

# Appendix 4D and Interim Financial Report for the half-year ended 31 December 2019

## Name of entity

Murray River Organics Group Limited
ABN 46 614 651 473

## Reporting period

Report for the half-year ended 31 December 2019 ('current period')
Previous corresponding period is the half-year ended 31 December 2018 ('previous period')

## Results for announcement to the market

(All amounts in this report are expressed in \$'000 unless otherwise stated)

Revenue from ordinary activities	Down	18.0%	to 24,814
Loss from ordinary activities after tax	Up	Not a meaningful figure	to (23,284)
Loss after tax attributable to members	Up	Not a meaningful figure	to (23,284)

## Supplementary Comments

Please refer to the attached financial report for the half-year ended 31 December 2019 for an explanation of the above figures.

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

## Net tangible assets per security

	Current period Cents per Share	Previous period Cents per Share
Net tangible asset backing per ordinary security	\$0.024	\$0.10

This half-year report should be read in conjunction with the most recent annual report.

This report is designed to meet the half-yearly reporting requirements and does not include the full disclosures as contained in the annual financial statements.

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

**Financial report for the half-year ended 31 December 2019**

## Contents

	<b>Page</b>
Directors' Report	3
Auditor's declaration of independence	10
Independent auditor's report	11
Director's declaration	13
Condensed consolidated statement of profit or loss and other comprehensive income	14
Condensed consolidated statement of financial position	15
Condensed consolidated statement of changes in equity	16
Condensed consolidated statement of cash flows	17
Notes to the consolidated financial statements	18

## Directors' Report

The directors of Murray River Organics Group Limited (the Company) submit herewith the interim financial report of the Company and its subsidiaries (the Group) for the half-year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

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

### Name

<b>Mr Andrew Monk</b> Non-Executive Independent Chairman	Appointed Non-Executive Director and Chairman on 24 January 2018
<b>Ms Valentina Tripp</b> CEO and Managing Director	Appointed Non-Executive Director on 16 April 2018
<b>Mr Michael Porter</b> Non-Executive Independent Director	Appointed Non-Executive Director on 2 April 2018
<b>Mr Tony Dynon</b> Non-Executive Independent Director	Appointed Non-Executive Director on 18 March 2019
<b>Mr Keith Mentiplay</b> Non-Executive Independent Director	Appointed Non-Executive Director on 24 January 2018 Resigned as a Director 21 January 2020

### Company Overview

The Group is a leading Australian grower, processor, manufacturer and seller of organic and better-for-you food products. Our aim is to make organic, healthy and sustainable food choices a reality for our consumers in Australia and around the world.

The Group began in 2010 on a single 28-hectare farm in Merbein, Victoria. It now operates over 3,810 hectares of farmland in the Sunraysia region.

In addition to our farming assets and processing plant in Mourquong NSW, the Group operates a food manufacturing and distribution facility in Dandenong South, Victoria. From this site it packs and distributes an extensive range of organic and better-for-you food products under its own brands and for other retailers.

The Group's customers include domestic retail (sold in supermarkets and specialty retail under both Murray River Organics own brands and private label), wholesale and industrial (bulk product to wholesalers providing supply to other third parties (including retailers) and customers who use dried vine fruit in their products (for example bakery products, cereal products and confectionery), export to a variety of export channels across Asia, the US and Europe, and fresh fruit (citrus, wine grape and table grapes to processors and wine makers).

### Review of operations

Over the past 12 months, the Group has embarked on an extensive transformation process to restructure and grow our farmed produce, develop and build our retail brands and improve operating efficiencies in order to deliver long-term value for our shareholders. The Group achieved significant milestones while also experiencing some unexpected challenges.

In developing our 'organic and better-for-you food business', we have launched the new Murray River Organics (MRO) branding along with multiple new generation high-margin products and terminated many low margin generic lines. We have also expanded our international presence with partnerships in Asia and other key international markets.

On our owned farming assets, we have planted new vines, instigated remediation of existing vineyards, made strategic decisions on varietal changes to suit demand in the decade ahead, and planted our first edible organic hempseed crop.

This half year has not been without its challenges, which have been experienced across the agri-sector. Extended drought conditions combined with severe weather conditions in Sunraysia impacted our vines and materially increased water prices.

A critical milestone was reached in the Group's capital management initiatives in late 2019, with the successful restructure of the relationship with Arrow Funds Management ("Arrow"), owner of the Colignan property. This change is fundamentally transformative for the Group and will result in a significantly lower cash outflow.

These milestones and challenges have led us to refine our strategic position. We will look to continue leveraging our strong brand and customer value proposition with an increasing focus on retail distribution and export growth. We will also seek to de-risk our business through an asset realisation program, whilst retaining strategically important organic farming operations.

Prior to 31 December 2019 the Group had resolved to sell its Fifth Street property and since then, the Group is also actively seeking the sale of the Nangiloc property. Proceeds from the sale of these assets will be used to reduce the Group's debt and will provide a greater focus and enhanced capacity to invest in high-margin branded product development for our 'organic and better-for-you food business' in domestic grocery channels, as well as our international growth strategy.

Our core dried vine fruit farms together with our broader supply chain capability allow us to provide our customers with a vertically integrated, scalable model with security of supply and high quality standards. We believe this competitive advantage will help us become a major player in organic and 'better for-you' food both domestically and internationally.

#### Farming Challenges in 2019

Improving the performance of the farms was one of the key parts of the 2018 Turnaround Strategy. This was mainly driven by 3 key factors:

1. Drought conditions and the increased cost of water;
2. Crop shortfall/lower than anticipated farm yields and higher than forecast operational costs at the Group's owned farms; and
3. Significantly higher operational costs and underperformance at Colignan Farm.

A brief summary of each of these challenges and the impact on the Group's performance against the 2018 Turnaround Strategy is provided below.

- Drought Conditions and the Increased Cost of Water

During 2019, Sunraysia experienced significant adverse weather with extreme heat through the 2019 harvest period. This had a negative impact on farm yields and increased the external water requirements. Over the course of 2019, the spot price of water increased to over \$900ML by November 2019 (compared to \$405ML in November 2018). Very hot weather in December 2019 and January 2020 is expected to further reduce yields both from the Group's owned farms and third-party growers.

While the Group has water leases providing entitlements to water, the water authority makes seasonal determinations over the course of the year, having regard to, amongst other factors, water levels and the reliability level of the relevant entitlement held by a holder. Depending on these factors, the determination may result in a reduction in the amount of water available to holders of water entitlements (typically a percentage of the entitlement volume). In light of the drought conditions, the seasonal determinations resulted in a reduction of water allocations made available to water entitlement holders, including Murray River Organics. This resulted in the Group having to acquire additional water on market at spot prices.

