

Happy Valley Nutrition Limited

Results for announcement to the market

Appendix 4D

Half-year report for the six months ended 31 December 2020.

Previous corresponding reporting period six months ended 31 December 2019.

		% change	NZD 000's
Revenue from ordinary activities	nil	-	-
Loss from ordinary activities after tax attributable to owners of Happy Valley Nutrition Limited	down	76%	(2,772)
Loss for the period attributable to owners of Happy Valley Nutrition Limited	down	76%	(2,772)
	31 December 2020 (cents)		31 December 2019 (cents)
Basic earnings per share	(0.01)		(0.13)
Diluted earnings per share	(0.01)		(0.13)
Net tangible asset backing per ordinary share	0.07		0.07

Dividend information

Happy Valley Nutrition Limited do not pay dividends.

Entities over which control has been gained during the period

During the period the Company incorporated its first subsidiary, being Five Redland Road Limited, a company incorporated on 11 August 2020 and domiciled in New Zealand, with the Company holding 100% of the shares.

Five Redland Road Limited did not commence trading and did not contribute to the Company's loss from ordinary activities during the period.

Independent review report

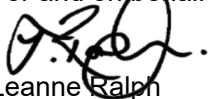
The periods for the six-month ended 31 December 2019 and year ended 30 June 2020 were audited by another auditor who expressed an unmodified review and audit opinion, respectively. The auditor's review report contains a material uncertainty with respect to going concern paragraph. This draws attention to note 1.1 to the Condensed Interim Consolidated Financial Statements. The review report was not modified in respect of this matter.

Further information

Commentary on the results for the period and additional ASX Appendix 4D (listing Rule 4.2A.2) disclosures can be found in the Condensed Interim Consolidated Financial Statements of Happy Valley Nutrition Limited for the six months ended 31 December 2020 attached. This document should be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made in the period by the Company in accordance with continuous disclosure requirements.

Happy Valley Nutrition Limited is an ASX listed public company limited by shares, incorporated and domiciled in New Zealand. The Company is a for profit entity, registered in New Zealand under the Companies Act 1993.

For and on behalf of the board



Leanne Ralph
Company Secretary
26 February 2021

Happy Valley Nutrition Limited

NZCN 5952532 (ARBN 636 597 101)

ASX Code: HVM

ASX Release

Condensed Interim Consolidated Financial Statements For the six months ended 31 December 2020



Happy Valley Nutrition Limited

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General information

The Condensed Interim Consolidated Financial Statements of Happy Valley Nutrition Limited and its subsidiary are for the six months ended 31 December 2020.

The Condensed Interim Consolidated Financial Statements are presented in New Zealand dollars, which is Happy Valley Nutrition Limited's functional currency.

Happy Valley Nutrition Limited is an ASX listed public company limited by shares, incorporated and domiciled in New Zealand. It's registered office and principal place of business are:

96 St Georges Bay Road
Parnell
Auckland 1052
New Zealand

Happy Valley Nutrition Limited is in the process of planning to develop a nutritional grade, formulaic milk processing, blending and packaging facility (Facility) that produces infant milk formula (IMF) and other nutritional products for sale in the global export markets.

The Condensed Interim Consolidated Financial Statements for the six months ended at 31 December 2020 have been reviewed but not audited. Comparative periods have been audited and reviewed by another auditor.

Happy Valley Nutrition Limited Directors Report

For the six months ended 31 December 2020.

The board of directors of Happy Valley Nutrition Limited and its subsidiary (“HVM” or “the Group”) present their report, together with the Condensed Interim Consolidated Financial Statements, on the Group for the six months period ended 31 December 2020.

Directors

The following persons held office as directors of Happy Valley Nutrition Limited during and since the six months ended 31 December 2020. The names and details of the directors are:

Ivan Hammerschlag	Chairman
David McCann	Director
Randolph van der Burgh	Director
Anthony Kahn	Director
Greg Wood	Director & CEO

Review of Operations

The Company continued to make tangible progress during the six months to 31 December 2020, despite COVID-19, and achieved most milestones outlined in the prospectus. Some of the key highlights included continued engagement with a range of customers across multiple product categories, which includes infant milk formula (IMF) customers.

The Company signed four non-binding heads of agreements with global distributors and customers and continues to carry out meaningful engagement with strategic customers.

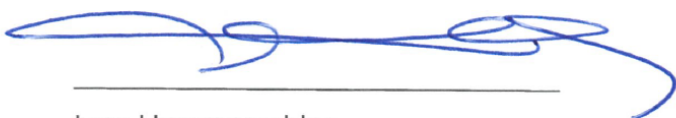
HVM also received its OIO approvals in October 2020 for the purchase of farmland and investment in business assets of over \$100 million. Subsequently HVM settled its 6 Redlands Road property in November, which complements the Facility and will be utilised as a carpark and the location of our substation.

Management plans and variations to consents were submitted during July to October 2020, and earthworks commenced in December 2020. These earthworks are for the realignment of the Redlands Road and State Highway intersection, ground improvements in preparation for the commencement of construction of the Facility and drainage works. Tendering of the main process plant contract commenced in October 2020 and submissions are due in within the first half of CY2021.

