

# Happy Valley Nutrition Limited

## Results for announcement to the market

For the year ended 30 June 2021

31 August 2021

Appendix 4E

Preliminary financial report for the year ended 30 June 2021 as required by ASX listing rule 4.3

### 1. Company details

Name of entity: Happy Valley Nutrition Limited

ARBN: 636 597 101

Reporting period: the year ended 30 June 2021

Previous period: the year ended 30 June 2020

### 2. Results for announcement to the market

	% Change	NZD 000's
Revenue including other income from ordinary activities	N/A	38
Loss from ordinary activities after tax attributable to the owners of Happy Valley Nutrition Limited	60%	(5,820)
Loss for the year attributable to the owners of Happy Valley Nutrition Limited	60%	(5,820)

### 3. Net tangible assets

	30 June 2021	30 June 2020
Net tangible assets per ordinary security	NZ cents 0.06	NZ cents 0.08

### 4. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

### 5. Statement of comprehensive income

Refer consolidated financial statements below

### 6. Statement of changes in equity

Refer consolidated financial statements below

### 7. Statement of financial position

Refer consolidated financial statements below

### 8. Statement of cash flows

Refer consolidated financial statements below

### 9. Details of entities over which control has been gained or lost during the period

Happy Valley Nutrition Limited incorporated a 100% wholly owned subsidiary, Five Redland Road Limited (FRRL) on 11 August 2020.

### 10. Details of associates and joint venture entities.

Nil

## Happy Valley Nutrition Limited

### Results for announcement to the market continued

For the year ended 30 June 2021

31 August 2021

Appendix 4E

#### 11. Accounting standards used in compiling the report.

The consolidated financial statements for the year ended 30 June 2021 have been prepared in accordance with generally accepted accounting practice. The consolidated financial statements comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards for profit-oriented entities.

#### 12. Audit status

The preliminary consolidated financial statements remain subject to completion of the audit by the company's auditor.

It is likely the audit report for the year ended 30 June 2021 will contain a material uncertainty related to going concern and an *Other Matter* paragraph noting the comparative period financial statements for the year ended 30 June 2020 were audited by another auditor who expressed an unmodified opinion.

The remainder of the information requiring disclosure in compliance with ASX listing rule 4.3A is contained in the accompanying 30 June 2021 preliminary financial report.

#### 13. Results for the period

Refer consolidated financial statements below

# Happy Valley Nutrition Limited

For the year ended 30 June 2021

## Table of Contents

Directors' report .....	4
Consolidated statement of comprehensive income.....	5
Consolidated statement of changes in equity .....	6
Consolidated statement of financial position.....	7
Consolidated statement of cash flows.....	8
Notes to the consolidated financial statements.....	9
1. Reporting entity .....	9
2. Basis of preparation.....	9
3. Significant judgements and estimates .....	10
4. Significant accounting policies and new accounting standard .....	10
5. Going concern.....	11
6. Group performance.....	12
7. Assets.....	13
8. Debt .....	15
9. Capital and financial risk management.....	21
10. Other information .....	25

# Happy Valley Nutrition Limited

## Directors' report

For the year ended 30 June 2021

The board of directors of Happy Valley Nutrition Limited (HVM) and its subsidiary (together, the Group) present their report, together with the financial statements, on the Group for the year ended 30 June 2021.

### Directors

The following persons held office as directors of HVM during the year ended 30 June 2021.

Ivan Hammerschlag	Chairman
David McCann	Director
Randolph van der Burgh	Director
Anthony Kahn	Director
Gregory Wood	Director and Chief Executive Officer

### Review of operations

Following significant progress on critical project development initiatives from the last financial year, it is pleasing to report the Group has achieved most project milestones in the year to 30 June 2021; including, signing binding conditional supply contracts with global strategic customers, commencement of earthworks, raising additional funds and completion of all remaining property acquisitions. These milestones satisfy the key pillars of the Group's growth plan, allowing the Group to focus on the main capital raise to construct and commission its state-of-the-art nutritional grade dairy processing facility in Otorohanga.

Some key highlights for the year include:

- New Zealand Overseas Investment Office (OIO) approval received in October 2020 for the purchase of farmland and investment in business assets of over NZD 100 million;
- commencement of the earthworks in December 2020 and significant development progress achieved;
- NZD20 million of debt funding and convertible note package secured, enabling the Group to progress site development and earthworks, and settle all outstanding farmland property purchases;
- purchase of the remaining target properties, including 297 hectares of farmland for the purposes of irrigation;
- consenting process progressed, including the land use consent for wastewater treatment on the newly acquired farms for irrigation purposes; the Group has now acquired all consents required for operation of the first dryer;
- GEA New Zealand Limited selected as our preferred supplier in June 2021, after receiving tenders from two global dairy equipment suppliers in March 2021;
- two binding, conditional contracts with global nutrition companies executed for the supply of nutritional powders manufactured at the Group's facility under development; representing up to 28% of the facility's capacity and demonstrating an important vote of confidence from our customers;
- continued positive engagement with dairy farmers in the King Country and Waikato region; the Group is well supported by the farming community and supplier base; positive feedback regarding key components of the milk supply strategy and offerings has been received, and this will strongly support our offtake agreement specifications once commercial operations commence.

In delivering the above milestones in the year to 30 June 2021, significant progress has been made towards each of the pillars of the Group's strategy, comprising customer certainty, milk supply, facility design and quality. While the Board believes these milestones build confidence for the Group's main capital raise, the current Covid-19 environment and related travel restrictions, has resulted in a decision to delay the project while the Group seeks to secure capital. The achievements during the past 12 months bring the Group a significant step closer to realisation of its vision of HVM as a trusted business-to-business supplier of high-quality nutritional dairy products, and the delay to the programme is a prudent financial measure.



Ivan Hammerschlag  
Chairman  
31 August 2021



Greg Wood  
CEO  
31 August 2021

## Happy Valley Nutrition Limited

### Consolidated statement of comprehensive income

For the year ended 30 June 2021

	Notes	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30 Jun-20 NZD (audited)
Other income	6.1	38,333	-
Indirect expenses	6.2	(3,158,520)	(4,364,804)
Depreciation expenses	6.2	(10,758)	(6,074)
Share-based transactions	8.5	(2,213,975)	(9,577,393)
Net finance cost	6.2	(474,687)	(690,325)
<b>Loss before income tax expense</b>		<b>(5,819,607)</b>	<b>(14,638,596)</b>
Income tax expense	10.5	-	-
<b>Net loss for the year after tax</b>		<b>(5,819,607)</b>	<b>(14,638,596)</b>
Other comprehensive income		-	-
<b>Total comprehensive income after tax attributable to owners of the Group</b>		<b>(5,819,607)</b>	<b>(14,638,596)</b>

  

		Year ended 30-Jun-21 NZD (unaudited)	Year ended 30 Jun-20 NZD (audited)
Earnings per share			
Basic (NZD per share)	6.3	(0.03)	(0.10)
Diluted (NZD per share)		(0.03)	(0.10)

