Appendix 4D and Interim Financial Report for the half year ended 31 December 2017

Name of entity

Murray River Organics Group Limited

ABN or equivalent company reference

46 614 651 473

Half year ended ('current period')

31 December 2017

Previous corresponding period ended

31 December 2016

Results For Announcement To The Market
For the half year ended 31 December 2017

Revenue and Net Profit		**Change from Previous Corresponding Period %**		**Amount $'000**
Revenue from operations	**up**	**135.8%**	**to**	**$39,373**
Loss after tax attributable to members	**up**	Not a Meaningful Figure	**to**	**$(22,193)**

NTA Backing	**Current Period (cents per share)**	**Previous Corresponding Period (cents per share)**
Net tangible asset backing per ordinary security	$0.45	$0.72

Dividends (distributions) **Interim**	**Amount per security (cents per share)**	**Franked amount per security (cents per share)**
Current period	Nil	Nil
Previous corresponding period	Nil	Nil
Record date for determining entitlements to the dividend	Not Applicable	

This half year report should be read in conjunction with the most recent annual report.
This report is designed to meet the half yearly reporting requirements and does not include the full disclosures as contained in the annual financial statements.

Murray River Organics Group Limited

ACN 614 651 473

Financial report for the half year ended 31 December 2017

Contents

Directors' Report

The directors of Murray River Organics Group Limited (the Company) submit herewith the financial report of the Company and its subsidiaries (the Group) for the half-year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of the company during or since the end of the half-year are:

Name	
Mr Andrew Monk Non-Executive Independent Chairman	Appointed Non-Executive Director and Chairman on 24 January 2018
Mr Keith Mentiplay Non-Executive Independent Director	Appointed Non-Executive Director on 24 January 2018
Mr Steven Si Non-Executive Independent Director	Appointed Non-Executive Director on 24 January 2018
Mr Craig Farrow Non-Executive Independent Director and former Chairman	Appointed Non-Executive Director on 6 September 2016 and resigned 24 January 2018
Ms Lisa Hennessy Non-Executive Independent Director	Appointed Non-Executive Director on 6 September 2016 and resigned 24 January 2018
Mr Don Brumley Non-Executive Independent Director	Appointed Non-Executive Director on 6 September 2016 and resigned 22 November 2017
Mr Kenneth Carr Non-Executive Independent Director	Appointed Non-Executive Director on 23 November 2017 and resigned 24 January 2018
Mr Erling Sorensen Executive Managing Director	Appointed Executive Director on 6 September 2016 and resigned 9 November 2017
Mr Jamie Nemtsas Executive Director – Chief Operating Officer	Appointed Executive Director on 6 September 2016 and resigned 28 August 2017

Review of operations

The Group is an Australian producer, processor, manufacturer, marketer, and seller of certified organic, natural and better-for-you food products. It has a growing portfolio of certified organic products, which are sold globally. The Group's product range is targeted at the rising consumer demand globally for natural, healthy and organic foods, and vertical integration in dried vine fruit production is an important part of the Group's strategy.

<u>Business footprint</u>

The Group owns and operates the following:

- 13 farms in the Mildura/Sunraysia region with over 4,000ha of dried vine fruit, table grape and citrus orchards, including vacant plantable land for future development;
- A processing and production facility in Mourquong, New South Wales, located within the Sunraysia growing region; and
- A manufacturing and packing facility in Dandenong, Victoria.

The Group holds and continues to maintain its certified organic status at both of the processing/production facilities and at six of the farms, with one additional farm well advanced through the organic certification process.

Through the acquisition of Food Source International and Australian Organic Holdings on 12 September 2016 and 16 November 2016 respectively, the Group sources and procures 6,555MT of high quality organic and conventional food products ranging from grains and seeds through a variety of snacking products. These acquisitions provide the Group with a broader range of healthy products with which to service its existing global customer base, and strengthens its relationships with Australian domestic retailers.

Leadership change

During the half year ended 31 December 2017, a restructure of the leadership team took place which resulted in the two founders of the business, Jamie Nemtsas and Erling Sorensen, leaving the business. George Haggar was appointed CEO on 9 November 2017. This change has brought about a review of the entire business operations and the development of a turnaround plan aimed at improving the current financial performance of the business.

