Appointment of Directors;
- Remuneration Policy;
- Risk Management and Internal Compliance and Control Policy.
- Securities Trading Policy; and
- Shareholder Communications Policy.

Subject to the specific authorities reserved to the Board under the Board Charter, the Board delegates to the Chief Executive Officer responsibility for the management and operation of Health House International. The Chief Executive Officer is responsible for the day-to-day operations, financial performance and administration of Health House International within the powers authorised to him from time-to-time by the Board. The Chief Executive Officer may make further delegation within the delegations specified by the Board and will be accountable to the Board for the exercise of those delegated powers.

Further details of Board responsibilities, objectives and structure are set out in the Board Charter on the Health House International website.

#### **Board Committees**

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate committees at this time including audit, risk, remuneration or nomination committees, preferring at this stage of the Company's development, to manage the Company through the full Board of Directors. The Board assumes the responsibilities normally delegated to the audit, risk, remuneration and nomination Committees.

If the Company's activities increase, in size, scope and nature, the appointment of separate committees will be reviewed by the Board and implemented if appropriate.

#### **Board Appointments**

The Company undertakes comprehensive reference checks prior to appointing a director, or putting that person forward as a candidate to ensure that person is competent, experienced, and would not be impaired in any way from undertaking the duties of director. The Company provides relevant information to shareholders for their consideration about the attributes of candidates together with whether the Board supports the appointment or re-election.

The terms of the appointment of a non-executive director, executive directors and senior executives are agreed upon and set out in writing at the time of appointment.

#### **The Company Secretary**

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board, including agendas, Board papers and minutes, advising the Board and its Committees (as applicable) on governance matters, monitoring that the Board and Committee policies and procedures are followed, communication with regulatory bodies and the ASX and statutory and other filings.

#### **Diversity**

The Board has adopted a Diversity Policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender, age, ethnicity and cultural diversity.

The Diversity Policy allows the Board to set measurable gender diversity objectives (if considered appropriate) and to assess annually both the objectives (if any have been set) and the Company's progress towards achieving them.

The Board considers that, due to the size, nature and stage of development of the Company, setting measurable objectives for the Diversity Policy at this time is not appropriate. The Board will consider setting measurable objectives as the Company increases in size and complexity.

The participation of women in the Company at the date of this report is as follows:

- |  |     |
|--|-----|
| • Women employees in the Company       | 59% |
| • Women in senior management positions | 27% |
| • Women on the Board                   | 0%  |

The Company's Diversity Policy is available on its website.

### **Board & Management Performance Review**

On an annual basis, the Board conducts a review of its structure, composition and performance.

The annual review includes consideration of the following measures:

- comparing the performance of the Board against the requirements of its Charter;
- assessing the performance of the Board over the previous 12 months having regard to the corporate strategies, operating plans and the annual budget;
- reviewing the Board's interaction with management;
- reviewing the type and timing of information provided to the Board by management;
- reviewing management's performance in assisting the Board to meet its objectives; and
- identifying any necessary or desirable improvements to the Board Charter.

The method and scope of the performance evaluation will be set by the Board and may include a Board self-assessment checklist to be completed by each Director. The Board may also use an independent adviser to assist in the review.

The Chairman has primary responsibility for conducting performance appraisals of Non-Executive Directors, in conjunction with them, having particular regard to:

- contribution to Board discussion and function;
- degree of independence including relevance of any conflicts of interest;
- availability for and attendance at Board meetings and other relevant events;
- contribution to Company strategy;
- membership of and contribution to any Board committees; and
- suitability to Board structure and composition.

Given, the size of the Board, the changes to the composition of the Board in May 2021 and the current level of operations of the Company, no formal appraisal of the Board was conducted during the financial year.

The Board conducts an annual performance assessment of the Chief Executive Officer against agreed key performance indicators.

### **Independent Advice**

Directors have a right of access to all Company information and executives. Directors are entitled, in fulfilling their duties and responsibilities, to obtain independent professional advice on any matter connected with the discharge of their responsibilities, with prior notice to the Chairman, at Health House International's expense.

## ***Principle 2: Structure the board to be effective and add value***

### ***Board Composition***

During the financial year and to the date of this report the Board was comprised of the following members:

Name	Position	Length of Service
David Wheeler	Chairman	2 year and 7 months
Christopher Mews	Non-Executive Director	4 years and 5 months
Hon Michael Rann	Non-Executive Director	1 year and 8 months

The Board currently consists of two Executive and two Non-Executive Directors.

Health House International Limited has adopted a definition of 'independence' for Directors that is consistent with the Recommendations. Mr Chris Mews and Hon Michael Rann are considered to be independent directors.

