Good Spirits Hospitality Limited

Financial Statements

For the year ended 30 June 2021

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Directors Approval of Consolidated Financial Statements for the year ended 30 June 2021.

Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 24 September 2021.

Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements for Good Spirits Hospitality Limited for the year ended 30 June 2021.

Duncan Makeig Chairman	Matt Adams Chair Audit & Risk Committee

24 September 2021

For and on behalf of the Board of Directors

	Note	2021 $	2020 $
Revenue	6	23,315,719	23,437,687
Government grants	2.20	942,820	1,365,567
Other income – services provided	23.1	160,254	198,452
Interest income		3,226	5,521
Changes in inventories of finished goods		(5,153,464)	(5,370,427)
Employee benefits expense (Wage & salaries)		(8,152,849)	(7,977,961)
Employee benefits expense (Kiwi saver contributions)		(130,732)	(112,364)
Depreciation expense	14	(824,100)	(841,061)
Depreciation of right-of-use assets	13	(1,359,122)	(1,425,489)
Interest expense – financial liabilities at amortised cost		(2,675,983)	(3,415,495)
Bank Fees		(15,702)	(23,058)
Interest on leases	13	(1,232,128)	(1,299,133)
Other expenses	8	(5,213,985)	(5,197,760)
Significant items:			
Restructuring and advisory costs		(164,595)	(626,022)
Modification of loan	3.8	552,762	-
Financial guarantee liability expense	29	(241,011)	-
Right-of-use assets impairment	13.1	(485,197)	-
Property, plant and equipment impairment	14	-	(59,578)
Goodwill impairment	5	(5,150,321)	(4,855,744)
Operating loss before income tax		**(5,824,408)**	**(6,196,865)**
Income tax (expense) / benefit	9	(13,257)	363,484
Loss for the year attributable to owners of the Parent Company		**(5,837,665)**	**(5,833,381)**
Total comprehensive loss for the year attributable to owners		**(5,837,665)**	**(5,833,381)**

	Note	2021 $	2020 $
Earnings per share / losses from continuing operations attributable to equity holders of the Parent Company during the period:			
Basic EPS from loss for the period	21	(10.27)	(11.56)
Diluted EPS from loss for the period	21	(10.27)	(11.56)

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	Note	2021 $	2020 $
ASSETS			
Cash and cash equivalents	28	2,578,837	2,796,583
Restricted cash	28	266,249	266,249
Trade and other receivables	11	254,401	118,850
Prepayments		264,324	320,716
Inventories	12	455,067	384,979
Current tax asset	10	3,769	104
Total current assets		**3,822,647**	**3,887,481**
Property, plant and equipment	14	5,072,115	5,167,299
Right-of-use assets	13	12,444,350	13,484,874
Deferred tax asset	10	1,019,449	1,032,706
Intangible assets	5	23,742,788	28,893,109
Total non-current assets		**42,278,702**	**48,577,988**
TOTAL ASSETS		**46,101,349**	**52,465,469**
LIABILITIES			
Trade and other payables	16	2,192,564	2,674,620
Employee Entitlements	18	388,230	428,994
GST Payable		264,199	439,580
Lease liabilities	13	930,735	701,578
Financial guarantee liability	29	110,120	-
Borrowings - current	19	-	715,187
Total current liabilities		**3,885,848**	**4,959,959**
Provisions for make-good obligations	17	600,000	600,000
Employee entitlements	18	377,300	209,265
Lease liabilities	13	13,080,131	13,331,763
Financial guarantee liability	29	22,757	-
Borrowings - non-current	19	26,861,018	26,527,680
Total non-current liabilities		**40,941,206**	**40,668,708**
TOTAL LIABILITIES		**44,827,054**	**45,628,667**
NET ASSETS		**1,274,295**	**6,836,802**
EQUITY			
Share Capital	20.1	35,179,408	34,904,250
Accumulated Losses		(33,905,113)	(28,067,448)
TOTAL EQUITY		**1,274,295**	**6,836,802**

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	Note	Share Capital	Share Capital Reserve	Accumulated Losses	Total Equity
		$	$	$	$
Balance at 1 July 2019		34,136,660	780,033	(22,234,067)	12,682,626
Profit for the year		-	-	(5,833,381)	(5,833,381)
Total comprehensive profit for the year		-	-	(5,833,381)	(5,833,381)
Transactions with owners:					
Issue of shares from exercise of warrants after costs	20.1	767,590	(780,033)	-	(12,443)
Total contributions by / (distributions) to owners		767,590	(780,033)	-	(12,443)
Balance at 30 June 2020		34,904,250	-	(28,067,448)	6,836,802
Profit for the year		-	-	(5,837,665)	(5,837,665)
Total comprehensive profit for the year		-	-	(5,837,665)	(5,837,665)
Transactions with owners:					
Share-based payment	20.1	275,158	-	-	275,158
Total contributions by / (distributions) to owners		275,158	-	-	275,158
Balance at 30 June 2021		35,179,408	-	(33,905,113)	1,274,295

	Note	2021 $	2020 $
Receipts from customers		23,180,168	23,434,775
Government grants	2.20	942,820	1,365,567
Other Income	23.1	160,254	81,066
Interest received		3,226	5,521
Payments to suppliers and employees		(19,279,501)	(18,089,259)
Interest expenses		(2,072,423)	(1,384,447)
Bank fees		(15,702)	(23,058)
Cash flows from continuing operations prior to significant items		**2,918,842**	**5,390,165**
Cash outflows from restructuring and advisory costs		(164,596)	(626,022)
Financial guarantee liability	29	(108,134)	-
Net cash inflows from operating activities	27.1	**2,646,112**	**4,764,143**
Purchase of property, plant and equipment		(731,151)	(2,527,801)
Net cash outflows from investing activities		**(731,151)**	**(2,527,801)**
Repayment of borrowings		-	(833,333)
Cash outflows from refinancing costs	19.1	(156,071)	(144,275)
Interest paid on lease liabilities		(1,232,128)	(1,299,133)
Principal paid on lease liabilities		(744,508)	(515,056)
Bank borrowings drawn down		-	2,050,000
Net cash outflows from financing activities	27.2	**(2,132,707)**	**(741,797)**
Net (decrease) / increase in cash and cash equivalents		(217,746)	1,494,545
Cash and cash equivalents at beginning of the year		2,796,583	1,302,038
Cash and cash equivalents at end of the year	28	**2,578,837**	**2,796,583**

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1 GENERAL INFORMATION

Good Spirits Hospitality Limited is an investment company with shareholdings in New Zealand businesses in the hospitality sector.

1.1 Entities reporting

These financial statements are for Good Spirits Hospitality Limited ("GSH") and its subsidiaries (together "the Group").

The Group is considered a for profit-oriented entity for financial reporting purposes.

1.2 Statutory base

Good Spirits Hospitality Limited is registered in New Zealand under the Companies Act 1993 and is an FMC reporting entity under part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 and the NZX Listing Rules as applicable to the NZX Main Board.

Good Spirits Hospitality is domiciled and incorporated in New Zealand. Its registered office is at Ground Floor, Building B, Ascot Business Park, 95 Ascot Avenue, Greenlane, Auckland 1051.

There have been no changes made to accounting policies unless otherwise stated.

1.3 Going concern

For the year ended 30 June 2021 Good Spirits Hospitality Limited ('the Company') and its subsidiaries (collectively "the Group") reported a net loss before tax of $5.8m (2020: $6.2m loss) and its free cash flow (operating and investing cash flows) was an inflow of $1.9m (2020: ($2.2m) inflow).

Pacific Dawn Limited (PDL) is the primary lender to the Company with outstanding facilities of $26.9m and are a major shareholder in the Group, holding 24.99% of the Group's share capital. In April 2021, the Group successfully finalised its covenant regime, now being a minimum 12-month EBITDA (adjusted for abnormal items) requirement, tested on a quarterly basis. The Group successfully met its covenants for the quarter ending 30 June 2021. In September 2021, the Group in conjunction with PDL, have extended the date for repayment of the facility until December 2022.

The COVID-19 challenges experienced during the year ended 30 June 2021, makes it difficult to forecast future performance of the Group's operations. The Directors acknowledge that because COVID is beyond the Group's control it may impact forecasts for the Group and therefore financial covenants. However, during the two and a half month period of COVID impacted trading in 2020, the Group did not require any additional funding from PDL and PDL supported the plans put in place by the Group to deal with the impact of lockdown.

The Directors have approved the current financial forecasts which show that the Group will be able to meet its obligations as and when they fall due and will comply with covenant requirements, post abnormal COVID trading and other normalisations for abnormal items. It is anticipated that the impact of COVID-19 and the ongoing restrictions through the different Alert levels on forecasts will be considered as an abnormal event for covenant testing purposes. The Directors acknowledge that an element of risk and uncertainty concerning the forecasts remain and the banks ongoing acceptance of abnormal adjustments for covenant testing. The risk and uncertainty are primarily centred on the length of time that Auckland will remain in lockdown Level's 4 and 3, and in the recently imposed revised Level 2 restrictions.