Looking forward, on 19 February 2021 the Company announced a \$20 million debt funding and convertible note package, which enables the Company to progress its development by, amongst other things, settling the outstanding farmland properties and completing the earthworks.

Independent review report

The independent review report for the six months ended 31 December 2020 has been received and a copy is reproduced on page 23.



Ivan Hammerschlag
Chairman
25 February 2021

Happy Valley Nutrition Limited

Condensed Interim Consolidated Statement of Comprehensive Income.

For the six months ended 31 December 2020.

	<i>Notes</i>	<i>Period Ended 31-Dec-20 NZD (unaudited)</i>	<i>Period Ended 31-Dec-19 NZD (unaudited)</i>
Interest Income		23,786	2,068
Gross Profit		23,786	2,068
Operating Expenses:			
Directors Fees	5.1.4	(267,791)	(176,516)
Employee Costs		(554,365)	(257,159)
LGO Reverse Takeover costs		-	(617,574)
Loss on Derecognition of financial liability		-	(324,464)
Fair value loss on Embedded Derivatives		-	(751,091)
Finance Costs		-	(757,356)
IPO Costs		-	(881,841)
Share Based payment expense	4.2.1	(1,059,880)	(7,570,703)
Depreciation		(5,179)	(1,875)
Foreign exchange loss		-	(11,657)
Insurance		(121,760)	(18,000)
Legal expenses		(248,406)	(29,500)
Sales & Marketing		(96,250)	-
Other Operating Expenses		(441,933)	(159,850)
Total Operating Expenses		(2,795,565)	(11,557,586)
Operating Loss		(2,771,779)	(11,555,518)
Net Loss Before Taxation		(2,771,779)	(11,555,518)
Income Tax Expense		-	-
Net Loss After Taxation		(2,771,779)	(11,555,518)
Other Comprehensive Income		-	-
Total Comprehensive Loss After Taxation		(2,771,779)	(11,555,518)
Loss per share			
Basic (NZD per share)		(0.01)	(0.13)
Diluted (NZD per share)		(0.01)	(0.13)

Happy Valley Nutrition Limited

Condensed Interim Consolidated Statement of Changes in Equity.

For the six months ended 31 December 2020.

	Share Capital	Share Option Reserve	Other Reserves	Accumulated Losses	Total
Notes	NZD	NZD	NZD	NZD	NZD
Balance at 1 July 2020 (audited)	24,956,998	7,719,213		(15,741,396)	16,934,815
Loss for the period	-	-	-	(2,771,779)	(2,771,779)
Total comprehensive loss for the period	-	-	-	(2,771,779)	(2,771,779)
Transactions with Owners in their capacity as owners					
Share options issued 4.2.1	-	1,059,880	-	-	1,059,880
Total contributions by and distributions to owners	-	1,059,880	-	-	(1,711,900)
Equity as at 31 December 2020 (unaudited)	24,956,998	8,779,093	-	(18,513,176)	15,222,916

	Share Capital	Share Option Reserve	Other Reserves	Accumulated Losses	Total
	NZD	NZD	NZD	NZD	NZD
Balance at 1 July 2019 (audited)	2,384,000	-	-	(1,102,800)	1,281,200
Loss for the period	-	-	-	(11,555,518)	(11,555,518)
Total comprehensive loss for the period	-	-	-	(11,555,518)	(11,555,518)
Transactions with Owners in their capacity as owners					
Share options issued	-	5,761,103	-	-	5,761,103
Share capital issued - IPO proceeds	-	-	13,016,764	-	13,016,764
Share capital - IPO issue costs	-	-	(802,741)	-	(802,741)
Share based payment	-	-	1,809,600	-	1,809,600
Convertible debt issued upon IPO	-	-	8,493,752	-	8,493,752
Total contributions by and distributions to owners	-	5,761,103	22,517,375	-	16,722,960
Equity as at 31 December 2019 (unaudited)	2,384,000	5,761,103	22,517,375	(12,658,318)	18,004,160

Happy Valley Nutrition Limited

Condensed Interim Consolidated Statement of Financial Position.

As at 31 December 2020.

	<i>Notes</i>	<i>As at</i> 31-Dec-20 NZD (unaudited)	<i>As at</i> 30-Jun-20 NZD (audited)
Current Assets			
Cash and Cash Equivalents		6,070,453	9,280,325
Other Current Assets		175,984	277,067
Total Current Assets		6,246,437	9,557,392
Non-Current Assets			
Property, Plant and Equipment	3.1	9,604,708	7,865,120
Total Non-Current Assets		9,604,708	7,865,120
TOTAL ASSETS		15,851,145	17,422,512
Current Liabilities			
Trade and Other Payables		628,229	487,697
Total Current Liabilities		628,229	487,697
TOTAL LIABILITIES		628,229	487,697
NET ASSETS		15,222,916	16,934,815
Equity			
Share Capital		24,956,999	24,956,999
Share Options Reserve	4.2.1	8,779,093	7,719,213
Accumulated Losses		(18,513,176)	(15,741,396)
TOTAL EQUITY		15,222,916	16,934,815

Happy Valley Nutrition Limited

Condensed Interim Consolidated Statement of Cash Flows.