### ***Board Selection Process***

The Board considers that a diverse range of skills, backgrounds, knowledge and experience is required in order to effectively govern Health House International Limited. The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review.

The Board is responsible for the nomination and selection of directors. The Board reviews the size and composition of the Board regularly and at least once a year as part of the Board evaluation process.

The Group does not have an established board skills matrix on the mix of skills and diversity for Board membership. The Board continues to monitor the mix of skills and diversity on the Board however, due to the size of the Group, the Board does not consider it appropriate at this time to formally set matrix on the mix of skills and diversity for Board membership

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The Charter of the Remuneration and Nomination Committee can be found on the Company's website at [www.healthhouse.com.au](http://www.healthhouse.com.au)

### ***Induction of New Directors and Ongoing Development***

New Directors are issued with a formal Letter of Appointment that sets out the key terms and conditions of their appointment, including Director's duties, rights and responsibilities, the time commitment envisaged, and the Board's expectations regarding involvement with any Committee work.

An induction program is in place and new Directors are encouraged to engage in professional development activities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

## ***Principle 3: Instil a culture of acting lawfully, ethically and responsibly***

The Company's values can be found on the Company's website at [www.healthhouse.com.au](http://www.healthhouse.com.au).

The Company has implemented a Code of Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- maintain high levels of professional conduct;
- respect confidentiality and not misuse Company information, assets or facilities;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Conduct may face disciplinary action including, in the cases of serious breaches, dismissal. If an employee suspects that a breach of the Code of Conduct has occurred or will occur, he or she must report that breach to the Company Secretary. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

The Company has adopted a Whistleblower Protection Policy and an Anti-Bribery and Corruption Policy, both of which can be found on the Company's website at [www.healthhouse.com.au](http://www.healthhouse.com.au). The Board is informed of any material incidents under both policies.

#### **Principle 4: Safeguard the integrity of corporate reports**

The Board as a whole fulfils the functions normally delegated to the Audit Committee as detailed in the Audit Committee Charter.

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Board receives regular reports from management and from external auditors. It also meets with the external auditors as and when required.

The external auditors attend Health House International' AGM and are available to answer questions from security holders relevant to the audit.

Prior approval of the Board must be gained for non-audit work to be performed by the external auditor. There are qualitative limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the audit partner responsible for the audit not perform in that role for more than five years.

#### **CEO and CFO Certifications**

The Board, before it approves the entity's financial statements for a financial period, receives from its CEO and CFO (or, if none, the persons fulfilling those functions) a declaration provided in accordance with Section 295A of the Corporations Act that, in their opinion, the financial records of the entity have been

properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Prior the Board resolving to release any periodic corporate report to the market that is not audited or reviewed by an external auditor, the Board is provided with the corporate report, supporting working papers for review and the s295A Corporations Act declaration. The Board is provided an opportunity to query and verify the corporate report.

#### **Principle 5: Make timely and balanced disclosure**

The Company has a Continuous Disclosure Policy which outlines the disclosure obligations of the Company as required under the ASX Listing Rules and Corporations Act. The policy is designed to ensure that procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which Company securities are traded.

The Board considers whether there are any matters requiring disclosure in respect of each and every item of business that it considers in its meetings. Individual Directors are required to make such a consideration when they become aware of any information in the course of their duties as a Director of the Company.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company.

The Board has designated the Company Secretary as the person responsible for communicating with the ASX. The Chairman, Chief Executive Officer and the Company Secretary are responsible for ensuring that:

- a) Company announcements are made in a timely manner, that announcements are factual and do not omit any material information required to be disclosed under the ASX Listing Rules and Corporations Act; and
- b) Company announcements are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

#### **Principle 6: Respect the rights of security holders**

The Company recognises the value of providing current and relevant information to its shareholders.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, the company website, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to clear and understandable information about the Company; and
- making it easy for shareholders to participate in general meetings of the Company.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company. These contact details are available on the “contact us” page of the Company’s website.

Shareholders may elect to, and are encouraged to, receive communications from Health House International and Health House International’ securities registry electronically.

The Company maintains information in relation to its Constitution, governance documents, Directors and senior executives, Board and committee charters, annual reports and ASX announcements on the Company’s website.



The Company ensures that all resolutions at a meeting of shareholders are decided by a poll rather than by a show of hands.

**Principle 7: Recognise and manage risk**

The Board is committed to the identification, assessment and management of risk throughout Health House International' business activities.

The Board is responsible for the oversight of the Company's risk management and internal compliance and control framework. The Company does not have an internal audit function. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Chief Executive Officer having ultimate responsibility to the Board for the risk management and internal compliance and control framework. Health House International has established policies for the oversight and management of material business risks.