Financial Overview

	Dec 17 (i)	Dec 16 (i)	Change	
	$'000	$'000	$'000	%
Net sales revenue	39,373	16,699	22,674	135.8%
Underlying EBITDA (ii)	3,050	3,458	(408)	-11.8%
EBITDA to Sales	*7.75%*	*20.71%*		*-13.0%*
Depreciation	(2,959)	(1,738)	(1,221)	70.3%
Underlying EBIT (iii)	91	1,720	(1,629)	-94.7%
EBIT to Sales	*0.23%*	*10.30%*		*-10.1%*
Reported Loss after tax	(22,193)	(1,170)	(21,023)	NMF
Basic EPS (cents)	(0.19)	(0.03)	(0.16)	
	Dec 17 (i)	**Jun 17 (i)**		
Net Tangible assets per share	0.45	0.65	(0.20)	-30.8%
Working capital (iv)	17,598	23,942	(6,344)	-26.5%
Net bank debt (v)	35,692	28,606	7,085	24.8%
Gearing - Bank Debt (vi)	39.1%	30.1%		*9.0%*

(i) Unaudited non-IFRS financial table

(ii) EBITDA (Earnings Before Interest, Tax, Depreciation and Impairment)

(iii) EBIT (Earnings Before Interest and Tax)

(iv) Receivables (excl related party receivables) and inventory less trade and other payables (excl Nangiloc payable)

(v) Net borrowings less Colignan vineyard finance lease

(vi) Net bank debt divided by total equity plus net bank debt

NMF means Not a Meaningful Figure

- Revenue for the half year of $39.373 million was $22.674 million up compared to the corresponding period, mainly due to the prior year acquisitions of Food Source International and Australian Organic Holdings.

- Although sales increased significantly half year, on half year underlying earnings have fallen below last year with the major causal factors being:
  - Poor service levels with some key customers (due to out of stocks) leading to lower volumes sold;
  - Lower margins in some segments where we are trading in a commoditised and uncontracted environment;
  - Slower than anticipated efficiencies being realised from the Dandenong manufacturing facility, primarily driven by the delay in delivery of a new high speed snack box packing line; and
  - Slower than anticipated commissioning of the new Sunraysia processing facility which required additional cost in 3rd party dehydration and dried vine fruit processing services.

- Underlying EBITDA was $3.050 million, 11.8% down on the corresponding period last half year.

- The statutory consolidated net loss after tax of the Group for the half-year ended 31 December 2017 was $22.193 million (2016: Net loss after tax of $1.170 million), which was impacted by one-off costs including goodwill impairment, inventory write downs and provisioning, restructuring costs, and reversal of provision for group reorganisation, totalling $19.1 million.

- Net bank debt, excluding Colignan finance lease was $35.7 million, with gearing of 39.1%. Under the new leadership team, a number of initiatives are currently underway to reduce the gearing levels through sale of non-core assets and "Profit Delivery Projects" aimed at increasing the underlying earnings of the business.

- Working capital decreased by $6.344 million from 30 June 2017, due to the seasonal nature of the business. Inventory is expected to increase following the completion of the harvest during February and March. Working capital with inclusion of Agriculture Produce increased by $0.641 million from 30 June 2017.

- Operating cash flows from "operating activities" for the half year was negative $5.328 million, $1.985 million improvement from negative cash flows of $7.313 million from the previous corresponding period. This is largely driven by a significant increase in customer receipts relative to supplier payments over the comparative half year periods.