The potential for COVID to negatively impact the Group's ability to achieve forecasts and comply with banking covenants, presents a material uncertainty which may cast significant doubt on the Group's ability to continue as a Going Concern.

It is the considered view of the Board of Directors that they have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future and that the Group will remain in compliance with the re-negotiated banking facility over this time. For this reason, the Board continue to adopt the going concern assumption in preparing the financial statements for the year ended 30 June 2021.

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The Directors have reached their going concern conclusion having regard to circumstances which they consider likely to affect the Group during the period of one year from the date of approval of the financial statements and to circumstances which it knows will occur after that date which could affect the validity of the going concern assumption. The key considerations the Board have reviewed are set out below:

a) Ongoing Bank Support (Pacific Dawn Limited)
   i. The Board considers the Pacific Dawn facility, as renegotiated will be available to support the Groups forecast trading operations throughout the 12 month period from date of signing of the financial statements.
   ii. The Directors anticipate that the impact of COVID-19 and the ongoing restrictions through the different alert levels on forecasts will be accepted as an abnormal event (in the context of the EBITDA testing) and the Bank will continue to support the Group as it has historically.
   iii. The prior actions of PDL, namely the provision of waivers during previous COVID-19 lockdowns, recent facility term extensions and PDL's recent increase in shareholding in the Company illustrate a historic willingness to work with and support the Company, which is assumed to continue in the future.

b) Current lockdown (COVID-19)
   Management have updated the forecasts to reflect the current lockdown and the Directors are comfortable that the forecast are achievable. This is based on the COVID response plan implemented by the Group and the additional wage subsidy received during the current lockdown. The forecasts anticipate that the Group will be trading in October 2021 based on the increasing trajectory of the vaccination rollout and the decreasing number of daily COVID cases.

The financial statements do not include any adjustments that may be required to reflect the situation should the Group be unable to continue as a going concern. Such adjustments may include realising assets at other than the amounts at which they are recorded in the financial statements. In addition, the Group may have to provide for further liabilities that may arise and to reclassify non-current assets and liabilities as current.

Whilst there are inherent uncertainties as described above, it is the Directors view that the Group will be able to pay its debts and commitments as they fall due in the 12 months from the signing of these financial statements.

1.4 Commitments

The Directors are comfortable the Group's commitments (if any) that will be incurred in the next 12 months are able to be met out of its established facilities and cash flows from its operating activities.

1.5 Contingencies

See note 26 for contingencies at year-end. The Group does not consider that the contingencies affects the appropriateness of the going concern assumption in the preparation of the financial report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, which is the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS). They also comply with International Financial Reporting Standards.

These financial statements have been prepared under the historical cost convention.

2.2 Principles of consolidation

The consolidated financial statements incorporate the financial statements of all subsidiaries of Good Spirits Hospitality Limited ("Parent") as at the reporting date. Good Spirits Hospitality Limited and its subsidiaries together are referred to in these financial statements as the "Group".

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Subsidiaries are all those entities over which the Group has control. 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. Subsidiaries are included in the consolidated financial statements using the acquisition method of consolidation. They are fully consolidated from the date on which control is transferred to the Parent. They are de-consolidated from the date that control ceases or they cease to be part of the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.3 Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-making body. The chief operating decision-making body responsible for allocating resources and assessing performance of operating segments is the Board of Directors.

2.4 Functional and presentation currency

The functional currency of GSH is New Zealand Dollars ($) and this is also the Group's presentation currency. Amounts are rounded to the nearest dollar. Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rate at reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

2.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, excluding Goods and Services Tax (GST) and discounts, to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured.

Revenue consists of bar sales, gaming income and door cover charges. Bar sales are recognised when the Group sells to the customer and are usually in cash and the recorded revenue is the amount of the sale, net of any applicable discounts. Gaming income is recognised in revenue in the period to which it relates. Door cover charges are recognised when they are received. All revenue streams are recognised at a point in time.

2.6 Interest bearing liabilities

Interest bearing loans and borrowings are initially measured at fair value, less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.7 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Short term deposits with an original maturity of greater than three months are also included within cash and cash equivalents if the term deposit can be terminated at an earlier date, without incurring penalties.

Restricted cash comprises deposits held by the BNZ Bank on behalf of GSH.

2.8 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Group has identified the gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors in New Zealand, where the Group operates.

2.9 Inventories

Raw materials and finished goods are stated at the lower of cost, determined on a weighted average basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Supplier rebates are recognised against inventories when the goods are received by the bars.

2.10 Goods and service tax

The statement of profit & loss and other comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2.11 Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributed to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

The income tax expense or revenue attributable to amounts recognised directly in equity are also recognised directly in equity.

(a) Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- Investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

When there is uncertainty concerning the Group's filing position regarding the tax bases of assets or liabilities, the taxability of certain transactions or other tax-related assumptions, then the Group:

- Considers whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Determines if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company, or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

2.12 Property, plant and equipment

Property, plant and equipment is initially recorded at cost, including costs directly attributable to bring the asset to its working condition and thereafter at cost, less accumulated depreciation and any accumulated impairment losses. Any expenditure that increases the economic benefits derived from the asset is capitalised. Expenditure on repairs and maintenance that does not increase the economic benefits is expensed in the period it occurs.

Depreciation of property, plant and equipment is calculated using the diminishing value method to allocate their cost, net of their residual values, over their estimated useful lives. The rates are as follows:

Fixtures plant and office equipment	8 - 50%
Vehicles	12 - 30%
Computer equipment	20 - 50%
Lease improvements	4 - 20%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

As the lease is will not be extended at the O'Hagan's venue (see Note 5), the remaining book value at this venue will be transferred to other parts of the business or sold externally.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

2.13 Goodwill

Goodwill represents the excess of the consideration transferred in an acquisition over the fair value of the Group's interest in the net identifiable assets, liabilities and contingent liabilities of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each cash generating unit (CGU) or groups of CGU's that is expected to benefit from the synergies of the combination. Each CGU or group of CGU's to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the CGU level.

Goodwill impairment tests are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.14 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group tests the carrying amounts of its tangible and intangible assets, other than inventories and deferred tax assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

2.15 Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group by suppliers in the ordinary course of business prior to the end of the financial year that are unpaid and arise when the Group become obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within normal business trading terms.

2.16 Employee entitlements

Liabilities for wages, salaries and annual leave are recognised in the provision for employee benefits and measured at the amounts expected to be paid when the liabilities are settled. The employee benefit liability expected to be wholly settled within twelve months from reporting date is recognised in current liabilities.

2.17 Leases

In applying NZ IFRS 16 the Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they are dependent on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability may also include:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and

- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.
When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

2.17.1 <u>COVID-19 related rent concessions</u>

In June 2020, the New Zealand Accounting Standards Board provided a practical expedient to NZ IFRS 16. The expedient permits Tier-1 and Tier-2 reporting entities not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions as lease modifications and, instead, to account for those rent concessions as reassessments. The Group has elected to adopt the expedient. See note 13 for the Group's rent concession during the reporting period.

2.18 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is computed based on the weighted average number of ordinary shares outstanding during the period. Diluted EPS is computed based on the weighted average number of ordinary shares plus the effect of dilutive potential ordinary shares outstanding during the period.

2.20 Government grants

Government grants are recognised as other income at their fair value where there is reasonable assurance that the grant will be received, and the Company will comply with all attached conditions. The Company received Government grants in the form of COVID-19 related employee wage subsidies received from the Ministry of Social Development (MSD) and the IRD resurgence support payment.

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	2021	2020
Revenue recognised by the Company include:	**$**	**$**
COVID-19 employee wage subsidy	905,429	1,365,567
IRD resurgence support payment	37,391	-
	942,820	**1,365,567**

2.21 Significant items

Transactions are classified as significant items when they meet certain criteria approved by the Group's Audit and Risk Committee. Significant items are determined in accordance with the principles of consistency, relevance and clarity. Transactions considered for classification as significant items include restructuring costs; acquisition and disposal costs; impairment or reversal of impairment of assets; business integration; and transactions or events outside of the Group's ongoing operations that have a significant impact on reported profit.

2.22 Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument (see note 29).

Financial guarantees issued by the Group are initially measured at their fair value and are included in 'Financial guarantee liability' (see note 24.5). Subsequent to initial recognition, financial guarantees are recognised at the higher of the amount of the loss allowance determined using the Expected Credit Loss Allowance and the amount initially recognised less any associated income (if applicable).

2.23 Share based payments – non employees

The Group measures the cost of share-based transactions with non-employees by reference to the fair value at the date of issue. The fair value is determined in reference to NZ IFRS 9 which require a number of assumptions, see note 3.8.

3 CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

In application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
The following are the Group's critical judgements and estimates:

3.1 Carrying value of goodwill

Impairment tests are performed by the Group to assess the carrying value of goodwill. These tests include making assumptions in relation to the future performance and growth as well as determining the period of expected benefits and appropriate discount rates in the value in use models. Refer to Note 5 for key assumptions made.

The carrying value of the Group's assets principally rely on the operating performance and an expectation of continued growth in bar sales. If those growth expectations change, or the expected profitability of the Group otherwise changes, there may be impairments of the Group and/or Group's assets in future periods.

