

## Appendix 4E

### Full Year Report for 30 June 2018

Name of entity

Murray River Organics Group Limited
ABN 46 614 651 473

**Reporting period**

Report for the financial year ended 30 June 2018
Previous corresponding period is the financial year ended 30 June 2017

**Results for announcement to the market****(All amounts in this report are expressed in \$'000 unless otherwise stated)**

Revenue from continuing ordinary activities	Up	41.3%	to 68,539
Loss from continuing ordinary activities after tax	Up	Not a meaningful figure	to (59,607)
Loss from continuing ordinary activities after tax attributable to members	Up	Not a meaningful figure	to (59,607)

**Dividends**

No dividends were paid in FY17 or FY18
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**Supplementary Comments**

Please refer to the attached financial report for the year ended 30 June 2018 for an explanation of the above figures, with emphasis on Note 2 in the Financial Report regarding the Directors' assessment of preparing the accounts on a going concern basis.

Ernst and Young (EY) are in the process of completing the audit of Murray River Organics Group Limited which is expected to be finalised prior to the end of September 2018. The audit report is expected to include an emphasis of matter in relation to material uncertainty regarding ability to continue as a going concern.

**Dividends**

No dividends were paid in FY18 and FY17
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**Net tangible assets per security**

	Current period Cents per Share	Previous corresponding period Cents per Share
Net tangible asset backing per ordinary security	\$0.16	\$0.64

**Events subsequent to reporting date**

In July 2018, the Group increased its bank overdraft facility by an additional \$6.600 million. This takes the Group's total bank debt facilities (including bank guarantees) to \$53.913 million.

On completion of the 31 July 2018 annual review, its banker (NAB) has also agreed to extend the maturity date of \$26.130 million of debt facilities (related to the trade facility \$14.000 million, bank overdraft \$10.600 million and bank guarantees \$1.530 million, and other working capital facilities such as foreign exchange, unused leasing facility and letters of credit) to 30 November 2018. This gives the Group time to conduct the proposed equity raising to fund the cashflow needs of the business and support the balance sheet. As part of the capital raising, the Group expects to put in place new longer term banking arrangements.

**Murray River Organics Group Limited**  
**ABN 46 614 651 473**

**Financial Information for the year ended 30 June 2018**

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## Directors' and Key Executive Information

Directors of Murray River Organics Group Limited during or since the end of the financial year are:

	Period of Responsibility	Position
<b>Non-Executives</b>		
Andrew Monk	Appointed 24 January 2018	Non-Executive Independent Chairman
Keith Mentiplay	Appointed 24 January 2018	Non-Executive Independent Director
Michael Porter	Appointed 2 April 2018	Non-Executive Independent Director
Steven Si	Appointed 24 January 2018 Resigned 10 August 2018	Non-Executive Independent Director
Alan Fisher	Appointed 8 May 2018 Resigned 31 May 2018	Non-Executive Independent Director
Craig Farrow	Appointed 6 September 2016 Resigned 24 January 2018	Non-Executive Independent Chairman
Kenneth Carr	Appointed 23 November 2017 Resigned 24 January 2018	Non-Executive Independent Director
Lisa Hennessy	Appointed 6 September 2016 Resigned 24 January 2018	Non-Executive Independent Director
Donald Brumley	Appointed 6 September 2016 Resigned 22 November 2017	Non-Executive Independent Director
<b>Executives</b>		
Valentina Tripp	Appointed 16 April 2018	Managing Director and Chief Executive Officer
Albert Zago	Appointed 15 January 2018	Chief Financial Officer (CFO)
George Haggard	Appointed 9 November 2017 Resigned as CEO on 16 April 2018	Chief Executive Officer
Erling Sorensen	Appointed CEO 18 June 2012 Appointed Director 6 September 2016 Resigned 9 November 2017	Managing Director and Chief Executive Officer (CEO)
Jamie Nemtsas	Appointed COO 18 June 2012 Appointed Director 6 September 2016 Resigned 28 August 2017	Executive Director and Chief Operating Officer (COO)
Matthew O'Brien	Appointed March 2016 Appointed GM Commercial & Planning on 15 January 2018	Chief Financial Officer

## Review of Operations

### Financial Performance

	FY18 <sup>(i)</sup>	FY17 <sup>(i)</sup>	Change	
	\$'000	\$'000	\$'000	%
Net sales revenue	68,539	48,522	20,017	41.3%
Underlying EBITDA excluding SGARA <sup>(ii)</sup>	(14,280)	(10,711)	(3,569)	33.3%
<i>EBITDA to Sales</i>	-20.83%	-22.07%		1.2%
Depreciation	(6,198)	(4,276)	(1,922)	44.9%
Underlying EBIT excluding SGARA <sup>(iii)</sup>	(20,478)	(14,987)	(5,491)	36.6%
<i>EBIT to Sales</i>	-29.88%	-30.89%		1.0%
<i>Finance Costs</i>	(3,337)	(2,296)	(1,041)	45.3%
Reported loss after tax	(59,607)	(5,927)	(53,680)	NMF
Net Tangible Assets per share	0.16	0.65	(0.49)	-75.5%
Net bank debt <sup>(iv)</sup>	44,868	28,607	16,261	56.8%
Gearing - Bank Debt <sup>(v)</sup>	224.6%	43.2%		

<sup>(i)</sup> Unaudited non-IFRS financial table

<sup>(ii)</sup> EBITDA (Earnings Before Interest, Tax, Depreciation and Impairment)

<sup>(iii)</sup> EBIT (Earnings Before Interest and Tax)

<sup>(iv)</sup> Net borrowings less Colignan vineyard finance lease

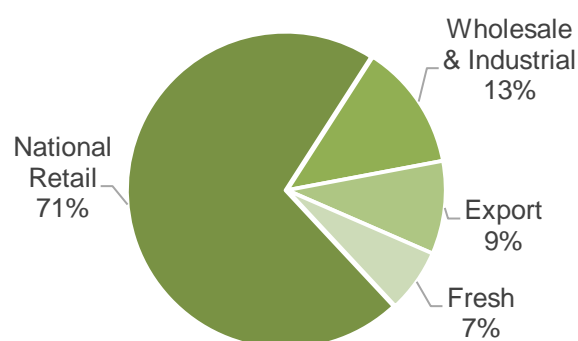
<sup>(v)</sup> Net bank debt divided by total equity

NMF means Not a Meaningful Figure

SGARA means Self-Generating and Regenerating Assets

- Net sales of \$68.539 million were up 41.3% or \$20.017 million on last year, mainly due to the prior year acquisitions of the business assets of Food Source International on 12 September 2016 and Australian Organic Holdings on 26 November 2016. The Group serves customers via four key channels - National Retail; Wholesale and Industrial; Export; and Fresh (table grapes and citrus).

Sales by Channel



- Sales with major retailers continue to be healthy, albeit affected by inconsistent fill rates arising from out of stocks and inability to supply sufficient stock due to the delay in delivery of a new high-speed Yeaman snack box packing line. In July 2018, the high-speed line was commissioned and is progressively ramping up to the expected production speed for our various snack box products.
- Wholesale and Industrial sales were below expectation predominately due to poor order fill rates caused by inventory accuracy issues in our systems causing out of stocks and significant staff reductions in the sales team implemented by previous management in early 2018. The Company is in the process of rebuilding its sales team and a number of new team members have joined the business since July 2018 with the right mix of experience. Raw materials and finished goods inventory levels in Dandenong have been reset and more effective working capital management processes have been introduced. These continue to be refined to ensure that our capital is used efficiently whilst customer service is improved and maintained.
- Export sales of dried fruit increased 38.4% on last year, however these sales were affected by quality issues from the 2017 harvest. Demand in this channel continues to be strong. Whilst

“Cluster” product sales increased 77% (from 67 tonnes in FY17 to 119 tonnes for FY18) this was significantly less than previous estimates used in the FY17 Profit and Loss as “Fair Value Gain from Agricultural Produce”. The market for the “Cluster” products is relatively new and significant category development work is now underway to develop this category both domestically and internationally.

