



Financial Statements

For the Year Ended 30 June 2022

Rural Funds Group | ASX: RFF

Rural Funds Group comprises:

Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805

Managed by:

 Rural
Funds
Management

Managing good assets with good people

Rural Funds Group

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Rural Funds Group

Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup Andrea Lemmon
Company Secretary	Emma Spear
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 19, 60 Castlereagh Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay BARANGAROO NSW 2000
Share Registry	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000 Ph: 1300 737 760
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000 Rabobank Australia Group Darling Park Tower 3 201 Sussex Street SYDNEY NSW 2000 National Australia Bank (NAB) Level 6, 2 Carrington Street SYDNEY NSW 2000
Stock Exchange Listing	Rural Funds Group units (Rural Funds Trust and RF Active form a stapled investment vehicle) are listed on the Australian Securities Exchange (ASX)
ASX Code	RFF

Rural Funds Group

Directors' Report

30 June 2022

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the year ended 30 June 2022.

In accordance with AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and Rural Funds Trust has been identified as the parent for the purpose of preparing the consolidated financial report.

The Directors' report is a combined report that covers both Trusts. The financial information for the Group is taken from the Consolidated Financial Statements and notes.

Directors

The following persons held office as Directors of the Responsible Entity during the year and up to the date of this report:

Guy Paynter	Non-Executive Chairman
David Bryant	Managing Director
Michael Carroll	Non-Executive Director
Julian Widdup	Non-Executive Director
Andrea Lemmon	Non-Executive Director (appointed on 1 November 2021)

Principal activities and significant changes in state of affairs

The principal activity of the Group during the year was the development and leasing of agricultural properties. The Group is a lessor of agricultural property with revenue derived from leasing almond orchards, macadamia orchards, vineyards, cattle properties, cropping properties, agricultural plant and equipment, cattle and water rights. The Groups also carries out cropping and macadamia operations on an interim basis for unleased properties and properties under development.

The Group also provides a guarantee to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of RFM, earning a return equivalent to an equity rate of return calculated on the amount of the guarantee during the year.

The following activities of the Group changed during the year:

In July 2021, the Group completed the sale of surplus land on Kerarbury for approximately \$1.6m.

On 2 August 2021 the Group completed a fully underwritten equity raise for \$100.0m to fund the development of 1,000ha of macadamia orchards, the acquisition of cattle properties to be leased by corporate lessees, and the acquisition of 8,338 megalitres (ML) of Lower Murrumbidgee ground water entitlements.

In August 2021 the Group completed the purchase of 8,338ML of Lower Murrumbidgee ground water entitlements for approximately \$38.4m including transaction costs. The water entitlements are leased to a private farming company for a term of five years.

In November 2021 the Group leased an area on the Nursery Farm property in Bundaberg, Queensland to an external operator, Dalwood Nursery Pty Ltd. The arrangement provides a supply of macadamia trees to RFF to be planted on various developments in Queensland including Bundaberg, Rockhampton, and Maryborough.

In November 2021, the Group completed the acquisition of Baamba Plains, a 4,130ha cropping property located in central Queensland for \$34.0m including transaction costs and including \$2.5m of associated plant and equipment.

In November 2021, the Group paid a \$17.2m deposit on Kaiuroo, a 27,879ha aggregation of four cattle and cropping properties located in central Queensland. An extended settlement date of up to two years has been negotiated, allowing RFM to begin productivity developments and to seek a lessee prior to settlement.

In December 2021, the Group acquired The Pocket, to be managed as part of the existing Yarra property, a 1,917ha cattle and cropping property located near Rockhampton, Queensland for \$14.6m including transaction costs and associated plant and equipment.

In December 2021, the Group completed the acquisition of the Coolibah and River Block cattle properties totaling 724ha, located near Rockhampton, Queensland for \$4.9m including transaction costs. The properties will be managed as one property.

Rural Funds Group

Directors' Report

30 June 2022

Principal activities and significant changes in state of affairs (continued)

In December 2021, the Group completed the acquisition Beerwah and Bauple, consisting 475ha of mature macadamia orchards located in south-east Queensland, for \$66.6m including transaction costs, associated plant and equipment and shares in Marquis Macadamias Limited.

In December 2021, the Group renegotiated and increased its core debt facility to \$520,000,000 (2021: \$380,000,000). As part of this, the maximum loan to value ratio requirement was increased to 55% (2021: 50%).

In January 2022, the Group completed the disposal of two Maryborough cropping properties for \$3.8 million in exchange for additional land on a Maryborough macadamia property and cash consideration valued at \$3.8 million.

In January 2022, the \$10 million secured loan and outstanding amounts on the \$5 million cattle leasing arrangement provided to the Camm Agricultural Group were repaid in full.

In February 2022, RFF unitholders voted in favour of increasing the J&F guarantee from \$100 million to \$114 million, with approval for the guarantee to increase to \$132 million.

In February 2022 the National Australia Bank Limited (NAB) was included in the Group's banking syndicate as part of the tranche expiring in November 2023.

In February 2022, the Group entered into a 10-year lease with Australian Agricultural Company for the Comanche and Home Hill properties to commence in May 2022.

In March 2022, the Group completed the acquisition of Thirsty Creek, a 762ha cattle property located near Rockhampton, Queensland for \$6.5m including transaction costs.

In April 2022, the Group increased the J&F guarantee from \$114 million to \$132 million to facilitate an increase in J&F's supply of cattle to JBS as part of its grain fed business.

In May 2022, the Group entered into a 20-year lease with Mort & Co Lot Feeders Pty Limited for the Coolibah, River Block and Thirsty Creek properties to commence in May 2022.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group during the year.

Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2022 amounted to \$209,136,000 (2021: \$119,634,000). The consolidated total comprehensive income of the Group for the year ended 30 June 2022 amounted to \$210,206,000 (2021: \$123,917,000).

The Group holds investment property, bearer plants, owner-occupied property and derivatives at fair value. After adjusting for the effects of unrealised fair value adjustments, depreciation, impairments and non-cash tax expense, the profit would have been \$44,215,000 (2021: \$40,423,000), representing adjusted funds from operations (AFFO).

Rural Funds Group

Directors' Report

30 June 2022

Adjusted funds from operations (AFFO)

The adjusted funds from operations (AFFO) calculated below effectively represents the underlying and recurring cash earnings from the Group's operations from which distributions are funded:

	2022	2021
	\$'000	\$'000
Net profit before income tax	210,463	120,292
Change in fair value of investment property	(123,191)	(42,289)
Change in fair value of bearer plants	4,103	(1,007)
Impairment of property - owner occupied	912	1,651
Impairment of intangible assets	1,059	4,188
Depreciation - bearer plants	5,533	4,032
Depreciation and impairments - other	1,634	840
Change in fair value of biological assets (unharvested crops)	(1,819)	(1,028)
Change in fair value of biological assets (prior year unharvested crops realised during the year)	814	-
Change in fair value of financial assets/liabilities	(669)	(116)
Change in fair value of interest rate swaps	(51,852)	(12,923)
Straight-lining of rental revenue	735	852
Interest component of JBS feedlot finance lease	(3,187)	(769)
Income tax payable (RF Active)	-	(432)
Gain on sale of assets	(320)	(32,868)
AFFO	44,215	40,423
AFFO cents per unit	11.7	11.9

Financial position

The net assets of the consolidated Group have increased to \$917,011,000 at 30 June 2022 from \$648,544,000 at 30 June 2021. At 30 June 2022, the Group had total assets of \$1,403,829,000 (2021: \$1,041,904,000).

At 30 June 2022, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$169,663,000 (2021: \$122,402,000). Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued at least every two years or more often where appropriate. These valuations attribute a value to the water entitlements held by the Group. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate of fair value. On this basis the fair value of water entitlements at 30 June 2022 was \$279,979,000 (2021: \$212,580,000). The value of water entitlements is illustrated in the table below:

	2022	2021
	\$'000	\$'000
Intangible assets (water entitlements)	157,679	110,418
Investment in CICL	11,464	11,464
Investment in BIL	520	520
Total book value of water entitlements	169,663	122,402
Revaluation of intangible assets per valuation	110,316	90,178
Adjusted total water entitlements	279,979	212,580

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Directors' Report

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Financial position (continued)

Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of water entitlements comprising intangible assets and investments in BIL and CICL per these valuations.

	2022	2021
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	917,011	648,544
Revaluation of intangible assets per valuation	110,316	90,178
Adjusted net assets	1,027,327	738,722
Adjusted NAV per unit (\$)	2.69	2.17

Property leasing

At 30 June 2022 the Group held 67 (2021: 66) properties as follows:

- 3 almond orchards (4,139 planted hectares);
- 7 vineyards (666 planted hectares);
- 7 macadamia orchards (814 planted hectares);
- 10 properties with potential for areas to be developed into macadamia orchards with development under way (5,505 hectares)
- 21 cattle properties made up of 16 breeding, backgrounding and finishing properties (675,744 hectares) and 5 cattle feedlots with combined capacity of 150,000 head;
- 19 cropping properties (15,200 hectares).