The goodwill impairment tests assume continuity in leases which are due to expire within the forecast period upon which Discount Cash Flow calculations are prepared.

Management and the board allocates head-office costs which are believed to be directly attributable to the running of the bars and ought to be included in the assessment of the Cash Generating Unit's carrying amount. Head office costs which are not deemed to relate to the respective bars, are not allocated to Cash Generating Units as part of impairment tests.

3.2 Going concern

The Directors have disclosed in note 1.3 the uncertainties in relation to the going concern assumption and the basis on which the Directors have concluded that the Group is a going concern.

3.3 Tax

The Group has recognised in note 10 the deferred tax asset of tax losses on the basis of the going concern assumption and the satisfaction of shareholder continuity or same business test requirements of the tax legislation. Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered from future expected profits.

3.4 COVID-19 pandemic

As a result of the ongoing COVID-19 pandemic, the Group has experienced reduced demand during the year due to the overall reduction in economic activity. The pandemic has also impacted a number of financial statement areas, as outlined in the table below:

Financial statement area	Summary of COVID-19 impacts	Note
Going concern	The directors have concluded that the Company is a going concern, but there are uncertainties in relation to that conclusion.	1.3
Government grants	The Group received the funds from the New Zealand Government's wage subsidy scheme, income from the wage subsidy has been accounted for under NZ IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.	2.20
Rent abatements	The Group has elected to adopt the COVID-19-Related Rent Concession practical expedient issued by New Zealand External Reporting Board in June 2020.	2.17.1
Goodwill	Goodwill is valued using the value in use model. An assessment of the carrying value at the O'Hagan's venue has resulted in an impairment during the year. Assessments preformed on other venues has not resulted in any impairment.	5
Property, plant and equipment	Property, plant and equipment are stated at historical cost less depreciation and impairment. Following recovery of operations during the year, COVID-19 and the resulting economic impacts, as assessed at this reporting period, no impairment was identified. As COVID would be an external indicator to test for impairment. The Group has therefore concluded that no impairment is required.	14
Right-of-use assets	The Group has performed an assessment of expected recoverable value of these assets, through ongoing operations. The ongoing effects of COVID-19 and increased competition at one venue across the Group has resulted in revenue reduction. Therefore, the Group has resolved to impair this asset.	13.1

To date the Group has undertaken the following steps to reduce the impact of COVID-19 on its operations

- Reduced expenditure in non-critical business areas
- Received wage subsidies and other business support measures made available by the New Zealand Government. Refer to note 2.20.

3.5 Interest bearing liabilities

The Directors have disclosed in note 19 the capitalisation of financing costs against borrowings, which will be amortised to interest expense over the three year life of the facility.

3.6 Provision for lease obligations

The Directors have disclosed in note 17 the estimated provision for lease obligations which covers the make good liability at the end of a lease.

3.7 NZ IFRS 16 Leases

In applying NZ IFRS 16, a number of judgements and estimates have been made. The Group has assumed that virtually all extension options on leases will be exercised which is consistent with the business model and past practice as the Group has consistently exercised rights of renewal.

3.8 Loan modification

As a result of the Group amending its loan facilities during the year, GSH issued 3,668,768 ordinary shares of GSH on the 29th September 2020 to Pacific Dawn as consideration for the amendments to the facility as an equity settled share-based payment transaction. The implied value of the modification was not ready available, therefore the value of the shares issued ($275,158 - see note 19.1) has been determined by the quantity of shares issued multiplied by the share price on the date of issue, as fair value of the services could not be readily determined.

In accounting for the amendment to the loan facility, IFRS 9 – Financial instruments requires GSH to determine whether the loan modification is 'substantial' or 'non-substantial' in nature. GSH applied a quantitative assessment, a comparison of the net present value of the cash flows under the new terms discounted at the original effective interest rate was made with the carrying amount of the original debt. A difference of greater than 10% would be classified as a substantial modification. GSH's assessment resulted in a difference of under 10%, hence the loan modification has been accounted for as 'non-substantial' in nature. This results in the share-based payment ($275,158 – see note 20.1) incurred being amortised over the remaining term of the facility.

In addition, under IFRS 9 the quantitative assessment requires that the gain or loss between the original contractual cash flows and the modified cash flows are to be recognised in the Consolidated Statement of Profit & Loss. The Group's assessment has resulted in a gain of $552,762, see note 19.

3.9 Financial guarantee liability

The Group provides a financial guarantee to a landlord relating to a venue the group previously operated (see note 29). In determining the expected loss arising from the financial guarantee, the Group has taken into consideration the probability and expected timing of default by the current tenant. This probability is based on potential COVID resurgence, and site visits performed by the Group.

4 NEW STANDARDS, AMENDMENTS AND INTERPRETATION

4.1 Standards, amendments and interpretations

4.1.1 New standards, interpretations and amendments

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 30 June 2021, and which have given rise to changes in the Group's accounting policies, but have not had a significant effect on the Group are:

- NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative – definition of Material); and
- Going Concern Disclosures Amendments to FRS-44; and
- Revisions to the Conceptual Framework for Financial reporting

4.1.2 New standards, interpretations and amendments

There are a number of standards, amendments to standards, and interpretations which have been issued by the NZ IASB that are effective for the period beginning 1 January 2021:

- IBOR Reform and its Effects on Financial Reporting – Phase 2
- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. These amendments complement those made in 2019 ('IBOR – phase 1') and focus on the effects on entities when an existing interest rate benchmark is replaced with a new benchmark rate as a result of the reform.

In May 2020, the IASB issued an amendment to IFRS 16 COVID-19 Related Rent Concessions. This amendment provided a practical expedient in accounting for reduction in lease payments on account of COVID-19. The 2020 practical expedient was available for reductions in lease payments affecting only payments originally due on or before 30 June 2021. On 31 March 2021, the IASB issued the amendment 'COVID 19-Related Rent Concessions beyond 30 June 2021', which extended the eligibility period for the practical expedient from 30 June 2021 to 30 June 2022. This amendment is effective for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue at 31 March 2021.

Good Spirits Hospitality Limited is currently assessing the impact of these new accounting standards and amendments. GSH does not believe that the amendments will have a significant effect on the Group.

5 INTANGIBLE ASSETS

	2021	2020
Goodwill	$	$
Opening balance net book value	28,893,109	33,748,853
Impairment of goodwill	(5,150,321)	(4,855,744)
Closing net book value	**23,742,788**	**28,893,109**

Goodwill arose on the acquisition of Good Spirits No.1 Limited (GSH No.1) and subsequent bars purchased. It has been allocated to its eight cash generating units (CGU). The individual bars are determined to be separate CGU's. On an annual basis, the recoverable amount of the goodwill is determined based on value in use calculations for each CGU to which the goodwill relates. Goodwill is tested for impairment at 30 June each year.

The value in use calculations are initially based on financial budgets and business plans approved by the Directors. Cash flows beyond this period are extrapolated using the estimated growth rates below. The growth rates do not exceed the long-term average growth rate for the business in which the CGU operates.

Following the COVID-19 challenges experienced during the year ended 30 June 2020 and the current year, it is inherently difficult to forecast future performance of the Group's operations. The Group has prepared a reasonable budget and forecasts based on current expectations, however, there remains an element of risk which is primarily dependent on general market conditions. The forecast anticipates a staged recovery, with a return to pre COVID-19 levels not planned until years FY23 and beyond. Venue performance had demonstrated improvements in revenue, in excess of management's internal expectations, prior to lock down. This is expected to resume throughout the forecast period once lock down restrictions end.

The impact of COVID-19 has been estimated by management and incorporated into the forecast revenues which form part of the value in use models used for goodwill impairment testing.

The carrying values of the Group's assets principally rely on the forecast operating performance, execution of expected lease strategy and the expectation of growth returning to bar sales. If those expectations change, or the expected profitability of the bars otherwise changes, there may be impairments of the Group assets in future periods. These expectations represent past experience and are consistent with external sources of information.

As at 30 June 2021, although uncertainty existed in regard to the renewal of GSH's O'Hagan's venue, the directors considered an extension of the lease at O'Hagan's would be likely from its current expiry of 19 December 2022. This view was based on the totality of information available in respect to the matter and included correspondence to and from LJMP Ltd, landlord of the O'Hagan's venue, including renewal offers made by both parties, dealings with LJMP Ltd over 2020 and 2021 and statements made to GSH by Andrew Christie, one of LJMP's two directors at that time, who also served on

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GSH's board of directors during the period. The statements from that director were especially relevant given his position at the time on the boards of both LJMP and GSH.

Subsequent to lodging the unaudited preliminary results on the 30th of August 2021 a number of events occurred that have caused GSH to re-examine the position. These things include the resignation of Andrew Christie on 3 September 2021 from GSH's board and his later resignation on 13 September 2021 from the board of LJMP. Subsequent to this, GSH received communication from a shareholder of LJMP. Although, not from LJMP Ltd, that communication stated GSH would not be offered a new lease in respect to the O'Hagan's venue. GSH then sought clarification from current and former Directors of LJMP and further correspondence received on 18 September 2021 from the landlord confirmed the lease will not be extended. The Directors consider this post reporting date information to provide further evidence in respect of the uncertainty surrounding the renewal of the lease at reporting date. As such the Group consider that this is an adjusting event after reporting date and the Group has resolved to re-assess the recoverable amount against the carrying value of the O'Hagan's venue to the end of the lease term, this re-assessment has resulted in an impairment of $5,150,321.