- Disappointingly, due to poor farm operating practices, fresh table grape yields were both below expectations and last year’s levels, compounded by the business being late in engaging with fresh table grape customers and marketers, and as a result missed critical timeframes within which many of the stronger sales channels for organic and conventional grapes were confirmed.
- Citrus sales of \$3.097 million in FY18 from the Nangiloc, Colligan and Gol Gol farms increased by \$1.778 million from prior financial year, predominately from the additional volume arising following the acquisition of the Nangiloc property in June 2017.

	FY18 <sup>(i)</sup> \$'000	FY17 <sup>(i)</sup> \$'000	Change \$'000	%
<b>Reported loss after tax</b>	(59,607)	(5,927)	(53,680)	NMF
Income tax benefit	1,896	1,229	667	
Finance costs	(3,337)	(2,296)	(1,041)	
<b>EBIT (loss)</b>	(58,166)	(4,860)	(53,306)	NMF
Significant items				
Impairment of non-current assets	(21,169)	-	(21,169)	
Inventory write down	(8,344)	-	(8,344)	
Revaluation of properties & assets held for sale	(7,030)	-	(7,030)	
Business restructuring costs	(2,343)	-	(2,343)	
Reversal of provision for group reorganisation	1,040	(1,064)	2,104	
IPO and acquisition related costs	-	(1,994)	1,994	
<b>Underlying EBIT</b>	(20,320)	(1,802)	(18,518)	NMF
Less SGARA gain	158	13,185	(13,027)	-98.8%
<b>Underlying EBIT excluding SGARA</b>	(20,478)	(14,987)	(5,491)	36.6%
Depreciation and amortisation	(6,198)	(4,276)	(1,922)	44.9%
<b>Underlying EBITDA excluding SGARA</b>	(14,280)	(10,711)	(3,569)	33.3%

<sup>(i)</sup> Unaudited non-IFRS financial table

NMF means Not a Meaningful Figure

- Although sales increased significantly from the acquisitions of business assets, underlying earnings were below last year predominately due to:
  - Lower Wholesale and Industrial sales and reduced margins, as a result of the sales team being significantly reduced by prior management and stock supply issues. Furthermore, due to operational challenges with the third-party storage facility (leased in late 2017) and excess stock purchases, the Group has had to accelerate the exit of some stock lines into lower grade markets at a lower margin;
  - Lower yields and margins from fresh table grapes;
  - Increased freight and distribution costs arising from higher sales volume, and additional logistics costs such as the additional third-party storage facility, and hire of warehouse equipment and pallets to support the new facilities;

- Slower than anticipated commissioning of the Dandenong manufacturing facility, together with poor integration of the Food Source International and Pacific Organics businesses acquired. The commissioning of the new Yeaman high-speed snack box packing line was commissioned in July 2018, more than nine months behind plan; and
- Slower than anticipated commissioning of the new Sunraysia processing facility (including dehydrator and biomass equipment) which resulted in the Group incurring additional cost in third party dehydration and dried vine fruit processing services. The Group is currently resolving the issues with the dehydrator and biomass equipment.

On review of the operations in May 2018 by the new management team, a cost reduction program, Project Muscat, commenced with the benefits expected to be realised in FY19. Further cost savings are expected throughout the supply chain as the business continues to relentlessly review and eliminate poor operational practices as well as, rebuilding relationships with our strategic supply partners and growers.

- As part of the review of its operations and in consideration of the new and changing markets it operates in (such as export and the developing Cluster market) the Group has realigned the valuation of its total dried fruit crop to a fair value less costs to sell based on the farm gate price of loose dried fruit (which reflects the pre-processed third party grower price at the point of harvest) in accordance with "AASB 141 Agriculture" and consistent with other agricultural growers. This approach has also been applied to fresh tables grapes and citrus. As a result of this change in accounting estimate, the fair value reported in the Profit and Loss Statement was \$0.157 million (2017: \$13.185 million).

The business has also modified its SAP (B1) reporting systems, whereby internal operational margins will be reported using a "standard costing" methodology, which will significantly enhance how it monitors and drives margin improvement across the supply chain and its operations. As a result, going forward key focus for the business will be on EBIT before SGARA and EBITDA before SGARA (Self-Generating and Regenerating Assets).

- Underlying EBITDA loss before SGARA was \$14.280 million compare to last year's loss of \$10.711 million.
- Underlying EBIT loss before SGARA was \$20.478 million compare to last year's loss of \$14.987 million. Depreciation increased by \$1.922 million arising from the increased capital investment following the completion of the Group's new processing facilities in Dandenong and Mourquong, acquisition of the Nangiloc farm in June 2017 and ongoing vineyard development.
- Reported consolidated Net Loss After Tax (NLAT) after SGARA for the year ended 30 June 2018 was \$59.607 million compared to a 2017 NLAT of \$5.927 million. The NLAT includes a number of one off/significant items associated with:
  - The Group's review of the carrying value of tangible and intangible assets under the Accounting Standards, resulted in an impairment of non-current assets of \$21.169 million, comprising \$10.749 million write down of goodwill and \$10.420 million impairment of leasehold improvements, and plant and equipment. As the operational performance turns around, the impaired tangible assets of \$10.420 million can be written back up in future periods.
  - Inventory write downs and provisioning of \$8.344 million predominately related to the quality of the 2017 harvest which was affected by a combination of weather events and poor operating practices across its operations. In May/June 2018 the first stage of modifying the warehouse management, planning and production processes was completed, which has enabled more efficient and cost effective operations at our Dandenong and Mourquong facilities. Further processes and systems improvements (including implementation of the warehouse management system) will be undertaken in FY19 as new key middle management positions are filled to support these operational changes.
  - Following the revaluation of the Group's properties, there has been a \$7.030m write-down in property values comprised of:
    - Fifth Street, Walnut and Pomona properties (which are held for sale) and have been written down by \$2.644 million

- A \$4.386 million loss recorded related to the value of the Bearer Plants as a result of the performance of the farms being below previous valuation estimations.
- There has also been an increase in land and buildings of \$2.959 million recorded in the Asset Revaluation Reserve.
- The net change in farm properties (excluding assets held for sale) was \$1.427 million (from \$34.1 million to \$32.6 million, a change of 4.2%)
- Restructuring costs of \$2.343 million, comprising the costs associated with holding an Extraordinary General Meeting in January 2018 leading to the change of the Board of Directors and consequential changes to the business; redundancy costs of senior executives; consultancy work to reorganise the Group's tax affairs, banking arrangements and activities to undertake the sale of non-core assets of the Group; provisioning for make good costs in relation to previous leased premises of the Australian Organic Holdings (Pacific Organics) business acquired during FY17; and preliminary work undertaken to recapitalise the Group; and
- Reversal of prior year provision of \$1.040 million for group reorganisation in relation to stamp duty savings.
- Net bank debt, excluding the Colignan finance lease, increased from \$28.607 million to \$44.729 million, with gearing (net bank debt divided by total equity) at 224.6% (2017: 43.2%). During the second half of the FY18 non-core property assets, Walnut Avenue and Benetook Avenue were sold to release proceeds equal to \$1.625 million before selling costs, noting that Walnut Avenue settled in July 2018. The Group's main fresh table grape property (Fifth Street), which is considered non-core, is currently being actively marketed for sale. To support the ongoing funding requirements of the business, the Group intends to undertake a \$30 million capital raising to recapitalise the Group. The Board is continuing to work with its advisers and financier to develop the quantum and terms of the proposed capital raising.