## Happy Valley Nutrition Limited

### Consolidated statement of changes in equity

For the year ended 30 June 2021

	Notes	Share capital NZD	Share option reserve NZD	Accumulated losses NZD	Total NZD
<b>Balance at 1 July 2020</b>		<b>24,956,998</b>	<b>7,719,213</b>	<b>(15,741,396)</b>	<b>16,934,815</b>
Loss for the period		-	-	(5,819,607)	(5,819,607)
Total comprehensive loss for the period		-	-	(5,819,607)	(5,819,607)
Transactions with owners in their capacity as owners					
Share options reserve	8.5.1 & 6.2	-	2,213,975	-	2,213,975
Total contributions by and distributions to owners		-	2,213,975	-	2,213,975
<b>As at 30 June 2021 (unaudited)</b>		<b>24,956,998</b>	<b>9,933,188</b>	<b>(21,561,004)</b>	<b>13,329,181</b>

		Share capital NZD	Share option reserve NZD	Accumulated losses NZD	Total NZD
<b>Balance at 1 July 2019</b>		<b>2,384,000</b>	<b>-</b>	<b>(1,102,800)</b>	<b>1,281,200</b>
Loss for the period		-	-	(14,638,596)	(14,638,596)
Total comprehensive loss for the period		-	-	(14,638,596)	(14,638,596)
Transactions with owners in their capacity as owners					
Share capital issued - IPO proceeds		13,016,764	-	-	13,016,764
Share capital - IPO issue costs		(808,111)	-	-	(808,111)
Share options issued		-	7,719,213	-	7,719,213
Share based payment		1,858,180	-	-	1,858,180
Convertible debt converted upon IPO		8,506,165	-	-	8,506,165
Total contributions by and distributions to owners		22,572,998	7,719,213	-	15,653,615
<b>As at 30 June 2020 (audited)</b>		<b>24,956,998</b>	<b>7,719,213</b>	<b>(15,741,396)</b>	<b>16,934,815</b>

# Happy Valley Nutrition Limited

## Consolidated statement of financial position

As at 30 June 2021

	Notes	As at 30-Jun-21 NZD (unaudited)	As at 30-Jun-20 NZD (audited)
<b>Current assets</b>			
Cash and cash equivalents		6,137,562	9,280,325
Receivables		13,298	-
Other current assets	7.1	594,591	277,067
<b>Total current assets</b>		<b>6,745,451</b>	<b>9,557,392</b>
<b>Non-current assets</b>			
Property, plant and equipment	7.2	23,738,546	7,865,120
<b>Total non-current assets</b>		<b>23,738,546</b>	<b>7,865,120</b>
<b>TOTAL ASSETS</b>		<b>30,483,998</b>	<b>17,422,512</b>
<b>Current liabilities</b>			
Trade and other payables		(1,032,058)	(487,697)
Borrowings	8.1	(7,792,973)	-
<b>Total current liabilities</b>		<b>(8,825,030)</b>	<b>(487,697)</b>
<b>Non-current liabilities</b>			
Convertible note	8.1, 8.3	(5,472,872)	-
Embedded derivative liability	8.1, 8.3	(1,971,704)	-
Borrowings	8.1, 8.1	(885,210)	-
<b>Total non-current liabilities</b>		<b>(8,329,786)</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>(17,154,816)</b>	<b>(487,697)</b>
<b>NET ASSETS</b>		<b>13,329,182</b>	<b>16,934,815</b>
<b>Equity</b>			
Share capital	8.4	24,956,999	24,956,999
Share options reserve	8.5.1	9,933,188	7,719,213
Accumulated losses		(21,561,004)	(15,741,396)
<b>TOTAL EQUITY</b>		<b>13,329,182</b>	<b>16,934,815</b>

# Happy Valley Nutrition Limited

## Consolidated statement of cash flows

For the year ended 30 June 2021

	Notes	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
<b>Cash flows from operating activities</b>			
Loss before tax		(5,819,607)	(14,638,596)
Tax paid		-	-
<b>Net cashflows from operating activities</b>		<b>(5,819,607)</b>	<b>(14,638,596)</b>
<i>Add / (less) non-cash items</i>			
Depreciation expense		10,758	6,074
Share based payment expenses		2,213,975	9,577,393
Convertible note novation		-	534,600
Convertible note issue costs		96,270	-
Gain on fair value of financial liability and embedded derivatives		(605,605)	-
Development costs disposed / written off		139,407	
Derecognition of financial liability and embedded derivatives		-	1,001,997
Foreign exchange movements		(12,839)	54,470
Finance costs		502,815	769,769
<i>Changes in working capital</i>			
(Increase) / decrease in debtors / receivables		(13,298)	-
Increase in other current assets		(317,524)	(235,515)
Increase in accounts payable		24,760	58,691
<b>Net cash flows from operating activities</b>		<b>(3,780,889)</b>	<b>(2,871,117)</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment	7.2	(15,482,474)	(2,240,360)
<b>Net cash flows from investing activities</b>		<b>(15,482,474)</b>	<b>(2,240,360)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		-	13,016,764
Share issue costs		-	(808,111)
Direct costs paid on borrowings		(639,083)	-
Interest paid		(112,551)	-
Net proceeds from convertible notes and borrowings	8	16,872,234	801,900
<b>Net cash flows from financing activities</b>		<b>16,120,600</b>	<b>13,010,553</b>
		-	-
<b>Net (decrease) / increase in cash</b>		<b>(3,142,763)</b>	<b>7,899,077</b>
<b>Foreign exchange adjustment</b>		<b>-</b>	<b>19,086</b>
<b>Net (decrease) / increase in cash</b>		<b>(3,142,763)</b>	<b>7,918,163</b>
<b>Cash at beginning of the period</b>		<b>9,280,325</b>	<b>1,362,162</b>
<b>Cash at end of the period</b>		<b>6,137,562</b>	<b>9,280,325</b>



# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements

For the year ended 30 June 2021

### 1. Reporting entity

The financial statements for the year ended 30 June 2021 are for the consolidated group being Happy Valley Nutrition Limited (HVM or the Company) and its 100% owned subsidiary Five Redland Road Limited (FRRL) (together, the Group).

The Group is an ASX listed public company limited by shares, incorporated and domiciled in New Zealand. The Group's purpose is the development of a vertically integrated, formulaic milk processing, blending and packaging facility to produce infant milk formula and other nutritional products for sale in the global export markets.

The Group is a for profit entity and is registered in New Zealand under the Companies Act 1993.

The financial statements were authorised by the Board of Directors on 31 August 2021.

The comparative period is the year ended 30 June 2020. The comparative period was audited by another auditor who expressed an unmodified opinion.

### 2. Basis of preparation

#### 2.1 Statement of compliance

The financial statements for the year ended 30 June 2021 have been prepared in accordance with generally accepted accounting practice.

The financial statements comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

Certain comparative figures have been reclassified during the year for consistency with the current year presentation; these reclassifications have no effect on the reported operating results.

#### 2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis, except for certain items as identified in specific accounting policies.

#### 2.3 Foreign exchange transactions and translation

These financial statements are presented in New Zealand dollars (NZD), which is the Group's functional currency.

In the course of normal activities, the Group undertakes transactions in currencies other than the entity's functional currency (foreign currencies). Foreign currency transactions are recognised at the rate of exchange prevailing on the date of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value denominated in foreign currencies are translated at the rates prevailing at the date the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not retranslated.

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

#### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiary as at 30 June 2021.