For the six months ended 31 December 2020.

	Period Ended	
	31-Dec-20	31-Dec-19
Notes	NZD	NZD
	(unaudited)	(unaudited)
Cash Flows from Operating Activities		
Payments to Suppliers and Employees	(1,346,574)	(1,150,982)
Interest received	21,972	2,068
Cash receipts from other operating activities	-	(15,699)
Tax paid	-	-
Net Cash Flows from Operating Activities	(1,324,601)	(1,164,613)
Cash Flows from Investing Activities		
Payment for property, plant and equipment	(1,832,034)	(598,595)
Net Cash Flows from Investing Activities	(1,832,034)	(598,595)
Cash Flows from Financing Activities		
Proceeds from Share Issue	-	13,016,764
Share Issue Costs	-	(16,119)
Direct costs paid on borrowings	(53,237)	-
Net proceeds from Convertible Notes and Loans	-	801,900
Net Cash Flows from Financing Activities	(53,237)	13,802,545
Net (decrease)/increase in cash	(3,209,872)	12,039,337
Foreign exchange adjustment	-	-
Net (decrease)/increase in cash	(3,209,872)	12,039,337
Cash at beginning of the period*	9,280,325	1,362,162
Cash at end of the period*	6,070,453	13,401,499

* Cash and cash equivalents includes cash and short-term highly liquid investments. This including short-term deposits with a maturity of six months or less from the date of acquisition which are convertible to known amounts of cash with only an insignificant risk of a change in value.

Happy Valley Nutrition Limited

Notes to the Condensed Interim Consolidated Financial Statements.

For the six months ended 31 December 2020.

Reporting Entity

The unaudited Condensed Interim Consolidated Financial Statements presented are those of Happy Valley Nutrition Limited ("HVM" or "the Company") and its subsidiary (together, the "Group"). The Company is an ASX listed public company limited by shares, incorporated and domiciled in New Zealand. The Company's purpose is to plan and potentially develop a nutritional grade, formulaic milk processing, blending and packaging facility that produces infant milk formula and other nutritional products for sale in the global export markets.

The Company is a for-profit entity, registered in New Zealand under the Companies Act 1993.

The Condensed Interim Consolidated Financial Statements were authorised by the Board of Directors on 28 February 2021.

The comparative periods for the six months ended 31 December 2019 and year ended 30 June 2020 were audited by another auditor who expressed an unmodified review and audit opinion respectively.

Basis of preparation and significant accounting policies

Statement of Compliance and basis of preparation

The Condensed Interim Consolidated Financial Statements for the six months ended 31 December 2020 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and comply with New Zealand International Accounting Standard IAS 34 *Interim Financial Reporting* (NZ IAS 34), as appropriate for for-profit oriented entities. Compliance with NZ IAS 34 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

These Condensed Interim Consolidated Financial Statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020.

Changes in Accounting Policies

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Certain comparatives have been realigned to conform to the presentation adopted in the current condensed interim consolidated financial statements.

First time presentation of consolidated financial statements

During the period the Company incorporated its first subsidiary, being Five Redland Road Limited, a company incorporated and domiciled in New Zealand, with the Company holding 100% of the shares. Accordingly, the Company's Interim financial statements for the 6 months to 31 December 2020 are the Company's first consolidated financial statements.

The Company's accounting policy with respect to the basis of consolidation is provided below:

Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest as well as other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

1. Significant events and transactions

1.1 Going Concern

The financial statements have been prepared based on a going concern basis which assumes that the Group will have sufficient cash to continue its operations for a minimum of 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 which they consider reasonably likely to affect the Group during the period of at least one year from the date the financial statements are approved.

As at 31 December 2020, the Group has no external debt or debt-like obligations. The Group has committed to capital expenditure of NZD 1.1 million (Note 5.2.1). Based on management budgets and plans, the Group has budgeted an operating loss and budgeted certain capital expenditure for the financial year ending 30 June 2021. As at 31 December 2020, the Company had NZD 6.07 million of cash and cash equivalents in the bank which, together with the capital raise referred to below, is sufficient to fund the budgeted operating loss and budgeted capital expenditure.

Land Acquisition and Earthworks

Prior to settling land acquisitions of NZD 7.76 million (Note 5.2.2) and completing earthworks, an additional capital raise is required. The additional capital raising process commenced in the first half of FY 2021 was successfully completed on 19 February 2021 (note 5.4).

Future Business Development and Construction of the Facility

The Group also needs to raise further funding (debt or equity) to advance the business and enable construction of the Facility. The Group still needs to:

- Secure additional funding to fund construction and working capital;
- Obtain additional resource consents and permits regulatory approvals, licenses and/or renewals to build and operate the Facility;
- Secure long-term agreement(s) with strategic partner(s) and milk supply agreements on favourable commercial terms; and
- Complete construction and commissioning of the Facility within estimated timeframes and budgets.