### **Working Capital, Cash flow and Net Bank Debt**

Working Capital	FY18 <sup>(i)</sup>	FY17 <sup>(i)</sup>	Change	
	\$'000	\$'000	\$'000	%
Trade and other receivables	6,729	8,891	(2,162)	-24.3%
Inventories	16,194	27,069	(10,875)	-40.2%
Trade and other payables <sup>(ii)</sup>	(11,825)	(10,950)	(875)	8.0%
	11,098	25,010	(13,912)	-55.6%

<sup>(i)</sup> Unaudited non-IFRS financial table

<sup>(ii)</sup> Trade and other payables excludes Nangiloc payable in FY17

- Working capital (receivables, inventories and trade and other payables) decreased by \$13.912 million, principally due to the change in accounting estimate in relation to SGARA fair value. Last year's inventory included a significant portion of Clusters (\$11.054 million) which were accounted for at a post-processing fair value. Approximately 618 tonnes of Clusters (\$9.269 million) were written off (or converted to loose fruit) during FY18 due to poor quality of the stock. In FY18, the Group reviewed its fair value estimation methodology under SGARA to value its crop, and determined it was more prudent to calculate the fair value over the "total dried fruit" using the farmgate third party grower price at the point of harvest in accordance with "AASB 141 Agriculture", as a result the value of inventory has decreased. Furthermore, stock provisioning has increased as the business continues to exit slow moving lines or product not satisfying Murray River Organics' quality standards.

At 30 June 2018, cash reserves and funding facilities were substantially utilised, as a result debtors and creditors were both tightly managed – creditors, net of debtors, was \$5.096 million compared to last year (\$2.059 million). As detailed in the Subsequent Events Note 24 its banker (NAB) has provided additional funding of \$6.6 million in July 2018 and the Group is exploring options to recapitalise.

- Cash flows from "operating activities" for the year was negative \$12.155 million, \$0.893 million higher than prior year negative cash flows of \$11.262 million. The increase was driven by increase in interest cost of \$1.591 million, partly offset by lower operational costs (customer receipts relative to supplier payments) of \$1.097 million.



## **Changes in the state of affairs**

During the financial year there were no significant changes in the state of affairs of the Group, other than as referred to in this financial information.

## **Environmental regulation**

The entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Murray River Organics is certified by Australian Certified Organic (certificate number 11486).

## **Proceedings on behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the financial year.

## **Rounding off of amounts**

The amounts contained in the financial information has been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial information) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

## Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue	4	68,539	48,522
Other income	4	222	1,355
Fair value gain from agricultural produce	8	158	13,185
Change in finished goods and work in progress		(994)	4,941
Raw materials, consumables used and farming input costs		(69,613)	(53,092)
Administration expense		(2,347)	(1,998)
Selling expenses		(812)	(488)
Employee benefits expense	5	(10,361)	(5,753)
Depreciation expense	5	(6,198)	(4,276)
Freight out and distribution expenses		(4,047)	(1,824)
Other expense		(3,212)	(2,374)
Finance costs	5	(3,337)	(2,296)
Impairment of non-current assets	13	(21,169)	-
Revaluation of properties and assets held for sale		(7,030)	-
Business restructuring costs		(2,343)	-
Reversal of/(provision) for group reorganisation costs		1,040	(1,064)
IPO and acquisition related costs		-	(1,994)
Loss before tax		(61,504)	(7,156)
Income tax benefit		1,896	1,229
<b>Loss for the year</b>		<b>(59,607)</b>	<b>(5,927)</b>
<i>Attributed to:</i>			
Equity holders of the parent		(59,607)	(5,538)
Murray River Organics Property Trust (non-controlling interests)		-	(389)
		(59,607)	(5,927)
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Gain on revaluation of assets		2,056	-
Net movement in cash flow hedges		118	-
Recognition of deferred tax liability		(617)	(2,289)
Total other comprehensive (loss)		1,557	(2,289)
<b>Total comprehensive loss for the year</b>		<b>(58,050)</b>	<b>(8,216)</b>
<i>Attributed to:</i>			
Equity holders of the parent		(58,050)	(7,827)
Murray River Organics Property Trust (non-controlling interests)		-	(389)
		(58,050)	(8,216)

Notes to the financial information are included on pages 14 to 41.

# Consolidated statement of financial position at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	20(a)	4	2,724
Trade and other receivables	6	6,729	8,891
Inventories	7	16,194	27,069
Agricultural produce	8	2,621	4,407
Other financial assets	9	169	-
Other assets	10	1,320	4,187
		<b>27,037</b>	<b>47,278</b>
Assets held for sale	11	7,642	2,069
<b>Total current assets</b>		<b>34,679</b>	<b>49,347</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	67,610	82,241
Intangible assets	13	-	10,749
Deferred tax assets		-	1,784
<b>Total non-current assets</b>		<b>67,610</b>	<b>94,774</b>
<b>Total assets</b>		<b>102,289</b>	<b>144,121</b>
<b>Current liabilities</b>			
Trade and other payables	14	11,825	18,122
Borrowings	15	47,161	17,288
Provisions	16	755	4,136
Other financial liabilities	17	-	547
Income tax payable		-	946
<b>Total current liabilities</b>		<b>59,741</b>	<b>41,039</b>
<b>Non-current liabilities</b>			
Borrowings	15	22,133	33,228
Deferred tax liabilities		-	3,129
Provisions	16	440	446
<b>Total non-current liabilities</b>		<b>22,573</b>	<b>36,803</b>
<b>Total liabilities</b>		<b>82,314</b>	<b>77,842</b>
<b>Net assets</b>		<b>19,975</b>	<b>66,279</b>
<b>Equity</b>			
Contributed equity	18	123,832	112,002
Reserves	19	(40,127)	(41,600)
Accumulated losses		(63,730)	(4,123)
<b>Total equity</b>		<b>19,975</b>	<b>66,279</b>

Notes to the financial information are included on pages 14 to 41.

## Consolidated statement of changes in equity for the year ended 30 June 2018

	Contributed equity	Retained earnings/ (Accumulated losses)	Corporate re- organisation reserve	Share-based payments reserve	Asset revaluation reserve	Hedging Reserve	Non- controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	9,692	5,071	-	-	-	-	15,102	29,865
Other comprehensive loss	-	-	-	-	(2,289)	-	-	(2,289)
<b>Total comprehensive loss for year</b>	-	<b>(5,538)</b>	-	-	<b>( 2,289)</b>	-	<b>(389)</b>	<b>(8,216)</b>
Issue of units	-	-	-	-	-	-	6,705	6,705
Reclassification of non-controlling interest	29,333	(3,656)	(11,890)	-	7,631	-	(21,418)	-
Issue of shares	73,974	-	(35,563)	-	-	-	-	38,411
Equity raising costs (net of tax)	(1,211)	-	-	-	-	-	-	(1,211)
Share-based payments	213	-	-	511	-	-	-	723
Loss for the year	-	(5,538)	-	-	-	-	(389)	(5,927)
<b>Balance at 30 June 2017</b>	<b>112,002</b>	<b>(4,123)</b>	<b>(47,453)</b>	<b>511</b>	<b>5,342</b>	-	-	<b>66,279</b>
Balance at 1 July 2017	112,002	(4,123)	(47,453)	511	5,342	-	-	66,279
Loss for the year	-	(59,607)	-	-	-	-	-	(59,607)
Other comprehensive income	-	-	-	-	1,439	118	-	1,557
<b>Total comprehensive income/(loss) for year</b>	-	<b>(59,607)</b>	-	-	<b>1,439</b>	<b>118</b>	-	<b>(58,050)</b>
Issue of shares	12,106	-	-	-	-	-	-	12,106
Equity raising costs (net of tax)	(455)	-	-	-	-	-	-	(455)
Share-based payments	180	-	-	(84)	-	-	-	96
Loss for the year	-	(59,607)	-	-	-	-	-	(59,607)
<b>Balance at 30 June 2018</b>	<b>123,832</b>	<b>(63,730)</b>	<b>(47,453)</b>	<b>427</b>	<b>6,781</b>	<b>118</b>	-	<b>19,975</b>

Notes to the financial information are included on pages 14 to 41.