During the year ended 30 June 2022, the properties held by the Group recorded an increment in the fair value of investment properties of \$123,191,000 (2021: \$42,289,000), impairment of bearer plants of \$5,446,000 (2021: \$6,510,000 increment), an impairment of intangibles of \$1,059,000 (2021: \$4,188,000) relating to water entitlements and an increment property – owner occupied of \$374,000 (2021: \$1,651,000 decrement) relating to properties carrying out various cropping operations.

Almond orchards

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and Darlington Point, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 4,139 hectares (2021: 4,139 hectares):

- Yilgah 1,006 planted hectares (2021: 1,006 hectares);
- Tocabil 603 planted hectares (2021: 603 hectares);
- Kerarbury 2,530 planted hectares (2021: 2,530 hectares).

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,006 planted hectares (2021: 1,006 hectares);
- Olam Orchards Australia Pty Limited (Olam) 3,133 planted hectares (2021: 3,133 hectares);

For its almond orchards the Group owns water entitlements of 55,525ML (2021: 55,525ML) comprising groundwater, high security river water, general security river water, supplementary river water, and domestic and stock river water. In addition, the Group owns 21,430ML (2021: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Vineyards

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (2021: 936ML). Six vineyards are leased to Treasury Wine Estates Limited and produce premium quality grapes. Six of the vineyards are leased until June 2026 and one is held for sale as at 30 June 2022.

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30 June 2022

Property leasing (continued)

Macadamia orchards

Three established macadamia orchards are located near Bundaberg, Queensland and leased to the following tenants:

- Swan Ridge and Moore Park, 234 hectares (2021: 234 hectares), located in Bundaberg currently leased to the 2007 Macgrove Project (M07)
- Bonmac, 27 hectares (RFM) (2021: 27 hectares), located in Bundaberg currently leased to RFM Farming.

Beerwah and Bauple, 475 hectares (2021: nil) located in the Glass House mountains and Wide Bay regions of Queensland are unleased and currently operated by the Group.

Cygnets, located in Bundaberg, Queensland consists of 37 hectares (2021: 37 hectares) of newly established plantings and is currently operated by the Group.

Nursery Farm, located in Bundaberg, Queensland consists of 41 hectares (2021: 41 hectares) of newly established plantings, operated by the Group and a macadamia tree nursery, leased to an external party.

Swan Ridge South, located in Bundaberg, Queensland totaling 123 hectares (2021:123 hectares) with potential for macadamia plantings.

The 23 Maryborough properties located in Queensland, have potential to be developed into approximately 2,200 hectares of macadamia orchards. 7 of these properties totaling,1,915 hectares are under development.

The Riverton property and Rookwood Farms aggregation, totaling 3,467 hectares (2021: 3,467 hectares), located in the Fitzroy region in Queensland under development for macadamia orchards.

Cattle property

Cattle properties held by the Group comprise of cattle breeding, backgrounding and finishing properties and cattle feedlots.

- Rewan located near Rolleston in central Queensland 17,479 hectares (2021: 17,479 hectares);
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares (2021: 225,800 hectares);
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares (2021: 390,600 hectares);
- Comanche located in central Queensland 7,600 hectares (2021: 7,600 hectares);
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares (2021: 8,280 hectares);
- Dyamberin located in the New England region of New South Wales 1,728 hectares (2021: 1,728 hectares);
- Woodburn located in the New England region of New South Wales 1,063 hectares (2021: 1,063 hectares);
- Cobungra located in the East Gippsland region of Victoria 6,497 hectares (2021: 6,497 hectares);
- Petro, High Hill and Willara located in Western Australia 6,196 hectares (2021: 6,196 hectares);
- Yarra located south west of Rockhampton in central Queensland 4,090 hectares (2021: 2,173 hectares);
- Homehill located north west of Rockhampton in central Queensland 4,925 hectares (2021: 4,925 hectares);
- Coolibah and River Block located south west of Rockhampton in central Queensland 724 hectares (2021: nil);
- Thirsty Creek located south west of Rockhampton in central Queensland 762 hectares (2021: nil);
- Prime City, Mungindi, Caroon, Beef City and Riverina, 5 cattle feedlots with a combined capacity of 150,000 head (2021:150,000 head).
- A deposit has been paid on Kaiuroo, located north west of Rockhampton in central Queensland, 27,879 hectares (2021: nil) with an extended settlement period of up to 24 months from November 2021.

The properties comprise a combined 663,374 hectares and are leased to the following tenants:

- Australian Agricultural Company Limited, leasing Rewan, Comanche and Home Hill;
- Cattle JV Pty Limited (Cattle JV), a wholly owned subsidiary of RFM, leasing Mutton Hole and Oakland Park;
- DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, leasing the Natal aggregation;
- Stone Axe Pastoral Company Pty Limited, leasing Dyamberin, Woodburn, Cobungra, Petro, High Hill and Willara;
- Mort & Co Lot Feeder Pty Limited, leasing Coolibah, River Block and Thirsty Creek; and
- Clarke Creek Energy Pty Limited, leasing a portion of Cerberus.

Rural Funds Group

Directors' Report

30 June 2022

Property leasing (continued)

Cattle property (continued)

In addition to this, JBS Australia Pty Limited (JBS) leases the Prime City, Mungindi, Caroona, Beef City and Riverina feedlots.

The remaining properties are not currently leased as at 30 June 2022.

On 1 July 2021, the lease on the Cerberus property by Katena Pty Ltd was terminated by mutual agreement and all amounts owing to the Group have since been paid.

Cerberus and Yarra are currently being operated by the Group, allowing for capital improvement designed to improve the productivity of the properties while a long-term lessee is currently being sought.

The lease arrangement for the Natal aggregation includes a \$10 million secured loan provided to the lessee and a \$5 million cattle leasing arrangement to fund the purchase of cattle. On 28 January 2022, the secured loan and outstanding amounts on the cattle facility were fully repaid.

Cropping property

Cropping properties held by the Group comprise of:

- Lynora Downs, a 4,963 hectare (2021: 4,963 hectare) cropping property located near Emerald, QLD is leased to Cotton JV Pty Limited (Cotton JV), a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited) until April 2027.
- Mayneland, a 2,942 hectare (2021: 2,942 hectare) cropping property located 25 km north of Lynora Downs in central Queensland, to be leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2023. A long-term lessee is being sought.
- Baamba Plains, a 4,130 hectare (2021: nil) cropping property located 60 km south-east of Emerald in central Queensland. A capital development program has been designed to improve the productivity of the property. The property is currently operated by the Group on an interim basis while a long-term lessee is being sought.
- The 23 Maryborough properties located in Queensland, have potential to be developed into approximately 2,200 hectares of macadamia orchards. 16 of these properties are currently being leased out or owner occupied for various cropping operations.

Other activities

The Group provides a \$132,000,000 (2021: \$99,900,000) limited guarantee to J&F Australia Pty Ltd (J&F). The guarantee is currently used to support \$132,000,000 of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

Breeder herd assets under finance lease of \$16,365,000 (2021: \$17,778,000) are leased to Cattle JV.

Agricultural plant and equipment with a net book value of \$2,248,000 (2021: \$3,422,000) is owned by the Group and leased to M07, Cattle JV and RFM Farming. Agricultural plant and equipment with a net book value of \$14,282,000 (2021: \$5,294,000) is used for the Group's cropping operations and developments.

Banking facilities

At 30 June 2022 the core debt facility available to the Group was \$520,000,000 (2021: \$380,000,000), with a drawn balance of \$455,100,000 (2021: \$344,143,000). The facility is split into two tranches with a \$110,000,000 tranche expiring in November 2023 and a \$410,000,000 tranche expiring in November 2024. At 30 June 2022, RFF had active interest swaps totaling 40.2% (2021: 53.2%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total \$
Distribution declared 1 June 2021, paid 30 July 2021	2.8203	9,586,215
Distribution declared 1 September 2021, paid 29 October 2021	2.9331	11,168,247
Distribution declared 1 December 2021, paid 31 January 2022	2.9331	11,185,881
Distribution declared 1 March 2022, paid 29 April 2022	2.9331	11,203,970
Distribution declared 1 June 2022, paid 29 July 2022	2.9331	11,219,540

Rural Funds Group

Directors' Report

30 June 2022

Earnings per unit

Net profit after income tax for the year (\$'000)	209,136
Weighted average number of units on issue during the year	378,226,507
Basic and diluted earnings per unit (total) (cents)	55.29

Indirect cost ratio

The indirect cost ratio (ICR) is the ratio of the Group's management costs over the Group's average net assets for the year, expressed as a percentage.