	Dec 17 (i)	Dec 16 (i)	Change	
	$'000	$'000	$'000	%
Reported loss after tax	(22,193)	(1,170)	(21,023)	NMF
Income tax expense	(1,631)	(307)	(1,324)	
Finance costs	(1,569)	(942)	(627)	
EBIT (loss)	(18,993)	79	(19,072)	NMF
One off				
Inventory write down	(8,344)	-	(8,344)	
Goodwill impairment	(10,376)	-	(10,376)	
Business restructuring costs	(1,405)	-	(1,405)	
Reversal of provision for group reorganisation	1,041	-	1,041	
IPO and acquisition related costs	-	(1,641)	1,641	
Underlying EBIT	91	1,720	(1,629)	-94.7%
Depreciation and amortisation	(2,959)	(1,738)	(1,221)	70.3%
Underlying EBITDA	3,050	3,458	(408)	-11.8%

(i) Unaudited non-IFRS financial table

NMF means Not a Meaningful Figure

- The fair value gain on agricultural produce recognised in the condensed consolidated statement of profit and loss represents the fair value movement in unharvested biological assets. Biological assets are calculated with reference to expected yields. This is then discounted by a time factor to take into account the growth stage of the particular crop.

Outlook

Management have taken some time to carefully and methodically review the underlying financial performance of the business and have now implemented important changes to key elements of the supply chain to drive performance improvement.

Whilst the initial effort has been to focus on people, process and systems, the business is expected to move into a phase where positive financial outcomes will flow from the changes that have been activated and will be activated in the coming months.

Momentum towards improved and sustained financial performance will be driven from:

- Post-harvest supply chain will 'push' product to finished goods based on better sales planning to avoid work in progress and inventory risk;
- Competitive tension will be brought to sourcing and procurement activities to deliver lower COGS as existing contracted supply arrangements are renewed;
- Processing and manufacturing will take advantage of new equipment efficiency with a more strategic approach to 3rd party contract packing alliances;
- Updated commercial and pricing models will be used to underpin all future customer/sales proposals – contracted and uncontracted; and
- Sales effort will be underpinned by customer/market plans, utilising all available data/insights.

Subsequent events

There have been no events subsequent to reporting date which would have a material effect on the Group's consolidated financial statements as at 31 December 2017.

Dividend

No dividends were paid or declared during the half-year (2016: nil).

Auditor's independence declaration

The auditor's independence declaration is included on page 7 of the half-year report.

Rounding off of amounts

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

Andrew Monk
Chairman
Melbourne, 27 February 2018

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Auditor's Independence Declaration to the Directors of Murray River Organics Group Limited

As lead auditor for the review of Murray River Organics Group Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Murray River Organics Group Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

David

David Petersen
Partner

27 February 2018

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Independent Auditor's Review Report to the Members of Murray River Organics Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Murray River Organics Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne

27 February 2018

Directors' Declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standard AASB134 Interim Financial Reporting and giving a true and fair view of the financial position as at 31 December 2017 and performance for the half year ended on that date of the Group.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

____

Andrew Monk
Chairman
Melbourne, 27 February 2018

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2017

	Note	Half-year ended 31 Dec 2017 $ '000	31 Dec 2016 $ '000
Revenue		39,373	16,699
Other income	4	310	572
Fair value gain on agricultural produce		7,855	6,941
Change in finished goods and work in progress		1,259	5,204
Raw materials and consumables used		(36,690)	(21,912)
Administration expense		(977)	(399)
Selling and marketing expenses		(597)	(214)
Employee benefits expense		(4,876)	(2,236)
Depreciation expense		(2,959)	(1,738)
Professional fees		(779)	(189)
Other expenses		(1,827)	(1,008)
Finance costs		(1,569)	(942)
IPO and acquisition related costs (not included in equity)		-	(1,641)
Inventory write down		(8,344)	-
Business restructuring costs		(1,405)	-
Reversal of provision for group reorganisation		1,041	-
Goodwill impairment		(10,376)	-
Loss before tax		**(20,561)**	**(863)**
Income tax expense		(1,631)	(307)
Loss for the half-year		**(22,193)**	**(1,170)**
Attributed to:			
Equity holders of the parent		(22,193)	(781)
Murray River Organics Property Trust (non-controlling interests) (i)		-	(389)
		(22,193)	**(1,170)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss**:**			
Recognition of deferred tax liability on revaluation of assets		-	(2,289)
Total other comprehensive loss		-	(2,289)
Total comprehensive loss for the half-year		(22,193)	**(3,459)**
Attributed to:			
Equity holders of the parent		(22,193)	(3,070)
Murray River Organics Property Trust (non-controlling interests) (i)		-	(389)
		(22,193)	**(3,459)**
Basic earnings per share		(0.19)	(0.03)
Diluted earnings per share		(0.19)	(0.03)

Notes to the financial statements are included on pages 16 to 23.