## Consolidated statement of cash flows for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		78,512	45,576
Payments to suppliers and employees		(85,284)	(53,445)
Interest received		14	49
Tax paid		(817)	(453)
Interest paid		(2,092)	(1,042)
Interest paid – Colignan lease		(2,488)	(1,947)
Net cash used in operating activities	20(b)	<b>(12,155)</b>	<b>(11,262)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant & equipment		(13,700)	(31,498)
Payments for business acquisitions	13	(2,626)	(14,952)
Proceeds from sale of water rights		-	436
Proceeds from sale of property, plant & equipment		717	-
Payment to escrow account in relation to business acquisitions		-	(2,204)
Net cash used in investing activities		<b>(15,609)</b>	<b>(48,218)</b>
<b>Cash flows from financing activities</b>			
(Payments to) / proceeds from related party borrowings		-	414
Proceeds from borrowings		56,337	37,960
Repayment of borrowings		(48,205)	(22,079)
Proceeds from equipment financing		2,456	1,002
Repayment of equipment financing		(805)	(733)
Proceeds from issue of share capital and trust units		12,106	45,120
Transaction costs on issue of securities		(651)	(1,729)
Net cash generated by financing activities		<b>21,238</b>	<b>59,955</b>
<b>Net increase in cash and cash equivalents</b>		<b>(6,526)</b>	<b>475</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>2,724</b>	<b>2,249</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>(3,802)</b>	<b>2,724</b>

Notes to the financial information are included on pages 14 to 41.

# Notes to the financial information

## 1. General information and group reorganisation

The financial information of Murray River Organics Group Ltd.

### Prior year 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 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 year ended 30 June 2017 has been presented as a continuation of the pre-existing accounting values of assets and liabilities in the Murray River Organics Limited consolidated financial information 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 30 June 2017.

## 2. Significant accounting policies

### **Statement of compliance**

This financial information has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial information is for the consolidated entity (the "Group"). For the purposes of preparing the consolidated financial information, the Group is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial information and notes of the Group comply with International Financial Reporting Standards ('IFRS').

### **Basis of preparation**

The financial information has been prepared on the basis of historical cost, except for agricultural produce, certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 2016/191, dated 24 March 2016, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### **Going concern basis**

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. For the reasons described below, there is significant uncertainty whether the Group will continue as a going concern:

- The Group incurred a loss after tax for the year ended 30 June 2018 of \$59.607 million which was largely due to:
  - significant write down of FY17 dried fruit inventory which was impact by a combination of weather events and deficient past operating practices;
  - weak sales and margins from a) commodity and bulk segments and b) low quality and volume of dried fruit from its FY17 harvest;
  - slower than anticipated efficiencies being realised from its new Dandenong manufacturing site, new Sunraysia processing facilities and additional farming costs incurred from its enlarged farming footprint, where yield have been comparable to the prior year, but below expectations;
  - a number of one-off costs arising from the change of Board Directors and restructure of Group operations;
  - impairment of goodwill and assets; and
  - revaluation of property assets.
- At 30 June 2018 the Group has net assets of \$19.975 million (2017: \$66.279 million), net current liabilities of \$25.062 million, which includes reclassification of all bank debt (2011: net current assets \$8.308 million) and bank borrowings of \$44.867 million (2017: \$28.606 million).
- Group's farming assets are long term agricultural assets, which require significant upfront capital requirements to realise their operating potential. To realise these benefits in the medium term it is dependent on its ability to generate sufficient funds from its operating activities, additional banking support from its banker and raising of additional equity funds.

At the date of this report, the Directors have considered the above factors and are of the opinion that the Group will be able to continue as a going concern for the following reasons:

- The Group obtained additional bank support of \$6.600 million subsequent to 30 June 2018 with bank forbearance that at least \$4.000 million from the net sales proceeds from sale of assets to be applied against repayment and permanent reduction of bank facilities and undertake an equity raising by 31 December 2018. To date, the Group is actively marketing the sale of its Fifth Street property and is also considering the sale of other non-core assets. The Group is confident that it has the continuing support of its banker and that it will comply with the above undertakings.
- Management has prepared, and Directors have reviewed and approved detailed financial forecasts for the 12 months ending 30 June 2019. These forecasts include improved sales and margins arising from FY18 dried fruit that has been assessed as "good" across the portfolio with fruit harvested close to or at the required moisture levels desired for processing compared to last year's harvest where the moisture was high; solid demand from its customers; supported with a cost out programme "Project Muscat" with an estimate of \$5.000 million per annum of annualised savings, which is projected to reduce ongoing losses.
- Based on the Group's forecasts, the additional bank facility and reasonable confidence of raising additional equity funds sufficient to meet the Group's cash flow requirements.

Notwithstanding the above, in the event that the Group is not able to;

- meet its trading and cash flow forecasts; or
- satisfy undertakings imposed on it by its banker, including the sale of assets and raising of additional equity funds,

there is significant uncertainty whether the Group will be able to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

## Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial information:

### (a) Basis of consolidation

The consolidated financial information has been prepared by combining the financial information of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries (referred to as "the Group") as defined in Accounting Standard AASB 10 'Consolidated Financial Statements'. A list of subsidiaries appears in Note 23 to the financial information.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial information.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

In preparing the consolidated financial information, all intercompany balances and transactions, and unrealised profits arising within the Group are eliminated in full.

**(b) Business Combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit and loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

**(c) Revenue recognition**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, rebates, discounts and allowances) when the Group has transferred to the buyer control and the significant risks and rewards of ownership of the goods.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

**(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(e) Inventories**

Inventories purchased from suppliers are valued at the lower of cost and net realisable value. Own grown dried fruit and citrus stocks are measured at fair value less estimated costs to sell and processing costs at the point of harvest. A fair value adjustment is recognised in profit and loss at the point of harvest. Once harvested, this fruit is measured under AASB 102 Inventories at the lower of its



fair value at point of harvest less costs to sell and net realisable value. Finished goods include the cost of raw materials, processing and packaging costs and an allocation of overhead (depending on the stage of production).

**(f) Agricultural produce**

Agricultural produce represents any unharvested produce and citrus crop valued in accordance with *AASB 141 Agriculture*. Agricultural produce is measured at their fair value less harvesting, processing and selling costs on initial recognition and at each reporting date. The fair valuation takes into account current citrus selling prices and current growing, harvest costs, processing and packing costs (if applicable), and selling costs.

Net increments and decrements in the fair value of the growing assets are recognised as income or expense in profit or loss, determined as:

- The difference between the total fair value of the biological assets recognised at the beginning of the reporting period and the total fair value of the biological assets recognised at reporting date.
- Costs incurred in maintaining or enhancing the biological assets.
- The fair value of agricultural produce harvested during the reporting period is measured at their fair value less estimated costs to be incurred up until the time of harvest.

The aggregate gain or loss arising on initial recognition and from changes in fair value less estimated point of sale costs is recognised as income or expense of the period. All the group's citrus trees and vines are classified as bearer plants as outlined in Note 2(g).

**(g) Property, plant and equipment**

Freehold land, buildings and bearer plants are measured at their revalued amounts being fair value at the date of valuation. Fair value is determined on the basis of a Directors valuation which is regularly supported by an independent valuation prepared by external valuation experts. The valuation approach adopted is a direct comparison and discounted cash flow method.

The group's citrus trees and vines qualify as bearer plants. Bearer plants are solely used to grow produce over their productive lives. Agricultural produce growing on bearer plants will remain within the scope of *AASB 141 Agriculture* and continue to be measured at fair value less cost to sell at the point of harvest.