Below is a summary of goodwill impairment during the reporting period:

	2021	2020
	$	$
Botany Commons	-	3,421,936
Danny Doolan's	-	303,977
The Cav	-	943,240
Citizen Park	-	186,591
O'Hagan's	5,150,321	-
	5,150,321	**4,855,744**

Goodwill has been allocated to the following CGU's:	2021	2020
	$	$
Danny Doolan's	11,397,264	11,397,264
O'Hagan's	932,849	6,083,170
The Cav	3,910,060	3,910,060
Botany Commons	280,099	280,099
Doolan Brothers Ellerslie	3,234,170	3,234,170
Citizen Park	2,166,272	2,166,272
Union Post	1,415,911	1,415,911
C&B Hamilton	406,163	406,163
	23,742,788	**28,893,109**

The key assumptions used for the value in use calculations for all CGU's are as follows:

	2021	2020
Pre-tax discount rate	21.0%	19.9%
Cash flow forecast period	3 years	3 years
Terminal growth rate	2.0%	1.0%

The annual impairment assessment required an impairment to O'Hagan's as discussed above, in addition Botany Commons and Citizen Park showed sensitivity to impairment. As noted below a change in any of the key assumptions would lead to the elimination of the excess of the recoverable amount over the carrying amount for Botany Commons and Citizen Park. Botany Commons exceeded its carrying value by $55k and Citizen Park exceeded its carrying value by $207k.

	Botany Commons		Citizen Park	
Key Assumption	Value attributed	Sensitivity movement	Value attributed	Sensitivity movement
Pre-tax discount rate	21.0%	0.45% to 21.45%	21.0%	1.46% to 22.46%
Terminal growth rate	2.0%	-0.43% to 1.57%	2.0%	-1.26% to 0.74%

6 REVENUE

	2021	2020
Revenue of bars	$	$
Auckland	21,147,110	21,741,284
Hamilton	2,168,609	1,696,403
	23,315,719	**23,437,687**

7 SEGMENT REPORTING

The Group is organised into the following business segments, predominantly reflecting trading divisions in the Group:

7.1 Good Spirits Hospitality No.1 Limited (GSH No.1)

This segment includes the business activities of Good Spirits Hospitality No.1 Limited which operates a chain of eight bars based in Auckland and one based in Hamilton. During the year, the subsidiary, "The Better Bar Company Limited" changed its name to "Good Spirits Hospitality No.1 Limited" (GSH No.1).

7.2 Geographical

GSH and its subsidiaries operate within New Zealand and derived no revenue from foreign countries for the year ended 30 June 2021 (2020: nil).

7.3 Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2021 (2020: nil).

7.4 Capital expenditure (including software)

	Note	2021 $	2020 $
GSH No.1 Ltd	14	731,151	2,527,797
		731,151	**2,527,797**

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7.5 Corporate

Corporate Includes the activities of the Parent Company.

The Board of Directors ("The Board") continues to be the Chief Operating Decision Maker ("CODM") for the Group as it is responsible for allocating resources and assessing performance across the Group. For each of the entities the Board reviews management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table below. Performance is measured based on segment EBITDA before significant items as included in the management reports that are reviewed by the Board. Segment EBITDA before significant items is used to measure performance as the Board believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

	2021			2020		
	$	$	$	$	$	$
	Revenue	EBITDA	EBITDA before significant items	Revenue	EBITDA	EBITDA before significant items
GSH No.1 Ltd	23,475,973	1,584,836	4,931,966	23,636,139	2,346,518	5,217,404
Corporate	-	(1,305,435)	(1,140,840)	-	(1,544,669)	(918,647)
Group	**23,475,973**	**279,401**	**3,791,126**	**23,636,139**	**801,849**	**4,298,757**
Significant and other items						
Restructuring and advisory costs		-	(164,595)		-	(626,022)
Depreciation of right-of-use assets		(1,359,122)	(1,359,122)		(1,425,489)	(1,425,489)
Interest on leases		(1,232,128)	(1,232,128)		(1,299,133)	(1,299,133)
IFRS 16 adjustments		-	1,976,637		-	2,044,437
Financial guarantee liability (see - note 29)		-	(241,011)		-	-
Loan modification adjustment		-	552,762		-	-
Right-of-use assets impairment		-	(485,197)		-	-
Property, plant and equipment impairment		-	-		-	(59,578)
Goodwill impairment		-	(5,150,321)		-	(4,855,744)
Depreciation and amortisation		(824,100)	(824,100)		(841,061)	(841,061)
Finance expense (net of income)		(2,688,459)	(2,688,459)		(3,433,032)	(3,433,032)
Profit / (loss) before income tax		**(5,824,408)**	**(5,824,408)**		**(6,196,865)**	**(6,196,865)**

Certain IFRS 16 adjustments from prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to reduce EBITDA before significant items under GSH No.1 Ltd by $2,044,437 and to include this amount under 'Significant and other items" for the year ended 30 June 2020.

Statement of Financial Position

	2021	2021	2020	2020
	$	$	$	$
	Segment Assets	Segment Liabilities	Segment Assets	Segment Liabilities
GSH No.1 Ltd	44,945,267	44,353,712	51,317,556	45,173,082
Corporate	1,156,082	473,342	1,147,913	455,585
Group	**46,101,349**	**44,827,054**	**52,465,469**	**45,628,667**

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8 OTHER EXPENSES

	2021	2020
Other expenses include:	$	$
Advertising and marketing costs	1,065,004	965,472
Property expenses	1,817,419	1,623,293
Professional and other advisory costs	379,088	444,536
Equipment hire (Short term lease)	30,476	38,075
Insurance	196,897	207,137
Travel expenses	93,122	116,093
Repairs and maintenance	262,479	133,955
Other	1,369,500	1,669,199
	5,213,985	**5,197,760**

	2021	2020
Remuneration to auditors:	$	$
Audit Services		
Audit of financial statements	87,000	85,000
Other Services		
Advisory services [1]	-	17,500
Tax compliance services	25,000	25,000
Fees paid to previous auditors - PWC		
Other Services		
Due diligence and model review services	-	7,875
Tax compliance services	-	35,860
	112,000	**171,235**

[1] Fees relate to debt restructuring advice provided to the group and fees relating to a due diligence assignment which did not proceed. Both services were provided prior to BDO Auckland's appointment as auditors.

9 TAX EXPENSE

		2021	2020
The income tax expense consists of the following:	**Note**	$	$
Loss before income tax from continuing operations		(5,824,408)	(6,196,865)
Income tax calculated at 28% (2020: 28%)		(1,630,834)	(1,735,122)
Non-deductible expenses		1,906,660	1,753,545
Tax in respect of prior years		1,715	452
Non-assessable income		(264,284)	(382,359)
Tax expense / (benefit)		**13,257**	**(363,484)**
Current tax expense		-	757
Deferred tax charge / (benefit)	10	13,257	(364,241)
		13,257	**(363,484)**

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10 TAX BALANCES

	Note	2021 $	2020 $
Income tax (receivable)			
Opening balance		(104)	(861)
Tax expense		-	757
Tax in respect of prior years		(3,039)	-
Cash tax (paid)		(626)	-
Balance at 30 June		**(3,769)**	**(104)**
Deferred tax asset			
Opening balance		1,032,706	668,465
Tax benefit	9	(11,542)	364,241
Tax in respect of prior years		(1,715)	-
Balance at 30 June		**1,019,449**	**1,032,706**
The deferred tax asset consists of:			
Accrual for annual leave		205,292	133,237
Leases		438,624	153,571
Tax losses		60,630	401,783
Property, plant and equipment		130,092	130,092
Other provisions		184,811	214,023
		1,019,449	**1,032,706**

11 TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables approximates their carrying value.

	2021 $	2020 $
Trade receivables	254,401	118,850
Total current	**254,401**	**118,850**

Included in Trade receivables is un-cleared cash from eftpos receipts of $114,970.

12 INVENTORIES

	2021 $	2020 $
Food	89,476	88,841
Beverages	365,591	296,138
	455,067	**384,979**

13 LEASES

	Note	Properties	Vehicles	2021 $	2020 $
Right-of-use assets					
Opening balance		13,431,498	53,376	13,484,874	14,910,363
Modification adjustment		803,795	-	803,795	-
Right-of-use assets impairment	13.1	(485,197)	-	(485,197)	-
Depreciation		(1,324,637)	(34,485)	(1,359,122)	(1,425,489)
		12,425,459	**18,891**	**12,444,350**	**13,484,874**

	Note	Properties	Vehicles	2021 $	2020 $
Lease liabilities					
Opening balance		13,976,604	56,737	14,033,341	14,910,363
Modification adjustment		803,795	-	803,795	-
Rent concession	2.17.1	(81,761)	-	(81,761)	(361,966)
Interest for the period		1,229,668	2,460	1,232,128	1,299,133
Lease payments		(1,939,197)	(37,440)	(1,976,637)	(1,814,189)
		13,989,109	**21,757**	**14,010,866**	**14,033,341**

	2021	2020
Current	930,735	701,578
Non-current	13,080,131	13,331,763
	14,010,866	**14,033,341**

Current and non-current prior year lease liabilities have been reclassified to include the interest component on the current lease liability. These reclassifications had no effect on the reported results of operations. An adjustment has been made to the Consolidated Statement of Financial Position and note 13 by reducing current lease liability by $1,258,989 and to increase non-current lease liability by $1,258,989 for the year ended 30 June 2020.