(i) Non-controlling interest represents the interests of the unitholders in MROPT in the period prior to the group restructure undertaken on 9 November 2016. Refer to Note 1 'Group reorganisation'.

Condensed consolidated statement of financial position as at 31 December 2017

	Notes	31 Dec 2017 $ '000	30 Jun 2017 $ '000
Current assets			
Cash and cash equivalents		2,763	2,724
Trade and other receivables		8,751	8,891
Inventories		19,925	27,069
Agricultural produce		11,391	4,407
Assets held for sale		1,811	2,069
Other assets		1,102	4,187
Total current assets		**45,743**	**49,347**
Non-current assets			
Property, plant and equipment		87,976	82,241
Intangible assets	6	373	10,749
Deferred tax asset		-	1,784
Total non-current assets		**88,349**	**94,774**
Total assets		**134,092**	**144,121**
Current liabilities			
Trade and other payables		11,078	18,122
Borrowings		17,810	17,288
Provisions		655	4,136
Other financial liability		670	547
Income tax payable		946	946
Total current liabilities		**31,159**	**41,039**
Non-current liabilities			
Borrowings		44,141	33,228
Deferred tax liabilities		2,781	3,129
Provisions		446	446
Total non-current liabilities		**47,368**	**36,803**
Total liabilities		**78,527**	**77,842**
Net assets		**55,565**	**66,279**
Equity			
Contributed equity	7	123,832	112,002
Reserves		(41,951)	(41,600)
Accumulated losses		(26,316)	(4,123)
Total Equity		**55,565**	**66,279**

Notes to the financial statements are included on pages 16 to 23.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2016

	Contributed equity $ '000	Retained earnings $ '000	Asset revaluation reserve $ '000	Share-based payments reserve $ '000	Corporate re-organisation reserve $ '000	Attributable to owners of the parent $ '000	Non-controlling interest $ '000	Total equity $ '000
Balance at 1 July 2016	**9,693**	**5,071**	**-**	**-**	**-**	**14,764**	**15,102**	**29,866**
Loss for the half year	-	(781)	-	-	-	(781)	(389)	(1,170)
Other comprehensive loss	-	-	(2,289)	-	-	(2,289)	-	(2,289)
Total comprehensive loss for the half-year	**-**	(781)	(2,289)	-	-	(3,070)	(389)	(3,459)
Transactions with security holders in their capacity as security holders								
Contribution of equity:								
Issue of units	-	-	-	-	-	-	6,705	6,705
Reclassification of non-controlling interest (refer Note 1)	29,333	(3,655)	7,630	-	(11,890)	21,418	(21,418)	-
Issue of shares	74,360	-	-	-	(35,949)	38,411	-	38,411
Equity raising costs (net of tax)	(924)	-	-	-	-	(924)	-	(924)
Share-based payments	213	-	-	74	-	287	-	287
Balance at 31 December 2016	**112,675**	**635**	**5,341**	**74**	**(47,839)**	**70,886**	**-**	**70,886**

Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2017
(Continued)

	Contributed equity $ '000	Retained earnings / (Accumulated losses) $ '000	Asset revaluation reserve $ '000	Share-based payments reserve $ '000	Corporate re-organisation reserve $ '000	Total equity $ '000
Balance at 1 July 2017	**112,002**	**(4,123)**	**5,342**	**511**	**(47,453)**	**66,279**
Loss for the half year	-	(22,193)	-	-	-	(22,193)
Total comprehensive loss for the year	**-**	**(22,193)**	**-**	**-**	**-**	**(22,193)**
Transactions with security holders in their capacity as security holders						
Contribution of equity:						
Revaluation of assets	-	-	(174)	-	-	(174)
Issue of shares	12,106	-	-	-	-	12,106
Equity raising costs (net of tax)	(456)	-	-	-	-	(456)
Share-based payments	180	-	-	(177)	-	3
Balance at 31 December 2017	123,832	(26,316)	5,168	334	(47,453)	55,565