Any revaluation increase arising on the revaluation of freehold land, buildings and bearer plants is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land, buildings and bearer plants is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and bearer plants is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any deferred taxes, is transferred directly to retained earnings.

Plant and equipment, leasehold improvements and assets under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. All leased assets are depreciated over their useful life, or if shorter, the period of the lease.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment and tooling	3-10 years
Bearer plants	25 years
Equipment under finance lease	3-5 years
Buildings & freehold improvements	50 years
Office equipment	3-5 years
Motor vehicles	3-5 years
Leasehold improvements and leased assets	10 - 25 years (or lesser of lease term)

**(h) Intangible assets**

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing, for which the Group has identified one cash generating unit in line with its determination of operating segments.

**(i) Impairment of assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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 value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(j) Leased assets**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss, unless they are directly attributable to qualifying assets.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**(k) Financial assets**

Loans and receivables, and investments in subsidiaries are recognised and derecognised on trade date where purchase or sale of an investment or a loan and receivable is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments are measured at cost.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

Other financial assets

For the accounting policy on derivatives – refer Note 2(s).

**(l) Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Payments for superannuation benefits are recognised as an expense when employees have rendered service entitling them to the contributions.

**(m) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**(n) Financial Liabilities**

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Costs directly attributable to the issue of shares are recognised as a deduction of equity, net of tax effect.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**(o) Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income/ statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The directors of the Company reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined

that the 'sale' presumption set out in the amendments to AASB 12 is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Tax consolidated group

Murray River Organics Group Limited and its wholly owned entities formed a tax consolidated group on 1 July 2017. However as at 30 June 2017, the entities in the Group were not members of an income tax consolidated group, as a consequence the consolidated tax balances are a summation of the individual tax balances of each entity.

**(p) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

**(q) Borrowing costs**

Borrowing costs incurred for the construction or development of any qualifying asset (bearer plants) are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs, inclusive of all facility fees, bank charges, and interest, are expensed as incurred.

**(r) Foreign currency**

The presentation and functional currency of the Group is Australian dollars.

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise except that:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

**(s) Derivative financial instruments**

The Group is exposed to changes in foreign exchange rates from its activities. The Group uses forward foreign exchange contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes.

The Group uses derivative financial instruments, being options and forward foreign currency contracts to hedge the risk associated with foreign currency fluctuations. Such derivatives are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

For derivatives that qualify for hedge accounting, the method for recognising gains and losses on changes in fair value depends on whether the derivative is classified as a fair value hedge or a cash flow hedge. Derivatives are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability and as cash flow hedges when they hedge exposure to variability in cash flows that are attributable to either a particular risk associated with a recognised asset or liability or to a forecast transaction. The Group documents at inception of the hedge the relationship between the hedging instruments (derivatives) and the hedged items, as well as the risk management objective and strategy for undertaking the hedge transaction.

The Group also documents, both at inception of the hedge and on an ongoing basis whether the derivatives that are used in the hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve and transferred to profit or loss when the hedged item affects profit or loss. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. However, when the cash flow hedge relates to a forward foreign exchange contract to hedge a highly probable forecast transaction or firm commitment that results in a non-financial asset (e.g. inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the initial cost or carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income and recognised in net profit or loss for the year.

**(t) Share based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

**(u) Non-current asset held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales for such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**(v) Government Grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

**(w) Changes in accounting policy, accounting standards and interpretations**

**(i) New and amended standards and interpretations**

- a) *AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*

This Standard makes amendments to AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The adoption of this amendment had no material impact on the financial position or performance of the Group.

- b) *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial information better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The adoption of this amendment had no material impact on the financial position or performance of the Group.

- c) *AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*

This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The adoption of this amendment had no material impact on the financial position or performance of the Group.

**(ii) Accounting standards and interpretations issued but not yet effective**

- a) *AASB 9 Financial Instruments* – Effective date: 1 January 2018 (Application date: 1 July 2018)

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 includes a single approach for the classification and measurement of financial assets, based on cash flow characteristics and the business model used for the management of the financial instruments. It introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model used in AASB 139. The standard also amends

the rules on hedge accounting to align the accounting treatment with the risk management practices of the Group.

The Group is currently assessing the impact of the application of the new standard. Based on an initial assessment, the Group does not anticipate a material impact to the financial position or performance of the Group.

b) *AASB 15 Revenue from Contracts with Customers* – Effective date: 1 January 2018  
(Application date: 1 July 2018)

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 *Leases* (or AASB 16 *Leases*, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group is currently assessing the impact of adopting AASB 15. The assessment performed to date has identified key areas of the business that may have potential risk of impact and may require a greater level of work effort to quantify the financial impact of AASB 15. This includes identifying changes to accounting policies, reporting requirements, business processes and associated internal controls with the objective of quantifying the expected first-time adoption impacts as well as supporting ongoing compliance with the new accounting requirements.

c) *AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* – Effective date: 1 January 2018  
(Application date: 1 July 2018)

This Standard amends AASB 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments.
- Share-based payment transactions with a net settlement feature for withholding tax obligations.
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Group is currently assessing the impact of the application of the new standard. Based on an initial assessment, the Group does not anticipate a material impact to the financial position or performance of the Group.



d) AASB 16 Leases – Effective date: 1 January 2019 (Application date: 1 July 2019)

AASB 16 replaces existing lease requirements in Australian Accounting Standards (AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Leases, SIC – 15 Operating Leases – Incentives, SIC – 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The Group is currently continuing to assess the impact of the change in standard which it expects to be material. The new standard is expected to result in an increase in assets and liabilities, change in the timing in which lease expenses are recognised, a classification shift in earnings categories from operating expense to depreciation and interest expense, and an increase in gearing levels.

e) AASB Interpretation 23 Uncertainty over Income Tax Treatments – Effective date: 1 January 2019 (Application date: 1 July 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Group is currently assessing the impact of the application of the new interpretation.

### 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values 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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

**(a) Agricultural produce**

The current year unharvested citrus crop is classified as a biological asset and valued in accordance with *AASB 141 Agriculture*. In applying this standard, the Group has made various assumptions at reporting date as the selling price of the crop can only be estimated and the actual crop yield or produce not harvested at reporting date will not be known until it is completely processed and sold. Refer to Note 8 for assumptions pertaining to the current year crop. Agricultural produce is measured at fair value less costs to sell. The fair value inputs are considered Level 3 with reference to the fair value hierarchy, refer to Note 12.1 for further details regarding the fair value hierarchy.

**(b) Colignan lease**

The property leases of the company include a ~1052 hectares lease from Arrow Funds Management in which the Company has the right to harvest the vine fruit and citrus from the trees owned by the lessor for the term of the agreement. The Company also has first right of refusal to purchase the property in the event that the lessor wished to sell. The term of the lease is 25 years, which is consistent with the useful life of the bearer plants.

Management have determined using judgement that this transaction constitutes a finance lease and accordingly has recognised the leased asset and corresponding liability in the balance sheet. A finance charge at the implied interest rate of the liability as well as depreciation of the leased asset is recognised in the profit and loss.

**(c) Impairment of assets**

Management's judgement is applied in determining the impairment of assets in accordance with *AASB136 Impairment of Assets*. If the recoverable amount (higher of the value in use and fair value less cost to sell) is lower than the carrying value of an asset, the difference is recognised as impairment in the profit or loss. Refer to Note 13.

**(d) Leased water rights**

The Group leases short-term temporary water rights. These are treated as operating leases on the basis that:

- the water rights do not transfer to the Group at the end of the lease;
- there are no option to purchase the water rights;
- the rights are temporary and short-term; and
- settlement of the contracts cannot be settled in cash on a net basis.