In the event that the Group is not able to raise sufficient additional funding for the future business development and construction of the Facility, material uncertainty would exist that may cast significant doubt on the ability of the Group to continue as a going concern in its current configuration, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of

business. This situation could possibly impact, in particular, 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 amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

COVID-19

In March 2020, the World Health Organisation declared the outbreak of COVID-19 as a pandemic.

The Company at that point responded to the pandemic by requiring all staff to work from home, installing QR codes at all sites for staff and visitors, providing additional cleaning and personal protective equipment, and ensuring other social distancing measures were adopted.

The COVID-19 pandemic resulted in increased uncertainty for both domestic and global markets. Management assessed the impact of COVID-19 on all aspects of the Statement of Financial Position, in particular the carrying value of property, plant and equipment. Management has determined that there was no impact on the Statement of Financial Position and performance of the Company during the six months ended 31 December 2020.

2. Group performance

2.1 Revenue

The Group did not receive revenue from customer contracts during the six month period to 31 December 2020. As the Group is not trading, these condensed interim consolidated financial statements are not affected by seasonality.

The Group earns interest from funds placed on deposit with banks. Interest income on financial assets at amortised cost is earned using the effective interest method.

2.2 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.

The Group's Chief Executive Officer (CEO) is the chief operating decision maker.

3. Assets

3.1 Property, Plant & Equipment

Table 3.1 Movements in Property, Plant and Equipment

	Land	Computer & Office Equipment	Development Costs	TOTAL
	NZD	NZD	NZD	NZD
Balance at 31 December 2019 (unaudited)	914,487	4,955	5,308,111	6,227,554
Additions	439,550	15,935	1,186,282	1,641,766
Disposals	-	-	-	-
Depreciation	-	(8,581)	-	(8,581)
Balance at 30 June 2020 (audited)	1,354,037	16,691	6,494,393	7,865,120
Additions	442,406	4,807	1,436,961	1,884,174
Disposals	-	-	(139,407)	(139,407)
Depreciation	-	(5,179)	-	(5,179)
Balance at 31 December 2020 (unaudited)	1,796,443	16,318	7,791,947	9,604,708

4. Debt and Equity

4.1 Borrowings

As at the reporting date the Group does not have any debt or interest bearing liabilities.

4.2 Share-based payments

4.2.1 Employee Share Option Scheme

During the period, 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 a member of the Company's KMP upon their acceptance of employment with the Company, with the options vesting immediately with no further performance conditions to be satisfied. Once vested, the options expire 3 years from the date of vesting so long and the employee remains employed with the Company, otherwise, the vested options expire 3 months from the date that employment is terminated. Details of the options are included in the table below.
- New Milestone Options - 5 employees (including 1 members of the Company's KMP) received options, provided in 3 separate tranches with vesting conditions based on strategic, funding and production targets for the Company and a service condition associated with the continued employment of the employees. Once vested, the options expire 3 years from the date of vesting so long and the employee remains employed with the Company, otherwise, the vested options expire 3 months from the date that employment is terminated. Details of the options are included in the table below.

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

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 period, NZD 12,717 was recognised as a share-based payment expense in the profit or loss.

Option Holder	No. Options	Exercise Price AUD	Expiry date	Black-Scholes Price AUD	Total Value AUD	Total Value NZD
Key Management Personnel	250,000	0.25	3 years	0.05	11,885	12,717
Total	250,000				11,885	12,717

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 companies within the industry as HVM.

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

New Milestone Options

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

- a. **Tranche 1 Strategic:** This tranche consists of 1,060,799 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) 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. Management expects the vesting condition to be met in 3 months from the grant date. Therefore, these options have a expected expiry period of 3 years and 3 months.
- b. **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 Company or a subsidiary of the Company of an amount that is sufficient to finance the design, build and commissioning of the production Facility. The specified vesting condition is expected to be met in 9 months from the grant date. Therefore, these options have an expected expiry period of 3 years and 9 months.
- c. **Tranche 3 Production:** This tranche consists of 1,515,428 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 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.

Number of options per tranche

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
Total	1,060,799	1,212,343	1,515,428	

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 the date of granting;
- a volatility of 70% or 73%. This was based on similar companies within the industry as HVM.

The price 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, no condition had vested, and the share based payment expense recognised in the Statement of Comprehensive Income was determined by apportioning the total NZD 257,058.