Management costs include management fees and other expenses such as corporate overheads in relation to the Group, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Group.

The ICR for the Group for the year ended 30 June 2022 is 2.11% (2021: 1.89%).

Matters subsequent to the end of the year

On 22 July 2022, the Group completed the acquisition of Brooklands, a 978ha property west of Rockhampton in Central Queensland for \$5.9m including transaction costs. This property will be incorporated as part of Rookwood Farms.

On 9 August 2022, the Group completed the acquisition of Greenfields, a 230ha property west of Rockhampton in Central Queensland for \$3.0m including transaction costs. This property will be incorporated as part of Rookwood Farms.

In August 2022, the following changes were made to the Group's loan covenant and banking requirements. The interest cover ratio was decreased for the Group to be not less than 2.00:1.00 with distributions permitted if the interest cover ratio is not less than 2.15:1.00. In addition, the hedging requirement was decreased to 30% for the year ending 30 June 2023.

No other matter or circumstance has arisen since the end of the year that has significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Likely developments and expected results of operations

The Group expects to continue to derive its core future income from the holding and leasing of agricultural property and water entitlements. Management is continually looking for growth opportunities in agricultural and related industries.

Environmental regulation

The operations of the Group are subject to significant environmental regulations under the laws of the Commonwealth and States or Territories of Australia. Water usage for irrigation, domestic and levee purposes, including containing irrigation water from entering the river, water course or water aquifer are regulated by the *Water Management Act 2000*. Responsibility of water licences that are leased to external parties then requires the tenant to meet the legislative requirements for these licences. There have been no known significant breaches of any environmental requirements applicable to the Group.

Climate change risk

RFM is aware of the potential risks that climate change could present to the Group's assets. RFM has committed to a climatic diversification strategy in order to mitigate these risks. Some of the areas that RFM is focused on is the impact of emissions from Group's assets, including carbon dioxide, methane, and nitrous oxide.

The Group's assets produce these emissions through its agricultural infrastructure and machinery, cattle assets and through the application of fertiliser. As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to monitor emissions and seek to implement infrastructure and practice changes. RFM considers that climate change may present risks for the Group primarily in the form of residual risk of the Group's assets at the end of the lease terms. These risks may be mitigated by how the assets are managed. External valuations consider these types of factors as well as other risks when determining the valuations of the assets.

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COVID-19 outbreak

The outbreak of Coronavirus Disease 2019 was ongoing during the year ended 30 June 2022 and as at the date of the financial statements. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Units on issue

382,514,759 units in Rural Funds Trust were on issue at 30 June 2022 (2021: 339,900,556). During the year 42,614,203 units (2021: 2,187,136) were issued by the Trust and nil (2021: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

In accordance with its constitution, Rural Funds Group indemnifies the Directors, Company Secretary and all other officers of the Responsible Entity and Custodian when acting in those capacities, against costs and expenses incurred in defending certain proceedings.

Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were. Guy brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Remuneration Committee and Audit Committee (resigned 29 March 2022)
Directorships of other listed entities in the last three years	RFM Poultry
David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and leads the RFM team. RFM manages approximately \$2.0 billion of agricultural assets. David focuses on strategic planning, maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships of other listed entities in the last three years	RFM Poultry

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Directors' Report

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Information on Directors of the Responsible Entity (continued)

Michael Carroll	Non-Executive Director
Qualifications	Bachelor of Agricultural Science, La Trobe University and Master of Business Administration, Melbourne University Business School. Michael has also completed the Advanced Management Program, Harvard Business School and is a Fellow of the Australian Institute of Company Directors.
Experience	<p>Chair of Viridis Ag Pty Limited and the Australian Rural Leadership Foundation. Director of Paraway Pastoral Company Limited, Genetics Australia and the Regional Investment Corporation. Michael also runs his own cattle business in south west Victoria.</p> <p>Former board positions include Select Harvests Limited, Elders Limited, Sunny Queen Australia Pty Limited, Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese and Butter Factory Company Holdings Limited, Queensland Sugar Limited, Rural Finance Corporation of Victoria, Meat and Livestock Australia and the Geoffrey Gardiner Dairy Foundation.</p> <p>Michael's executive experience includes establishing and leading the National Australia Bank's Agribusiness division and as a Senior Adviser in NAB's internal investment banking and corporate advisory team. Prior to that Michael worked for Monsanto Agricultural Products and a biotechnology venture capital company.</p>
Special responsibilities	Chairman of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	Michael held previous roles as Chairman of Elders Limited and Director of Select Harvests Limited, Tassal Group Limited and RFM Poultry.
Julian Widdup	Non-Executive Director
Qualifications	Bachelor of Economics, Master of Business Administration and University Medal from the Australian National University. Completed the Senior Executive Leadership Program at Harvard Business School. Fellow of the Institute of Actuaries of Australia and Fellow of the Australian Institute of Company Directors.
Experience	Julian Widdup is currently a director of the Australian Catholic Superannuation & Retirement Fund, Screen Canberra and Cultural Facilities Corporation. He worked in the financial services industry for over 20 years including as a senior executive of asset management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital). Julian brings extensive experience to the RFM board having been a director of Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power utility and the Victorian AgriBioscience Research Facility.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	RFM Poultry

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Directors' Report

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Information on Directors of the Responsible Entity (continued)

Andrea Lemmon

Qualifications

Diploma in Financial Planning from Deakin University

Experience

Chair of Marquis Macadamias Limited and non-executive Director of Marquis Marketing.

Andrea Lemmon was employed by RFM from its inception in 1997 until her retirement in October 2018. During her tenure with RFM, Andrea held a variety of senior executive roles and was responsible for overseeing RFM's investment into the macadamia industry. Additionally, Andrea's extensive experience consists of previously serving as a non-executive director of Perth Markets Limited and Market City Operator.

Special responsibilities

Member of Audit Committee and Remuneration Committee

Directorships of other listed entities in the last three years

None noted

Interests of Directors of the Responsible Entity

	Guy Paynter	David Bryant*	Michael Carroll	Julian Widdup	Andrea Lemmon
	Units	Units	Units	Units	Units
Balance at 30 June 2020	1,559,104	15,238,034	84,734	110,203	-
Additions	-	-	133,668	5,562	-
Balance at 30 June 2021	1,559,104	15,238,034	218,402	115,765	-
Additions	185,606	1,087,428	36,338	19,261	183,357
Balance at 30 June 2022	1,744,710	16,325,462	254,740	135,026	183,357

*Includes interests held by Rural Funds Management Limited as the Responsible Entity.

Company Secretary of the Responsible Entity

Emma Spear is RFM's company secretary. Emma joined RFM in 2008, is a member of CPA Australia and is admitted as a Legal Practitioner of the Supreme Court of the ACT.

Meetings of Directors of the Responsible Entity

During the financial year 20 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetings		Audit Committee meetings		Remuneration Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	17	16	2	2	1	1
David Bryant	17	15	-	-	-	-
Michael Carroll	17	17	2	2	1	1
Julian Widdup	17	17	2	2	1	1
Andrea Lemmon	10	10	1	1	1	1

Non-audit services

Fees of \$35,647 (2021: \$20,395) were paid or payable to PricewaterhouseCoopers for compliance audit services provided for the year ended 30 June 2022.

Rural Funds Group

Directors' Report

30 June 2022

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act* 2001 for the year ended 30 June 2022 has been received and is included on page 13 of the financial report.

The Directors' report is signed in accordance with a resolution of the Board of Directors of Rural Funds Management Limited.

A handwritten signature in black ink, appearing to read 'David Bryant', is written on a light-colored background.