The requirement to buy spot water as a result of drought conditions, extreme heat over the summer and the reduced water allocations led to a material increase in cash outflow to fund farm operations. In addition, these factors may continue to adversely impact upcoming yields.

- Farm Yields and Operating Costs at Core Farms

Crop performance over the initial phase of the 2018 Turnaround Strategy from the MRG owned farms was below expectations, including in FY2018. This historical underperformance also impacted the FY2019 harvest performance (which was further impacted by heat and drought). In early FY2019, management initiated an extensive analysis to understand the root causes of the underperformance, with the analysis identifying the following factors:

- poor vine/tree/crop management;
- poor grafting practices;
- inadequate water and nutrition application rates;
- poor supervision and on-farm governance;
- irregularities in contract labour supply; and
- poor communication and decision making.

Further, additional costs to operate the Group's farm portfolio were also required to remediate existing vines given the worse than anticipated health of some vineyards that became apparent after the 2019 summer cycle. These costs also included additional contract seasonal labour to address the poor state of the farms, which had been under resourced for many seasons.

- Colignan Property

The additional costs and challenging environment in Sunraysia led management to conduct a detailed structural review of the Group's farm portfolio, the results of which indicated that the planned turnaround of the then-leased Colignan property would require extensive additional resources and would take more time to implement than initially anticipated to meet targeted yields (and associated economic returns).

On 11 December 2019 the Group announced that it had negotiated an exit from the Colignan lease and established a three-year supply relationship with the landlord, Arrow. As a result of this exit, the Group expects to realise significant cash cost reductions (including rent and exposure to spot water costs). Arrow, through their subsidiary, Advinco Farms assumed operational and financial responsibility of the Colignan property from 11 December 2019. As part of the terms of the exit, the Group agreed to pay surrender fees \$1.325 million and also issue Arrow with such number of shares as is equal to 5% of the issued share capital of the Company (after the completion of the capital raise – Prospectus dated 6 February 2020) as part consideration for Arrow agreeing to terminate the lease.

This restructured relationship, in line with the updated strategy will allow the Group to focus on farming of its core farms (comprising Gol Gol, Yatpool and Merbin), producing predominantly dried vine fruit, to support the Group's offering of organic and conventional dried vine fruit value added products.

### Strategy Update

As a result of the challenges and agricultural risks which materialised throughout 2019, MRG has taken the strategic decision to reduce exposure to farming assets and accelerate investment in marketing, branding and new product development to grow its share of the growing market for organic products in Australia and internationally.

This strategic shift will translate into the following near-term plan:

1. Actively seek to sell the Fifth Street property and the Nangiloc property, which are non-core farming assets. The proceeds received from the sale of these assets will be used to reduce the Group's debt in satisfaction of its obligations under its banking facilities.
2. Invest in marketing, branding and new product development, expand the Group's retail presence domestically, and expand the Ingredients business.
3. Leverage the Group's core offering of organic dried vine fruit to target high value export markets.
4. Continue investing in the turnaround of strategically important organic owned core farms at: Yatpool, Gol Gol and Merbein.

Financial Overview

	Dec 19 <sup>(i)</sup> \$'000	Dec 18 <sup>(i)</sup> \$'000	Change \$'000	%
Revenue	24,814	30,251	(5,437)	-18.0%
Underlying EBITDA-SL <sup>(ii)</sup> (loss)	(4,340)	(1,299)	(3,041)	-234.1%
Underlying EBITDA-SL <sup>(ii)</sup> (loss) to revenue	-17.5%	-4.3%		-13.2%
Reported loss after tax	(23,284)	(4,608)	(18,676)	-405.3%
	Dec 19 <sup>(i)</sup> \$'000	Jun 19 <sup>(i)</sup> \$'000		
Working capital <sup>(iii)</sup>	17,810	24,046	(6,236)	-25.9%
Net bank debt <sup>(iv)</sup>	52,102	41,982	10,120	24.1%
Gearing - Bank Debt <sup>(v)</sup>	376%	118%		
Net Tangible Assets per share <sup>(vi)</sup>	0.024	0.082	(0.06)	-70.2%

(i) Unaudited non-IFRS financial table that has been compiled from the underlying reviewed condensed consolidated statement of profit or loss and other comprehensive income, and reviewed condensed consolidated statement of financial position

(ii) EBITDA-SL means Earnings Before Interest, Tax, Depreciation and Impairment ("EBITDA") and fair value revaluation of Self-Generating and Regenerating Assets (agricultural produce) ("SGARA") and excluding the impact of the new leasing standard (AASB 16 Leases)

(iii) Trade and other receivables plus inventories less trade and other payables (excluding Colignan surrender lease payable)

(iv) Net borrowings less right-to-use and Colignan property leases, loan modification adjustment and deferred borrowings costs

(v) Net bank debt divided by total equity

(vi) NTA excludes assets in use (under AASB 16 lease standard) however includes related lease liabilities

Reconciliation of Underlying EBITDA provided in the Directors' Report.

- Over the course of 2019, the Group focused its efforts on developing a consistent organic and 'better-for-you' proposition. Leveraging its farming background, supply chain and sourcing expertise, processing scale and relationships with retail partners, the Group invested in an extensive new product development program to create a range of over 100 new MRO branded products across a number of retail categories, some of which have already been launched in Australia's supermarket channels.
- As a complement to the retail business, in August 2019, the Group launched its new Wholesale & Ingredients business leveraging its organic supply chain and scale of operations to assist Australian food product manufacturers to develop more organic offerings. The Wholesale & Ingredients business has developed strong partnerships with leading Australian brands and is growing supply across a range of organic categories. The Wholesale & Ingredients business provides the opportunity to leverage the Group's existing supply and processing capabilities to a broader market. Murray River Organics believes this represents a significant growth opportunity for the Company in the medium term.

Revenue for the current half-year of \$24.814 million was \$5.437 million down compared to the corresponding period arising from the exit of legacy low margin contracts to retail customers and the change to the citrus distribution arrangements which saw citrus gross sales decrease.

During the current half-year, sales to bulk retailer, and wholesale and ingredient customers increased 46% and 86% respectively, following last year's rebuild of the sales and procurement teams.

Export sales of \$4.369 million, grew 19% compared to the corresponding period, on the back of the Group's export growth program - "Taking Sunraysia To Asia", which has enabled the launch of new products, platforms (including WeChat) and activation programs to support brand growth and consumer engagement in Asia.