Consolidation of a subsidiary commences on the Group obtaining control over that subsidiary and ceases when the Group loses control of the subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

The financial statements of the subsidiary is prepared for the same reporting period as the Company, using consistent accounting policies for the income and expenses of the subsidiary. In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

### 3. Significant judgements and estimates

The Group makes estimates and assumptions concerning the future in establishing the value of assets and liabilities. The resulting accounting estimates will, by definition, seldom equal the related actual results. Some of the estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are detailed below.

The Group has also made judgements regarding accounting policies and treatments with a significant impact on the amounts recognised in the consolidated financial statements.

#### 3.1 Key sources of estimation (valuation)

##### *Embedded derivatives*

The fair value of the embedded derivative liabilities was determined using assumptions and inputs to a binomial option pricing valuation model, including, estimated time to expiry of convertible debt instruments, the exercise price of AUD 0.20 based on the expected capital raise price at the time of recognition, risk free interest rate of 0.34% and assuming a 66.3% volatility. This volatility was based on similar companies within the industry at the same stage in their life cycle given HVM currently does not have trading history. Some of the inputs used, such as expected volatility are not market observable. Using different input estimates or models could produce different valuations, which would result in the recognition of a higher or lower fair value movement.

##### *Share-based payments*

Equity-settled share awards are recognised as an expense based on the fair value at grant date. The fair value of equity-settled shares and options is expensed over the vesting period and is estimated using the Black Scholes valuation model which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life.

Some of the inputs used, such as the expected volatility and expected option life, are not market observable. Using different input estimates or models could produce different option and share values, which would result in the recognition of a higher or lower expense, (refer note 7.5 for further details).

#### 3.2 Capitalisation and recoverability of development costs and land

Management exercises judgement in determining whether costs, such as professional and consulting fees, meet the criteria to be capitalised as development costs, (refer note 7.1).

Property, Plant and Equipment are also reviewed annually for indicators of impairment.

### 4. Significant accounting policies and new accounting standard

The significant accounting policies adopted in the preparation of these consolidated financial statements are disclosed within each of applicable note. The accounting policies have been consistently applied to all years presented. All mandatory amendments and interpretations have been adopted in the current year; none had a material impact on these financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2021. These have been assessed for applicability to the Group and Directors have concluded that they will not have a significant impact on future consolidated financial statements.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 5. Going concern

The financial statements have been prepared based on a going concern basis which assumes the Group will have sufficient cash to continue its operations and meet its obligations for at least 12 months from the date of signing the financial statements. The Directors believe the going concern assumption is valid, reaching such a conclusion after having regard to the circumstances they consider reasonably likely to affect the Group during the period of at least one year from the date the financial statements are approved. Because this view is dependent on the achievement of certain future milestones, there does however exist a material uncertainty in respect of going concern as outlined below.

#### Future milestones to be achieved before the first production

Milestones still to be achieved by the Group:

- Secure funding from the main capital raise, sufficient to fund working capital and complete construction of the facility;
- Secure agreements for milk supply on favourable commercial terms;
- Complete remaining earthworks and construction of the main process plant, followed by commissioning of the Facility within estimated timeframes and budgets;
- Continue to meet the requirements of OIO approvals and regional consents, or if necessary, gain any required amendments or extensions.

The Group completed validation of the business case financial model during the past year, this included alignment of sales revenue and product formulations with signed customer offtake agreements, and production costs, capacity and project CAPEX aligned with guaranteed performance metrics obtained from the plant construction tender process. An independent multinational advisory firm was engaged to review the model's mechanical accuracy, and the Group's strategic advisor has evaluated the potential investment returns to be favourable to potential cornerstone investors.

Given the current Covid-19 environment and related travel restrictions, the Company is now unlikely to secure the necessary equity financing by the second half of CY2021. Discussions on the debt funding are well advanced.

As a result, the Company has decided to delay the next phase of the project until sufficient capital has been raised, this also impacts the first-product delivery date of August 2023.

The Company is conducting a strategic review of the optimal structure and timing for raising capital which may include a sale of an interest in the underlying project. Advisors have been appointed to assist the Company in this regard.

HVM has the full support of its senior debt provider Merrick Capital, who, we are pleased to confirm, extended its debt facility to the Company from 31 March 2022 to 15 December 2022. The facility limit has also been revised to NZD10.3M, including capitalised interest and other fees.

There is no impact as a result of the above decisions on the convertible notes or related covenants, which have a three-year maturity from the date of issue in March 2021.

As a result of the revised terms of the senior loan facility, combined with existing equity, and based on its cash flow modelling, with appropriate cost minimisation strategies and sensitivity considerations, the Group continues to be able to fund project operations for at least 12 months from the signing of the 30 June 2021 financial statements.

As the construction of the facility and associated business development activities necessary for the Group to operate as intended are dependent on a successful capital raise in 2022, there exists a material uncertainty that may cast significant doubt on the ability of the Group to continue as a going concern in its current configuration, and its ability to realise its assets and discharge its liabilities in the normal course of business. This situation may possibly impact on the carrying value of property, plant and equipment currently recorded in the statement of financial position.

These financial statements do not include any adjustments relating to the classification and recoverability of recorded asset

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

### 6. Group performance

#### 6.1 Other income

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30 Jun-20 NZD (audited)
<b>Other operating income</b>	<b>38,333</b>	<b>-</b>

*The Group did not receive revenue from contracts with customers during the year ended 30 June 2021; it earns rental income by leasing out properties acquired during the year 30 June 2021. Rental income from the lease of the Group's farm land is recognised as other income on a straight-line basis over the term of the lease. Group retains substantially all the risks and rewards of ownership and accordingly, the leases of these properties are classified as operating lease.*

#### 6.2 Expenses

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
Consultancy	(623,083)	(89,306)
Convertible notes issue expenses	(96,270)	(5,135)
Directors fees	(438,560)	(468,555)
Employee costs	(1,139,505)	(770,833)
IPO costs	-	(1,370,925)
Other operating costs	(1,233,666)	(548,053)
Development costs disposed / written off	(139,407)	-
Gain/(loss) on fair value of financial liability and embedded derivatives	605,605	(1,001,997)
<b>Remuneration of auditor</b>		
Statutory audit fee	(59,850)	(50,000)
Half year account review	(33,784)	(60,000)

*Fees paid to previous auditor including full and half year review – (NZD 110,000) in the prior year.*

*There are no non-audit services paid in 2021 (2020: nil)*

<b>Indirect expenses</b>	<b>(3,158,520)</b>	<b>(4,364,804)</b>
<i>Indirect expenses are not directly attributable to revenue, primarily indirect labour and costs to support the business to set up operations.</i>		
<b>Depreciation expenses</b>	<b>(10,758)</b>	<b>(6,074)</b>
Finance income and costs		
Interest income	28,128	79,444
Finance costs	(502,815)	(769,769)
<b>Net finance cost</b>	<b>(474,687)</b>	<b>(690,324)</b>

*Finance costs relate to Merricks Capital and are accounted for on an effective interest rate basis. Costs directly relating to debt raising are deducted from the gross proceeds.*

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 6.3 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Group	(5,819,607)	(14,638,596)
Weighted average number of shares	212,529,546	145,224,710
Weighted average number of basic shares	212,529,546	145,224,710
Weighted average number of diluted shares		
Earnings per share		
Basic (cents per share)	(0.03)	(0.10)
Diluted (cents per share)	(0.03)	(0.10)

*There is no difference between the basic and diluted EPS because potential ordinary shares are anti-diluted*

### 6.4 Segment reporting

HVM is planning to operate in one industry, being the manufacture and sale of formulaic milk powder and other nutritional products. HVM operates in one geographic location, New Zealand. Accordingly, no specific operating or geographical segment reporting presented.