David Bryant
Director

31 August 2022



Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2022, I declare that 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Rural Funds Trust and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Rod Dring', written in a cursive style.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
31 August 2022

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

		2022	2021
	Note	\$'000	\$'000
Revenue	B3	81,865	67,650
Other income	B3	3,475	3,451
Management fee		(6,850)	(6,295)
Asset management fee		(5,138)	(4,722)
Property expenses		(3,457)	(2,591)
Other expenses		(6,638)	(5,523)
Finance costs		(11,186)	(10,498)
Cost of goods sold - farming operations		(7,708)	(484)
Property and other expenses - farming operations		(1,745)	(324)
Gain on sale of assets		320	32,868
Depreciation and impairments - other		(1,634)	(840)
Change in fair value of investment property	C2	123,191	42,289
Change in fair value of bearer plants	C3	(4,103)	1,007
Depreciation - bearer plants	C3	(5,533)	(4,032)
Impairment of intangible assets	C5	(1,059)	(4,188)
Impairment of property - owner occupied	C6	(912)	(1,651)
Change in fair value of biological assets - farming operations	F4	5,054	1,136
Change in fair value of interest rate swaps		51,852	12,923
Change in fair value of financial assets/liabilities		669	116
Net profit before income tax		210,463	120,292
Income tax expense	D1	(1,327)	(658)
Net profit after income tax		209,136	119,634
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation increment - Bearer plants	C3	(1,343)	5,503
Revaluation increment - Property - owner occupied	C6	1,286	-
Income tax (expense) / benefit relating to these items	D1	1,127	(1,220)
Other comprehensive income for the year, net of tax		1,070	4,283
Total comprehensive income attributable to unitholders		210,206	123,917

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Total net profit after income tax for the year attributable to unitholders arising from:			
Rural Funds Trust		206,812	117,696
RF Active (non-controlling interest)		2,324	1,938
Total		209,136	119,634
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		207,882	121,979
RF Active (non-controlling interest)		2,324	1,938
Total		210,206	123,917
Earnings per unit			
Basic and diluted earnings per unit attributable to the unitholders:			
Per stapled unit (cents)	B4	55.29	35.29
Per unit of Rural Funds Trust (cents)	B4	54.68	34.72
Per unit of RF Active (cents)	B4	0.61	0.57

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	2022 \$'000	2021 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	F1	4,961	11,647
Trade and other receivables	F2	6,742	4,945
Other current assets	F3	1,922	4,995
Assets held for sale	C8	715	1,621
Biological assets	F4	7,826	2,988
Inventories	F5	455	-
Income tax receivable	D2	1,038	477
Total current assets		23,659	26,673
Non-current assets			
Investment property	C2	786,981	596,924
Plant and equipment - bearer plants	C3	190,488	160,782
Financial assets	C4, E2	97,729	107,177
Intangible assets	C5	157,679	110,418
Property - owner occupied	C6	68,427	28,284
Plant and equipment - other	C7	16,530	8,716
Deposits	C9	18,504	-
Derivative financial assets	E3	33,698	2,930
Other assets	F3	10,134	-
Total non-current assets		1,380,170	1,015,231
Total assets		1,403,829	1,041,904
LIABILITIES			
Current liabilities			
Trade and other payables	F6	5,153	3,195
Unearned income	F7	657	-
Interest bearing liabilities	E1	2,723	2,456
Derivative financial liabilities	E3	589	3,604
Distributions payable	E8	11,756	10,022
Total current liabilities		20,878	19,277
Non-current liabilities			
Interest bearing liabilities	E1	455,100	344,143
Deferred tax liabilities	D2	7,634	7,450
Other non-current liabilities	F8	3,206	4,421
Derivative financial liabilities	E3	-	18,069
Total non-current liabilities		465,940	374,083
Total liabilities (excluding net assets attributable to unitholders)		486,818	393,360
Net assets attributable to unitholders		917,011	648,544
Total liabilities		1,403,829	1,041,904

*Water entitlements are held at cost less accumulated impairment in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note B1 Segment information, for disclosure of the Directors' valuation of water entitlements, which are supported by independent property valuations.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	2022 \$'000	2021 \$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units	E7	465,076	380,440
Asset revaluation reserve	F9	49,417	48,347
Retained earnings		385,183	206,767
Parent entity interest		899,676	635,554
Unitholders of RF Active			
Issued units	E7	6,721	4,700
Retained earnings		10,614	8,290
Non-controlling interest		17,335	12,990
Total net assets attributable to unitholders		917,011	648,544

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2022

2022	Note	Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
Balance at 1 July 2021		380,440	48,347	206,767	635,554	12,990	648,544
Other comprehensive income		-	1,070	-	1,070	-	1,070
Total other comprehensive income		-	1,070	-	1,070	-	1,070
Profit before income tax		-	-	207,143	207,143	3,320	210,463
Income tax expense	D1	-	-	(331)	(331)	(996)	(1,327)
Total comprehensive income for the year		-	1,070	206,812	207,882	2,324	210,206
Issued units							
Units issued during the year		103,788	-	-	103,788	2,061	105,849
Issue costs		(2,770)	-	-	(2,770)	(40)	(2,810)
Total issued units	E7	101,018	-	-	101,018	2,021	103,039
Distributions to unitholders	B5,E7	(16,382)	-	(28,396)	(44,778)	-	(44,778)
Balance at 30 June 2022		465,076	49,417	385,183	899,676	17,335	917,011

2021	Note	Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
Balance at 1 July 2020		355,923	59,412	131,628	546,963	11,003	557,966
Other comprehensive income		-	4,283	-	4,283	-	4,283
Total other comprehensive income		-	4,283	-	4,283	-	4,283
Profit before income tax		-	-	117,527	117,527	2,765	120,292
Income tax expense	D1	-	-	169	169	(827)	(658)
Total comprehensive income for the year		-	4,283	117,696	121,979	1,938	123,917
Transfer on disposal of bearer plants to retained earnings		-	(15,348)	15,348	-	-	-
Issued units							
Units issued during the year		4,871	-	-	4,871	49	4,920
Issue costs		-	-	-	-	-	-
Total issued units	E7	4,871	-	-	4,871	49	4,920
Distributions to unitholders	E7	19,646	-	(57,905)	(38,259)	-	(38,259)
Balance at 30 June 2021		380,440	48,347	206,767	635,554	12,990	648,544

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		71,961	64,194
Payments to suppliers (inclusive of GST)		(37,080)	(29,318)
Interest received		49	126
Finance income		14,671	13,197
Finance costs		(11,446)	(10,498)
Income tax paid	D2	(561)	(2,293)
Net cash inflow from operating activities	G4	37,594	35,408
Cash flows from investing activities			
Payments for investment property	C2	(60,377)	(84,163)
Payments for plant and equipment - bearer plants		(40,014)	(4,457)
Payments for financial assets - property related		(936)	-
Payments for intangible assets	C5	(46,093)	(8,055)
Payments for property - owner occupied	C6	(52,777)	(29,959)
Payments for plant and equipment	C7	(10,438)	(7,187)
Payments for deposits	C9	(18,504)	-
Payments for financial assets - other		(4,427)	(7,096)
Payments for other assets		(5,997)	-
Settlement of financial assets - property related		18,205	-
Proceeds from sale of intangible assets		581	-
Proceeds from sale of property - owner occupied		3,283	-
Proceeds from sale of plant and equipment		458	968
Proceeds from assets held for sale	C8	1,621	-
Proceeds from sale of Moorai assets		-	97,330
Proceeds from sale of investment property		-	960
Distributions received		65	64
Net cash outflow from investing activities		(215,350)	(41,595)
Cash flows from financing activities			
Proceeds from issue of units	E7	103,039	4,920
Proceeds from borrowings		378,220	185,293
Repayment of borrowings		(267,145)	(139,766)
Distributions paid		(43,044)	(37,698)
Net cash inflow from financing activities		171,070	12,749
Net (decrease)/increase in cash and cash equivalents held		(6,686)	6,562
Cash and cash equivalents at the beginning of the year		11,647	5,085
Cash and cash equivalents at the end of the year	F1	4,961	11,647

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

A. REPORT OVERVIEW

General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 31 August 2022 and have the power to amend and reissue the Financial Report.

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in section G3.

COVID-19 outbreak

The outbreak of Coronavirus Disease 2019 was ongoing during the year ended 30 June 2022 and as at the date of the report. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Basis of preparation

The Trusts have common business objectives and operate collectively as an economic entity known as Rural Funds Group. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The report has been prepared on a going concern basis.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated. The financial statements are based on historical cost, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

These financial statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

Principles of consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, income, expenses and cash flows relating to transactions between entities in the consolidated Group have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to the controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a 30 June financial year end.

Controlled entities

In accordance with AASB 3 *Business Combinations*, Rural Funds Trust is deemed to control RF Active from the stapling date of 16 October 2014. Rural Funds Trust is considered to be the acquirer of RF Active due to the size of the respective entities and as the stapling transaction and capitalisation of RF Active was funded by a distribution from Rural Funds Trust that was compulsorily used to subscribe for units in RF Active.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements, estimates and assumptions in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgements, estimates and assumptions on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

The following are areas for which significant judgements, estimates or assumptions are made:

Valuation of property related assets

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two financial years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety.

Significant judgement is applied in order to allocate the total property value, as disclosed in the independent valuation reports where applicable, to investment property, bearer plants and water entitlements. The allocation technique will vary depending on the nature of the lease arrangement.

Where information is available, each component of the property, meaning the land and infrastructure, the trees and any water assets, disclosed in the financial statements as investment property, bearer plants and water entitlements, will be allocated on an encumbered (subject to lease) basis.

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, evidence of other market transactions and the analysis of those component parts, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components. Significant judgement is applied as part of these allocations, which vary from property to property, given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date. Allocation techniques are disclosed in Note C1.

Estimation of useful lives of bearer plants

The useful lives of bearer plants have been estimated by assessing industry data. The useful lives of bearer plants are disclosed in Note C3.