**(e) Developing vine capital expenditure**

Refer Note 12.1

**(f) Land, buildings and bearer plants at revalued amounts**

Refer Note 12.1

**4. Revenues**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Sales Revenue</b>	<b>68,539</b>	<b>48,522</b>
<b>Other revenue and income</b>		
Change in assessment of contingent consideration (refer Note 13)	-	474
Interest income	14	49
Insurance proceeds	47	71
Government grants	105	483
Rental income	19	42
Other	37	236
	<b>222</b>	<b>1,355</b>

**5. Expenses**

(Loss)/Profit before tax includes the following specific expenses:

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Depreciation and amortisation of non-current assets:</b>		
Bearer plants	1,125	779
Buildings and property improvements	187	127
Plant and equipment	3,732	2,539
Leased asset	781	741
Leasehold improvements	373	90
<b>Total depreciation of non-current assets</b>	<b>6,198</b>	<b>4,276</b>
<b>Employee benefits expense:</b>		
Employee expenses	11,673	7,146
Superannuation benefits	948	643
Employee expenses capitalised to biological assets and vineyard development	(2,260)	(2,036)
<b>Total employee benefits expense</b>	<b>10,361</b>	<b>5,753</b>

**5. Expenses (Continued)**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Finance costs:		
Interest on loans	2,124	1,034
Interest on obligations under finance leases	11	8
Interest on lease liability	2,488	1,947
Capitalised interest relating to qualifying assets	(1,286)	(693)
<b>Total finance costs</b>	<b>3,337</b>	<b>2,296</b>
Profit/(loss) on sale of property, plant and equipment	51	-
Net foreign currency losses/(gains)	(111)	276
Net bad and doubtful debts	265	170
Operating lease minimum lease payments	2,061	1,274

**6. Trade and other receivables**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Trade receivables	6,711	7,253
Provision for doubtful debts and customer returns	(212)	(170)
	<b>6,499</b>	<b>7,082</b>
GST receivable	230	742
Related party receivables	-	1,067
	<b>6,729</b>	<b>8,891</b>

**7. Inventories**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Packaging stock	1,081	617
Raw materials	12,979	19,835
Finished goods	6,315	7,309
Provision for stock obsolescence	(4,181)	(692)
	<b>16,194</b>	<b>27,069</b>

**8. Agricultural produce**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Dried fruit unharvested – at fair value less selling costs	-	2,682
Citrus unharvested – at fair value less selling costs	1,728	1,365
New season crop – at cost	893	360
<b>Total</b>	<b>2,621</b>	<b>4,407</b>

**Reconciliation of changes in carrying amount of agricultural produce**

Opening balance	4,407	624
Fair value gain of agricultural produce	158	13,185
Increase due to costs incurred to maintain and enhance the biological asset	10,584	4,829
Increases due to property acquisitions or gaining control of leased asset	-	2,531
Decreases due to harvest (transferred to inventory)	(12,528)	(16,762)
<b>Closing balance</b>	<b>2,621</b>	<b>4,407</b>

**Product - yields (tonnes)**

	<b>2018 Tonnes</b>	<b>2017 Tonnes</b>
Harvested pre 30 June	4,675	4,966
Estimated hanging fruit at 30 June	3,200	2,586
<b>Total</b>	<b>7,875</b>	<b>7,552</b>

**Total crop value**

<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>10,620</b>	<b>18,465</b>

<b>Assumption</b>	<b>Loose Organic (\$/kg)</b>	<b>Loose Conventional (\$/kg)</b>	<b>Clusters (\$/kg)</b>	<b>Fresh (\$/kg)</b>	<b>Citrus (\$/kg)</b>	<b>Wine grapes (\$/kg)</b>
Fair value less costs to sell at point of harvest - 2018	2.74	1.95	Note (i)	2.69	0.60	0.34
Fair value less costs to sell at point of harvest - 2017	2.64	1.72	15.00	3.77	0.59	Nil

- (i) During the year ended 30 June 2018, the Group has changed its approach to estimating the fair value of agricultural produce. Specifically, it has valued its dried fruit harvest at a fair value that approximates the farmgate 'selling prices less costs to sell' based on prices paid to third parties for equivalent produce and in the case of organic produce including a premium based on end product pricing relative to conventional. Previously the Group estimated fair value by reference to post processing selling prices less costs to harvest, process and sell. The Group identified that the principal market for all of its agricultural produce was as loose dried fruit in food products and consequently valued all produce on this basis. Previously the Group separately valued produce intended for its Clusters product separately however has since concluded this is not a principal market.

**8. Agricultural produce (Continued)****Valuation techniques and significant unobservable inputs**

Type	Description	Valuation technique	Significant Unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Harvested own grown inventory;  Hanging crop (grapes/dried fruit and citrus)	These are crops from vines and trees that have an annual crop production cycle and a reasonably stable development cycle.	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the crop	Inclusive of: <ul style="list-style-type: none"> <li>Estimated future crop prices.</li> <li>Estimated cash inflows based on forecasted sales.</li> <li>Estimated yields per acre.</li> <li>Estimated remaining farming, harvest, processing, transportation, and selling costs.</li> <li>Risk adjustment factors</li> </ul>	The estimated fair value would increase/(decrease) if: <ul style="list-style-type: none"> <li>the estimated fruit prices were higher (lower);</li> <li>the estimated yields per acre were higher (lower);</li> <li>the estimated harvest farming, harvest, processing, transportation, and selling costs were lower (higher); or</li> <li>the risk-adjustment factors were lower (higher).</li> </ul>

**9. Other financial assets**

	2018 \$'000	2017 \$'000
Foreign currency forward contracts	169	-

**10. Other assets**

	2018 \$'000	2017 \$'000
Prepayments and other	1,320	1,983
Amounts held in escrow	-	2,204
	<b>1,320</b>	<b>4,187</b>

**11. Assets held for sale**

	2018 \$'000	2017 \$'000
Property assets	7,642	2,069

Property assets held for sale include Fifth Street, Pomona farms, Cowanna house and Walnut Avenue warehouse, which are considered non-core assets. Walnut Avenue was settled on 17 July 2018. (2017: Relates to Walnut Avenue and at Benetook Avenue as a result of the consolidation of the facilities at Mourquong).

## 12. Property, plant and equipment

### 12.1 Fair value measurement of freehold land, buildings and bearer plants

The Group's freehold land, buildings and bearer plants are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings and bearer plants as at 30 June 2018 were determined via independent valuation performed by CIVAS (Vic) Pty Limited known as Colliers International. Colliers is a member of the Institute of Valuers of Australia, and they have appropriate qualifications and experience in the fair value measurement of properties in the relevant locations.

The June 2017 fair values were determined via Directors valuations, which from time to time are reconfirmed via independent external valuations, previously completed by CBRE in June 2016.

The valuation approach adopted is a direct comparison and discounted cash flow method.

During the year, the Group capitalised \$4.532 million (2017: \$3.486 million) relating to the development of existing or new vineyards which are determined to still be in development, that is, these vines are yet to deliver commercial quantities of produce. Management deem vines less than three years of age as developing vines.

The nature of these expenses includes; the purchase of young vines, buds, irrigation infrastructure, trellising systems, and a proportionate allocation of operational vineyard expenses including water, fuels, vehicle costs, and labour. The proportionate allocation of operational vineyard expenses is based on the number of vineyard patches that are considered immature versus the total number of patches.

The Group's freehold land, buildings and bearer plants are classified as Level 3 with reference to the fair value hierarchy.

#### Fair value measurement

The fair value measurements of the Group stated above refer to the fair value hierarchy. These include:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels during the year.

### 12.2 Prior Financial Year Property Transactions

On 16 December 2016, the Group acquired 113 hectares of land called the "Fifth Street" Vineyard, which includes 72 hectares of mature table grape on fresh fruit trellis, in Victoria, for \$10.424 million cash consideration.