The Group's Chief Executive Officer (CEO) is the chief operating decision maker. The information monitored by CODM is consistent with that presented in these consolidated financial statements.

## 7. Assets

### 7.1 Other current assets

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30 Jun-20 NZD (audited)
Accrued interest	-	10,057
GST receivable	144,497	131,788
Income tax receivable	26,196	18,346
Prepayments	421,866	115,129
Withholding tax paid	2,031	1,746
<b>Total</b>	<b>594,591</b>	<b>277,067</b>

## Happy Valley Nutrition Limited

### Notes to the consolidated financial statements continued

For the year ended 30 June 2021

#### 7.2 Property, plant & equipment

Freehold land is stated at cost and is not depreciated. The Group's interest in farmland has been subleased for a term of 100 years.

Computer and office equipment is stated at cost less accumulated depreciation and accumulated impairment loss.

Development costs are those costs directly attributable to the acquisition and development of property and are stated at cost, less any recognised impairment. These include costs incurred directly attributable to bringing an asset to the location and into the condition necessary for it to be capable of operating in the manner intended by management, including professional fees. Development costs include consents & permits which comprises expenditure incurred to obtain the required consents and permits to both construct and operate the facility.

In accordance with IAS 23, borrowing costs directly attribute to the acquisition, construction, or production of a qualifying asset are capitalised as part of the cost of that asset.

Feasibility costs, such as those relating whether to construct an asset, are expensed, as are those where there has been a significant modification or change to costs previously capitalised.

Depreciation of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised to amortise the cost of assets (other than freehold land and development costs) less their residual values over their useful lives, using the diminishing value method.

The estimated useful lives used for each class of depreciable asset are shown below:

Class of asset	Useful Life
Computer and office equipment	2-5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

	Land NZD	Computer & office equipment NZD	Facility development costs NZD	TOTAL NZD
<b>Balance at 30 June 2019</b>	<b>897,137</b>	<b>5,266</b>	<b>4,728,431</b>	<b>5,630,834</b>
Additions	456,900	17,499	1,765,961	2,240,360
Disposals	-	-	-	-
Depreciation	-	(6,074)	-	(6,074)
<b>Balance at 30 June 2020</b>	<b>1,354,037</b>	<b>16,691</b>	<b>6,494,393</b>	<b>7,865,120</b>
Additions	11,586,488	7,801	4,429,302	16,023,591
Disposals / write offs	-	-	(139,407)	(139,407)
Depreciation	-	(10,758)	-	(10,758)
<b>Balance at 30 June 2021</b>	<b>12,940,525</b>	<b>13,734</b>	<b>10,784,287</b>	<b>23,738,546</b>

The additions to Facility development costs includes an amount of NZD157k capitalised as borrowing costs, calculated using a capitalisation rate of 16.9%.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 8. Debt

#### 8.1 Borrowings

	Notes	Year ended 30-Jun-21 NZD (unaudited)	Year Ended 30-Jun-20 NZD (audited)
Current borrowings			
Merricks Capital	8.1.2	(7,565,183)	-
Vendor loan	8.1.1	(227,610)	-
<b>Total current borrowings</b>		<b>(7,792,973)</b>	-
Non-current borrowings			
Vendor loan	8.1.1	(885,210)	-
Embedded derivative liability	8.3	(1,971,704)	-
Convertible note	8.3	(5,472,872)	-
<b>Total non-current borrowings</b>		<b>(8,329,786)</b>	-

##### 8.1.1 Vendor loan

As part of the settlement of Waipa Meadows (dry stock farm), the remaining NZD1,500,000 of the purchase price paid in cash by the Group as purchaser on the settlement date via a loan from the vendor, is repayable in six equal instalments of NZD250,000 on each successive anniversary of the actual settlement date and otherwise on the terms and security set out below. It is intended the loan shall be advanced by the vendor to the Group on the settlement date to be secured by no less than a second-ranking fixed sum mortgage ADLS form ref. 8004 and memorandum no. 2015/4327.

(a)	Principal sum:	NZD1,500,000
(b)	Lower (ordinary) interest rate	fixed at 0% per annum
(c)	Higher (penalty) interest rate:	fixed at 10% per annum
(d)	Term expiry date:	the date falling 6 years after the actual settlement date
(e)	Repayment of principal sum:	in six equal instalments of NZD250,000 on each successive annual anniversary of the actual settlement date
(f)	Fair value measurement	an adjustment to measure the loan at its fair value at initial recognition has been made using a rate at interest considered to reflect a market rate of interest for a similar instrument with a similar credit rating
(g)	Extent of security	principal sum plus interest

##### 8.1.2 Secured loan from Merricks Capital

NZD12,700,000 including capitalised finance costs of up to NZD700,000, split into two tranches of NZD9,000,000 (including capitalised finance costs of up to NZD700,000), and NZD3,700,000. The drawdown of the second tranche is dependent on: the senior secured lender obtaining an updated "as if complete" valuation of the assets of the Group and its subsidiary, FRRL, that is acceptable to the senior secured lender following completion of earthworks during late summer/autumn of CY2021; and approval by the senior secured lender's credit committee. Required insurances to comply with its covenant have been maintained by the Group in relation to the secured property and for its business and assets with insurance companies approved by the financier against the risks and liabilities.

(a)	Principal sum:	tranche one, NZD9,000,000 & tranche two, NZD3,700,000
(b)	Interest rate:	9.75% per annum on funds drawn down
(c)	Default rate:	the rate equal to the aggregate of the interest rate and 5% per annum
(d)	Line Fee rate:	2.50% per annum plus 2.50% establishment costs
(e)	Term:	12 months

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

- (f) Security: first ranking general security deed and registered mortgage over the assets, including land of the Group and its wholly owned subsidiary, FRRL

*Refer to the Note 4: Going Concern and Note 10.4: Subsequent Events for amendments to this loan after reporting date.*

### 8.2 Lease liabilities

NZ IFRS 16 introduces a single lessee accounting model for all lessees recognising all leases in the statement of financial position through an asset representing a right to use the leased item during the leased term and a liability for the obligation to make lease payments.

The Group has a short-term sub-lease for its premises. The initial term ended 31 March 2021 and was rolled over into a new month by month tenancy agreement from April 2021. The Group has applied the short-term lease exemption and has recognised neither a right to use asset nor a lease liability under IFRS 16. The annual expense was NZD120,000

### 8.3 Convertible debt

On 18 March 2021, the Group issued 35,000,000 convertible notes at AUD0.20 each, with a total value of AUD7,000,000. The convertible notes are secured under a subordinated general security deed, a second ranking security over all the non-land assets of the Group and its subsidiary, FRRL, subject to a security trust deed with a security trustee (being Gleneagle Securities Nominees Pty Limited). Further specific details of the convertible notes are provided below.