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B. RESULTS

B1 Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of the Responsible Entity. During the year ended 30 June 2022, the Group held property in agricultural sectors presented in five segments (2021: five segments) each holding and leasing agricultural property and equipment. Segment revenue includes rental income, finance income and interest income. Segment property assets include investment property, bearer plants, intangible assets, property – owner occupied, financial assets and plant and equipment. Revenue and property assets not categorised in these sectors are managed at a corporate level. Liabilities and direct or indirect expenses are not allocated to individual segments as these are reviewed by the chief operating decision maker on a consolidated basis.

Segment revenue and revaluation movements

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Other*	Total
2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rental revenue	28,480	14,277	4,148	4,440	1,342	2,500	55,187
Rental revenue - straight-lining	(298)	(199)	(218)	-	(6)	(14)	(735)
Sale of agricultural produce - farming operations	-	-	-	-	-	7,909	7,909
Interest received	-	49	-	-	-	-	49
Finance income	-	19,406	-	-	49	-	19,455
Total revenue	28,182	33,533	3,930	4,440	1,385	10,395	81,865
Other income	-	-	-	-	-	3,475	3,475
Gain on disposal	-	-	-	248	72	-	320
Depreciation - bearer plants	(2,808)	-	(1,213)	-	(1,512)	-	(5,533)
Depreciation - property (owner occupied)	-	-	-	(93)	(85)	-	(178)
Change in fair value through profit or loss	13,535	101,434	(608)	3,706	(1,246)	965	117,786
Revaluation increment through other comprehensive income	1,813	-	(3,756)	1,286	600	-	(57)
Total revaluation	15,348	101,434	(4,364)	4,992	(646)	965	117,729
Revaluation of water entitlements per directors' valuation	5,429	-	(64)	1,116	1,401	12,256	20,138
Total revaluation	20,777	101,434	(4,428)	6,108	755	13,221	137,867

*Other rental revenue relates to lease of water entitlements.

Revaluation for the cattle segment largely relates to the external valuations of Natal aggregation, Rewan, Comanche, Cerberus, Woodburn, Dyamberin, Petro, High Hill, Willara, Homehill and Yarra. The revaluation increment from the external valuations are mainly due to market movements which are supported by comparable sales transactions.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B1 Segment information (continued)

Segment revenue and revaluation movements (continued)

Refer to section C1 for details on properties valued during the year.

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Other	Total
2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rental revenue	30,755	13,788	4,037	3,814	1,301	231	53,926
Rental revenue - straight-lining	(859)	(8)	18	-	-	(3)	(852)
Sale of agricultural produce - farming operations	-	-	-	-	-	484	484
Interest received	2	120	-	-	-	4	126
Finance income	12	13,920	-	-	34	-	13,966
Total revenue	29,910	27,820	4,055	3,814	1,335	716	67,650
Other income	-	-	-	-	-	3,451	3,451
Gain on disposal	32,481	186	-	-	-	201	32,868
Depreciation - bearer plants	(2,798)	-	(1,016)	-	(218)	-	(4,032)
Depreciation - property (owner occupied)	-	-	-	(24)	-	-	(24)
Change in fair value through profit or loss	(1,491)	45,623	(2,634)	1,748	(5,673)	-	37,573
Revaluation increment through other comprehensive income	643	-	4,068	-	792	-	5,503
Total revaluation	(848)	45,623	1,434	1,748	(4,881)	-	43,076
Revaluation of water entitlements per directors' valuation	7,333	-	642	-	355	438	8,768
Total revaluation	6,485	45,623	2,076	1,748	(4,526)	438	51,844

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B1 Segment information (continued)

Segment assets

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Unallocated	Total
2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment property	141,080	433,090	35,727	88,931	88,153	-	786,981
Plant and equipment - bearer plants	124,948	-	17,260	-	48,280	-	190,488
Financial assets - property related	11,466	75,960	520	-	1,325	-	89,271
Intangible assets (water)	66,707	6,038	500	7,961	5,441	71,032	157,679
Property - owner occupied	-	-	-	46,567	21,860	-	68,427
Plant and equipment	-	1,133	-	3,949	11,448	-	16,530
Assets held for sale	-	-	715	-	-	-	715
Deposits	-	18,504	-	-	-	-	18,504
Total property assets per statutory accounts	344,201	534,725	54,722	147,408	176,507	71,032	1,328,595
Revaluation of intangible assets per directors' valuation	55,780	-	5,266	1,116	1,808	46,346	110,316
Total adjusted property assets at directors' valuation	399,981	534,725	59,988	148,524	178,315	117,378	1,438,911
Other assets per statutory accounts	-	-	-	-	-	75,234	75,234
Total adjusted assets	399,981	534,725	59,988	148,524	178,315	192,612	1,514,145

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B1 Segment information (continued)

Segment assets (continued)

2021	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Unallocated \$'000	Total \$'000
Investment property	126,189	305,151	34,540	83,300	47,744	-	596,924
Plant and equipment - bearer plants	125,580	-	23,815	-	11,387	-	160,782
Financial assets - property related	11,762	90,846	738	-	952	14	104,312
Intangible assets (water)	66,707	1,848	500	4,236	4,464	32,663	110,418
Property - owner occupied	-	-	-	28,284	-	-	28,284
Plant and equipment	100	640	-	2,065	5,911	-	8,716
Assets held for sale	1,621	-	-	-	-	-	1,621
Total property assets per statutory accounts	331,959	398,485	59,593	117,885	70,458	32,677	1,011,057
Revaluation of intangible assets per directors' valuation	50,349	-	5,330	-	408	34,091	90,178
Total adjusted property assets at directors' valuation	382,308	398,485	64,923	117,885	70,866	66,768	1,101,235
Other assets per statutory accounts	-	-	-	-	-	30,847	30,847
Total adjusted assets	382,308	398,485	64,923	117,885	70,866	97,615	1,132,082

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B1 Segment information (continued)

Net asset value adjusted for water rights

The chief operating decision maker of RFF assesses the segments on property asset values adjusted for water rights. RFF owns permanent water rights and entitlements which are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

The book value of the water rights (including investments in BIL and CICL recognised as financial assets) at 30 June 2022 is \$169,663,000 (2021: \$122,402,000).

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contain information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and, on this basis, the fair value of water entitlements before deferred tax adjustments at 30 June 2022 was \$279,979,000 (2021: \$212,580,000) representing the value of the water rights of \$110,316,000 (2021: \$90,178,000) above cost.

The following is a reconciliation of the book value at 30 June 2022 to an adjusted value based on the Directors' valuation of the water rights which are assessed by the chief operating decision maker.

	Per Statutory Consolidated Statement of Financial Position \$'000	Revaluation of water entitlements per Directors' valuation \$'000	Directors' valuation (Adjusted) \$'000
Assets			
Total current assets	23,659	-	23,659
Total non-current assets	1,380,170	110,316	1,490,486
Total assets	1,403,829	110,316	1,514,145
Liabilities			
Total current liabilities	20,878	-	20,878
Total non-current liabilities	465,940	-	465,940
Total liabilities (excluding net assets attributable to unitholders)	486,818	-	486,818
Net assets attributable to unitholders	917,011	110,316	1,027,327
Net asset value per unit (\$)	2.39	0.30	2.69

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B1 Segment information (continued)