Description	Tranche 1	Tranche 2	Tranche 3	Total AUD	Total NZD
Total estimated life (years)	3.3	3.8	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 amount to be accounted for period ended 31 December 2020	7,425	3,546	1,887	12,857	13,757
New CEO Options amount to be accounted for period ended 31 December 2021				11,885	12,717
Existing Milestone Options amount to be accounted for period ended 31 December 2020				965,201	1,033,405
Total amount to be accounted for period ended 31 December 2020				989,943	1,059,880

5. Other information

5.1 Related party transactions

5.1.1 Directors' Interest in Shares and Other Securities

<i>(including via related companies)</i>	31-Dec-20		
	Ordinary Shares		Options
Director	Number	%	Number
Ivan Hammerschlag	5,347,024	2.5%	28,125,000
David McCann	8,778,031	4.1%	16,831,791
Randolph van der Burgh	9,633,555	4.5%	16,831,791
Anthony Kahn	1,625,000	0.8%	5,000,000
Greg Wood	0	0.0%	2,250,000
Total	25,383,610	11.9%	69,038,582

5.1.2 Director Services Agreements

Parties	Role	Remuneration Up to 31-Dec-2020	Remuneration Post 1-Jan-2021
Ivan Hammerschlag Honeystone Pty Limited (HPL) and the Company	Non-Executive Chairman	AUD 100,000pa. (NZD 107,000) base director/chairman fees	AUD 80,000pa. (NZD 85,600) base director/chairman fees
David McCann Olwyn Ventures Limited (OVL) and the Company	Non-Executive Director	AUD 80,000pa. (NZD 85,600) base director fees AUD 80,000pa. (NZD 85,600) additional base fees to reflect the non-director services	AUD 80,000pa. (NZD 85,600) base director fees Additional base fees to reflect the non-director services terminates from 1 Jan 2021
Randolph van der Burgh Virtual CFO (VCFO) Group Limited and the Company	Non-Executive Director	AUD 80,000pa. (NZD 85,600) base director fees AUD 80,000pa. (NZD 85,600) additional base fees to reflect the non-director services	AUD 80,000pa. (NZD 85,600) base director fees Additional base fees to reflect the non-director services terminates from 1 Jan 2021
Anthony Kahn Partnership Investors Pty Limited and the Company	Independent Non-Executive Director	AUD 80,000pa. (NZD 85,600) base director fees	AUD 80,000pa. (NZD 85,600) base director fees

5.1.3 Other Related Parties (VCFO)

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 Company. The key terms of those agreements are set out in Table 5.1.3 below.

Table 5.1.3 Summary of Key Terms of Agreements with VCFO Group Limited

Services	Fees
Accounting and taxation services	Fixed monthly fee of NZD 2,250
Other services	Hourly fees for additional services on a time engaged basis
Premises (furnished)	NZD 9,208 per month rent (one-year renewable sub-lease of ground floor) NZD 792 per month for two car parks

5.1.4 Summary of payments to related parties for six month period 1 July to 31 December 2020

Description	Period Ended	Period Ended
	31-Dec-20	31-Dec-19
	NZD	NZD
	(unaudited)	(unaudited)
David McCann		
D McCann – Expenses	1,048	16,594
Olwyn Ventures Limited – Director Fees	85,736	90,090
Randolph van der Burgh		
Randolph van der Burgh – Expenses	612	1,333
VCFO Group Limited – Director Fees	85,600	90,000
VCFO Group Limited – Professional Services	74,995	144,769
Ivan Hammerschlag		
Honeystone Pty Limited - Expenses	256	-
Honeystone Pty Limited - Director Fees	53,476	43,532
Anthony Kahn		
Partnership Investors Pty Ltd - Expenses	150	-
Partnership Investors Pty Ltd - Director Fees	42,980	-
Partnership Investors Pty Ltd - Consultancy	-	64,096
Total Expenses	2,066	17,927
Total Director Fees	267,791	176,516
Total Consultancy and Professional Services	74,995	255,971
Grand Total	344,852	450,415

5.1.5 Related Party Outstanding Payables as at 31 December 2020

Contact	31-Dec-20	31-Dec-19
	NZD	NZD
Olwyn Ventures Limited	-	928
Randolph van der Burgh – Expenses	312	-
VCFO Group Limited	2,333	23,940
Total Payables	2,644	24,868

5.1.6 Related Party Outstanding Receivables as at 31 December 2020

Nil

5.2 Commitments

5.2.1 Capital commitments

As at 31 December 2020, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting of NZD 1,103,305.

Earthworks & Facility Design	Description	Total NZD	< 1 year	1 year < 5 years	> 5 years
Schick	Main Earthworks Contractor	809,875	809,875	-	-
Babbage	Project Management and Design	210,263	210,263	-	-
Other Design Consultants incl.		83,167	83,167	-	-
TOTAL		1,103,305	1,103,305	-	-

5.2.2 Conditional Sale and Purchase agreements for properties

The Company entered into conditional Sale and Purchase Agreements to acquire the properties detailed below. These agreements are subject to a number of conditions yet to be satisfied. Management expects settlement of all outstanding properties to occur during 2021.

Table 5.2.2 Conditional Sale and Purchase agreements for properties

Property	Description	Total NZD	< 1 year	1 year < 5 years	> 5 years
5 RR Lot 2	Adjacent land to main site	570,000	570,000	-	-
Waipa Meadows	Irrigation farm 1	3,190,000	1,690,000	1,000,000	500,000
Woolly Farms	Irrigation farm 2	5,500,000	5,500,000	-	-
TOTAL		9,260,000	7,760,000	1,000,000	500,000

5.2.3 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:

- 1,000m³ 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 365,000m³; and
- Maximum daily volume of water is 1,000m³.