Citrus sales of \$1.685 million, were down 53% due to the timing of the citrus harvest between corresponding half year periods. The overall citrus volume for the 2019 harvest season was up 6.2% compare to the 2018 harvest season. Overall net pricing was better

than the prior season, however increased blemish and variable sizing resulted in average pricing being below expectations.

	Dec 19 <sup>(i)</sup> \$'000	Dec 18 <sup>(i)</sup> \$'000	Change \$'000
<b>Reported loss after tax</b>	(23,284)	(4,608)	(18,676)
Income tax benefit	-	-	-
Normalise for AASB 16 - Impact of new lease standard	(480)	-	(480)
Finance costs	2,694	1,925	769
Depreciation & bearer plant impairment	2,753	1,445	1,308
Fair value loss/(gain) on agricultural produce - SGARA	1,562	(61)	1,623
Significant items			
Loss on disposal of Colignan	11,739	-	11,739
Accelerate recognition of employee share options	404	-	404
Restructuring costs	272	-	272
<b>Underlying EBITDA-SL <sup>(ii)</sup> (loss)</b>	<b>(4,340)</b>	<b>(1,299)</b>	<b>(3,041)</b>

(i) Unaudited non-IFRS financial table that has been compiled from the underlying reviewed condensed consolidated statement of profit or loss and other comprehensive income

(ii) EBITDA-SL means Earnings Before Interest, Tax, Depreciation and Impairment ("EBITDA") and fair value revaluation of Self-Generating and Regenerating Assets (agricultural produce) ("SGARA") and excluding the impact of the new leasing standard (AASB 16 Leases)

- Underlying EBITDA loss excluding SGARA and excluding the impact of the new lease standard (AASB 16 *Leases*) was \$4.340 million, \$3.041 million below the corresponding half-year period mainly due to:
  - Exit of high-volume low margin product sales that were highly commoditised and exit of small production run volumes that were inefficient to manufacture and an impost on working capital.
  - Increased farming costs for dried vine fruit and lower 2019 crop volume due to the challenging growing conditions, which resulted in an increase cost per tonne to produce, which was partly recovered via price increases.
  - Increased promotional activities to drive the MRO retail brand domestically and in overseas markets.
  - Increased manufacturing costs due to the poor quality of clusters from 2019 harvest which required additional labour and rework.
  - Write-off of excess packaging and material resulting from the exit of legacy contracts.

After applying the new lease standard (AASB 16 *Leases*) which had a favourable impact of \$0.480 million, the underlying EBITDA loss excluding SGARA was \$3.860 million.

- Depreciation was \$0.612 million above the corresponding period last half-year, of which \$0.402 relates to the additional depreciation recognised for right-of-use assets under the new lease standard (AASB 16).

In addition, following a review of dried vine fruit varieties (at the Yatpool and Gol Gol farms) compared to the costs of farming and return on investment, certain bearer plant varieties were switched off. As a result an impairment charge on bearer plants of \$0.696 million was recognised in the current period.

- A fair value loss on agricultural produce ("SGARA") of \$1.562 million was recognised for the current half-year based on the increase farming costs in relation to the 2020 crop (yet to be harvested) and expected lower volumes due to the challenging growing conditions in the Sunraysia region.

- Finance costs increased by \$0.769 million mainly due to the increased use of the banking facility; recognition of lease liability interest of \$0.106 million relating to right-of-use assets under the new lease standard (AASB 16); and recognition of a modification loss of \$0.696 million in relation to the modification of the Group's multi-option banking facility on 27 December 2019. The amended terms of the banking facility include a higher interest rate margin and an acceleration of principal repayments which resulted in the modification loss of \$0.696 million that has been recognised in the current half-year. The Group will continue to recognise interest at the original effective interest rate of the banking facility over the term of the multi-option banking facility which expires 30 November 2021.
- The statutory consolidated net loss after tax of the Group for the half-year ended 31 December 2019 was \$23.284 million (2018: Net loss after tax of \$4.608 million), which was impacted by the significant items detailed above.
- Net bank debt, being total borrowings and cash at bank, excluding the Colignan property and right-of-use lease liabilities, loan modification adjustment and deferred borrowing costs, was \$52.102 million compared to \$41.982 million at 30 June 2019.
- As summarised below, working capital decreased by \$6.236 million from 30 June 2019, due to timing of customer sales and receipts, and lower inventory mainly due to the sell through of dried vine fruit from the prior years' harvest. The lower working capital position at 31 December 2019 is consistent to the lower position at 31 December 2018.

	Dec 19 <sup>(i)</sup>	Jun 19 <sup>(i)</sup>	Change	
	\$'000	\$'000	\$'000	%
<b>Working Capital</b>				
Trade and other receivables	5,228	10,518	(5,290)	-50.3%
Inventories	17,829	22,269	(4,440)	-19.9%
Trade and other payables <sup>(ii)</sup>	(5,247)	(8,741)	3,494	-40.0%
<b>Working Capital</b>	<b>17,810</b>	<b>24,046</b>	<b>(6,236)</b>	<b>-25.9%</b>
Agricultural produce	4,894	2,054	2,840	138.3%
<b>Working Capital incl Agricultural produce</b>	<b>22,704</b>	<b>26,100</b>	<b>(3,396)</b>	<b>-13.0%</b>

<sup>(i)</sup> Unaudited non-IFRS financial table that has been compiled from the reviewed condensed consolidated statement of financial position

<sup>(ii)</sup> Trade and other payables (excluding Colignan surrender lease payable)

Agricultural produce increased by \$2.840 million from June 2019, reflecting the seasonal nature of the Group's crop, which comprised predominately of dried fruit and fresh table grapes on vines, and citrus, with full maturity to be reached throughout January to March, subject to weather. As a result, inventory is expected to increase following the completion of the harvest during February to April, subject to weather conditions.

- Net cash outflows from "operating activities" for the current half-year was \$6.096 million, being a \$7.994 million improvement compared to the previous corresponding period. This was largely driven by improved working capital management comprising a reduction in inventory and outstanding debtors from 30 June 2019, compared to the prior period.

Under the new lease standard (AASB 16), lease repayments of \$0.373 million relating to the right-of-use assets are disclosed as part of "financing activities" in the current period compared to the prior period where these were disclosed as part of "operating activities".

Operating cash flows for the prior half-year ended 31 December 2018 were also impacted due to the significant write down of inventory in June 2018 which was unable to be converted to cash in the corresponding prior period.