The consideration has been allocated to the assets acquired as follows:

	Carrying value \$'000
Land	942
Irrigation infrastructure	475
Vineyard infrastructure	838
Bearer plants	4,446
Biological assets - growing crop	1,802
Buildings	1,480
Equipment	441
<b>Total fair value</b>	<b>10,424</b>

On 11 May 2017, the Group acquired 3,142 hectares of land called the “Nangiloc” Vineyard, which includes 64 hectares planted to citrus and 72 hectares planted to wine where both are drip-irrigated, in Victoria, for \$7.922 million cash consideration.

The consideration has been allocated to the assets acquired as follows:

	<b>Carrying value \$'000</b>
Land	3,131
Irrigation infrastructure	196
Vineyard infrastructure	3,817
Biological assets - growing crop	729
Buildings	49
<b>Total fair value</b>	<b>7,922</b>

### 13. Intangible assets

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Goodwill - balance at start of year	10,749	-
Impairment losses recognised in the year	(10,749)	-
Additions	-	10,749
<b>Balance at end of the year</b>	<b>-</b>	<b>10,749</b>

The Group operates as a single Cash Generating Unit (CGU) and has incurred a loss before tax of \$59.607 million as a result of the factors described in Note 2.

The Group undertook an impairment assessment of the CGU and identified an impairment loss of \$21.169 million which has been recorded as per the below table:

	<b>Carrying amount 30 June 2018 \$'000</b>	<b>Impairment \$'000</b>	<b>Recoverable Amount 30 June 2018 \$'000</b>
Goodwill	10,749	(10,749)	Nil
Plant & equipment – at cost	13,165	(5,899)	7,266
Leasehold improvements – at cost	10,089	(4,521)	5,568
<b>Total impairment loss</b>		<b>(21,169)</b>	

The recoverable amount of the CGU has been determined based on a Value in Use methodology which requires the use of assumptions. This methodology uses cash flow forecasts based on financial projections by management covering a 10 year period.

Management believe use of a 10 year period is appropriate to reflect: 1) the turnaround performance of the Group from its current position; 2) the key assets are long term in nature and cash flows from those assets are achieved over time; and 3) the organic and better-for-you food industry is forecast to grow at a rate in excess of inflation for an extended period.



### 13. Intangible assets (Continued)

#### Key Assumptions:

- Sales growth: Sales are forecast to grow at a compound annual growth rate of approximately 13% per annum for FY19 to FY23 and then 7% per annum for FY24 to FY28 reflecting management's assessment of growth in demand, additional availability of product from its farms and additional supply from third party producers.
- Operating costs: A significant proportion of the Group's farm, processing and administrative costs are considered to be relatively fixed in nature and forecast to increase by an inflationary indexation.
- Yields: Yields per hectare are based on Group forecasts for FY19 and then remain constant in future years.
- Capital expenditure: Significant capital expenditure is forecast over FY19, FY20, FY21 and FY22 to complete the Group's current vine development program after which capital expenditure is expected to remain at modest levels reflecting the Group's recently acquired infrastructure which is currently underutilised.
- Long term growth rate: 2.5%
- Discount rate: A pre-tax discount rate of 19.3% has been used reflecting the extended period of the forecast and inherent risks.
- Market Capitalisation: in the absence of a current market share price due to its voluntary suspension the Group has assessed the recoverable amount compared with the market capitalisation of the Group implied by the anticipated equity raise.
- An adverse change in any of the key assumptions would likely result in the carrying value of the CGU exceeding its recoverable amount.

#### Prior year business combinations

##### **a) Acquisition of the Food Source International business assets**

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.

	<b>\$'000</b>
Cash	4,652
Contingent consideration (a)	900
<b>Total consideration transferred</b>	<b>5,552</b>

#### Contingent consideration:

The Group had agreed to pay the sellers additional consideration of \$0.900 million (maximum) if the trading income of FSI was at least \$22.000 million for the year ending 30 June 2017 (inclusive of pre-acquisition revenue). If the trading income was less than \$22.000 million a discount would be applied to the contingent consideration. The full contingent consideration of \$0.900 million was paid on 22 August 2017 and is part of investing activities in the statement of cash flows.

### 13. Intangible assets (Continued)

#### Identifiable assets acquired and liabilities assumed

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

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

#### Goodwill arising on acquisition

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

Transaction costs of \$0.136 million 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 ended 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.

	<b>\$'000</b>
Cash	10,300
Contingent consideration (a)	2,200
<b>Total consideration transferred</b>	<b>12,500</b>

#### *Contingent consideration:*

The Group was required to pay the sellers additional consideration of \$2.200 million (maximum) if the trading income of Australian Organic Holdings was at least \$25.000 million for the year ending 30 June 2017 (inclusive of pre-acquisition revenue). If the trading income was less than \$25.000 million 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 \$0.474 million which was reflected in 'other income' for the year ending 30 June 2017. The remaining contingent consideration balance of \$1.726 million was paid in full on 14 September 2017 and is part of investing activities in the statement of cash flows.

### 13. Intangible assets (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)
<b>Total fair value</b>	<b>4,469</b>

#### Goodwill arising on acquisition

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

Transaction costs of \$0.147 million 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 ended 30 June 2017.

#### Impact of acquisitions on the prior year results of the Group

Had these business combinations been in affect at 1 July 2016, the revenue of the Group would have been \$62.600 million and the loss would have been reduced by \$1.300 million in the prior year.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	30/06/18 \$'000	30/06/17 \$,000		
Contingent consideration in a business combination	Liabilities  Nil	Liabilities  \$2,626 (i)	Level 2	Contingent consideration was dependent on Food Source International and Pacific Organics meeting revenue targets (refer above) The carrying value of the contingent consideration has been determined based on actual revenue achieved in relation to the revenue target for their performance period which is the 2017 financial year.

(i) This reflects the reduced value of contingent consideration.

#### 14. Trade and other payables

	2018 \$'000	2017 \$'000
Trade payables	6,059	8,364
Other accruals and payables	5,603	2,534
Deferred income	163	52
Amount due under contract (Nangiloc)	-	7,172
<b>Total</b>	<b>11,825</b>	<b>18,122</b>

#### 15. Borrowings

	2018 \$'000	2017 \$'000
<u>Current</u>		
<i>Secured borrowings:</i>		
Bank overdraft (i)	3,806	-
Bank and trade finance loans (i)	35,122	14,920
Lease liabilities - equipment loans (ii)	5,944	980
Lease liabilities – Colignan (iii)	2,289	1,388
<b>Total</b>	<b>47,161</b>	<b>17,288</b>
<u>Non-current</u>		
<i>Secured borrowings:</i>		
Bank loans (i)	-	12,117
Lease liabilities - equipment loans (ii)	-	3,314
Lease liabilities (iii)	22,133	17,797
<b>Total</b>	<b>22,133</b>	<b>33,228</b>

- (i) The financing arrangements (comprising bank overdraft, trade finance and loans) are secured by the Group's assets by registered mortgage freeholds over the land and buildings, and first ranking fixed and floating charges over the Company and its subsidiaries (with corresponding cross guarantee). The loans without a fixed term are subject to annual review facility by 31 July each year.

The Group has classified all its bank loans as a current liability, until it renegotiates its bank facilities as part of the proposed capital raising. The Group has the following fixed loans: a) \$8.187 million expiring 31 March 2020, b) \$8.300 million expiring 30 June 2020 and c) \$3.000 million expiring 24 April 2019. Furthermore, \$4.455 million included in lease liabilities are due for repayment after 30 June 2019.

- (ii) Equipment loans/lease liabilities are secured over the assets under the equipment loans/lease liabilities.
- (iii) The Colignan leased liability is secured by the underlying leased asset which had a carrying value of \$21.957 million (2017: \$21.820 million). The leased asset to which the leased liability relates is summarised in Note 3 (b).