Condensed consolidated statement of cash flows for the half-year ended 31 December 2017

	Note	Half-year ended 31 Dec 2017 $'000	Half-year ended 31 Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers		39,500	12,514
Payments to suppliers and employees		(43,270)	(18,560)
Interest received		11	36
Income tax paid		-	(23)
Interest paid		(1,569)	(1,280)
Net cash used in operating activities		**(5,328)**	**(7,313)**
Cash flows from investing activities			
Payments for property, plant & equipment		(14,897)	(18,719)
Payment for business acquisitions	6	(2,626)	(15,235)
Proceeds from sale of water rights		-	436
Net cash used in investing activities		**(17,523)**	**(33,518)**
Cash flows from financing activities			
(Payments to) / proceeds from related parties		15	(6)
Net proceeds from borrowings		7,510	5,176
Proceeds from leases		4,310	-
Net proceeds from hire purchase liabilities		(400)	604
Proceeds from issue of share capital and trust units		12,106	45,116
Transaction costs paid on issue of securities		(651)	(1,319)
Net cash generated by financing activities		**22,890**	**49,571**
Net increase in cash and cash equivalents		39	8,740
Cash and cash equivalents at the beginning of the half-year		2,724	2,249
Cash and cash equivalents at the end of the half-year		2,763	10,989

Notes to the financial statements are included on pages 16 to 23.

Notes to the consolidated financial statements

1. General information and group reorganisation

These are the half year condensed consolidated financial statements of Murray River Organics Group Limited (the "Group" or the "Company").

Stapling transaction in comparative period

On 18 December 2015, the units in Murray River Organics Property Trust were stapled to the shares in Murray River Organics Limited. The stapled securities were on a one-to-one basis so that one Murray River Organics Property Trust unit and one Murray River Organics Limited share formed a single stapled security.

Australian Accounting Standards required one of the stapled entities to be identified as the parent entity for the purposes of preparing a consolidated financial report. In accordance with this requirement, Murray River Organics Limited was deemed to be the parent entity. The results and equity attributable to the Murray River Organics Property Trust, being the other stapled entity which was not directly or indirectly held by Murray River Organics Limited have been shown separately in the financial statements as non-controlling interests.

The stapling transaction was accounted for as a common-control transaction by contract alone on the basis that the combined entity was ultimately controlled by the same parties both before and after the stapling transaction and common-control was not transitory. Murray River Organics Limited was at this time identified as the parent entity. No purchase considered was transferred. This common-control transaction was accounted for via the 'pooling of interests-type' method which required:

- assets and liabilities of the Trust were measured at book value using consistent accounting policies to that of the Parent
- the comparative figures included both the Company and the Trust from the date on which the combining entities first came under common control
- non-controlling interests were shown as a separate item in the consolidated financial statements
- any expenses incurred on the combination were expensed in profit or loss when incurred.

The results and equity of Murray River Organics Property Trust (which was not directly owned by Murray River Organics Limited) was treated and disclosed as a non-controlling interest. Whilst the results and equity of Murray River Organics Property Trust were disclosed as a non-controlling interest, the stapled securities holders of Murray River Organics Limited were the same as the stapled security holders of Murray River Organics Property Trust.

Group reorganisation

Murray River Organics Group Limited was incorporated on 6 September 2016. On 9 November 2016, the shareholders of the Company, the Directors and management undertook a group reorganisation whereby the stapled securities were unstapled via resolutions in accordance with the relevant Company constitution and Trust Deed at which time Murray River Organics Group Limited became the legal parent following the acquisition of all units in the Murray River Organics Property Trust and all the shares in Murray River Organics Limited held by each existing shareholder.

The reorganisation was made in connection with the initial public offering which was successfully completed on 16 December 2016.

The Directors have elected to account for the restructure as a capital reorganisation, whereby Murray River Organics Group Limited was imposed above the existing stapled structure with the same shareholders having the same relative interests, rather than a business combination. In the Director's judgment, the continuation of existing accounting values is consistent with the accounting which would have occurred if the assets and liabilities had already been in a structure suitable for the IPO and most appropriately reflects the substance of the internal restructure.