30 June 2022	Area ¹	30 June 22 Adjusted property value \$'000	30 June 21 Adjusted property value \$'000	Most Recent Independent Valuation Date \$'000	Encumbered Valuation \$'000
Almonds					
Yilgah (NSW) ²	1,006 ha	105,000	106,563	Mar 2021	107,000
Tocabil (NSW)	603 ha	52,851	48,876	Mar 2022	53,000
Kerarbury (NSW)	2,530 ha	242,130	226,472	Mar 2022	242,000
Cattle					
Rewan (QLD)	17,479 ha	62,400	50,400	Nov 2021	62,400
Mutton Hole (QLD)	140,300 ha	16,838	16,680	Jun 2021	16,680
Oakland Park (QLD)	85,500 ha	8,654	8,500	Jun 2021	8,500
Natal Aggregation (QLD)	390,600 ha	137,756	88,500	Apr 2022	137,250
Comanche (QLD)	7,600 ha	35,064	24,238	Apr 2022	35,000
Cerberus (QLD)	8,280 ha	24,318	13,963	Apr 2022	24,300
Dyambersin (NSW)	1,728 ha	21,000	13,959	Mar 2022	21,000
JBS Feedlots Finance Lease Receivable (NSW/QLD)	150,000 hd	58,802	55,615	N/A	N/A
Woodburn (NSW)	1,063 ha	11,250	7,397	Mar 2022	11,250
Cobungra (VIC) ²	6,497 ha	40,800	40,800	Jun 2021	40,800
Petro (WA)	2,942 ha	13,514	12,221	Nov 2021	13,200
High Hill (WA)	1,601 ha	6,404	4,967	Nov 2021	5,840
Willara (WA)	1,653 ha	5,861	4,985	Nov 2021	5,375
Yarra (QLD) ³	4,090 ha	23,822	6,245	Dec 2021	23,600
Homehill (QLD)	4,925 ha	19,476	12,875	Apr 2022	19,325
Coolibah aggregation (QLD) ⁴	724 ha	5,683	-	Apr 2022	5,625
Thirsty Creek (QLD)	762 ha	5,220	-	Apr 2022	5,220
Cropping					
Lynora Downs (QLD)	4,963 ha	41,709	41,500	Jun 2021	41,500
Mayneland (QLD)	2,942 ha	24,554	20,450	Nov 2021	23,300
Maryborough – Cropping (QLD)	3,165 ha	47,639	53,870	Apr 2022	47,633
Baamba Plains (QLD)	4,130 ha	30,673	-	Nov 2021	30,000
Macadamias					
Swan Ridge (QLD)	130 ha	7,188	6,679	Sep 2021	7,000
Moore Park (QLD)	104 ha	4,487	3,882	Sep 2021	4,550
Bonmac (QLD)	27 ha	3,141	2,797	Sep 2021	3,200
Cygnets (QLD)	37 ha	3,294	2,826	Apr 2021	2,800
Swan Ridge South (QLD)	123 ha	1,619	1,692	Sep 2021	1,600
Nursery Farm (QLD) ⁵	41 ha	6,193	5,914	Apr 2021	3,800
Riverton (QLD)	1,015 ha	18,447	4,900	Mar 2021	4,520
Rookwood Farms (QLD) ⁶	2,452 ha	17,356	10,463	Apr 2022	12,775
Maryborough – Macadamias (QLD) ⁷	1,915 ha	50,210	24,850	Apr 2022	39,614
Beerwah (QLD)	340 ha	35,638	-	Dec 2021	36,307
Bauple (QLD)	135 ha	17,969	-	Dec 2021	18,443
Vineyards²					
Kleinig (SA)	206 ha	21,100	22,997	Mar 2021	23,100
Geier (SA)	243 ha	25,373	27,562	Mar 2021	27,700
Dohnt (SA)	30 ha	715	1,196	Mar 2021	1,200
Hahn (SA)	50 ha	4,800	5,069	Mar 2021	5,100
Mundy and Murphy (SA)	55 ha	4,100	4,093	Mar 2021	4,100
Rosebank (VIC)	82 ha	3,900	3,788	Mar 2021	3,800
Water rights					
River water (NSW)	8,754 ML	77,910	65,655	Jun 2022	77,910
River water (QLD)	2,155 ML	1,113	1,099	Jun 2020	1,099
Ground water (NSW)	8,338 ML	38,355	-	Jul 2021	38,355
Total property and water assets		1,384,326	1,054,538		

Valuations are encumbered unless not applicable (for example where a property is not subject to lease or at acquisition)

¹ Unless otherwise denoted, the almond, vineyard and macadamia areas refer to planted and planned development areas.

Swan Ridge South, Riverton, Rookwood Farms, Maryborough – Macadamias refer to total property area.

² Director valuations adopted at 30 June 2022. Dohnt vineyard is held for sale.

³ Includes the acquisition of The Pocket during the year ended 30 June 2022

⁴ Coolibah aggregation comprises of the Coolibah and River Block properties.

⁵ Nursery Farm includes the value of trees in the nursery which are not accounted for in the external valuation. Cost of trees in the tree nursery approximates fair value.

⁶ Rookwood Farms aggregation comprises of the Stoneleigh, Corrowah and Tongola properties.

⁷ All properties valued at April 2022 except Glendorf.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B1 Segment information (continued)

30 June 2022	30 June 22 Adjusted	30 June 21 Adjusted	Most Recent Independent Valuation	
	property value \$'000	property value \$'000	Date \$'000	Encumbered Valuation \$'000
Cattle finance leases and other assets	17,431	35,582		
Plant and equipment	16,530	8,716		
Other receivables and equipment leases	2,120	2,399		
Kaiuroo deposit	18,504	-		
Total adjusted property assets	1,438,911	1,101,235		

Revaluations from external valuations

The cattle properties have increased in value during the year ended 30 June 2022. External valuations were obtained for the Natal aggregation, Rewan, Comanche, Cerberus, Woodburn, Dyamberin, Petro, High Hill, Willara and Yarra during the year ended 30 June 2022. The total uplift for the year ended 30 June 2022 has been largely due to the external valuer's assessment of the value of the land. The uplift has largely been driven by improved demand and market sentiment for cattle properties in the respective regions supported by comparable sales transactions. All of the Group's properties have been valued by an independent valuer within the last 24 months. Further information on the significant unobservable inputs adopted by the external valuer in the fair value measurement of the properties is described in note C1.

Directors' valuations adopted for Yilgah almond property, Cobungra cattle property and vineyard properties at 30 June 2022. Independent desktop valuations were considered as part of the fair value assessment on these properties.

A number of properties acquired during the period were subject to independent valuations. Revaluation movements for these properties largely relate to transaction costs incurred that were written off in the independent valuations.

Adjusted property values movements after the most recent independent valuation

Increases to the adjusted property value from the last valuation is primarily a result of new acquisitions or capital expenditure subsequent to the valuation, designed to improve an asset's productivity and value.

Decrease to adjusted property value from last valuation is primarily a result of depreciation on the bearer plants.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B2 Adjusted funds from operations (AFFO)

The following presents the components of adjusted funds from operations (AFFO) and provides a reconciliation from AFFO to Net profit after income tax which is assessed by the chief operating decision maker.

	2022	2021
	\$'000	\$'000
Revenue	73,956	67,166
Sale of agricultural produce - farming operations	7,909	484
Other income	3,475	3,451
Cost of goods sold - farming operations	(7,708)	(484)
Change in fair value of biological assets (realised from harvested crops)	3,235	108
Change in fair value of biological assets (prior year unharvested crops realised during the year)	814	-
Management fee	(6,850)	(4,722)
Asset management fee	(5,138)	(6,295)
Property expenses	(3,457)	(2,591)
Finance costs	(11,186)	(10,498)
Other expenses	(6,638)	(5,523)
Property and other expenses - farming operations	(1,745)	(324)
Straight-lining of rental revenue	735	852
Interest component of JBS feedlot finance lease	(3,187)	(769)
Income tax payable (RF Active)	-	(432)
Adjusted Funds From Operations (AFFO)	44,215	40,423
Change in fair value of investment property	123,191	42,289
Change in fair value of bearer plants	(4,103)	1,007
Impairment of property - owner occupied	(912)	(1,651)
Impairment of intangible assets	(1,059)	(4,188)
Depreciation - bearer plants	(5,533)	(4,032)
Depreciation and impairments - other	(1,634)	(840)
Change in fair value of biological assets (unharvested crops not realised)	1,819	1,028
Change in fair value of biological assets (prior year unharvested crops realised during the year)	(814)	-
Change in fair value of financial assets/liabilities	669	116
Change in fair value of interest rate swaps	51,852	12,923
Straight-lining of rental revenue	(735)	(852)
Interest component of JBS feedlot finance lease	3,187	769
Income tax expense	(1,327)	(226)
Gain on sale of assets	320	32,868
Net profit after income tax	209,136	119,634
AFFO cents per unit	11.7	11.9

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B3 Revenue

	2022	2021
	\$'000	\$'000
Rental income	54,452	53,074
Sale of agricultural produce - farming operations	7,909	484
Finance income	19,455	13,966
Interest received	49	126
Total	81,865	67,650

* Represented to include sale of agricultural produce – farming operations.

The Group's revenue is largely comprised of income under leases and finance income. All revenue is stated net of the amount of goods and services tax (GST).

Rental income primarily arises from the leasing of property assets and is accounted for on a straight-line basis over the period of the lease. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

Finance income arises from the provision of financial guarantees and working capital loans, finance leases on cattle feedlots and cattle breeders and leased agricultural plant and equipment and recognised on an accrual basis using the effective interest rate method.

Other Income

	2022	2021
	\$'000	\$'000
Sale of temporary water allocations	3,142	3,275
Other income	333	176
Total	3,475	3,451

Expenses

Expenses such as Responsible Entity fees, property expenses and overheads are recognised on an accruals basis. Interest expenses are recognised on an accrual basis using the effective interest method.