## Outlook

Over the past year, the Group commenced an extensive transformation of its farms, significant investment in its new retail products and brands, while substantially improving operating efficiencies to deliver long-term value for shareholders.

The Group's turnaround is occurring in an environment where there is continued strong demand for organic dried vine fruit and organic products generally.

Murray River Organics believes Australians want healthy, organic, 'better-for-you' food options. The Group's goal is to provide that for its our customers through its competitive advantage of vertical supply from its own core farms and our strategic sourcing relationships.

The Group is focused on growing its retail and export business and while select core farms will support these initiatives, it will exit those properties which are considered to be non-core to the strategy.

### Subsequent events

On 6 February 2020, the Group reached a further agreement with its financier in relation to amendments to its banking facilities as detailed in Note 10 of the financial statements. The amended banking facilities requires the Group to comply with certain additional undertakings and other obligations which include:

- execution of an underwriting agreement for a capital raising of at least \$25.0 million by no later than 7 February 2020 (which has since been satisfied) and completion of the \$25.000 million capital raise in accordance with an agreed timetable set out in the Prospectus issued on 6 February 2020;
- making principal repayments on the term loan facility of \$4.0 million by 31 March 2020, \$7.5 million by 30 November 2020, and \$2.5 million by 30 June 2021 (or, in respect of each repayment date, such later date as may be agreed between the parties). Following the repayments, the term loan facility will be permanently reduced to \$40.000 million.

Furthermore, on 6 February 2020 the Group announced it will undertake a pro-rata accelerate renounceable entitlement offer of new fully paid ordinary shares at an offer price of 1.5 cents per share to raise approximately \$25.000 million (or \$22.051 million net of transaction costs). Shaw and Partners and Canaccord Genuity (Australia) Limited have fully underwritten the entitlement offer.

### Dividend

No dividends were paid or declared during the current half-year (2018: nil).

### Auditor's independence declaration

The auditor's independence declaration, obtained in accordance with s.307C of the *Corporations Act 2001*, is included on page 10 of the half-year financial report.

### Rounding off of amounts

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

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

On behalf of the Directors

Director



Andrew Monk  
Chairman

Director



Valentina Tripp  
Managing Director

28 February 2020



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

As lead auditor for the review of the half-year financial report of Murray River Organics Group Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

David Petersen  
Partner

28 February 2020

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

### **Report on the Half-Year Financial Report**

#### **Conclusion**

We have reviewed the accompanying half-year financial report of Murray River Organics Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### **Material Uncertainty Related to Going Concern**

We draw attention to Note 2(c) in the half-year financial report which indicates that for the half-year ended 31 December 2019, the Group incurred a net loss of \$23.284 million and net cash outflows from operating activities of \$6.096 million. These factors along with the other risks outlined in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### **Directors' Responsibility for the Half-Year Financial Report**

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

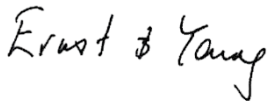
## Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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



Ernst & Young



David Petersen  
Partner  
Melbourne

28 February 2020

## Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standard AASB134 Interim Financial Reporting and giving a true and fair view of the financial position as at 31 December 2019 and performance for the half-year ended on that date of the Group.

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

On behalf of the Directors

Director



\_\_\_\_\_  
Andrew Monk  
Chairman

28 February 2020

Director



\_\_\_\_\_  
Valentina Tripp  
Managing Director

## Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2019

	Note	Half-year ended	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue		24,814	30,251
Other income	3	197	448
Fair value (loss)/gain on agricultural produce		(1,562)	61
Change in finished goods		(856)	(1,083)
Raw materials, consumables used and farming input costs		(19,757)	(22,331)
Administration expense		(1,134)	(1,266)
Selling expenses		(478)	(447)
Employee benefits expense		(5,087)	(4,068)
Freight out and distribution expenses		(1,019)	(1,292)
Depreciation expense	4	(2,057)	(1,445)
Impairment of bearer plants		(696)	-
Other expenses		(1,216)	(1,511)
Finance costs	5	(2,694)	(1,925)
Loss on disposal of Colignan property under lease	6	(11,739)	-
<b>Loss before tax</b>		<b>(23,284)</b>	<b>(4,608)</b>
Income tax expense		-	-
<b>Loss for the half-year</b>		<b>(23,284)</b>	<b>(4,608)</b>
Attributed to:			
Equity holders of the parent		<b>(23,284)</b>	<b>(4,608)</b>
<b>Other comprehensive income</b>			
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Net movement in cash flow hedges		(211)	98
Income tax effect of other comprehensive income		-	-
Total other comprehensive income		<b>(211)</b>	<b>98</b>
<b>Total comprehensive loss for the half-year attributable to equity holders of the parent</b>		<b>(23,495)</b>	<b>(4,510)</b>
Basic earnings per share		(0.05)	(0.02)
Diluted earnings per share		(0.05)	(0.02)

Notes to the financial statements are included on pages 18 to 32.

## Condensed consolidated statement of financial position as at 31 December 2019

	Note	31 Dec 2019 \$'000	30 Jun 2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents		883	1,214
Trade and other receivables		5,228	10,518
Inventories		17,829	22,269
Agricultural produce		4,894	2,054
Other financial assets	12	-	99
Other assets		929	992
		<b>29,763</b>	<b>37,146</b>
Assets held for sale	7	6,361	6,361
<b>Total current assets</b>		<b>36,124</b>	<b>43,507</b>
<b>Non-current assets</b>			
Property, plant and equipment		42,125	71,090
<b>Total non-current assets</b>		<b>42,125</b>	<b>71,090</b>
<b>Total assets</b>		<b>78,249</b>	<b>114,597</b>
<b>Current liabilities</b>			
Trade and other payables	8	5,747	8,741
Borrowings	10	16,993	4,160
Provisions		493	591
Other financial liability	12	113	-
<b>Total current liabilities</b>		<b>23,346</b>	<b>13,492</b>
<b>Non-current liabilities</b>			
Borrowings	10	40,478	65,104
Provisions		562	565
<b>Total non-current liabilities</b>		<b>41,040</b>	<b>65,669</b>
<b>Total liabilities</b>		<b>64,386</b>	<b>79,161</b>
<b>Net assets</b>		<b>13,863</b>	<b>35,436</b>
<b>Equity</b>			
Contributed equity	11	150,888	150,888
Reserves		(37,749)	(39,686)
Accumulated losses		(99,276)	(75,766)
<b>Total equity</b>		<b>13,863</b>	<b>35,436</b>

Notes to the financial statements are included on pages 18 to 32.