Health House International' Risk Management and Internal Compliance and Control Policy recognises that risk management is an essential element of good corporate governance and fundamental in achieving its strategic and operational objectives. Risk management improves decision making, defines opportunities and mitigates material events that may impact security holder value.

Health House International believes that explicit and effective risk management is a source of insight and competitive advantage. To this end, Health House International is committed to the ongoing development of a strategic and consistent enterprise wide risk management program, underpinned by a risk conscious culture.

Health House International accepts that risk is a part of doing business. Therefore, the Company's Risk Management and Internal Compliance and Control Policy is not designed to promote risk avoidance. Rather Health House International' approach is to create a risk conscious culture that encourages the systematic identification, management and control of risks whilst ensuring we do not enter into unnecessary risks or enter into risks unknowingly.

Health House International assesses its risks on a residual basis; that is it evaluates the level of risk remaining and considering all the mitigation practices and controls. Depending on the materiality of the risks, Health House International applies varying levels of management plans.

The Board has required management to design and implement a risk management and internal compliance and control system to manage Health House International' material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure. The Company faces risks inherent to its business, including economic risks, which may materially impact the Company's ability to create or preserve value for security holders over the short, medium or long term.

The Company has in place policies and procedures, including a risk management framework (as described in the Company's Risk Management and Internal Compliance and Control Policy), which is developed and updated to help manage these risks. The Board does not consider that the Company currently has any material exposure to environmental or social sustainability risks.

The Company's process of risk management and internal compliance and control includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect those risks.
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

The Board reviews the Company's risk management framework at least annually to ensure that it continues to effectively manage risk.

Management reports to the Board as to the effectiveness of Health House International's management of its material business risks on at each Board meeting.

#### **Principle 8: Remunerate fairly and responsibly**

The Board as a whole fulfils the functions normally delegated to the Remuneration Committee as detailed in the Remuneration Committee Charter.

Health House International has implemented a Remuneration Policy which was designed to recognise the competitive environment within which Health House International operates and also emphasise the requirement to attract and retain high calibre talent in order to achieve sustained improvement in Health House International's performance. The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Health House International.

The key principles are to:

- link executive reward with strategic goals and sustainable performance of Health House International;
- apply challenging corporate and individual key performance indicators that focus on both short-term and long-term outcomes;
- motivate and recognise superior performers with fair, consistent and competitive rewards;
- remunerate fairly and competitively in order to attract and retain top talent;
- recognise capabilities and promote opportunities for career and professional development; and
- through employee ownership of Health House International shares, foster a partnership between employees and other security holders.

The Board determines the Company's remuneration policies and practices and assesses the necessary and desirable competencies of Board members. The Board is responsible for evaluating Board performance, reviewing Board and management succession plans and determines remuneration packages for the Executive Director, Non-Executive Directors and senior management based on an annual review.

Health House International's executive remuneration policies and structures and details of remuneration paid to directors and senior managers (where appointed) are set out in the Remuneration Report.

Non-Executive Directors receive fees (including statutory superannuation where applicable) for their services, the reimbursement of reasonable expenses and, in certain circumstances options. They do not receive any termination or retirement benefits, other than statutory superannuation.

The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is \$500,000 per annum. The Directors set the individual Non-Executive Directors fees within the limit approved by shareholders. The total fees paid to Non-Executive Directors during the reporting period were \$106,140.

Executive directors and other senior executives (where appointed) are remunerated using combinations of fixed and performance-based remuneration. Fees and salaries are set at levels reflecting market rates and performance-based remuneration is linked directly to specific performance targets that are aligned to both short and long term objectives.

In accordance with the Company's Securities Trading Policy, participants in an equity based incentive scheme are prohibited from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in the Company's securities to any other person.

Further details in relation to the Company's remuneration policies are contained in the Remuneration Report, within the Directors' Report. The Charter of the Remuneration and Nomination Committee can be found on the Company's website at [www.healthhouse.com.au](http://www.healthhouse.com.au).

**ASX ADDITIONAL INFORMATION**

Additional information as required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is current as at 19 December 2022

**Distribution of equity security holders (number of holders)**

	1 1,000	– 1,001 – 5,000	5,001 10,000	– 10,001 – 100,000	100,001 and over	Total
Ordinary Shares	382	359	169	441	227	1,578
Performance Shares – Class A	-	-	-	9	15	24
Performance Shares – Class B	-	-	-	14	10	24
Performance Shares – Class C	-	-	-	-	4	4

There are 1,172 holders of shares holding less than a marketable parcel.

**Quoted equity securities as at 19 December 2022**

Equity Security	Quoted
Ordinary Shares	178,224,621

**Voting rights**

Ordinary shares carry one vote per share. There are no voting rights attached to the options in the Company.