As the convertible notes are issued in a currency (AUD) other than the Group's functional currency and the conversion into share capital is contingent, the notes are deemed to be a hybrid financial instrument under NZ IFRS 9. The embedded derivative element is separated from the host debt component for reporting purposes. The Group has elected, as an accounting policy choice, to recognise the embedded derivative as a separate financial instrument measured at fair value. The debt, host component is measured at amortised cost. Both elements are also remeasured into NZD from its AUD denominated amounts at reporting date, with resulting exchange gains or losses recognised in profit or loss. At initiation, the Group recognised a debt host liability component of NZD5,321,689 and an embedded derivative component of NZD2,201,840. At 30 June 2021, the carrying amount of the host debt liability was NZD5,472,872 and the embedded derivative was NZD1,971,704.

The Group also has adopted an accounting policy to allocate the transaction cost to the non-derivative host contract and embedded derivative components of the instrument in proportion to the allocation of the total transaction price. The amount of transaction costs allocated to the embedded derivative liability is charged immediately to profit or loss.

During the reporting period the Group held the following

Instrument: Terms of the secured convertible notes

The secured convertible loan notes were originally issued on 18 March 2021 with the following terms:

- 35,000,000 convertible notes denominated in AUD at AUD0.20/note, or AUD7,000,000 total value
- Maturity date 18 March 2024
- Fixed interest rate of 11.00% p.a., capitalised on a six monthly basis
- Mandatory redemption on maturity
- Conversion anticipated to be through main capital raise (MCR) event, where the number of shares =  $((\text{AUD } 7,000,000 + \text{capitalised interest}) / 0.20 \text{ or } x)$ , where  $x$  = issue price of shares on the MCR date discounted by 20%
- As at 30 June 2021 no convertible notes had been converted to shares or redeemed, and 35,000,000/AUD 7,000,000 remained on issue



# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 8.4 Share capital

Ordinary shares are classified as equity; the Group has one class of ordinary shares which carry no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and the Directors are also entitled to one vote per share at meetings of the Group. All shares rank equally with respect to the Group's residual assets

Movements in contributed equity	Note	2021 Number of shares	Share capital NZD	2020 Number of shares	Share capital NZD
Ordinary shares					
Balance at beginning of the year		212,529,546	24,956,998	10,000	2,384,000
Movement in the period		-	-	-	-
Impact of share splits		-	-	85,542,381	-
Convertible note holders		-	-	26,735,119	4,760,320
LGO convertible note		-	-	3,125,000	546,088
HVM converting loan		-	-	12,500,000	2,380,626
HVM / Shaw convertible note		-	-	4,687,500	819,132
IPO raising		-	-	62,529,546	13,016,764
LGO		-	-	17,400,000	1,858,180
Share issue costs		-	-	-	(808,111)
<b>Balance at end of year</b>		<b>212,529,546</b>	<b>24,956,998</b>	<b>212,529,546</b>	<b>24,956,998</b>

### 8.5 Share-based payments

Equity settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value of options granted as share-based payments is determined at grant date of the equity-settled share-based payments. Such fair value of is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. This pricing model reflects the price volatility of the underlying shares and therefore the probability of the options being exercised on price considerations.

At the end of each reporting period, the Group assesses the probability of the specified vesting conditions being fulfilled and the consequent accounting implications. Revisions to the prior period estimate are recognised in profit or loss and equity.

Equity settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, when they are measured at the fair value of the equity instruments granted, measured at the date the entity obtained the good or the counterparty receives the services.

#### 8.5.1 Share options

During the comparative year, as part of HVM's IPO (and as included in its prospectus dated 22 November 2019), the Directors were granted the following options on 11 October 2019.

**IPO options** – each director received options with vesting conditions requiring the Group to list on the ASX and expiry dates range from 3-5 years. Details of the options are included in the table below.

**Milestone options** – 3 of the directors received options, provided in 3 separate tranches with vesting conditions based on strategic, financial and production targets for the Group, and an implied service condition associated with the continued involvement of the directors. Expiry dates range from 3-5 years from the date of vesting. Details of the options are included in the table below.

The options do not carry rights to dividends or voting rights.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### IPO Options

The IPO options vested upon listing on the ASX, deemed to be 27 December 2019, and were issued on 10 January 2020. NZD 4,916,182 was expensed as a share-based payment in profit or loss in that period.

Option holder	No. options	Exercise price AUD	Expiry date range	Black Scholes option price AUD	Total value AUD	Total value NZD
Ivan Hammerschlag	21,428,571	0.06	5 years	0.17	3,733,063	3,996,856
David McCann	727,485	0.20	5 years	0.15	109,765	117,521
Anthony Kahn	5,000,000	0.20	3 years	0.13	639,121	684,284
Randolph van der Burgh	727,485	0.20	5 years	0.15	109,765	117,521
<b>Total</b>	<b>27,883,541</b>				<b>4,591,714</b>	<b>4,916,182</b>

The value of these options was determined using the Black-Scholes model. The price determined using this model was applied to the number of options received by each director. In addition to the above inputs, a risk-free rate of either 0.68% or 0.74% was used which is based on the 3- or 5-year Australian government bond yields respectively. A volatility of 100% was also used. This was based on similar companies within the industry at the same stage in their life cycle as HVM currently has no trading history.

None of the IPO Options have been exercised.

### Milestone Options

Milestone options were granted to the Directors on the 11 October 2019 in tranches as follows.

#### *Tranche 1 strategic:*

This tranche consists of 10,736,204 options that may be exercised three years after the specified vesting condition is met. The specified vesting condition is the Company's entry into a legally binding agreement, (or agreements), between the Company and a party or parties, including a disclosed agent, which provides for the security, placement or sale of product produced at the facility. This vesting condition was met by the signing of two binding conditional supply agreements, and all tranche 1 options vested during the 2021 financial year.

#### *Tranche 2(a)*

This tranche, granted to Ivan Hammerschlag, consists of 6,696,429 options that may be exercised during a period of five years after the specified vesting condition is met. The specified vesting condition for this tranche is any post-IPO debt or equity raising conducted by the Company. The vesting condition was met during the current financial year and all tranche 2(a) options have been vested.

#### *Tranche 2(b)*

This tranche consists of 10,736,204 options that may be exercised in three years after the specified vesting condition is met. The specified vesting condition is the Company's entry into a legally binding agreement (or agreements) which provide for, broadly, the raising of debt and/or equity by the Company or a subsidiary of the Company of an amount sufficient to finance the design, build and commissioning of the production Facility. The specified vesting condition is expected to be met in 1.2 years from the grant date. Therefore, these options have an expiry period of 4.2 years.

## Happy Valley Nutrition Limited

### Notes to the consolidated financial statements continued

For the year ended 30 June 2021

#### Tranche 3

Production: This tranche consists of 10,736,204 options that may exercised during a period of three years after the specified vesting condition is met. The vesting condition for this tranche is the achievement of the first commercial order by an independent customer of product produced at the facility following or as part of the facility's commissioning. The specified vesting condition is expected to be met in 2.7 years from the grant date. Therefore, these options have an expiry period of 5.7 years.