13.1 Impairment of Right-of-Use Asset

As part of the annual impairment test across the Group's assets, GSH identified that one of its venues, DB Newmarket indicated possible impairment of its right-of-use asset. The ongoing effects of COVID-19 and increased competition in the area has resulted in revenue reduction at this venue. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

The Group has performed an assessment of expected recoverable value of these assets, through ongoing operations. The impairment tests showed that the recoverable amount was less than carrying value of the right-of-use asset by $485,197. Therefore, the directors resolved to impair $485,197 against the right-of-use asset at DB Newmarket in FY2021.

The key assumptions used for the value in use calculations for DB Newmarket are as follows:

Pre-tax discount rate	18.3%
Cash flow forecast period	3 Years
Terminal growth rate	2.0%

	2021 $	2020 $
Short-term lease expense	46,123	49,750

The following table sets out the undiscounted contractual maturity of lease liability:

As at 30 June 2021	Up to 3 months	Between 3 & 12 months	Between 1 & 2 years	Between 2 & 5 years	Over 5 Years	Total
	$	$	$	$	$	$
Lease liabilities	535,815	1,553,469	1,938,871	5,520,020	13,910,971	**23,459,146**

As at 30 June 2020	Up to 3 months	Between 3 & 12 months	Between 1 & 2 years	Between 2 & 5 years	Over 5 Years	Total
	$	$	$	$	$	$
Lease liabilities	515,209	1,545,629	2,018,065	5,434,606	13,915,122	**23,428,631**

Nature of leasing activities (in the capacity as lessee)

The Group leases 11 properties in New Zealand. In New Zealand it is customary for lease contracts to provide payments to increase each year by inflation and in others to be reset periodically to market rental rates. The Group also leases motor vehicles.

As standard industry practice, the Group's property lease are subject to market rent reviews. A 1% increase in these payments would result in an additional $18,142 outflow compared to the current period's cash outflow.

14 PROPERTY, PLANT AND EQUIPMENT

	Note	Work in progress (WIP)	Fixture, Plant, Office equipment	Computer equipment	Lease Improvements	Total
		$	$	$	$	$
Year ended 30 June 2021						
Opening balance net book value		34,000	1,889,392	32,319	3,211,587	**5,167,298**
Additions	7.4	90,534	435,595	43,154	161,868	**731,151**
WIP transferred to relevant class		(34,000)	19,000	-	15,000	**-**
Disposals		-	-	(2,234)	-	**(2,234)**
Depreciation charge		-	(406,076)	(69,846)	(348,178)	**(824,100)**
Closing net book value		**90,534**	**1,937,911**	**3,393**	**3,040,277**	**5,072,115**
At 30 June 2021						
Cost		90,534	3,739,390	114,875	4,748,577	**8,693,376**
Accumulated depreciation & impairment		-	(1,801,479)	(111,482)	(1,708,300)	**(3,621,261)**
Net book value		**90,534**	**1,937,911**	**3,393**	**3,040,277**	**5,072,115**
Year ended 30 June 2020						
Opening balance net book value		499,579	1,497,041	26,105	1,609,386	**3,632,111**
Impairment- property, plant & equipment		-	(59,554)	(24)	-	**(59,578)**
Additions	7.4	34,000	866,092	27,139	1,600,566	**2,527,797**
WIP transferred to relevant class		(499,579)	114,400	-	385,179	**-**
Disposals		-	(91,601)	(357)	(12)	**(91,970)**
Depreciation charge		-	(436,985)	(20,544)	(383,532)	**(841,061)**
Closing net book value		**34,000**	**1,889,393**	**32,319**	**3,211,587**	**5,167,299**
At 30 June 2020						
Cost		34,000	3,284,795	75,659	4,571,709	**7,966,163**
Accumulated depreciation & impairment		-	(1,395,402)	(43,340)	(1,360,122)	**(2,798,864)**
Net book value		**34,000**	**1,889,393**	**32,319**	**3,211,587**	**5,167,299**

15 SUBSIDIARIES

The following subsidiaries operate wholly in New Zealand.

Operating subsidiary	Activity	2021 Interest	2020 Interest
Good Spirits Hospitality No.1 Limited *(Previously known as "The Better Bar Company Limited")*	Hospitality Business	100%	100%

16 TRADE AND OTHER PAYABLES

	2021 $	2020 $
Trade payables	1,793,307	2,052,344
Accrued expenses	399,257	622,276
Current liabilities	**2,192,564**	**2,674,620**

17 PROVISION FOR MAKE GOOD OBLIGATIONS

	2021 $	2020 $
Opening balance	600,000	600,000
Charged to earnings for the year	-	-
Closing balance - Non-current liability	**600,000**	**600,000**

18 EMPLOYEE ENTITLEMENTS

	2021 $	2020 $
Accrual for annual leave	733,187	589,002
Accrual for kiwi saver	32,343	49,257
	765,530	**638,259**
Categorised as:		
Current	388,230	428,994
Non-current	377,300	209,265
	765,530	**638,259**

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19 BORROWINGS - SECURED

	Note	2021 $	2020 $
Bank drawn down	24.3.1	29,249,633	29,249,633
Capitalised interest accumulated		1,088,052	1,088,052
Bank repayments accumulated		(2,500,000)	(2,500,000)
Amount owed to Pacific Dawn before exit fee		**27,837,685**	**27,837,685**
Exit fee payable		546,437	356,662
Total amount owed to Pacific Dawn		**28,384,122**	**28,194,347**
Loan modification adjustment	3.8	(552,762)	-
Capitalised financing cost against borrowings		(807,748)	(951,480)
Share based payment remaining amortisation		(162,594)	-
Closing balance	24.3	**26,861,018**	**27,242,867**
Categorised as:			
Current		-	715,187
Non-current		26,861,018	26,527,680
		26,861,018	**27,242,867**

Exit fee payable from prior year amounts have been reclassified for consistency with the current year presentation. This reclassification had no effect on the reported results of operations. An adjustment has been made to the Consolidated Statement of Financial Position and note 19 by reducing Trade and other payables by $356,662 and to increase non-current Borrowings by $356,662 for the year ended 30 June 2020.

19.1 Bank borrowings

As a result of the Group amending its loan facilities during the year, GSH issued 3,668,768 ordinary shares of GSH to Pacific Dawn as consideration for the amendments to the facility (see note 3.8). The amendments include the extension of the date for repayment of the facility until October 2022. The amount capitalised in relation to the share issue is $275,158 (see note 3.8). In addition, the legal fees associated with the refinancing during the reporting period amounted to $156,071.

There have been no breaches of covenants or Events of Review for the current or prior year under the facility arrangement. Under the General Security Agreement (GSA) there are a number of circumstances that would give rise to an Event of Default.

The borrowing in the year had an effective interest rate of 11.7% (2020: 11.6%) which includes amortisation associated with capitalised costs . Bank borrowings at 30 June 2021 mature on 31 December 2022. They are secured by the GSA over all of the assets of the Group. Items classified as current at June 2021 include loans maturing within 12 months.

20 SHARE CAPITAL AND SHARE CAPITAL RESERVE

20.1 Issued and paid-up capital - ordinary shares

	Note	2021 Shares	2021 $	2020 Shares	2020 $
Balance at beginning of the year		54,065,690	34,904,250	43,306,618	34,136,660
Shares issued for warrants exercised		-	-	10,759,072	767,590
Share-based payment transaction	3.8	3,668,768	275,158	-	-
Balance at end of year		**57,734,458**	**35,179,408**	**54,065,690**	**34,904,250**

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. They do not have a par value.

21 EARNINGS PER SHARE (EPS)

	2021	2020
	$	$
Loss for the year from continuing operations	(5,737,665)	(5,833,381)
Issued Ordinary Shares	57,734,458	54,065,690
Weighted average number of shares – ordinary and diluted	56,817,266	50,479,333
Diluted Ordinary Shares	57,734,458	54,065,690
	cents	cents
Basic EPS	(10.10)	(11.56)
Diluted EPS	(10.10)	(11.56)

22 DIVIDEND PAID OR AUTHORISED

GSH paid dividends amounting to nil during the year (2020: nil).