As construction commenced in December 2020 the Company has become liable for payment under this agreement.

5.3 Contingent liabilities

There were no known contingent liabilities as at 31 December 2020 (30 June 2020).

5.4 Events after reporting date

Happy Valley Nutrition Limited announced to the ASX on Friday 19th February it had secured approximately NZD 20 million of funding primarily for the acquisition of farm land and the completion of further earthworks. The total funding package is made up of an NZD 12.7 million senior secured debt facility from a related entity of Merricks Capital Pty Ltd, and AUD 7.0 million from a private placement of secured convertible notes (Convertible Notes) to existing and new institutional, professional, and sophisticated investors (subject to receipt of subscription monies).

The funding package is subject to certain shareholder approvals and other conditions precedent.

5.4.1 Senior secured debt facility

The following is a summary of the material terms of the senior secured debt facility:

Secured Lender:	Senior	MC HVN Pty Ltd (ACN 647 698 431) a related entity of Merricks Capital Pty Ltd (CAN 126 528 005), as trustee for the MC HVN Fund (the "Senior Secured Lender").
Borrower:		Five Redland Road Limited (NZCN 8084521), a wholly owned subsidiary of the Company. The Company is entering into the Debt Facility as the guarantor.
Facility limit:		NZD 12.7 million including capitalised finance costs of up to NZD 700,000, split into two tranches of NZD 8.25 million (including capitalised finance costs of up to NZ\$700,000), and NZD 3.75 million each, with the second drawdown dependent on: <ul style="list-style-type: none"> the Secured Senior Lender obtaining an updated "as if complete" valuation of the assets of the Company and its subsidiary, Five Redland Road Limited, acceptable to the Senior Secured Lender following completion of the earthworks during late summer/autumn of CY2021; and approval by the Senior Secured Lender's credit committee.
Term:		12 months.
Interest Rate:		9.75% p.a. on funds drawn down.
Line Fee:		2.50% p.a., plus 2.50% establishment costs.
Security:		First ranking general security deed and registered mortgage over the assets of the Company and its wholly owned subsidiary, Five Redland Road Limited.
Conditions precedent:		The facility is subject to the Company's shareholders approving the facility as required by section 129 of the New Zealand Companies Act 1993 (as the facility is likely to amount to a major transaction). The Company must complement the facility agreement with additional funds by way of Convertible Notes issued to a minimum value of NZD 5 million, which condition is proposed to be satisfied via the Convertible Note raising announced as part of this release.

	<p>Any drawdown of the Debt Facility for the payment of development costs is conditional on completion of the purchases of the Waipa Meadows, Woolly Farms and Lot 2, 5 Redlands Road properties. First ranking mortgages are to be registered over those properties in favour of the Senior Secured Lender from completion.</p> <p>One of the vendors of the Waipa Meadows property is providing vendor finance of NZD 1.5 million for the purchase of the property, which is to be secured by a second ranking mortgage over the property and subordinated to the debt and security of the Senior Secured Lender.</p> <p>Drawdown under the facility agreement is subject to other conditions precedent typical for a facility of this nature.</p>
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5.4.2 Convertible Note

The following is a summary of the material terms of the Convertible Notes:

Face value of Convertible Notes:	AUD 0.20 per Convertible Note.
Number of Convertible Notes to be issued:	Up to 35,000,000.
Amount Raised:	NZD 7.4 million (AUD 7.0 million) (before associated costs).
Noteholders:	Certain existing and new institutional and sophisticated investors. The noteholders were selected by the joint lead managers to the Convertible Note raising (being Bell Potter Securities Limited, Aitken Murray Capital Partners Pty Ltd, Gleneagle Securities (Aust) Pty Limited and Shaw and Partners Limited) through a bookbuild process in consultation with the Company.
Interest Rate:	11% per annum (gross before withholding tax if applicable), capitalised every 6 months in arrears. Such interest will either be converted into fully paid ordinary shares in the Company (Shares) or paid in cash as described below. Default interest is charged at a rate of 13% per annum if the Company defaults in the payment of any monies due under the Convertible Notes.
Conversion:	<p>Each Convertible Note can be converted by the relevant noteholder in accordance with the terms of the Convertible Note.</p> <p>Convertible Notes can be converted prior to the anticipated main capital raise of the Company to fund the construction of the Facility (Main Capital Raise) on the terms of the Convertible Note Deed by a noteholder giving notice to convert their Convertible Notes (including any capitalised interest and any accrued but uncapitalised interest) at the face value per Share.</p> <p>Each Convertible Note entitles the relevant noteholder to convert the Convertible Note and any capitalised interest and any accrued but uncapitalised interest at the then applicable conversion price into Shares.</p>