## Condensed consolidated statement of changes in equity for the half-year ended 31 December 2019

	Contributed equity \$'000	Accumulated losses \$'000	Corporate re- organisation reserve \$'000	Share-based payments reserve \$'000	Asset revaluation reserve \$'000	Hedging reserve \$'000	Total equity \$'000
<b>Balance at 1 July 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>
Loss for the period		(4,608)					(4,608)
Other comprehensive income	-	-	-	-	-	98	98
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(4,608)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>(4,510)</b>
Issue of shares	30,618	-	-	-	-	-	30,618
Equity raising cost (net of tax)	(3,482)	-	-	206	-	-	(3,276)
Share-based payments expense	-	-	-	6	-	-	6
<b>Balance at 31 December 2018</b>	<b>150,968</b>	<b>(68,338)</b>	<b>(47,453)</b>	<b>639</b>	<b>6,781</b>	<b>216</b>	<b>42,813</b>
<b>Balance at 1 July 2019</b>	<b>150,888</b>	<b>(75,766)</b>	<b>(47,453)</b>	<b>939</b>	<b>6,781</b>	<b>47</b>	<b>35,436</b>
Impact of adoption of new accounting standards <sup>(i)</sup>	-	(226)	-	-	-	-	(226)
<b>Balance at 1 July 2019</b>	<b>150,888</b>	<b>(75,992)</b>	<b>(47,453)</b>	<b>939</b>	<b>6,781</b>	<b>47</b>	<b>35,210</b>
Loss for the period	-	(23,284)	-	-	-	-	(23,284)
Other comprehensive income	-	-	-	-	-	(211)	(211)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(23,284)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(211)</b>	<b>(23,495)</b>
Share-based payments expense	-	-	-	570	-	-	570
Colignan property surrender fee	-	-	-	1,578	-	-	1,578
<b>Balance at 30 December 2019</b>	<b>150,888</b>	<b>(99,276)</b>	<b>(47,453)</b>	<b>3,087</b>	<b>6,781</b>	<b>(164)</b>	<b>13,863</b>

<sup>(i)</sup> The Group has adopted AASB 16 *Leases* by transitioning on a modified retrospective basis. This resulted in an increase of \$226,000 to accumulated losses as at 1 July 2019, being the cumulative effect on initial application of the standard (refer to Note 2(d)). The comparative results for the half-year ended 31 December 2018 are not restated as permitted by the modified retrospective transition approach in AASB 16.

Notes to the financial statements are included on pages 18 to 32.

## Condensed consolidated statement of cash flows for the half-year ended 31 December 2019

	Half-year ended	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	32,656	31,417
Payments to suppliers and employees	(36,316)	(42,948)
Interest paid	(2,436)	(2,559)
<b>Net cash used in operating activities</b>	<b>(6,096)</b>	<b>(14,090)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(2,750)	(2,833)
Proceeds from sale of property, plant and equipment	-	1,420
<b>Net cash used in investing activities</b>	<b>(2,750)</b>	<b>(1,413)</b>
<b>Cash flows from financing activities</b>		
Proceeds from bank loans	11,750	37,911
Repayment of bank loans	(1,100)	(44,571)
Repayment of lease liabilities	(373)	-
Proceeds from equipment loans	73	853
Repayment of equipment loans	(934)	(799)
Payments for borrowing costs	(76)	-
Payment for Colignan property lease surrender fee	(825)	-
Proceeds from issue of share capital	-	30,618
Transaction costs paid on issue of securities	-	(3,276)
<b>Net cash generated by financing activities</b>	<b>8,515</b>	<b>20,736</b>
<b>Net increase in cash and cash equivalents</b>	<b>(331)</b>	<b>5,233</b>
Cash and cash equivalents at the beginning of the half-year	1,214	(3,802)
<b>Cash and cash equivalents at the end of the half-year</b>	<b>883</b>	<b>1,431</b>

Notes to the financial statements are included on pages 18 to 32.

# Notes to the consolidated financial statements

## 1. General information and group reorganisation

This interim financial report presents the condensed consolidated financial statements of Murray River Organics Group Limited (the "Company") and its subsidiaries (the "Group") for the half-year ended 31 December 2019.

The Company is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

## 2. Significant accounting policies

### Statement of compliance

The interim financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The interim report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report of Murray River Organics Group Limited for the year ended 30 June 2019, together with any public announcements made by the Murray River Organics Group Limited during the half-year ended 31 December 2019. This annual financial report is available on the ASX website.

### (b) Basis of preparation

The interim financial report has prepared on a historical cost basis, except for the revaluation of certain non-current assets and financial instruments that have been measured at fair value. 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 amounts contained in the Directors' report and in the interim financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2019, except for the impact of the adoption of the new and revised Australian Accounting Standards disclosed below. Accounting policies adopted by the Group are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The critical accounting judgements and key sources of estimation uncertainty remain consistent with those disclosed in the Group's annual financial report for the year ended 30 June 2019, except those described in Note 2(d) in relation to AASB 16 *Leases*.

### (c) Going concern basis

The interim 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 a material uncertainty whether the Company will continue as a going concern:

- The Group incurred a net loss of \$23.284 million and net cash outflows from operating activities of \$6.096 million for the half year ended 31 December 2019, largely due to the restructure of the farming operations which resulted in the surrender of the Colignan property lease and an impairment charge of \$11.739 million.

Whilst solid operational progress has been made throughout the business, the extreme heat over the current summer in the Sunraysia region, an increase in farming costs (in particular the price of water) and the timing of its turnaround plans has impacted the profitability and cashflows of the Group.

- The Group forecasts to incur continued short-term net operating cash outflows and negative earnings and has identified that it requires additional funding imminently to continue its operations and to meet certain term loan repayment obligations under its banking facilities.
- On 27 December 2019 and 6 February 2020, the Group entered into Amending Deeds with its financier in relation to its banking facilities. The amended banking facilities provide the Group with access to accelerated drawdowns on the term loan facility comprising of a \$2.000 million drawdown available from 1 January 2020 (which has since been drawn down) and, subject to execution of an underwriting agreement for a capital raising of at least \$25.000 million by no later than 7 February 2020, a further \$2.000 million (which has since been drawn down). The amended banking facilities also require the Group to comply with certain additional undertakings and other obligations which include:
  - Execution of an underwriting agreement for a capital raising of at least \$25.000 million by no later than 7 February 2020 and completion of a capital raising in accordance with an agreed timetable;
  - Achieving targets of forecast cash flows agreed with the Group's financier up to completion of a capital raising;
  - Making principal repayments on the term loan facility of \$4.000 million by 31 March 2020, \$7.500 million by 30 November 2020, and \$2.500 million by 30 June 2021 (or, in respect of each repayment date, such later date as may be agreed between the parties). Following the repayments, the term loan facility will be permanently reduced to \$40.000 million; and
  - Compliance with financial covenants related to agreed Minimum EBITDA and Net Tangible Assets measures.