23 RELATED PARTIES

Good Spirits Hospitality Limited is the immediate parent, ultimate parent and controlling party for all companies in the Group. The Group undertook transactions with the following related parties as detailed below:

23.1 Transactions with Key Management

- Andrew Christie, a director of GSH (appointed 14 December 2020), is a shareholder and director of Christie Whiting Vermunt Ltd (CWV), which owns 13.98% of the shares in GSH. CWV is also a shareholder, and Andrew Christie was a director at reporting date, of LJMP Ltd which received rental and opex payments (from 14 December 2020 to 30 June 2021) as lessor of the O'Hagan's site of $188,991 (2020: $nil). These payments were made pursuant to a formal lease agreement between GSH and the previous owner and landlord of the property, prior to LJMP's purchase of the property. Mr Christie resigned on 3 September 2021.
- Charles Whiting a previous director of GSH who resigned on 5 October 2020, is a shareholder and director of Christie Whiting Vermunt Ltd (CWV), which owns 13.98% of the shares in GSH. CWV is also a shareholder of LJMP Ltd which received rental and opex payments (from 1 July 2020 to 5 October 2020) as the lessor of the O'Hagan's site of $125,994 (2020: $125,994). These payments were made pursuant to a formal lease agreement between GSH and the previous owner and landlord of the property, prior to LJMP's purchase of the property.
- Brew on Quay Limited
  - Geoff Tuttle is a joint owner with another party of 4.13% of the shares in, and is the CEO of GSH. He was also a Director of GSH between 5 October and 14 December 2020. Geoff Tuttle is a director and shareholder of Brew on Quay Limited (BOQL), which operates the hospitality businesses Brew on Quay and Charlie Farley's. During the period GSH provided management services, accounting services and kitchen services to these businesses. Amounts received by GSH from BOQL in relation to management, accounting and kitchen services in the period totalled $160,254 (2020: $198,452), with $5,143 (2020: $7,373) owed but not due as at balance date.

    Broken down by service the amounts are as follows:

Service	2021	2020
	$	$
Accounting Services	20,000	56,076
Management Services	102,518	81,066
Kitchen Services	37,736	61,310
Total	**160,254**	**198,452**

GSH has ceased providing these services to BOQL (management services – ceased November 2020, accounting services – ceased October 2020 and kitchen services – ceased August 2021).

- GSH historically purchased stock from BOQL. Transactions in the current year totalled $391 (2020: $4,246). Stock was purchased from BOQL only when there was an urgent need by GSH.

- Strategic, financing and investment banking services (in addition to director responsibilities) were provided to the Group by Matt Adams, a director of GSH. Fees paid by the Group for these services during, and in respect of, the year totalled $132,180 (2020: $196,686). These services are provided under a letter of engagement approved by GSH's Chairman and CEO.

- Strategic, financing and business advisory services (in addition to director responsibilities) were provided to the Group by Duncan Makeig, chairman of directors of GSH. Fees paid by the Group for these services during, and in respect of, the year totalled $15,316 (2020: $nil).

Prior period errors

The Group inadvertently understated the amount of management, accounting and kitchen services provided to, and the purchase of stock from, BOQL in the 2019 and 2020 financial statements as follows:

- During the years ended 30 June 2020 and 30 June 2019, the Group provided management, accounting and kitchen services to BOQL. In total, the amounts reported were $118,277 for 2020 and $70,496 for 2019. The correct total amounts were $198,452 for 2020 and $72,738 for 2019. Broken down per service the following services were provided:

Service	2020	2019
	$	$
Accounting Services	56,076	30,000
Management Services	81,066	2,242
Kitchen Services	61,310	40,496
Total	**198,452**	**72,738**

- The Group occasionally purchases stock from BOQL. During the year ended 30 June 2020, the amount reported was $nil (2019: $2,745). The correct amount was $4,246 (2019: $2,745). Stock was purchased from BOQL only when there was an urgent need by GSH.

In regard to the services provided to BOQL, we advise as follows:

- Accounting services were the subject of a formal contract. Accounting services ceased being provided by GSH to BOQL in October 2020.

- Management services involve the provision of labour to BOQL charged monthly at an agreed rate. Management services ceased being provided to BOQL by GSH in November 2020.

- Kitchen services involve the purchase by BOQL of manufactured goods from GSH's production kitchen. At certain times during the year to 30 June 2019 (primarily over the Christmas period), the provision of kitchen services also included GSH making kitchen staff available to BOQL. Contracts for kitchen services are entered into on an ad-hoc basis as and when such services are required and the price paid by BOQL includes a mark-up on the cost of such goods to GSH. Kitchen services ceased being provided to BOQL in August 2021.

- Stock purchases are infrequent and only occur to meet GSH's urgent requirements. The purchase price is set at BOQL's cost.

The prior period errors had no effect on any financial statement line items or earnings per share. The errors were contained to note 22 (related parties) in GSH's 2019 and 2020 financial statements.

23.2 Trading Activities with Related Parties

Pacific Dawn Limited (PDL), a wholly-owned subsidiary of Nomura Asia Holding N.V are a major shareholder and lender of Good Spirits Hospitality Limited. PDL received shares as part of refinancing the loan for a value of $275,158 – see note 3.8, interest payments of $2,072,543 (2020 $2,078,615) and fees of $nil (2020 $169,092). The outstanding amount owed to PDL at reporting date is $27,837,685 – see note 19 (2020 $27,837,685).

23.3 Compensation of Key Management Personnel

The remuneration of key management during the year was as follows:

	2021	2020
	$	$
Short-term benefits, consisting of salaries	553,557	715,829

The remuneration of key executives is determined by the Remuneration and Nominations Committee having regard to the performance of individuals and market trends.

The remuneration of Directors during the year was as follows:

	2021	2020
	$	$
Directors fees	212,400	210,875

The remuneration of Directors is determined by the Remuneration and Nominations Committee having regard to the performance of individuals and market trends.

24 FINANCIAL INSTRUMENTS

24.1 Capital management

The Group manages its capital to ensure that entities in the Group are able to continue as a going concern (see note 1.3) while maximising the return to shareholders, and to optimise the debt and equity balances to reduce the cost of capital.

The Group is not subject to any externally imposed capital requirements with the exception of covenants discussed in note 19.1. The Group has agreed that future dividends will only be paid with the approval of the lender.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity (comprising issued capital, reserves and retained earnings) of the Group.

24.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by net debt plus total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total equity is shown in the consolidated statement of financial position.

As at 30 June 2021 the Group has negative working capital. This is managed on an on-going basis through cash flows from future profitability.

24.3 Financial risk management

The Group engages business in New Zealand and in the normal course of business is exposed to a variety of financial risk which includes:

- Market risk,
- Credit risk, and
- Liquidity risk.

The Group recognises the unpredictability of consumer and financial markets and seeks to minimise the potential adverse effects of market movements. The management of these risks is performed in accordance with the risk management and treasury policy approved by the Directors. This policy covers specific areas such as interest rate risk, credit risk and liquidity risk. As outlined in Note 3.4, the Group recognises the impact of COVID-19 and have taken all measures to reduced the impact to the business.

The Group hold the following financial instruments:

		Fair value through profit or loss		Amortised cost	
		2021	2020	2021	2020
Financial assets	Note	$	$	$	$
Cash and cash equivalents	28	-	-	2,578,837	2,796,583
Restricted cash	28	-	-	266,249	266,249
Trade receivables	11	-	-	254,401	118,850
		-	**-**	**3,099,487**	**3,181,682**
Financial liabilities					
Bank borrowings	19	-	-	26,861,018	27,242,867
Trade and other payables (excluding GST and employee entitlements)		-	-	2,192,564	2,674,620
Financial guarantee liability	29	132,877	-	-	-
		132,877	**-**	**29,053,582**	**29,917,487**

Financial instruments not measured at fair value

- Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

- Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value.

24.3.1 Market risk

Interest rate risk – The Group's primary interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the business to cash flow interest rate risk. The Group's risk management and treasury policy allows the potential use of derivative financial instruments to manage interest rate risk. However, for the year ended 30 June 2021 the Group did not enter into any derivative financial instruments (2020: $nil).

As at 30 June 2021 the Group had $29,249,633 (see note 19) drawn on a facility provided by the bank (2020: $29,249,633). If interest rates had moved by + / - 1% with all other variables held constant, Group profit after income tax for the year ended 30 June 2021 would have decreased / increased by $277,000 (2020: $287,000).

24.3.2 Credit risk

Exposure to credit risk arises from the potential default of the counterparty, with the maximum exposure equal to the carrying amount of the financial assets. The Group's credit risk arises from the Group's financial assets, which include cash and cash equivalents and trade and other receivables. Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For banks and financial institutions, only independently rated parties with a minimum long term rating of A are accepted. The Group has a concentration of credit risk with its cash and cash equivalents, which are held with one bank. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets summarised above.
The Group's risk management and treasury policy also sets the maximum counterparty credit exposure to any individual bank or financial institution.

The quality of financial assets which are neither past due nor impaired are considered collectable.

24.3.3 Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligation to repay its financial liabilities as and when they fall due.

The Group maintains sufficient cash and the availability of funding for acquisitions through undrawn facilities as part of its management of liquidity risk.