	<p>However, a noteholder may only exercise its conversion rights if such conversion is for all Convertible Notes held by that noteholder.</p> <p>The conversion price for the Convertible Notes is variable, being:</p> <ul style="list-style-type: none"> • AUD 0.20 at any time; or • at the completion of the Main Capital Raise (if nominated at the commencement of the Main Capital Raise), at the lower of AUD 0.20, and a 20% discount to the issue price of Shares under the Main Capital Raise. <p>The Shares to be issued on conversion of a Convertible Note will be issued to the relevant noteholder.</p>
Maturity Date:	36 months from issue of the Convertible Notes.
Redemption:	<p>Where the Main Capital Raise occurs prior to the Maturity Date: Once the Company has confirmed the terms of the Main Capital Raise (in its absolute discretion), each noteholder is required to nominate whether it wishes to convert all Convertible Notes held by that noteholder (including all capitalised interest and accrued but uncapitalised) at completion of the Main Capital Raise into Shares at the applicable conversion price or to be redeemed for cash out of the proceeds of the Main Capital Raise. Where a noteholder elects for their Convertible Notes to be redeemed for cash out of the proceeds of the Main Capital Raise, the redemption amount payable to that noteholder will be equal to a 10% premium to the aggregate face value of the applicable Convertible Notes plus all capitalised interest and all accrued but uncapitalised interest on the Convertible Notes, provided that a minimum amount of 12 months' interest must be paid. If no nomination is received from a noteholder, the Company is entitled to decide whether the Convertible Notes (including any capitalised interest and any accrued but uncapitalised interest) will be converted into Shares or redeemed for cash as per above.</p> <p>Where the Main Capital Raise does not occur prior to the Maturity Date: If the Company has not confirmed the terms of the Main Capital Raise by the Maturity Date, the Company must redeem for cash all Convertible Notes that have not been converted at their face value plus any capitalised interest and any accrued but uncapitalised interest.</p> <p>Change of Control Event: If a 'Change of Control Event' occurs before the Company has confirmed the terms of the Main Capital Raise, the Company may decide (in its absolute discretion) by notice to the noteholders that either of the following is to occur in respect of all of the Convertible Notes:</p> <ul style="list-style-type: none"> • the Convertible Notes (including any capitalised interest and any accrued but uncapitalised interest) are to be converted into Shares at A\$0.20 per Share; or • the Convertible Notes (including any capitalised interest and any accrued but uncapitalised interest) are to be redeemed for a redemption amount equal to a 10% premium to the aggregate face value of the applicable Convertible Notes plus any capitalised interest and any accrued but uncapitalised interest on the Convertible Notes, provided that a minimum amount of 12 months' interest must be paid. <p>A 'Change of Control Event' means any event, including a merger, acquisition, sale, change of voting control of the Company, takeover bid or</p>

	<p>scheme or arrangement pursuant to which any person, or persons acting together, acquire at least 50% of the issued ordinary share capital of the Company, or the sale of all, or substantially all, of the Company's assets other than to a subsidiary.</p> <p>Events of Default: Certain standard 'Events of Default' apply which, if they occur, entitle noteholders whose outstanding amounts owing under the Convertible Notes aggregate to at least 66$\frac{2}{3}$% of the total outstanding amounts owing under the Convertible Notes of all noteholders, to elect to require the Company immediately to repay all outstanding amounts owing under the Convertible Notes. An 'Event of Default' includes an unremedied breach of a material obligation of, or a representation or warranty provided by, the Company, or an insolvency event occurring in respect of the Company.</p>
<p>Security and Priority:</p>	<p>The Convertible Notes will be secured under a subordinated general security deed, a second ranking security over all of the non-land assets of the Company and its subsidiary, Five Redland Road Limited, subject to a security trust deed with a security trustee (being Gleneagle Securities Nominees Pty Limited). The Convertible Notes and subordinated general security deed will be fully sub-ordinated to, and rank behind, the Debt Facility and related first-ranking senior general security deed in accordance with an intercreditor deed put in place with the Senior Secured Lender.</p> <p>The Convertible Notes will rank pari passu among themselves.</p>
<p>Other:</p>	<p>Voting rights: None, although once converted the Convertible Notes will have all the rights attached to Shares.</p> <p>Restrictions on the Company: While the Convertible Notes remain on issue, the Company must not:</p> <ul style="list-style-type: none"> • increase its debt (except under the Main Capital Raise or by extending the Debt Facility with the Senior Secured Lender); and • declare any dividends or return of capital to shareholders. <p>Quotation and transferability: The Convertible Notes will not be quoted on the ASX. The Convertible Notes are not transferable, except as may be agreed by the Company in its absolute discretion (and only if such transfer complies with all applicable laws and directives of the jurisdiction where the transfer takes place and otherwise). The Company will apply for quotation on the ASX of each Share issued on conversion of a Convertible Note.</p> <p>Limitations on conversion: A noteholder may not be issued any Shares on conversion of a Convertible Note if, as a consequence of the issue:</p> <ul style="list-style-type: none"> • the noteholder and its associates would acquire more than 20% of the 'voting rights' in the Company as determined in accordance with the New Zealand Takeovers Code; or • the noteholder and its associates would acquire 'a more than 25% ownership or control interest' in the Company as determined in accordance with the New Zealand Overseas Investment Act 2005. <p>Any Convertible Notes that are prohibited from being converted into Shares due to the above limitation are to be redeemed in accordance with the terms of the Convertible Notes.</p>