Subsequent to year end the Group increased its banking facility – Refer to Note 24 - Events subsequent to reporting date.

## 15 (a) Banking facilities

### Summary of financing arrangements

#### Debt Facilities Limit at reporting date:

	2018 \$'000	2017 \$'000
Bank overdraft	4,000	-
Trade finance loan	14,000	12,000
Equipment loans & leases	8,200	4,580
Bank loans	19,583	19,583
Bank guarantee	1,530	1,530
	<b>47,313</b>	<b>37,693</b>

#### Facilities utilised at reporting date:

Bank overdraft	3,806	-
Trade finance loan	13,950	11,873
Equipment loans & leases	7,629	4,294
Bank loans	19,487	15,117
Bank guarantee	1,514	1,514
	<b>46,247</b>	<b>32,798</b>

#### Facilities not utilised at reporting date:

Bank overdraft	194	-
Trade finance loan	50	127
Equipment loans & leases	571	286
Bank loans	96	4,466
Bank guarantee	16	16
	<b>927</b>	<b>4,895</b>

## 16. Provisions

	2018 \$'000	2017 \$'000
<u>Current</u>		
Employee entitlements	505	470
Provision for stamp duty payable	-	1,040
Contingent consideration	-	2,626
Make good liability	250	-
<b>Total</b>	<b>755</b>	<b>4,136</b>
<u>Non-Current</u>		
Employee entitlements	42	48
Make good liability	398	398
<b>Total</b>	<b>440</b>	<b>446</b>

## 17. Other financial liabilities

	2018 \$'000	2017 \$'000
Foreign currency contracts – fair value through profit or loss	-	547

## 18. Issued capital

Refer to Note “1. General Information and group reorganisation” for details of the Group reorganisation which occurred in the current period.

	Year ended 30 June 2018		Year ended 30 June 2017	
Equity securities issued	Number '000	\$'000	Number '000	\$'000
<b>Opening balance (1 July)</b>	<b>87,087</b>	<b>112,002</b>	<b>16,976</b>	<b>9,693</b>
Share split	-	-	-	-
Issue of shares	-	-	-	-
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	35,563
Issue of shares at initial public offering	-	-	19,231	25,000
Issue of shares to other employees	138	180	-	-
Issue of shares to non-executive directors	40,352	12,106	164	213
Equity raising costs (net of tax)	-	(456)	-	(1,211)
<b>Closing balance (30 June)</b>	<b>127,577</b>	<b>123,832</b>	<b>87,087</b>	<b>112,002</b>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

## 19. Reserves

		2018 \$'000	2017 \$'000
Reserves comprise:			
Asset revaluation reserve	(a)	6,781	5,341
Share based payment reserve		427	511
Foreign exchange reserve		118	-
Group reorganisation reserve	(b)	(47,453)	(47,453)
		<b>(40,127)</b>	<b>(41,601)</b>
<b>(a) Asset revaluation reserve</b>			
Balance at the beginning of the year		5,342	7,631
Revaluation (decrements) / increments		1,439	(2,289)
<b>Balance at the end of the financial year</b>		<b>6,781</b>	<b>5,342</b>

The asset revaluation reserve arises on the revaluation of freehold land, buildings and bearer plants. Where a revalued asset is sold that portion of the asset revaluation reserve which relates to that asset and is effectively realised is transferred directly to retained profits. Prior to the reorganisation as outlined in Note 1, no income tax was payable by Murray River Organics Property 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. Consequently, the deferred tax impact in respect of prior period gains on the revaluation of property, plant & equipment is required to be recognised in accordance with AASB 112 Income Tax. The deferred tax impact of \$2.289 million on prior period revaluation gains has therefore been recognised in Other Comprehensive Income in 2017.

		2018 \$'000	2017 \$'000
<b>(b) Corporate re-organisation reserve</b>			
Balance at the beginning of the year		(47,453)	-
Arising on group reorganisation (refer to Note 1)		-	(47,453)
<b>Balance at the end of the financial year</b>		<b>(47,453)</b>	<b>(47,453)</b>

Refer to Note 1, for information regarding the corporate reorganisation reserve.

## 20. Notes to the cash flow statement

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdraft. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	2018 \$'000	2017 \$'000
Cash and cash equivalents	4	2,724
Bank Overdraft	(3,806)	-
	<b>(3,802)</b>	<b>2,724</b>

### (b) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

	2018 \$'000	2017 \$'000
Loss for the year	(59,607)	(5,931)
<i>Adjustment for items not involving the outlay of cash:</i>		
Bad and doubtful debts	42	(190)
(Profit)/loss on sale of assets	51	(24)
Fair value gain of agricultural produce	(158)	(13,185)
Revaluation of property	7,030	-
Impairment of non current assets	21,169	-
Share based payment expense	(116)	723
Unrealised foreign exchange loss	(547)	547
Depreciation and amortisation	6,198	4,276
Earn out release	-	(474)
Interest accrued	43	-
Capitalisation of borrowing cost	(1,286)	(692)
<b>Changes in net assets and liabilities:</b>		
(Increase)/decrease in assets:		
Trade and other receivables	2,146	(3,216)
Inventories	10,875	(8,875)
Other assets	2,868	(1,209)
Biological assets	1,575	12,193
Current tax asset	(946)	-
Increase/(decrease) in liabilities:		
Deferred tax liabilities	(1,818)	(1,679)
Trade and other payables	1,087	4,778
Provisions	(761)	1,696
<b>Net cash used in operating activities</b>	<b>(12,155)</b>	<b>(11,262)</b>



## 21. Contingent liabilities

Contingent liabilities include guarantees totalling \$1.514 million (2017: \$1.514 million) provided in respect of property leases.

## 22. 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 89% of the Group's revenue is attributed to domestic customers, and the remainder relates to exports to USA (2%), Asia (6%), Europe (2%) and others (1%).

The chief operating decision maker (being the Managing Director) 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.

## 23. Controlled entities

	Country of incorporation	Percentage owned (%)	
		2018	2017
<b>Parent entity:</b>			
Murray River Organics Group Limited <sup>(i)</sup>	Australia	100	100
<b>Subsidiaries of Murray River Organics Limited</b>			
<b>(ii) (iii)</b>			
Murray River Organics Limited	Australia	100	100
Murray River Organics Property Trust	Australia	100	100
Murray River Organics Property Trust 2	Australia	100	100
Murray River Organics Property Pty Ltd (ATF Murray River Organics Property Trust)	Australia	100	100
Murray River Organics Property 2 Pty Ltd (ATF Murray River Organics Property Trust 2)	Australia	100	100
Sornem Group Pty Ltd	Australia	100	100
Sornem Capital Pty Ltd	Australia	100	100

(i) In 2018, Murray River Organics Group Limited is the head entity with the tax consolidation group.

(ii) In 2018, these companies are members of the tax consolidation group.

(iii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Murray River Organics Group Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report. The consolidated financial position and financial performance of these entities is the same as the controlled entities within the Group.

Refer to Note 1 for information regarding the Group reorganisation.

## 24. Events subsequent to reporting date

In July 2018, the Group increased its bank overdraft facility by an additional \$6.600 million. This takes the Group's total bank debt facilities (including bank guarantees) to \$53.913 million.

On completion of the 31 July 2018 annual review, its banker (NAB) has also agreed to extend the maturity date of \$26.130 million of debt facilities (related to the trade facility \$14.000 million, bank overdraft \$10.600 million and bank guarantees \$1.530 million, and other working capital facilities such as foreign exchange, unused leasing facility and letters of credit) to 30 November 2018. This gives the Group time to conduct the proposed equity raising to fund the cashflow needs of the business and support the balance sheet. As part of the capital raising, the Group expects to put in place new longer-term banking arrangements.