**Unquoted Securities as at 19 December 2022**

The number of unquoted securities on issue as at 19 December 2022:

Unquoted Securities	Number on Issue	Vesting conditions
Performance Shares – Class A <sup>1</sup>	12,300,000	Converted into shares subject to CanPharma achieving cumulative revenues of €5,000,000 over 24 months from the date of Completion
Performance Shares – Class B <sup>2</sup>	12,300,000	Converted into shares subject to CanPharma achieving cumulative revenues of €10,000,000 over 24 months from the date of Completion
Performance Shares – Class C <sup>3</sup>	12,300,000	Converted into shares subject to CanPharma achieving cumulative revenues of €15,000,000 over 24 months from the date of Completion
Unquoted Options <sup>4</sup>	1,250,000	Vested immediately, exercisable at \$0.20 on or before 24 June 2024
Unquoted Options <sup>4</sup>	1,250,000	Vested immediately, exercisable at \$0.67 on or before 24 June 2024
Unquoted Options <sup>4</sup>	1,250,000	Vested immediately, exercisable at \$1.00 on or before 24 June 2024
Unquoted Options <sup>4</sup>	1,250,000	Vested immediately, exercisable at \$1.33 on or before 24 June 2024
Unquoted Options <sup>5</sup>	3,289,946	Vested immediately, exercisable at \$0.01 on or before 28 June 2025

Persons holding more than 20% of a given class of unquoted securities as at 19 December 2022:

1. 32% held by Henrik Sprengel
2. 35% held by Henrik Sprengel, 24% held by David Attwood
3. 39% held by Henrik Sprengel, 39% held by David Attwood
4. 100% held by Anthony Samios.
5. 100% held by Zelira Therapeutics Limited

**Restricted equity securities as at 19 December 2022**

The Company has the follow securities under ASX restricted escrow:

- 24,007,838 Fully paid ordinary shares escrowed until 16 April 2023
- 12,887,100 Fully paid ordinary shares escrowed until 24 April 2023
- 7,449,840 Class A Performance Shares escrowed until 24 April 2023
- 9,874,920 Class B Performance Shares escrowed until 24 April 2023
- 12,300,000 Class C Performance Shares escrowed until 24 April 2023

**Substantial shareholders as at 19 December 2022**

The Company has been notified of the following substantial shareholdings:

Mr Jason Peterson	17,336,651
Gemelli Nominees Pty Ltd	10,558,085
New Frontier Pty Ltd	9,214,573

**Twenty largest holders of quoted shares as at 19 December 2022**

	<u>Name</u>	<u>No. of Shares</u>	<u>%</u>
1	CITYSCAPE ASSET PTY LTD <CITYSCAPE FAMILY A/C>	13,459,365	7.55
2	GEMELLI NOMINEES PTY LTD <GEMELLI FAMILY A/C>	10,558,085	5.92
3	NEW FRONTIER PTY LTD	9,214,573	5.17
4	HENRIK SPRENGEL	5,816,250	3.26
5	THE TRUST COMPANY (AUSTRALIA) LIMITED <MBF A/C>	5,650,000	3.17
6	PATHWAYS CORP INVESTMENTS PTY LTD <THE PC INVESTMENTS ACCOUNT>	4,885,929	2.74
7	PEKSE PTY LTD <THE PEKSE A/C>	2,663,032	1.49
8	KERYN LEE REYNOLDS	2,663,032	1.49
9	DOZEMEI PTY LTD <LA REPUBBLICA VENEXIANA A/C>	2,500,000	1.40
10	GEES PHARMA LIMITED	2,166,666	1.22
11	PALLA NOMINEES PTY LTD <P C BLACKMAN S/F NO 2 A/C>	2,141,622	1.20
12	MR JOHN MURPHY	2,000,000	1.12
13	V & F TRUDA PTY LTD <VINCE TRUDA S/F A/C>	1,950,000	1.09
14	GOLDSTAKE CORPORATION PTY LTD	1,901,754	1.07
15	STEFAN JACKER	1,797,030	1.01
16	SILVER BIRCH CAPITAL CORPORATION	1,762,301	0.99
17	HOLGER SPRENGEL	1,712,340	0.96
18	DAVID ATTWOOD	1,608,660	0.90
19	CELTIC CAPITAL PTY LTD CELTIC CAPITAL NO 2	1,542,987	0.87
20	KURT SPRENGEL	1,502,820	0.84
	<b>TOTAL</b>	<b>81,996,446</b>	<b>46.01</b>

**Stock Exchange**

The Company is listed on the Australian Securities Exchange and has been allocated the code “HHI”. The “Home Exchange” is Perth.

### **Other information**

Health House International Limited, is incorporated and domiciled in Australia, and is a publicly listed company limited by shares.

### **On-market buy-back**

There is no current on-market buy-back.