Accordingly the consolidated financial report of Murray River Organics Group Limited for the prior period has been presented as a continuation of the pre-existing accounting values of assets and

1. General information and group reorganisation (continued)

liabilities in the Murray River Organics Limited consolidated financial statements and includes the financial results for the consolidated group under Murray River Organics Limited for the period from 1 July 2016 to 9 November 2016 and the consolidated group under Murray River Organics Group Limited from 10 November 2016 to 31 December 2016.

Prior to 31 December 2016 the information presented in the Statement of Changes in Equity represents the difference between the cost of the investment and the pre-existing contributed equity of Murray River Organics Limited and Murray River Organics Property Trust at the date of the restructure totalling $47,839,170 has been accounted for as a Corporate Reorganisation Reserve. Due to the unstapling of the existing securities, and the transfer of all units in the Murray River Organics Property Trust to the parent, all non-controlling interests have been reclassified to the parent within shareholders equity.

The Australian Securities and Investments Commission (ASIC) has granted relief (ASIC Instrument No. 17-0140) under section 340 of the Corporations Act 2001 (Cth) (Corporations Act) to Murray River Organics Group Limited from the requirements under section 323D(5) of the Corporations Act so that its first half year end date is 31 December 2016, rather than 6 February 2017 in order to align its half year reporting dates and to avoid the need to prepare two sets of half year accounts.

2. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report of Murray River Organics Group Limited for the year ended 30 June 2017, together with any public announcements made by the Murray River Organics Group Limited during the half year ended 31 December 2017. This annual financial report is available on the ASX website.

Seasonality of interim operations

The Group has seasonality throughout the business due to the growing cycle of the dried fruit and table grape vineyards. These annual crops are usually harvested from January to June, leading to marginally higher revenues in the second half of the financial year. Additionally crop farming and preparation costs are incurred in the first half of the financial year and harvest cost are incurred in the second half of the financial year.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2017, except for the impact of the adoption of the new and revised accounting policies' discussed below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

2. Significant accounting policies (continued)

The critical accounting judgements and key sources of estimation uncertainty remain consistent, with those disclosed in the Group's annual financial report for the year ended 30 June 2017.

Certain classifications have been made in the condensed consolidated financial statements to ensure prior period comparative information conforms to current year presentations.

Changes in accounting policy, accounting standards and interpretations

The Group has adopted the applicable changes in the accounting standards for the half year ended 31 December 2017 and are of the view that the adoption of the standards did not have an effect on the financial position or the performance of the Group. In addition, the Group has not elected to adopt any new standards as amendments issued but not yet effective.

The Group continues to finalise the expected impact of these changes in the financial position and performance of the Group. Based on the Group's assessment to date, the expected impact disclosures in the annual financial report for the year end 30 June 2017 remain applicable.

3. Segment information

The Group operates in one industry being the production of food and food products within Australia. All of the Group's revenue is attributable to this group of products. Approximately 91% of the Group's revenue is attributed to domestic customers, and the remainder relates to exports to USA (1%), Asia (4%), Europe (3%) and others (1%).

The chief operating decision maker (being the Chief Executive Officer) regularly reviews entity wide information that is compliant with Australian Accounting Standards. There is only one segment for segment reporting purposes and the information reviewed by the chief operating decision maker is the same as the information presented in the statement of financial position, statement of profit and loss and other comprehensive income and statement of cash flows.

4. Other income

	31 Dec 2017 $ '000	31 Dec 2016 $ '000
Net foreign exchange gains	162	378
Gain on sale of non-current assets	-	24
Government grants	5	106
Interest income	11	36
Other	132	28
Total	**310**	**572**

5. Income tax

The Group has not recognised a deferred tax asset in relation to all available tax losses it has generated. As a result the following tax losses have not been brought to account.

	31 Dec 2017 $ '000	30 June 2017 $ '000
Tax losses	4,842	-

The tax losses will be able to be utilised, when the Group generates taxable profits in future periods.