B4 Earnings per unit

	2022	2021
Per stapled unit		
Net profit after income tax for the year (\$'000)	209,136	119,634
Weighted average number of units on issue during the year (thousands)	378,227	338,961
Basic and diluted earnings per unit (total) (cents)	55.29	35.29
Per unit of Rural Funds Trust		
Net profit after income tax for the year (\$'000)	206,812	117,696
Weighted average number of units on issue during the year (thousands)	378,227	338,961
Basic and diluted earnings per unit (total) (cents)	54.68	34.72
Per unit of RF Active		
Net profit after income tax for the year (\$'000)	2,324	1,938
Weighted average number of units on issue during the year (thousands)	378,227	338,961
Basic and diluted earnings per unit (total) (cents)	0.61	0.57

Basic earnings per unit are calculated on net profit attributable to unitholders of the Group divided by the weighted average number of issued units.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

B5 Distributions

The group paid and declared the following distributions during the year:

	Cents per unit	Total \$
Distribution declared 1 June 2021, paid 30 July 2021	2.8203	9,586,215
Distribution declared 1 September 2021, paid 29 October 2021	2.9331	11,168,247
Distribution declared 1 December 2021, paid 31 January 2022	2.9331	11,185,881
Distribution declared 1 March 2022, paid 29 April 2022	2.9331	11,203,970
Distribution declared 1 June 2022, paid 29 July 2022	2.9331	11,219,540

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C. PROPERTY ASSETS

This section includes detailed information regarding RFF's properties, which are made up of multiple line items on the Consolidated Statement of Financial Position including Investment property, Plant and equipment – bearer plants, Financial assets – property related, Intangible assets, Property – owner occupied and Plant and equipment – other.

C1 RFF property assets

		2022	2021
		\$'000	\$'000
Investment property	C2	786,981	596,924
Plant and equipment - bearer plants	C3	190,488	160,782
Financial assets - property related	C4	89,271	104,312
Intangible assets	C5	157,679	110,418
Property - owner occupied	C6	68,427	28,284
Plant and equipment - other	C7	16,530	8,716
Asset held for sale	C8	715	1,621
Deposits	C9	18,504	-
Total		1,328,595	1,011,057

Income and fair value movements from RFF property assets

	2022	2021
	\$'000	\$'000
Rental income from property assets	73,907	67,040
Sale of agricultural produce - farming operations	7,909	484
Change in fair value of investment property	123,191	42,289
Revaluation increment/(decrement) - bearer plants	(5,446)	6,510
Depreciation - bearer plants	(5,533)	(4,032)

Leasing arrangements

Minimum lease payments receivable under non-cancellable operating leases of investment properties, bearer plants, water rights and plant and equipment not recognised in the financial statements, are receivable as follows:

	2022	2021
	\$'000	\$'000
Within 1 year	53,804	52,016
Between 1 and 2 years	53,362	51,510
Between 2 and 3 years	53,942	49,673
Between 3 and 4 years	54,602	50,140
Between 4 and 5 years	47,478	50,758
Later than 5 years	274,282	305,258
Total	537,470	559,355

Key changes to the property portfolio during the year:

- In July 2021, the Group completed the sale of surplus land on Kerarbury for approximately \$1.6m.
- In August 2021 the Group completed the purchase of 8,338ML of Lower Murrumbidgee ground water entitlements for approximately \$38.4m including transaction costs. The water entitlements are leased to a private farming company for a term of five years.
- In November 2021 the Group leased an area on the Nursery Farm property in Bundaberg, Queensland to an external operator, Dalwood Nursery Pty Ltd. The arrangement provides a supply of macadamia trees to RFF to be planted on various developments in Queensland including Bundaberg, Rockhampton, and Maryborough.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C1 RFF property assets (continued)

Key changes to the property portfolio during the year: (continued)

- In November 2021, the Group completed the acquisition of Baamba Plains, a 4,130ha cropping property located in central Queensland for \$34.0m including transaction costs and including \$2.5m of associated plant and equipment.
- In November 2021, the Group paid a \$17.2m deposit on Kaiuroo, a 27,879ha aggregation of four cattle and cropping properties located in central Queensland. An extended settlement date of up to two years has been negotiated, allowing RFM to begin productivity developments on selected locations of the property and to seek a lessee prior to settlement.
- In December 2021, the Group acquired The Pocket, to be managed as part of the existing Yarra property, a 1,917ha cattle and cropping property located near Rockhampton, Queensland for \$14.6m including transaction costs and associated plant and equipment.
- In December 2021, the Group completed the acquisition of the Coolibah and River Block cattle properties totaling 724ha, located near Rockhampton, Queensland for \$4.9m including transaction costs. The properties will be managed as one property.
- In December 2021, the Group completed the acquisition Beerwah and Bauple, consisting 475ha of mature macadamia orchards located in south-east Queensland, for \$66.6m including transaction costs, associated plant and equipment and shares in Marquis Macadamias Limited.
- In January 2022, the Group completed the disposal of two Maryborough cropping properties for \$3.8m in exchange for additional land on a Maryborough macadamia property and cash consideration valued at \$3.8m.
- In March 2022, the Group completed the acquisition of Thirsty Creek, a 762ha cattle property located near Rockhampton, Queensland for \$6.5m including transaction costs.

Macadamia development

The Group is developing macadamia orchards across a number of properties located in Queensland, Australia. As part of the development, costs relating to the acquisition, construction and development of macadamia orchards will be capitalised to the respective asset class that the cost relates to. The asset classes identified are investment property, bearer plants and water entitlements.

Investment Property

This includes costs associated with the acquisition for land, buildings, orchard and irrigation infrastructure and any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Bearer Plants

This includes costs associated with the acquisition of macadamia trees, planting costs, growing costs incurred for the trees to reach maturity including fertiliser and watering costs and costs associated with establishing the macadamia trees in the orchard and bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Water entitlements

This includes costs associated with the purchase of water entitlements. Water entitlements are deemed ready for use on acquisition.

Borrowing costs

Borrowing costs may be capitalised on qualifying assets up until the property is ready for use. Borrowing costs relating to the acquisition, construction and development of the macadamia orchards are capitalised to the respective asset classes up until the property is deemed ready for use. Properties could be deemed ready for use when the property has been leased or when the property is operating in a manner as intended by management, for example, a macadamia orchard may be deemed operational when the orchard is fully planted and the plantings have been established.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C1 RFF property assets (continued)

Valuations

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two financial years or more often where appropriate. Independent valuers engaged hold recognised and relevant professional qualifications with experience in agricultural properties.

The following existing properties had relevant independent valuations during the year ended 30 June 2022:

Almond properties	Kerarbury, Tocabil
Cattle properties	Natal Aggregation, Rewan, Comanche, Cerberus, Dyamberin, Woodburn, Petro, High Hill, Willara, Homehill, Yarra
Macadamia properties	Rookwood Farms, Swan Ridge, Moore Park, Bonmac, Swan Ridge South, Maryborough - Macadamias
Cropping properties	Mayneland, Maryborough - Cropping
Other	Unleased High Security Murrumbidgee River Water

The following properties had relevant independent desktop valuations during the year ended 30 June 2022:

Almond properties	Yilgah
Cattle properties	Cobungra
Vineyard properties	Geier, Kleinig, Hahn, Rosebank, Mundy and Murphy

The Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt. The Directors have adopted all valuations from independent valuers in the periods where valuations have been obtained.

The Directors have deemed that independent valuations were not required on the remaining properties as there have been no material changes to the industry, physical and geographical conditions of these properties in which the independent valuers have previously assessed. For these properties, the Directors have performed internal assessments, considering the latest valuation reports, that the carrying amount is still reflective of the fair value of the properties at reporting date.

Independent desktop valuations were obtained for a number of properties during the year. The Directors have considered these desktop valuations as part of the fair value assessment at 30 June 2022.

The Group's properties, including those under development, are carried at fair value excluding the value of water rights. Water rights are treated as intangible assets, which are held at historical cost less accumulated impairment losses. Independent valuation reports assess and provide value for properties in its entirety. The independent valuation reports contain information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements, where relevant.

Judgement is applied in order to allocate the total property value, as disclosed in the independent valuation reports, to each component; investment property, bearer plants and water entitlements. The allocation technique will vary depending on the nature of the underlying lease arrangement.

Where information is available, such as when provided by the external valuer, each component of the property, meaning the land and infrastructure, the trees and any water assets, disclosed in the financial statements as investment property, bearer plants and water entitlements, will be allocated on an encumbered (subject to lease) basis. Conditions associated with individual assets are considered as part of the valuation allocation.

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components. Judgement is applied as part of these allocations which vary from property to property given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

Valuation reports obtained during the year ended 30 June 2022 have referred to circumstances of uncertainty as a result of the outbreak of COVID-19. For the avoidance of doubt, such references have not meant that the valuations cannot be relied upon but rather ensures transparency of the fact that in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. Discussions held with the valuers have confirmed that there is no expected material impact to the valuations as a result of COVID-19.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C1 RFF property assets (continued)

Significant accounting judgements, estimates and assumptions in relation to valuation of property assets

At the end of each reporting period, the Directors update their assessment of fair value of each property, considering the most recent independent valuations. The Directors determine a property's value using reasonable fair value estimates from the most recent independent valuer's valuation reports.