Option holder	Tranche 1 strategic	Tranche 2 financing	Tranche 3 production	Exercise price	Expiry date range
Ivan Hammerschlag	-	6,696,429	-	0.06	5 years
David McCann	5,368,102	5,368,102	5,368,102	0.25	3 years
Randolph van der Burgh	5,368,102	5,368,102	5,368,102	0.25	3 years
<b>Total</b>	<b>10,736,204</b>	<b>17,432,633</b>	<b>10,736,204</b>		

The value of these options was determined using the Black-Scholes Option Pricing Model based on the following parameters:

- a risk-free rate of either 0.68% or 0.74% based on the 3- or 5-year Australian government bond yields respectively on the date of granting;
- a volatility of 100%; this was based on similar companies within the industry at the same stage in their life cycle as HVM do not have a trading history.

The price determined using the BSOPM was applied to the number of options received by each director. In addition, the Company has assessed the probability of the specified vesting conditions being fulfilled in the period applicable to each tranche.

Description	Tranche 1 AUD	Tranche 2a AUD	Tranche 2b AUD	Tranche 3 AUD	Total - AUD	Total - NZD
Total estimated life (years)	3.9	6.1	4.2	5.7		
Fair value of option on grant date	0.13	0.17	0.13	0.15		
Risk-free rate of interest	0.68%	0.74%	0.74%	0.74%		
Fair value of option on grant date	1,382,975	1,189,219	1,412,837	1,601,451	5,586,482	5,981,244
Amount to be accounted for period ended 30 June 2021					1,929,177	2,065,715

At reporting date, the vesting conditions for tranches 1 and 2a had been met, and the share-based payment expense recognised in the statement of comprehensive income was NZD2,065,715.

During this year, the Group granted share options to its employees (including a Key Management Personnel (KMP)) on 17 December 2020 under the Employee Share Option Plan.

#### New CEO options

Granted to a member of the Group's KMP upon their acceptance of employment with the Group; these options vested immediately with no further performance conditions to be satisfied. Once vested, the options expire after 3 years when the employee remains employed with the Group, otherwise, the vested options expire 3 months from the date that employment ceases. Details of the options are included in the table below.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### ***New milestone options***

Granted to 5 employees (including 1 members of the Group's KMP) received options, provided in 3 separate tranches, vesting conditions are based on strategic, funding and production targets for the Group and the continued employment of the employees. Once vested, the options expire after 3 years when the employee remains employed with the Group, otherwise, the vested options expire 3 months from the date employment ceases. Details of the options are included in the table below.

The options do not carry rights to dividends or voting rights. No options that had vested were exercised during the year (2020: nil)

### ***New CEO Options***

The New CEO Options vested immediately upon grant date and can be exercised up to a maximum of three years from this date.

During the current year, NZD12,717 was recognised as a share-based payment expense in the profit or loss.

Option holder	No. options	Exercise price AUD	Expiry date	Black Scholes option price AUD	Total value AUD	Total value NZD
Key management personnel	250,000	0.25	3 years	0.05	11,885	12,717
<b>Total</b>	<b>250,000</b>				<b>11,885</b>	<b>12,717</b>

The fair value of these options was determined using the Black-Scholes model. The fair value determined using this model was applied to the number of options received. In addition to the above inputs, a risk-free rate of 0.24% was used which is based on the 2-year New Zealand government bond yields. A volatility of 69% was also used; this was based on similar but not a bigger companies within the industry as the Group.

As at reporting date, all the vested options remain unexercised.

### ***New Milestone Options***

New Milestone options were granted with three tranches attached, as follows

#### *Tranche 1 strategic*

This tranche consists of 1,060,799 options that may be exercised up to a maximum of three years after the specified vesting condition is met. The specified vesting condition is the Group's entry into a legally binding agreement (or agreements) between the Group and a party or parties, including a disclosed agent, which provides for the security, placement or sale of product produced at the facility. This vesting condition was met by the signing of two binding conditional supply agreements, and all tranche 1 options vested during the 2021 financial year.

#### *Tranche 2 funding*

This tranche consists of 1,212,343 options which can be exercised up to a maximum of three years after the specified vesting condition is met. The specified vesting condition is the Group's entry into a legally binding agreement (or agreements) which provide for, broadly, the raising of debt and/or equity by the Group or a subsidiary of the Group of an amount sufficient to finance the design, build and commissioning of the production facility. The specified vesting condition is expected to be met in 10 months from the grant date. Therefore, these options have an expected expiry period of 3 years and 10 months.

#### *Tranche 3 production*

This tranche consists of 1,515,428 options that may be exercised up to a maximum of three years after the specified vesting condition is met. The specified vesting condition is the achievement of the first commercial order by an independent customer of product produced at the facility following or as part of the facility's commissioning. The specified vesting condition is expected to be met in 2 years and 3 months from the grant date. Therefore, these options have a maximum expiry period of 5 years and 3 months.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

Option holder	Tranche 1 strategic	Tranche 2 financing	Tranche 3 production	Exercise price AUD
Key Management Personnel	560,000	640,000	800,000	0.25
Other employees	500,799	572,343	715,428	0.25
<b>Total</b>	<b>1,060,799</b>	<b>1,212,343</b>	<b>1,515,428</b>	

Summary	Total - AUD	Total - NZD
New CEO options amount to be accounted for period ended 30 June 2021	11,885	12,717
New milestone options amount to be accounted for period ended 30 June 2021	126,676	135,543
Existing IPO milestone options amount to be accounted for period ended 30 June 2021	1,929,177	2,065,715
<b>Total amount to be accounted for period ended 30 June 2021</b>	<b>2,067,738</b>	<b>2,213,975</b>

Description	Tranche 1 AUD	Tranche 2 AUD	Tranche 3 AUD	Total - AUD	Total - NZD
Total estimated life (years)	3.3	3.10	5.3		
Fair value of option on grant date	0.05	0.06	0.07		
Risk - free rate of interest	0.24%	0.24%	0.35%		
Fair value of option on grant date	55,154	72,703	112,384	240,241	257,058
New milestone options to be accounted for period ended 30 June	55,154	45,246	26,277	126,676	135,543

The value of these options was determined using the Black-Scholes Option Pricing Model ('BSOPM') based on the following parameters:

- a risk-free rate of either 0.24% or 0.35% based on the 2- or 5-year New Zealand government bond yields respectively on date of grant;
- a volatility of 70% or 73%. This was based on similar companies within the industry as the Group;
- a probability of meeting the vesting conditions.

The fair value determined using the BSOPM was applied to the number of options received by each employee. In addition, the Group has assessed the probability of the specified vesting conditions being fulfilled in the period applicable to each tranche. At reporting date, the vesting conditions for tranche 1 strategic had been met, and the share-based payment expense recognised in the statement of comprehensive income was NZD55,154. Vesting conditions for tranche 2 funding and tranche 3 production had not been met at 30 June 2021, and the share-based payment expense was determined by apportioning the total across the expected vesting period.

## 9. Capital and financial risk management

### 9.1 Foreign exchange risk

The Group is listed on the ASX and raises capital such as the convertible notes of AUD7,000,000 and loan of NZD9,000,000 from Merricks Capital predominantly in Australian dollars. Most of this is converted to New Zealand dollars to cover budgeted New Zealand dollar expenses. The Group is exposed to expenses primarily relating to Directors' fees and listing costs denominated in Australian dollars. The Group maintains sufficient Australian dollar deposits to cover its budgeted Australian dollar expenses.