5. Income tax (continued)

Prior to the reorganisation as outlined in Note 1, no income tax was payable by the Murray River Organics Property Trust ("the Trust"), nor by the Trustee of the Trust provided the unitholders were presently entitled to the income of the trust as determined in accordance with the Trust Deed. As a result of the reorganisation, all units are held by Murray River Organics Group Limited and all income of the Trust will be taxed in Murray River Organics Group Limited.

6. Goodwill

	31 Dec 2017 $ '000	30 June 2017 $ '000
Gross Carrying amount		
Balance at Beginning of period	10,749	-
Additions recognised from business combination	-	10,749
Balance at end of period	10,749	10,749
Accumulated Impairment Losses		
Balance at Beginning of period	-	-
Impairment losses recognised in the period	(10,376)	-
Balance at end of period	(10,376)	-
Total	**373**	**10,749**

Goodwill has been allocated for impairment testing to one cash generating unit, being the Food Products business. The recoverable amount of the cash generating unit was determined based on a value in use calculation, which uses five-year cash flow projections (pre-tax) approved by management, discounted as the rate of 17.4% (pre-tax).

Prior period business combinations

a) Acquisition of the Food Source International business

On 12 September 2016, the Group acquired the Food Source International ("FSI") business assets.

Consideration transferred

The following table summarises the acquisition date fair value of consideration transferred.

	$ '000
Cash	4,652
Contingent consideration (i)	900
Total consideration transferred	**5,552**

i) Contingent consideration

The Group had agreed to pay the sellers additional consideration of $900,000 (maximum) if the trading income of FSI was at least $22,000,000 for the year ending 30 June 2017 (inclusive of pre-acquisition revenue). If the trading income was less than $22,000,000 a discount would be applied to the contingent consideration. The full contingent consideration of

6. Goodwill (Continued)

$900,000 was paid on 22 August 2017 and is part of investing activities in the statement of cash flows.

Identifiable assets acquired and liabilities assumed
The fair values of the identifiable assets and liabilities of FSI as at the date of acquisition were:

	Fair value **$ '000**
Inventory	2,926
Deferred tax asset	40
Employee liabilities	(7)
Foreign currency contracts	(125)
Total fair value	**2,834**

Goodwill arising on acquisition

	$ '000
Consideration transferred	5,552
Less: fair value of identifiable net assets	(2,834)
Goodwill arising on acquisition	**2,718**

Transaction costs of $136,032 were expensed and included in Professional fees in the statement of profit or loss, and were part of operating cash flows in the statement of cash flows for the year ending 30 June 2017.

b) Acquisition of Australian Organic Holdings Pty Ltd business assets

On 16 November 2016, the Group completed the acquisition of the business assets of Australian Organic Holdings Pty Ltd ("Australian Organic Holdings").

Consideration transferred

The following table summarises the acquisition date fair value of consideration transferred.

	$ '000
Cash	10,300
Contingent consideration (i)	2,200
Total consideration transferred	12,500

i) *Contingent consideration*

The Group was required to pay the sellers additional consideration of $2,200,000 (maximum) if the trading income of Australian Organic Holdings was at least $25,000,000 for the year ending 30 June 2017 (inclusive of pre-acquisition revenue). If the trading income was less than $25,000,000 a discount would be applied to the contingent consideration. Management determined that the full earnout was not likely payable and the contingent consideration was reduced by $474,141 which was reflected in 'other income' for the year ending 30 June 2017. The remaining contingent consideration balance of $1,725,859 was paid in full on 14 September 2017 and is part of investing activities in the statement of cash flows.

6. Goodwill (Continued)

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

	Fair value $ '000
Inventory	4,373
Plant and equipment	322
Deferred tax asset	97
Employee liabilities	(45)
Foreign currency contracts	(278)
Total fair value	**4,469**

Goodwill arising on acquisition

	$ '000
Consideration transferred	12,500
Less: fair value of identifiable net assets	(4,469)
Goodwill arising on acquisition	**8,031**

Transaction costs of $147,481 were expensed and included in Professional fees in the statement of profit or loss, and were part of operating cash flows in the statement of cash flows for the year ending 30 June 2017.