The Group had access to the following borrowing facilities at the reporting date:

	2021	2020
	$	$
Borrowing facilities (of which $29,249,633 drawn, 2020: $29,249,633)	**34,500,000**	**34,500,000**

The following table details the Group's remaining contractual maturity of its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay, including loans repayable on demand. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rates, the undiscounted cash flow are derived from the interest rate at 30 June.

	Carrying value at reporting date	0 -3 months	3-12 months	Year 2	Total contractual cash flows
	$	$	$	$	$
As 30 June 2021					
Interest bearing liabilities	**26,328,191**	479,504	1,438,512	29,755,701	**31,673,717**
Trade and other payables	**2,192,564**	2,192,564	-	-	**2,192,564**
Financial guarantee liability	**132,877**	8,750	104,339	19,788	**132,877**
	28,653,632	**2,680,818**	**1,542,851**	**29,775,489**	**33,999,158**
As 30 June 2020					
Interest bearing liabilities	**26,886,205**	833,305	2,649,918	27,755,989	**31,239,212**
Trade and other payables	**2,674,620**	2,674,620	-	-	**2,674,620**
	29,560,825	**3,507,925**	**2,649,918**	**27,755,989**	**33,913,832**

24.4 Fair Value Estimation

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly or indirectly, and (iii) Level 3 measurements are valuations not based on observable market data (unobservable inputs). Management applies judgment in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entity.

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24.5 Assets and liabilities not measured at fair value but for which fair value is disclosed

Financial assets and liabilities
Fair values analysed by level in the fair value hierarchy for other financial assets and liabilities not measured at fair value, for which the Group estimates their fair value approximates the carrying amounts, are as follows:

- Level 1 - Cash on hand and cash equivalents held at banks (note 28)
- Level 2 - Restricted cash (note 28), trade and other financial receivables (note 11), trade and other financial payables (note 16)
- Level 3 - Borrowings (note 19), Financial guarantee liability (note 29)

The fair values in Level 2 and 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount.

24.6 Gaming Machines

Trillian Trust Limited (the Trust) owns certain gaming machines and possesses a licence to operate gaming machines under the Gambling Act 2003. Good Spirits Hospitality allows the Trust to place its gaming machines and associated equipment at venue's and performs certain administration and management services in connection with the operation of those gaming machines. In addition, GSH has separate trust bank accounts and manages the flow of funds in relation to the Gaming Act 2003 which is administered by The Department of Internal Affairs.

As at reporting date, $179,103 is held in GSH's bank accounts which are not included in these financial statements. The total amount owing to the Trust is $152,254 (2020: $179,103).

25 COMMITMENTS

- The Group has capital commitments of $101,954 as at 30 June 2021 which relate to refurbishment costs at one of GSH’s venues (2020: $nil).
- The Group has other commitments of $nil as at 30 June 2021 (2020: $nil).

26 CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 June 2021 (2020: $nil).

27 NOTES SUPPORTING STATEMENTS OF CASH FLOWS

27.1 Reconciliation to operating activities in the cashflow:

	Note	2021 $	2020 $
Profit for the year		**(5,837,665)**	**(5,833,381)**
Adjusted for:			
Depreciation and amortisation		824,100	841,061
Depreciation of right-of-use assets		1,359,122	1,425,489
Interest on leases		1,232,128	1,299,133
Financial guarantee liability	29	132,877	-
Property, plant and equipment impairment	14	-	59,578
Goodwill impairment		5,150,321	4,855,744
Disposal of property, plant and equipment		2,234	91,970
Non-cash interest charges		603,560	2,031,048
Loan modification adjustment		(552,762)	-
IFRS16 modification adjustment		(81,761)	-
Right-of-use assets impairment		485,197	-
Changes in assets and liabilities			
Decrease / (increase) in receivables and prepayments		(79,159)	(58,988)
Decrease / (increase) in inventories		(70,088)	(19,410)
Increase / (decrease) in trade payables and accruals		(531,584)	435,383
Increase / (decrease) in income tax		9,592	(363,484)
Net cash inflows from operating activities		**2,646,112**	**4,764,143**

27.2 Reconciliation to financing activities in the cashflow:

	Current loans $	Non-current loans $	Lease liability (note 13) $	Total contractual cash flows $
As at 30 June 2019	**791,567**	**22,991,199**	**-**	**23,782,766**
Cash Flow				
Repayment of borrowings	(791,567)	(41,766)	-	(833,333)
Payment of refinancing cost	-	(144,275)	-	(144,275)
Bank borrowing drawn down	-	2,050,000	-	2,050,000
Principal paid on leases	-	-	(515,056)	(515,056)
Interest paid on leases	-	-	(1,299,133)	(1,299,133)
Non-cashflows				
Loans as non-current at 30 June 2019 becoming current in 2020	715,187	(715,187)	-	-
Capitalised interest	-	1,088,052	-	1,088,052
Reclassification of exit fees	-	356,662	-	356,662
Interest expense	-	942,995	-	942,995
Rent concession	-	-	(361,966)	(361,966)
Lease adjustments	-	-	16,209,496	16,209,496
As at 30 June 2020	**715,187**	**26,527,680**	**14,033,341**	**41,276,208**
Cash Flow				
Principal paid on leases	-	-	(744,508)	(744,508)
Interest paid on leases	-	-	(1,232,128)	(1,232,128)
Cash outflows from refinancing costs	-	(156,071)	-	(156,071)
Non-cashflows				
Current portion reclassified as non-current	(715,187)	715,187	-	-
Gain on Loan modification	-	(552,762)	-	(552,762)
Refinancing of loan	-	(98,747)	-	(98,747)
Movement in exit fees	-	189,775	-	189,775
Rent concession	-	-	(81,761)	(81,761)
Interest expense	-	235,956	-	235,956
Lease adjustments	-	-	2,035,922	2,035,922
As at 30 June 2021	**-**	**26,861,018**	**14,010,866**	**40,871,884**

28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents (for purposes of the statement of cash flows comprises:)

	2021 $	2020 $
Cash and cash equivalents		
(for purposes of the statement of cash flows comprises:)		
Cash at bank	2,353,216	2,531,988
Cash on hand	225,621	264,595
	2,578,837	**2,796,583**
Restricted cash		
Bank term deposit	76,154	76,154
Landlord bonds	190,095	190,095
	266,249	**266,249**

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29 FINANCIAL GUARANTEE LIABILITY

The Group sold the Lynfield venue on 15 May 2019 and under the terms of this sale the Group provided a guarantee which meant it would be liable for the rent and outgoings if the tenant could not pay the rent. At 30 June 2020, the Directors assessed that there was no need for a provision given the existence of government support during COVID-19 lockdown periods and an expected return to trade after lockdown restrictions were lifted. Subsequently, the tenant ran into financial difficulty. Demand was made in April 2021, which GSH paid. On 30 April 2021, the landlord leased the venue to a new tenant. The lease agreement requires GSH to continue to guarantee the rent and to pay top up rent of $2,916 per month until 4 August 2022. The 2021 financial statements record the payment of the outstanding rent and the top rent until 30 June 2021 of $108,134. A financial guarantee liability has also been recorded based on the outstanding top-up obligation and management's estimation of future loss under the guarantee. The total financial guarantee liability reported is $132,877 equating to a total financial guarantee liability expense for the year of $241,011.

30 EVENTS AFTER REPORTING DATE

30.1 COVID – 19

On 17 August 2021, the New Zealand Government reinstated Covid-19 Alert Level 4 for the whole of New Zealand. In response to the change in this Alert Level, the Group's operations were closed. On 7th September 2021, Auckland's Alert Level remained unchanged while Hamilton's Alert level was reduced to level 2, and the Group's Hamilton operation is currently trading under Level 2 restrictions. At 11:59pm on 21 September 2021 Auckland's Alert Level was reduced to level 3 however, Auckland venues must remain closed under this Alert Level.

At the time of signing these financial statements, the restrictions put in place on 21 September 2021 for Auckland remain unchanged while the Group's Hamilton operation is still trading under level 2 restrictions.

30.2 Banking facility expiry date

Subsequent to year-end, in conjunction with Pacific Dawn Limited, the Group has extended the expiry date of its banking facilities to 31 December 2022.

30.3 O'Hagan's lease

On 18 September 2021 GSH received advice from the Landlord of O'Hagan's that its lease would not be renewed post its expiry in December 2022. Please see note 5 for further commentary on this matter.