The Group is not a party to any direct derivative arrangements; the Group's exposure to embedded derivatives is explained in note 8.3. The Group has a Board approved treasury policy covering foreign exchange risk exposure limits.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 9.2 Interest rate risk

Interest rate risk is the risk the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is not exposed to interest rate risk given interest rate on its borrowings and convertible notes are fixed.

The Group has a Board approved treasury policy covering exposure limits.

### 9.3 Credit risk management

The Group's exposure to credit risk for the current receivable is primarily associated with one lessee and the management considers its default risk is very minimal based on the creditworthiness of the lessee. The Group has not made loans to any party. The Group's cash is invested with reputable New Zealand banks the Group has assessed as a low credit risk. The Group continuously monitors the credit quality of its New Zealand banks and does not anticipate any non-performance in those banks.

The carrying amount of financial assets, or the cash and cash equivalent, represents the Group's maximum credit exposure. While cash and cash equivalents are subject to the impairment requirement of NZ IFRS 9, the identified impairment loss was immaterial.

### 9.4 Liquidity risk

Liquidity risk is the risk the Group will encounter difficulty in meeting its contractual obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective when managing liquidity is to ensure, as far as possible, it will have sufficient liquidity to meet its liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payable). The Group also monitors the level of expected cash outflows around expenses on trade and other payables. Also, refer to the going concern assumption under the basis of preparation note.

The following table sets out the contractual cash flows for all financial liabilities and for derivatives settled on a gross cash flow basis.

As at 30 June 2021	Carrying amount	Contractual < 1 year	cash flows 2 years < <5 years
<b>Financial liabilities</b>			
Trade & other payables	(1,032,058)	(1,032,058)	-
Merricks	(7,565,183)	(8,360,796)	-
Vendor loan	(1,112,820)	(250,000)	(1,250,000)
Convertible notes and embedded derivative liability	(7,444,576)	-	(7,444,576)
<b>As at 30 June 2020</b>	<b>Carrying amount</b>	<b>&lt; 1 year</b>	<b>2 years &lt; &lt;5 years</b>
<b>Financial liabilities</b>			
Trade & other payables	(487,697)	(487,697)	-

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 9.5 Capital risk management

The Group's capital includes share capital, retained earnings and reserves.

The Group's policy is to maintain a sound capital base to maintain investor and creditor confidence and sustain the future development of the business. The Group's policies in respect of capital management and allocation are reviewed by the Board.

The Group successfully raised NZD20,000,000 funding for the acquisition of strategic farmland and the completion of further earthworks in early 2021 and have received strong interest and support from existing institutional and sophisticated investors to raise further capital. Refer to basis of conclusion for going concern assumptions.

### 9.6 Financial Instruments

#### *Accounting policy*

NZ IFRS 9 applies to the classification, measurement and impairment of financial assets, liabilities, and the application of hedge accounting.

#### *Classification and Measurement*

Financial instruments are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is initially recognised at fair value and is adjusted, in the case of instruments not carried at FVTPL, for transaction costs incremental and directly attributable to the acquisition or issuance of the financial instrument. Transaction costs relating to financial instruments carried at FVTPL are expensed in the statement of comprehensive income.

Financial assets are de-recognised from the statement of financial position when the right to cash flows has expired, or the Group has transferred substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are de-recognised from the statement of financial position when the Group's obligation has been discharged, cancelled, or has expired. Gains and losses on the derecognition of non-trading related financial assets and liabilities are recognised as other income as part of other operating income and charges.

The Group's principal financial instruments comprise cash and cash equivalents, trade payables and loans. The classification of financial instruments depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

#### *Cash and cash equivalents*

Cash and cash equivalents with a duration at acquisition of less than 6 months, repayable on demand or with insignificant loss, represent short-term deposits held at banks and are recognised initially at fair value.

#### *Trade and other payables*

Trade creditors and other payables are recognised 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. It has been determined these payables do not include a significant financing component.

#### *Loans*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by considering any issue costs, and any discount or premium on settlement.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 9.7 Fair value measurement

The Group measures the following assets and liabilities at fair value on a recurring basis:

#### *Financial liabilities*

The financial liabilities measured at amortised cost at reporting date comprise of convertible notes and vendor loan

Financial liabilities measured at fair value through profit or loss comprise the embedded derivative liability.

#### *Embedded derivatives*

Derivatives are recognised initially at fair value and are subsequently remeasured to their fair value at the reporting date.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host (e.g., convertible notes). Derivatives embedded in hybrid contract are financial liabilities and treated as separate derivatives when they meet the definition of a derivative, the risks and characteristics are not closely related to those of the host contract and the host contract is not measured at fair value through profit or loss.

#### *Fair value hierarchy*

NZ IFRS 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

- level 1: unadjusted quoted prices in active markets for identical assets or liabilities the entity can access at the measurement date
- level 2: inputs other than quoted prices included within level 1 observable for the asset or liability, either directly or indirectly
- level 3: unobservable inputs for the asset or liability.

The following table shows a breakdown of the liabilities recognised and measured at fair value in the financial statement in respect of level 3 fair values.

Description	Date of valuation	Total	Level 1	Level 2	Level 3
Embedded derivative liability	30 June 2021	1,971,704	-	-	1,971,704

The carrying value of cash and cash equivalents, receivables, trade, and other payables, convertible debt and vendor loan approximates their fair value.



# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 10. Other information

#### 10.1 Related party transactions

##### 10.1.1 Key management personnel compensation

The remuneration of key management personnel of the Group, is set out below in aggregate for each of the categories specified:

	Year ended 30- Jun-21 NZD (unaudited)	Year ended 30- Jun-20 NZD (audited)
Short term employee benefits	360,545	362,353
Director and service fees	438,696	573,555
Share-based payments	2,213,975	7,719,213
<i>Key management personnel do not receive post-employment or termination benefit (2020: nil)</i>		

Key management personnel include the following

- Chairman
- CEO & directors
- Non –executive directors

##### 10.1.2 Director services agreements

Each director has entered into a director services agreement with the Company through an associated entity. The key terms of those agreements are set out in table 10.1.2 below.

Table 9.1.2 Summary of key terms of director's services agreements

Parties	Role	Remuneration
Ivan Hammerschlag Honeystone Pty Limited	Non-executive chairman	AUD80,000 pa base director/chairman fees
David McCann Olwyn Ventures Limited	Non-executive director	AUD80,000 pa base director fees and AUD80,000 pa additional base fees to reflect the non director services they provide from 1 July 2020, then terminates from 1 Jan 2021
Randolph van der Burgh VCFO Group Limited	Non-executive director	AUD80,000 pa base director fees and AUD80,000 pa additional base fees to reflect the non director services they provide from 1 July 2020, then terminates from 1 Jan 2021
Anthony Kahn Partnership Investors Pty Limited	Independent non-executive director	AUD80,000 pa base director fees

## Happy Valley Nutrition Limited

### Notes to the consolidated financial statements continued

For the year ended 30 June 2021

#### 10.1.3 Summary of payments to other related parties

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
Ivan Hammerschlag		
Honeystone Pty Limited - expenses	4,078	11,587
Honeystone Pty Limited - director fees	96,331	102,928
David McCann		
D McCann – expenses	1,628	21,200
Olwyn Ventures Limited - director and services fees	128,759	192,608
Randolph van der Burgh		
Randolph van der Burgh - expenses	1,089	1,298
VCFO Group Limited - director and services fees	127,600	192,837
VCFO Group Limited - professional services	160,194	203,602
Anthony Kahn		
Partnership Investor Pty Ltd - expenses	150	1,323
Partnership Investor Pty Ltd - director fees	85,870	42,019
Partnership Investor Pty Ltd – consultancy	-	43,163
Partnership Investor Pty Ltd - IPO success fee	-	20,844

#### 10.1.4 Summary of payments to other related parties

##### VCFO Group Limited

The Group has a professional services agreement with VCFO Group Limited for the provision of various financial, taxation and project related services. Randolph van der Burgh is a shareholder and director of VCFO Group Limited and a shareholder and director of the Group. The key terms of those agreements are set out in Table 10.1.4 below.