7. Equity securities issued	**Half-year ended 31 Dec 2017**		**Half-year ended 31 Dec 2016**	
	Number '000	**$ '000**	**Number '000**	**$ '000**
Opening balance (1 July)	**87,087**	**112,002**	**16,976**	**9,693**
Share split	-	-	-	-
Issue of shares before group reorganisation	-	-	5,588	13,411
Issue of shares to acquire Non-controlling interest (Murray River Organics Property Trust)	-	-	22,564	29,333
Issue of shares as part of the group reorganisation (Murray River Organics Limited)	-	-	22,564	35,949
Issue of shares at initial public offering	-	-	19,231	25,000
Issue of shares to non-executive directors	-	-	164	213
Issue of shares to other employees	138	180	-	-
Issue of shares via Placement/Entitlement Offer	40,352	12,106	-	-
Equity raising costs (net of tax)	-	(456)	-	(924)
Closing balance (31 December)	**127,577**	**123,832**	**87,087**	**112,675**

7. Equity securities issued (Continued)

Murray River Organics Group Limited (ASX: MRG) was admitted to the ASX official list effective 16 December 2016, following the issue of 19,230,769 ordinary shares at $1.30 each pursuant to a Prospectus and Initial Public Offer document. On 30 August 2017, a Placement and Entitlement Offer of 40,351,692 new fully paid ordinary shares was completed, raising net proceeds of $11,650,071 after taking into account capital raising costs recorded in equity of $455,437 (net of tax) for the half year.

8. Fair value of financial instruments

The only financial assets or financial liabilities carried at fair value are foreign currency contracts. The directors consider the foreign currency contracts to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurements are derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between level 1, 2 and 3 for recurring fair value measurements during the half-year. The foreign currency contracts fair values have been obtained from third party valuations derived from discounted cash flow forecasts of forward rates (from observable yield curves at the end of the reporting period) and contract rates.

The following table gives information about how the fair values of these financial liabilities are determined (the valuation techniques and inputs used).

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31 Dec 17 $'000	30 Jun 17 $'000		
1) Foreign currency forward contracts	Liabilities: 670	Liabilities: 546	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counterparties.
2) Contingent consideration in a business combination	Nil	Liabilities: 2,626	Level 2	Contingent consideration was dependent on Food Source International and Pacific Organics meeting revenue targets (refer Note 6). The carrying value of the contingent consideration was determined based on actual revenue achieved in relation to the revenue target for their performance period which was the 2017 financial year.

The directors consider that the carrying amount of other financial assets and financial liabilities recorded in the financial statements approximate their fair values.

9. Borrowings and banking facilities

a) Borrowings

	31 Dec 2017 $ '000	30 June 2017 $ '000
Current		
Secured borrowings:		
Bank loans	15,074	14,920
Hire purchase liability	1,041	980
Lease liability - Colignan Vineyard	1,695	1,388
Total	**17,810**	**17,288**
Non-current		
Secured borrowings:		
Bank loans	19,487	12,117
Hire purchase liability	2,853	3,314
Lease liability – Colignan Vineyard	21,801	17,797
Total	**44,141**	**33,228**

b) Gearing Ratio

	31 Dec 2017 $ '000	30 June 2017 $ '000
Bank debt	38,455	31,330
Cash and cash equivalents	(2,763)	(2,724)
Net bank debt	**35,692**	**28,606**
Total Equity	55,565	66,279
Net Bank Debt to Capital ratio (i)	39.1%	30.1%
Net Borrowings (Including Colignan vineyard finance lease)	59,188	47,791
Net Borrowings to Capital ratio (ii)	64.9%	50.4%

(i) Net bank debt divided by total equity plus net bank debt
(ii) Net borrowings divided by total equity plus net bank debt

Since 30 June 2017, the Trade Finance bank debt facility was increased from a facility limit of $12 million to $16 million.

Prior to the period ending 31 December 2017, the Group was forecasting to breach its banking covenant in relation to interest cover ratio. Before a breach occurred, the Group renegotiated its banking covenants which meant that no interest cover ratio was applicable for the year ending 30 June 2018. Revised covenants are expected to recommence for the year ending 30 June 2019.

10. Events subsequent to reporting date

There have been no events subsequent to the reporting date which would have a material effect on the Group's consolidated financial statements as at 31 December 2017.