30.4 Lease of viaduct venue

During the year, the Group entered into a conditional lease agreement at a prime site situated in Auckland's premier hospitality district – the Auckland Viaduct. Subsequent to year end, GSH has negotiated several amendments to the lease agreement and the material changes are as follows:

1. Change to Estimated Commencement Date
2. The estimated commencement date is amended from 1 September 2021 to the later of:
   a. 1 October 2021; or
   b. 2 weeks after the date the current COVID-19 lockdown reduces to a Lockdown Level that allows GSH to carry out its fit-out works.
3. Change to Date by which conditions must be satisfied

   The date by which the conditions relating to redevelopment finance being approved and NZX and shareholder approval (to the extent required) being obtained has been extended to 30 September 2021.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GOOD SPIRITS HOSPITALITY LIMITED

Opinion

We have audited the consolidated financial statements of Good Spirits Hospitality Limited ("the Company") and its subsidiary (together, "the Group"), which comprise the consolidated statement of financial position as at 30 June 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm carries out tax compliance services for the Group. The provision of these other services has not impaired our independence as auditor of the Group

Material Uncertainty Related to Going Concern

We draw attention to Note 1.3 to the consolidated financial statements which describe the potential for COVID-19 to negatively impact the Group's ability to meet forecasts and comply with banking covenants, as well as the Group's reliance on ongoing bank support. These conditions indicate the existence of a material uncertainty 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The COVID-19 outbreak (also known as the 2019 Novel Coronavirus infection, or Coronavirus) has interrupted the movement of people and goods throughout the world and continues to do so. This creates increased uncertainty around future-looking assumptions.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described on the following page to be key audit matters to be communicated in our report.

Valuation of Cash Generating Unit Assets

Key Audit Matter

The Group recognises goodwill, operating and right of use assets at 30 June 2021. These assets are subject to an impairment test in accordance with NZ IAS 36 – *Impairment of Assets*. For the purposes of this test, the assets are allocated to the individual bars as these are determined to be separate Cash Generating Units ('CGU's').

The test is performed by assessing the recoverable amount of each CGU against the carrying amount of the CGU. The recoverable amount is calculated using a value in use calculation. An impairment is recorded where the carrying amount of the CGU exceeds its recoverable amount. This impairment is initially against goodwill and where the CGU has no further goodwill, the impairment is against remaining operating and right of use assets.

The impairment test is subject to significant management judgement and estimation in the following areas:

- The selection of the appropriate impairment model to be used, in this case the value in use/discounted cash flow model.
- Assessment and determination of the expected cash flows from the CGUs including the impact of COVID-19.
- The continuity of leases associated with the CGUs.
- The basis of allocation of certain head-office operating costs to the separate CGUs.
- Selection of appropriate terminal growth rates.
- Selection of appropriate discount rates.

The above areas inherently include a degree of estimation uncertainty and are prone to potential bias or inconsistent application.

We have identified the valuation of CGUs a Key Audit matter due to:

- The complexity of the value in use calculation and the significant judgements and estimates around key inputs and assumptions.
- There were material impairments to CGUs in the prior year.
- Forecasts are subject to increased judgement because of the ongoing Government response to COVID-19.

We refer readers of the financial statements to:

- Note 5 which discloses the goodwill impairment in a CGU and the sensitivity to reasonably possible changes in key assumptions which could result in impairment for two CGUs.
- Note 13 which discloses the impairment of the right of use asset of a CGU.

How The Matter Was Addressed in Our Audit

We obtained Management's value in use calculations prepared for each CGU and evaluated the key inputs and assumptions including those impacted by COVID-19. The key inputs included revenue growth, EBITDA growth, terminal growth rate, expected lease terms and continuity, discount rates, and the basis for allocating head office operating costs not recorded in the separate CGUs.

We assessed the reasonableness of the forecasts by reference to actual performance before, during and after the lock down periods and historical forecasting accuracy. We compared management's revenue and EBITDA forecasts to government economic forecasts.

We reviewed evidence to corroborate Management expectations surrounding lease continuity.

We have considered the sensitivity of key assumptions to the value in use calculations, including:

- Revenue growth.
- Terminal growth rate.
- Pre-tax discount rate.
- Lease strategy.
- The quantum of head office cost allocations to the separate CGUs.

We have engaged our internal valuation experts to review the mechanics of the value in use calculation against the valuation methodology, and to assess the appropriateness of the discount rate used.

We verified management's determination of carrying amount for each CGU and compared this against the CGU's recoverable amount.

We have reviewed disclosures in the consolidated financial statements in respect of:

1. The impairment of goodwill in Note 5;
2. CGUs which are demonstrating sensitivity to reasonable movements in key assumptions such that impairment could arise in Note 5;
3. Right of use asset impairment in note 13.

Related Party Transactions

Key Audit Matter

The Group enters into and discloses in its financial statements, transactions with related parties.

The Group, is required by NZ IAS 24 – *Related Parties*, to disclose the nature of related party relationships as well as the transactions and outstanding balances necessary for the users to understand the potential effect of the relationship on the financial statements.

In Note 23 of the financial statements, the Group discloses corrections made to prior year related party disclosures. We have identified the disclosure of related party relationships as a key audit matter due to the prior period errors reported and because related party transactions are material by nature.

Details of the Group's related party transactions are disclosed in Note 23 of the financial statements.

How The Matter Was Addressed in Our Audit

Audit procedures included the assessment of controls over transactions with related parties.

We obtained an understanding of the processes in place for identifying related party transactions, performed a walk through and evaluated the design of controls.

We tested the design and operating effectiveness of relevant controls over related party transactions including controls over the accuracy and completeness of the transactions.

We obtained Management's proposed disclosure and workings which outline:

- The Group's related party relationships.
- Transactions recorded and balances outstanding with related parties of the Group.
- The terms under which these transactions are undertaken. Disclosures associated with the errors disclosed in relation to 2019 and 2020.

We agreed related party relationships to supporting documentation along with, where available, contract terms in place underpinning the transactions.

We enquired with Management as to their knowledge of any related parties not disclosed in the financial statements.

We reviewed Companies office records to identify any related party relationships not already identified.

We have reviewed disclosures in the consolidated financial statements to the requirements of the accounting standard.

Accounting for debt modification

Key Audit Matter

The Group records a $26.9m liability with its Lender, Pacific Dawn Limited ('PDL). PDL is a related party to the Group due it being a major shareholder.

Borrowings of $26.9m are required to be recorded in accordance with NZ IFRS 9 – *Financial Instruments ('NZ IFRS 9)*, net of transaction costs.

During September 2020, the Group negotiated amendments to its borrowings facility with PDL.

As consideration for the amended facility terms, the Group issued further shares to PDL, increasing PDL's shareholding from 19.90% to 24.99%. No cash payment was made for these shares.

NZ IFRS 9 requires the Group to consider whether the modification of the financial liability is 'substantial' or 'non substantial'.

The determination of whether a loan modification is substantial inherently includes a degree of

How The Matter Was Addressed in Our Audit

We obtained the revised lending agreement and correspondence related to the loan modification.

We obtained management's assessment surrounding whether or not the loan modification was substantial.

We reviewed Management's quantitative analysis, which concluded that the modification to the cashflows was below the 10% threshold considered substantial under IFRS 9.

We reviewed Management's assessment of the transaction costs to be included in the carrying amount of the modified liability.

We reviewed Management's basis for the recognition of the shares issued to PDL as part of the modified financial liability and the resulting value assigned to the shares.

judgement and estimation and is prone to incorrect application. The Group has accounted for the modification as non substantial and have treated the shares issued to PDL as part of the transactions costs associated with the modification. We have identified the modification to the Group's Borrowings as a Key Audit Matter because: - The balance represents 60% of the Group's total liabilities; - The judgements and estimates involved in determining whether the modifications were substantial or not, have a material impact on both the Profit or Loss and Statement of Financial Position; and - The transaction is with a shareholder and related party of the Group. We refer readers of the financial statements to Notes 3.8 and 19 of the financial Statements which discloses information relating to the loan modification.	We agreed other transaction related costs to supporting documentation. We reviewed disclosures in the consolidated financial statements to the requirements of the relevant accounting standard.

Recognition of Financial Guarantee

Key Audit Matter	How The Matter Was Addressed in Our Audit
The Group has recognised a financial guarantee liability in its financial statements related to the lease it transferred to the purchaser of its Lynnfield venue on 15 May 2019. As part of the lease transfer, the Group agreed to guarantee the new operators obligations under the transferred lease, for the remainder of the Group's obligated lease term. The guarantee was subsequently called on in April 2021 as the purchaser failed. A new tenant took over the Lynnfield venue in April 2021 and assumed the lease, subject to the same guarantee. The recognition of a financial guarantee is subject to significant management judgement and estimation in the relation to the expected loss associated with the guarantee. We have identified the accounting for the guarantee as a key audit matter due to the significant judgements and estimates involved in assessing future losses. We refer readers of the financial statements to Note 29 of the financial statements which discloses information relating to the recognition of the guarantee liability.	We obtained Management's assessment used as a basis underpinning the recognition and measurement of the guarantee liability. We reviewed the sequence of events and facts available leading up to the tenancy default and the Group's incurring of the associated loss. We agreed to supporting documentation the inputs used to quantify the liability associated with the previous lease in default and those used to measure the guarantee liability associated with the remaining term assigned to the new lessee. We assessed the reasonableness of estimates and probability of default used by management in quantifying the guarantee liability related to the new lease at 30 June 2021. We challenged Management on the facts available at 30 June 2019 and 30 June 2020 which led to no guarantee liability being measured in previous financial statements. We have reviewed disclosures in the consolidated financial statements to the requirements of the accounting standards.

Other Information

The directors are responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: .

This description forms part of our auditor's report.

Who we Report to

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Croucher.

BDO Auckland

BDO Auckland
Auckland
New Zealand
24 September 2021