Table 10.1.4 Summary of key terms of agreement with VCFO Group Limited

Services	Fees
Accounting and taxation services	Fixed monthly fee of NZD2,250 then terminates from August 2021
Other services	Hourly fees for additional services on a time engaged basis
Premises (furnished)	Monthly renewable sub-lease of ground floor of NZD9,208 per month rent and NZD792 per month car park rent

#### 10.1.5 Related party outstanding payable as at 30 June 2021

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
VCFO Group Limited	640	2,803
<b>Total</b>	<b>640</b>	<b>2,803</b>

## Happy Valley Nutrition Limited

### Notes to the consolidated financial statements continued

For the year ended 30 June 2021

#### 10.1.6 Directors' interests in shares and options held

Director – (including via related companies)	Ordinary shares number	2021 %	Options number	Ordinary shares number	2020 %	Options number
Ivan Hammerschlag	5,347,025	2.5	28,125,000	5,347,024	2.5	28,125,000
David McCann	8,778,031	4.1	16,831,791	8,778,031	4.1	16,831,791
Randolph van der Burgh	9,633,555	4.5	16,831,791	9,633,555	4.5	16,831,791
Anthony Kahn	1,625,000	0.8	5,000,000	1,625,000	0.8	5,000,000
Greg Wood	-	-	2,250,000	-	-	-
<b>Total</b>	<b>25,383,610</b>	<b>11.9</b>	<b>69,038,582</b>	<b>25,383,610</b>	<b>11.9</b>	<b>66,788,582</b>

#### 10.1.7 Directors' interest in convertible notes

Director

Ivan Hammerschlag 750,000 convertible notes

Randolph van der Burgh 500,000 convertible notes

Please refer to note 8.3 for a more detailed disclosure on the convertible notes.

#### 10.1.8 Directors' interest in companies who have shares in HVM

Director	Company
Ivan Hammerschlag	Tidereef Pty Ltd (Shareholder and Director)
David McCann	Olwyn International Limited (Shareholder and Director)
Randolph van der Burgh	Rockburgh Nominees Limited (Shareholder and Director)
Anthony Kahn	K.F. Superannuation Pty Ltd (Shareholder and Director)

## 10.2 Commitments

### 10.2.1 Capital commitments

As at 30 June 2021, the Group has entered into contractual commitments for the acquisition of property, plant and equipment amounting to NZD730,000.

Earthworks & facility design	Description	Total NZD	1 < Year
Schick	Main earthworks	600,000	600,000
Babbage/Beca	Project management and design	120,000	120,000
	Site amenities	10,000	10,000
<b>Total</b>		<b>730,000</b>	<b>730,000</b>

### 10.2.2 Short-term lease commitments

The Group entered a sub-lease agreement with VCFO Group Limited providing the Group with exclusive occupation rights in their ground floor premises, including all furniture and fittings. The initial term ended 31 March 2021 and was rolled over into a new month by month tenancy agreement from April 2021.

### 10.2.3 Group as a lessor

The Group's interest in farmland has been subleased for a term of 100 years, however, the lease can be cancelled at any time by giving a six months' notice to the lessee.

# Happy Valley Nutrition Limited

## Notes to the consolidated financial statements continued

For the year ended 30 June 2021

### 10.2.4 Non-cancellable water take agreement

On 23 April 2019, HVM and Wairakei Pastoral Limited entered in a non-cancellable water take agreement with the following terms:

- 1,000m<sup>3</sup> per day water take licence, using Wairakei Pastoral Limited consent from the Waipa river;
- Commencement date is the later of 1 November 2019 and the date on which construction of the plant commences;
- Annual maximum volume of water is 365,000m<sup>3</sup> ; and
- Maximum daily volume of water is 1,000m<sup>3</sup> .

### 10.3 Contingent liabilities

There are no known contingent liabilities as at 30 June 2021.

### 10.4 Events after reporting date

The Group announced to the ASX on 31 August 2021, it now considers it is unlikely it will secure the combined equity and debt financing by the second half of CY2021 due to the impact of Covid-19. Accordingly, the Group has decided to:

- delay the next phase of the project until sufficient capital has been raised, this also impacts the first-product delivery date of August 2023
- conduct a strategic review of the optimal structure and timing for raising capital which may include a sale of an interest in the underlying project. Advisors have been appointed to assist the Company in this regard.

The Group has the full support of its senior debt provider Merrick Capital, who have extended its debt facility to the Company from 31 March 2022 to 15 December 2022

### 10.5 Taxation

The tax expense charged against earnings for the period is the estimated total liability including both the current period's provision and deferred tax. The current period's tax payable to Inland Revenue is recorded in income tax payable and any amounts due from Inland Revenue are recorded as income tax receivable.

Deferred income tax is provided, using the balance sheet method, on all temporary differences at the reporting date between the tax book value of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
<b>Income tax expense</b>		
Loss before tax	(5,819,607)	(14,638,596)
Prima facie tax expense/(benefit)	(1,629,490)	(4,098,807)
Non-deductible expenses at 28%	576,600	3,365,796
Tax losses not recognised	983,680	506,209
Tax losses forfeited on IPO	-	199,619
Prior period adjustment	(1,038)	-
Deferred tax asset not recognised	70,248	27,184
<b>Income tax expense</b>	<b>-</b>	<b>-</b>

Deferred tax is recognised on the basis there is probable realisation through future profits. The Group is expected to move into tax profits earlier than previously anticipated but not within the next 12 months. The future income tax benefit of tax losses and other deferred tax assets, net of deferred tax liabilities, have therefore not been recognised at 30 June 2021.

## Happy Valley Nutrition Limited

### Notes to the consolidated financial statements continued

For the year ended 30 June 2021

	Year ended 30-Jun-21 NZD (unaudited)	Year ended 30-Jun-20 NZD (audited)
Deferred tax asset not recognised in relation to short-term timing differences	97,432	27,184
Deferred tax asset not recognised in relation to the future benefit of income taxes	1,489,889	506,209
<b>Total</b>	<b>1,587,321</b>	<b>533,393</b>

Imputation credits available for use in subsequent periods are NZD28,228 (2020: NZD20,092).

#### 10.6 Goods and services tax

All amounts are shown exclusive of goods and services tax (GST), except Australian GST incurred and not recoverable by the Group. Receivables and Payables are stated inclusive of GST.