The Directors have considered the above factors as well as the forecast future operating cashflows and believe that the Group will be able to continue as a going concern for the following reasons:

- On 6 February 2020 the Group announced a fully underwritten \$25.000 million accelerated renounceable entitlement offer to shareholders, with a completion date of 5 March 2020.
- Under the Amending Deeds, the Group has obtained accelerated bank funding to support the operations of the Group through to completion of the capital raise.
- The Group has been actively monitoring its cashflow forecasts to meet the agreed targets with the Group's financier up to the completion of the capital raise.
- The Group is preparing to meet the principal repayment obligations under its amended term loan facility by 31 March 2020, 30 November 2020 and 30 June 2021. To date, the Group is actively pursuing the sale of its Fifth Street and Nangiloc properties. The Group is confident that funding generated from the sale of these assets will be sufficient to meet the required \$7.500 million and \$2.500 million principal repayments by 30 November 2020 and 30 June 2021 respectively. The principal repayment of \$4.000 million due by 31 March 2020 is expected to be funded through proceeds from the ongoing capital raise.

The Directors believe there are reasonable grounds to consider that the Group can continue as a going concern based on the Group's trading and cash flow forecasts, reasonable confidence of raising sufficient additional equity funding, confidence in meeting the obligations under its banking facilities and continued support from the Group's financier.

Notwithstanding the above, in the event that the Group is not able to meet any one or more of the following assumptions:

- meet its trading and cash flow forecasts to the date of the capital raise (targeted for completion by 5 March 2020) and for future periods;
- complete the currently ongoing capital raise; or

- fulfil its obligations under its amended banking facilities, including meeting the required principal repayments by 31 March 2020, 30 November 2020 and 30 June 2021,

there is a material uncertainty whether the Group will be able to continue as a going concern and, therefore, continue its business activities and realise its assets and discharge its liabilities in the normal course of business.

The interim 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.

#### **(d) Changes in accounting policies, accounting standards and interpretations**

The accounting policies adopted in the preparation of the interim financial report are consistent with those followed in the preparation of the Group's annual financial report for the year ended 30 June 2019, except for the adoption of new standards effective for the Group as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### **❖ AASB16 Leases**

AASB 16 *Leases* ("AASB 16") supersedes AASB 117 *Leases* ("AASB 117"), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group has adopted AASB 16 using the modified retrospective method of adoption with the date of initial application being 1 July 2019. The reclassifications and adjustments arising from the transition to AASB 16 are therefore recognised in the opening statement of financial position at 1 July 2019. As the Group has adopted the modified retrospective method, there was no restatement of comparative information.

#### *Nature of the effect of adoption of AASB 16*

The Group is, or has been in the relevant period, lessee under lease contracts for office and warehouse premises, the Colignan farm property, as well as various items of plant and equipment.

Before the adoption of AASB 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease.

Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Trade and other payables, respectively.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases that it is lessee, except for short-term leases and leases of low-value assets. AASB 16 provides specific transition requirements and practical expedients, which has been applied by the Group.

- *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117). The requirements of AASB 16 were applied on these leases from 1 July 2019. The Colignan farm property lease was previously classified as a finance lease under AASB 117.

- *Leases previously classified as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the carrying amount as if AASB 16 had always been applied, apart from the use of the incremental borrowing rate at the date of initial application of AASB 16. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group has elected to not apply the requirements of AASB 16 to leases of intangible assets, including water rights, that were previously accounted for as operating leases under AASB 117.

Application of practical expedients

In applying AASB 16 at the initial date of application being at 1 July 2019, the Group has applied the available practical expedients:

- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application; and
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application.

Effect of adopting AASB 16 at 1 July 2019

The effect of adopting AASB 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) at 1 July 2019:

	\$'000
<b>Non-current assets</b>	
Property, plant and equipment	3,017
<b>Total non-current assets</b>	<b>3,017</b>
<b>Total assets</b>	<b>3,017</b>
<b>Current liabilities</b>	
Trade and other payables	(466)
Borrowings	1,026
<b>Total current liabilities</b>	<b>560</b>
<b>Non-current liabilities</b>	
Borrowings	2,683
<b>Total non-current liabilities</b>	<b>2,683</b>
<b>Equity</b>	
Accumulated losses	226
<b>Total equity</b>	<b>(226)</b>

There is no impact on the statement of profit or loss and other comprehensive income, statement of cash flows, and basic and diluted earnings per share for the comparative period as the Group elected to adopt the modified retrospective approach to transitioning to AASB 16.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

	\$'000
<b>Operating lease commitments as at 30 June 2019</b>	<b>9,043</b>
Weighted average incremental borrowing rate as at 1 July 2019	5.75%
<b>Discounted operating lease commitments at 1 July 2019</b>	<b>7,909</b>
<b>Less:</b>	
Commitments relating to intangible assets	(4,200)
<b>Add:</b>	
Commitments relating to leases previously classified as finance leases	26,233
<b>Lease liabilities as at 1 July 2019</b>	<b>29,942</b>

Effect of AASB 16 on the five months period ended 31 December 2019

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the half-year ended 31 December 2019:

	Right-of-use assets				Lease liabilities			
	Colignan property \$'000	Other property \$'000	Plant and equipment \$'000	Total \$'000	Colignan property \$'000	Other property \$'000	Plant and equipment \$'000	Total \$'000
<b>As at 1 July 2019</b>	22,399	2,859	157	<b>25,415</b>	26,233	3,549	160	<b>29,942</b>
Additions	-	-	695	<b>695</b>	-	-	695	<b>695</b>
Transfer of make-good asset from lease hold improvements	-	353	-	<b>353</b>	-	-	-	<b>-</b>
Depreciation expense	(404)	(342)	(59)	<b>(805)</b>	-	-	-	<b>-</b>
Interest expense	-	-	-	<b>-</b>	1,156	94	12	<b>1,262</b>
Payments	-	-	-	<b>-</b>	(1,042)	(423)	(56)	<b>(1,521)</b>
Disposed	(21,995)	-	-	<b>(21,995)</b>	(26,347)	-	-	<b>(26,347)</b>
<b>As at 31 December 2019</b>	<b>-</b>	<b>2,870</b>	<b>793</b>	<b>3,663</b>	<b>-</b>	<b>3,220</b>	<b>810</b>	<b>4,031</b>

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application at 1 July 2019.