<p>Conditions precedent:</p>	<p>The issue of the Convertible Notes is conditional on the Company entering into the Debt Facility and related finance documents with the Senior Secured Lender, and the Company receiving applications for subscriptions for Convertible Notes of at least AUD 5,200,000.</p> <p>The issue of the Convertible Notes is subject to certain other conditions precedent, including the Company's shareholders approving the Debt Facility and related finance documents as described above and the issue of the Convertible Notes, including for the purposes of ASX Listing Rule 7.1 and section 129 of the New Zealand Companies Act 1993 (as the issue of the Convertible Notes is likely to amount to a major transaction).</p> <p>In addition, the Company's shareholders will be asked to approve the proposed issue of up to AUD 150,000 of the Convertible Notes to the Company's Chairman, Ivan Hammerschlag, and up to AUD 100,000 of the Convertible Notes to Non-Executive Director, Randolph van der Burgh, (or their nominees) for the purposes of ASX Listing Rule 10.11 (Director Convertible Note Issue). If such shareholder approvals are not obtained for the Director Convertible Note Issue, then the Company will not accept the applications for the Director Convertible Note Issue and the Company will waive satisfaction of the relevant conditions in the convertible note deed but will otherwise proceed with the issue of the Convertible Notes subject to satisfaction of the other conditions.</p> <p>If the above conditions are not satisfied (or waived to the extent possible) by 31 March 2021, the issue of Convertible Notes will not proceed, and the subscription monies will be refunded.</p>
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Directors declaration

Happy Valley Nutrition Limited

In accordance with a resolution of the directors of Happy Valley Nutrition Limited, I state that:

1. In the opinion of the directors:
 - a. The Condensed Interim Consolidated Financial Statements for the six months ended 31 December 2020 comply with International Financial Reporting Standards and give a true and fair view.
 - b. There are reasonable grounds to believe that the Company will be able to pay its debts when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors by CEO and CFO of Happy Valley Nutrition Limited.



Ivan Hammerschlag
Chairman
25 February 2021



Independent Review Report

To the shareholders of Happy Valley Nutrition Limited

Report on the condensed interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of Happy Valley Nutrition Limited and its subsidiary ('the group') on pages 4 to 21 do not:

- i. present, in all material respects the group's financial position as at 31 December 2020 and its financial performance and cash flows for the period ended on that date in compliance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying condensed interim consolidated financial statements which comprise:

- the condensed interim consolidated statement of financial position as at 31 December 2020;
- the condensed interim consolidated statement of comprehensive income, changes in equity and cash flows for the period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of condensed interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Happy Valley Nutrition Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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



MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 1.1 Going Concern in the condensed interim consolidated financial statements, which indicates that the group's ability to continue as a going concern is dependent on the successful achievement of certain future milestones relating to funding, resource consents, securing long-term agreements with strategic partners and milk suppliers, and construction and commissioning of the formulaic milk processing, blending, and packaging facility.

As stated in Note 1.1, these matters indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



OTHER MATTER

The financial statements of Happy Valley Nutrition Limited for the six-month period ended 31 December 2019 and for the year ended 30 June 2020 were audited by another auditor who expressed an unmodified review conclusion and an unmodified audit opinion on those statements on 28 February 2020 and 23 September 2020 respectively.



USE OF THIS INDEPENDENT REVIEW REPORT

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our review work, this report, or any of the opinions we have formed.



RESPONSIBILITIES OF THE DIRECTORS FOR THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the condensed interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these condensed interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Christchurch

25 February 2021

Corporate Directory

Company

Happy Valley Nutrition Limited

Board of Directors

Ivan Hammerschlag – Non-Executive Chairman

Greg Wood – Managing Director and CEO

David McCann – Non-Executive Director

Randolph van der Burgh – Non-Executive Director

Anthony Kahn – Non-Executive Director

Company Secretary

Leanne Ralph

Registered Office

New Zealand

Ground Floor

96 St George Bay Road

Parnell Auckland 1052

New Zealand

Phone: +64 9 884 1470

Australia

Level 27

25 Bligh Street

Sydney NSW 2000

Australia

Phone: +64 9 884 1470

Principal Bankers

ASB Bank

12 Jellicoe Street

Auckland 1010

New Zealand

Australian Legal Adviser

K&L Gates

Level 31

1 O'Connell Street

Sydney NSW 2000

Australia

Arnold Bloch Leibler

Level 24, Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia

New Zealand Legal Adviser

DLA Piper
205 Queen Street
Auckland 1010
New Zealand

Share Registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Australia
Phone: +61 1300 554 474

Auditor

KPMG
18 Viaduct Harbour Avenue
PO Box 1584
Auckland 1140
New Zealand

ASX Code

Happy Valley Nutrition Limited shares are listed on the Australian Securities Exchange (ASX): ASX code "HVM"

Website

www.hvn.co.nz