- Right of use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the relevant commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the relevant lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the relevant lease term. Right-of-use assets are subject to impairment.

- Lease liabilities**

At the commencement date of the relevant lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the relevant commencement date), and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The Group applies the practical expedient to not separate non-lease components from lease components, and instead accounts for each lease component and any associated lease components as a single lease component.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the relevant lease commencement date if the interest rate implicit in the lease is not readily determinable. After the relevant commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments for short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

- *Significant judgements*

The Group has made the following significant judgements with respect to its leases as lessee:

- *Determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group as the option, under some of its property leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e. a change in business strategy). The Group excluded the renewal option as part of the lease term for leases of its office and warehouse premises as the Group is not reasonably certain to exercise the options.

- *Determining the incremental borrowing rate*

The Group has applied judgement to determine the incremental borrowing rate, which affects the amount of lease liabilities or right-of-use assets recognised. The Group reassesses and applies the incremental borrowing rate on a lease by lease basis at the relevant lease commencement date based on the term of the lease (or the remaining term of the lease at the initial date of application).

### 3. Other income

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Net gain on sale of property, plant and equipment	-	140
Net foreign exchange gains	175	176
Government grants	-	6
Other	22	126
<b>Total</b>	<b>197</b>	<b>448</b>

### 4. Depreciation expense

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Depreciation of property, plant and equipment	2,325	2,243
Depreciation of right-of-use assets	402	-
Depreciation capitalised into agricultural produce	(670)	(798)
<b>Net depreciation expense</b>	<b>2,057</b>	<b>1,445</b>

**5. Finance costs**

	<b>31 Dec 2019 \$'000</b>	<b>31 Dec 2018 \$'000</b>
Interest on banking facilities	1,287	1,180
Interest on lease liability - right-of-use assets (Colignan property)	1,156	1,337
Interest on lease liability - right-of-use assets (other)	106	-
Bank loan modification loss	696	-
Amortisation of deferred borrowing costs	12	42
Capitalised interest relating to qualifying assets	(563)	(634)
<b>Net finance costs</b>	<b>2,694</b>	<b>1,925</b>

**6. Loss on disposal of Colignan property under lease**

	<b>31 Dec 2019 \$'000</b>
<b>Assets disposed</b>	
Property, plant and equipment – leased asset	21,995
Property, plant and equipment – leasehold improvements (bearer plants)	10,572
Agricultural produce	2,156
Other assets	209
<b>Liabilities extinguished</b>	
Lease liabilities	(26,347)
<b>Lease termination and disposal costs</b>	
Surrender fees	1,325
Capital to be issued to Arrow	1,578
Restructuring and other costs	251
<b>Loss on disposal of Colignan property under lease</b>	<b>11,739</b>

On 11 December 2019, the Group announced that it had reached an agreement with the landlord of the Colignan property, Arrow Funds Management ("Arrow"), to surrender control of the leased Colignan property back to Arrow in the property's condition at the surrender date for extinguishment of the Group's lease liabilities owed to Arrow. The terms of the lease surrender also include:

- The Group is to pay to Arrow a surrender fee in the amount of \$1,324,750, comprising of:
  - \$824,750 paid from the proceeds of a bank guarantee; and
  - \$500,000 paid from the proceeds of, and conditional upon, a proposed equity capital raising.
- The Group is to issue Arrow with 5% of the issued share capital of the Company (after any equity capital raising).
- The Group is to enter into a 3 year off-take agreement for dried vine fruit grown on Colignan property.

**7. Assets held for sale**

	<b>31 Dec 2019 \$'000</b>	<b>30 Jun 2018 \$'000</b>
Property assets	<b>6,361</b>	<b>6,361</b>

Property assets (comprising property, plant and equipment) held for sale at 31 December 2019 relate to the Fifth Street property.

The assets held for sale are measured at the lower of existing carrying value and fair value less costs to sell.

**8. Trade and other payables**

	<b>31 Dec 2019 \$'000</b>	<b>31 Dec 2018 \$'000</b>
Trade and other payables	5,247	8,741
Colignan surrender fee	500	-
<b>Total</b>	<b>5,747</b>	<b>8,741</b>

## 9. Impairment of non-current assets

The Group operates as a single Cash Generating Unit ("CGU"). In accordance with the Group's accounting policies and process, the Group evaluated the cash generating unit ('CGU') at 31 December 2019, to determine whether there were any indications of impairment. Where an indicator of impairment exists a formal estimate of the recoverable amount is performed.

After consideration of potential indicators which could impact the carrying amount of the CGU, the Group conducted an impairment test at 31 December 2019.

The recoverable amount of the CGU has been determined based on a fair value less costs of disposal methodology which requires the use of various assumptions. This methodology uses cash flow forecasts based on financial projections by management covering a 9.5 year period, discounted at a pre-tax discount rate of 16.9%.

The Directors believe the use of a 9.5 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.

No impairment of the carrying amount of the CGU was identified at 31 December 2019.

Significant judgement and assumptions are required in making estimates of the CGU's recoverable amount. The cash flow forecasts used in estimating the recoverable amount are subject to variability in key assumptions, including:

- Sales growth: Sales are forecast to grow at a compound annual growth rate of approximately 15.8% per annum for forecast FY20 to FY24 and then 10.3% per annum for FY25 to FY29 reflecting management's assessment of growth in demand, additional product from 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 are forecast to increase over the next 3 year based on existing vine plantings to reach maturity and then remain relative constant in future years.
- Capital expenditure: Significant capital expenditure is forecast over 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 16.9% has been used reflecting the extended period of the forecast and inherent risks.

An adverse change in any of the above key assumptions would likely result in the carrying value of the CGU exceeding its recoverable amount.

## 10. Borrowings and banking facilities

### a) Borrowings

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
<u>Current</u>		
<i>Secured borrowings:</i>		
Bank loans	14,000	-
Equipment loans	1,647	1,739
Lease liabilities – Colignan property finance lease	-	2,492
Lease liabilities – right to use assets	1,099	-
Bank loan modification	363	-
Deferred borrowing costs	(116)	(71)
<b>Total</b>	<b>16,993</b>	<b>4,160</b>
<u>Non-current</u>		
<i>Secured borrowings:</i>		
Bank loans	34,647	37,997
Equipment loans	2,691	3,460
Lease liabilities – Colignan property finance lease	-	23,741
Lease liabilities – right to use assets	2,932	-
Bank loan modification	332	-
Deferred borrowing costs	(124)	(94)
<b>Total</b>	<b>40,478</b>	<b>65,104</b>
<b>b) Gearing ratio</b>		
Bank debt (bank and equipment loans)	52,985	43,196
Cash and cash equivalents	(883)	(1,214)
<b>Net Bank Debt</b>	<b>52,102</b>	<b>41,982</b>
Total Equity	13,863	34,436
Net Bank Debt to Equity ratio	376%	119%
Net Borrowings (Net Bank Debt and Colignan property finance lease)	56,133	68,215
Net Borrowings to Equity ratio	405%	193%

The bank financing facilities (comprising term loans, equipment finance and other facilities) with the National Australia Bank 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 multi-option banking facilities expire on 30 November 2021.

At the commencement of the period, the details of the banking facilities were as follows:

- a \$34.000 million term loan facility (comprising a \$31.000 million facility and \$3.000 million fixed rate term facility), with \$6.0 million in additional staged drawdowns;
- a \$10.500 million working capital facility commencing on 31 July 2019 and increasing to \$15.000 million from 31 July 2020; and
- equipment finance loan, bank guarantee and card facilities.

On 29 August 2019, the Group renegotiated its financing arrangements by accelerating the drawdown of its total multi-option banking facility with the total limit available under the multi-option facility as follows:

- \$50.000 million by 30 November 2019;
- \$53.000 million by 31 January 2020; and
- the full \$55.000 million facility by 30 April 2020.

On the 27 December 2019, the Group entered into an Amending Deed in relation to its banking facilities with its financier. The amended banking facilities provide the Group with access to accelerated drawdowns on the term loan facility comprising of:

- \$2.000 million drawdown available from 1 January 2020; and
- \$2.000 million available from 1 February 2020.

The amended banking facilities also require the Group to comply with certain additional undertakings and other obligations which include:

- Execution of an underwriting agreement for a capital raising of at least \$25.000 million by 31 January 2020 and completion of a capital raising in accordance with an agreed timetable;
- Achieving targets of forecast cash flows agreed with the Group's financier up to completion of a capital raising;
- Making principal repayments of \$4.000 million on the term loan facility by 31 March 2020 and a further \$10.000 million on the term loan facility by 30 June 2020. Following the repayments, the term loan facility is expected to be permanently reduced to \$40.000 million; and
- Compliance with financial covenants related to agreed Minimum EBITDA and Net Tangible Assets measures.

Refer to Note 14 for amendments made to the banking facilities subsequent to the reporting date.

**(b) Banking facilities****Summary of financing arrangements**Facilities limit at reporting date:

	<b>31 Dec 2019 \$'000</b>	<b>30 Jun 2019 \$'000</b>
Equipment loans	7,300	7,300
Bank loans	50,000	38,000
Bank guarantee	460	1,285
	<b>57,760</b>	<b>46,585</b>

Facilities utilised at reporting date:

Equipment loans	4,338	5,199
Bank loans	48,647	37,997
Bank guarantee	460	1,285
	<b>53,445</b>	<b>44,481</b>

Facilities not utilised at reporting date:

Equipment loans	2,962	2,101
Bank loans	1,353	3
Bank guarantee	-	-
	<b>4,315</b>	<b>2,104</b>

**11. Equity securities issued**

	<b>Half-year ended 31 Dec 2019</b>		<b>Half-year ended 31 Dec 2018</b>	
	<b>Number '000</b>	<b>\$ '000</b>	<b>Number '000</b>	<b>\$ '000</b>
<b>Opening balance (1 July)</b>	<b>433,761</b>	<b>150,888</b>	<b>127,577</b>	<b>123,832</b>
Issue of shares capital raising	-	-	306,184	30,618
Equity raising costs (net of tax)	-	-	-	(3,482)
<b>Closing balance (31 December)</b>	<b>433,761</b>	<b>150,888</b>	<b>433,761</b>	<b>150,968</b>

On 24 October 2018, a 2.4 for 1 accelerated pro-rate renounceable entitlement offer of \$30.6 million new fully paid ordinary shares was completed, raising net proceeds of \$30.618 million before taking into account equity raising costs recorded in equity of \$3.482 million for the half-year ended 31 December 2018.

## 12. Fair value of financial instruments

The only financial assets or financial liabilities carried at fair value are foreign currency contracts. The Directors consider the foreign currency contracts to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurements are derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between level 1, 2 and 3 for recurring fair value measurements during the half-year ended 31 December 2019. The foreign currency contracts fair values have been obtained from third party valuations derived from discounted cash flow forecasts of forward rates (from observable yield curves at the end of the reporting period) and contract rates.

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

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31 Dec 19 \$'000	30 Jun 19 \$'000		
Foreign currency forward contracts	Liability: 113	Asset: 99	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counterparties.

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

## 13. 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 84% of the Group's revenue is attributed to domestic customers, and the remainder relates to exports to USA (2%), Asia (13%) and Europe (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.

During the half-year ended 31 December 2019, the Group generated sales revenue of \$10.295 million from a single customer that amounts to 40% of the Group's total sales revenue.

#### 14. Events subsequent to reporting date

On 6 February 2020, the Group reached a further agreement with its financier in relation to amendments to its banking facilities as detailed in Note 10 of the financial statements. The amended banking facilities requires the Group to comply with certain additional undertakings and other obligations which include:

- execution of an underwriting agreement for a capital raising of at least \$25.000 million by no later than 7 February 2020 (which has since been satisfied) and completion of the \$25.000 million capital raise in accordance with an agreed timetable set out in the Prospectus issued on 6 February 2020;
- making principal repayments on the term loan facility of \$4.000 million by 31 March 2020, \$7.500 million by 30 November 2020, and \$2.500 million by 30 June 2021 (or, in respect of each repayment date, such later date as may be agreed between the parties). Following the repayments, the term loan facility will be permanently reduced to \$40.000 million.

Furthermore, on 6 February 2020 the Group announced it will undertake a pro-rata accelerate renounceable entitlement offer of new fully paid ordinary shares at an offer price of 1.5 cents per share to raise approximately \$25.000 million (or \$22.051 million net of transaction costs). Shaw and Partners and Canaccord Genuity (Australia) Limited have fully underwritten the entitlement offer.