Independent valuation reports assess and provide fair values for properties in their entirety. Judgement is applied in order to allocate the total property values as disclosed in the independent valuation reports, to investment property, bearer plants, property – owner occupied and water entitlements. The independent valuation reports contain information with which judgement is applied to allocate values to investment property, bearer plants, property – owner occupied and water entitlements.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C1 RFF property assets (continued)

Valuations (continued)

Investment property, Bearer plants and Property – owner occupied

The main level 3 inputs used by the Group include discount rates, terminal capitalisation rates, capitalisation rates, rate per area of land, adult equivalent rates and carrying capacity estimated in the respective valuations based on comparable transactions and industry data. At the end of each reporting period, the directors update their assessment of the fair value of each property. Changes in level 3 fair values are analysed at each reporting date and during discussions with the independent valuers. The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurement:

Description*	Fair value at		Primary valuation technique	Allocation technique	Unobservable inputs**	Range of inputs	
	2022 \$'000	2021 \$'000				2022 %	2021 %
Almond orchard property	266,028	251,769	Discounted Cash Flow	Rental base	Discount rate (%)	6.75 - 8.5	6.75 - 7.50
				Component based	Terminal Capitalisation Rate (%)	8.25 - 18.00	8.25 - 12.50
Cattle property and infrastructure	433,090	305,151	Summation assessment	Component based	\$ per adult equivalent (AE) carrying capacity (Backgrounding properties)	\$4,034 - \$12,148	\$3,804 - \$7,381
			Productive unit (secondary valuation technique)		\$ per adult equivalent (AE) carrying capacity (Breeder properties)	\$1,496 - \$3,048	\$1,426 - \$2,000
Vineyard property and infrastructure	52,987	58,355	Discounted Cash Flow	Component based	Discount rate (%)	7.50 - 8.50	7.50 - 8.50
					Terminal Capitalisation rate (%)	8.50 - 9.00	8.25 - 10.00
Cropping property and infrastructure	135,498	111,584	Summation assessment	Component based	\$ per irrigated hectare per property	\$13,021 - \$16,681	\$16,681 - \$17,726
					Average \$ per plantable hectare (Maryborough)	\$21,090	\$10,430
Macadamia orchard property	158,293	59,131	Discounted Cash Flow	Rental base/ Proportionate	Discount rate (%)	7.25	7.25 - 8.50
			Summation assessment	Component based	Terminal Capitalisation rate	8.00	7.25 - 8.50
					Average \$ per planted hectare (planted orchard)	\$97,236	-
					Average \$ per plantable hectare (development orchard)	\$33,563	\$12,508
Total	1,045,896	785,990					

*Fair values disclosed exclude water assets.

**There were no significant inter-relationships between unobservable inputs that materially affect fair values. Unobservable inputs are based on assessments by external valuers.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C1 RFF property assets (continued)

Valuations (continued)

Primary valuation technique

External valuations typically assess property values using different valuation techniques.

Discounted cash flow	Valuation based on future net rental cash flows discounted to the present value. The terminal value (as determined by the terminal capitalisation rate) is typically assessed and discounted in these types of valuations. The valuer may also use comparative sales as supporting information.
Summation assessment	Assessment of the property on an asset-by-asset basis based on comparative sales evidence and typically driven by a rate per productive hectare and assessment of other components such as water and supporting buildings.
Productive unit (secondary valuation technique)	Assessment on the property driven by the value per adult equivalent head that is supported by the property and carrying capacity of the property. Although this is a secondary valuation technique, it has been determined that this is a common way to compare properties.

Allocation technique

Independent valuation reports assess and provide value for properties in their entirety. Component allocation techniques are adopted to allocate the total property value to investment property, bearer plants, property – owner occupied and water entitlements. The component allocation technique applied is assessed on each external valuation to ensure that the allocation technique is consistent with the nature and characteristics of the property including any lease encumbrances. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

The following allocation techniques have been applied:

Rental base	Applied for properties with long term indexed leases by allocating value to component assets using the rental base. The rental base is identifiable and generally determined by the cost of the assets. The allocation by rental base reflects the encumbered nature of the assets where rental incomes are not affected by short term market fluctuations in the value of the assets due to lack of rental review mechanism.
Component based	The encumbered value is allocated based on information in the valuation report which enables the allocation by components on an encumbered basis. Conditions associated with individual assets are considered as part of the valuation allocation. To determine the allocation of components on an encumbered basis, the external valuer will assess various factors such as market indicators, comparable sales data of encumbered assets, comparable rental data and other relevant information such as replacement cost concepts.
Component based – Almonds and Macadamias	Applied for properties where leases include rental reviews. Information is provided in the valuation to allocate the encumbered value of the property to water assets, investment property and bearer plants on an encumbered basis. Firstly, the approach allocates value to water assets based on comparable encumbered rental data. The value of land is determined based on comparable sales data. Orchard infrastructure including irrigation is determined based on a replacement cost assumption adjusted for an estimate of the age of the assets. Bearer plants are identified as being the residual value of the total encumbered value of the property.
Proportionate	Applied for properties where leases include rental reviews and where component-based information is not able to be used. For properties with water assets, the allocation considers the unencumbered value of water assets and allocates this on a proportionate basis to the encumbered value of the property. Judgement is then applied to allocate encumbered values to investment property and bearer plants using available information, including information from the valuation report and the nature of capital expenditure on the relevant property.

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Notes to the Financial Statements

30 June 2022

C1 RFF property assets (continued)

Valuations (continued)

Unobservable inputs

Unobservable inputs are assumptions based on the assessments and determinations made by external valuers in their capacity as qualified experts which are key inputs in the valuation techniques utilised.

Discount rate (%)	The higher the discount rate the lower the fair value
Terminal capitalisation rate (%)	The higher the terminal capitalisation rate the lower the fair value
\$ per irrigated/planted hectare	The higher the value per irrigated/planted hectare, the higher the fair value
Average \$ per plantable hectare	The higher the value per plantable hectare, the higher the fair value
\$ per adult equivalent carrying capacity	The higher the value per adult equivalent carrying capacity, the higher the fair value

C2 Investment property

2022	Almond property	Cattle property	Vineyard property	Cropping property	Macadamia property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	126,189	305,151	34,540	83,300	47,744	596,924
Acquisitions	-	21,958	-	-	-	21,958
Additions	1,356	4,417	924	4,012	27,710	38,419
Capitalisation of borrowing costs	-	-	-	-	246	246
Classified as held for sale or disposals	-	-	(542)	-	-	(542)
Transfer to intangible assets	-	-	-	(2,556)	-	(2,556)
Transfer from property - owner occupied	-	-	-	-	9,541	9,541
Amortisation of lease incentives	-	(200)	-	-	-	(200)
Fair value adjustment	13,535	101,764	805	4,175	2,912	123,191
Closing net book amount	141,080	433,090	35,727	88,931	88,153	786,981
2021	Almond property	Cattle property	Vineyard property	Cropping property	Macadamia property	Total
Opening net book amount	127,519	249,534	38,170	47,896	11,719	474,838
Acquisitions	-	4,413	-	22,599	36,932	63,944
Additions	3,717	6,507	11	5,433	4,483	20,151
Capitalisation of borrowing costs	-	-	-	-	68	68
Classified as held for sale or disposals	(3,392)	(774)	-	-	-	(4,166)
Amortisation of lease incentives	-	(200)	-	-	-	(200)
Fair value adjustment	(1,655)	45,671	(3,641)	7,372	(5,458)	42,289
Closing net book amount	126,189	305,151	34,540	83,300	47,744	596,924

Investment properties comprise land, buildings and integral infrastructure including shedding, irrigation and trellising.

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Notes to the Financial Statements

30 June 2022

C2 Investment property (continued)

Macadamia properties under development include Maryborough – Macadamias, Riverton, Rookwood Farms and Swan Ridge South. Development costs for these properties have been capitalised.

Investment properties are held for long-term rental yields and capital growth and are not occupied by the Group. RFF measures and recognises investment property at fair value where the valuation technique is based on unobservable inputs. Changes in fair value are presented through profit or loss in the Consolidated Statement of Comprehensive Income.

Capital expenditure that enhances the future economic benefits of the assets are capitalised to investment property. Incentives provided are also capitalised to the investment property and are amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

C3 Plant and equipment – bearer plants

2022	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	125,580	23,815	11,387	160,782
Acquisitions	-	-	35,480	35,480
Additions	363	-	5,001	5,364
Capitalisation of borrowing costs	-	-	14	14
Classified as held for sale or disposals	-	(173)	-	(173)
Depreciation and impairment	(2,808)	(1,213)	(1,512)	(5,533)
Fair value adjustment - profit and loss	-	(1,413)	(2,690)	(4,103)
Fair value adjustment - other comprehensive income	1,813	(3,756)	600	(1,343)
Closing net book amount	124,948	17,260	48,280	190,488
2021	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	126,805	19,756	6,967	153,528
Additions	948	-	3,845	4,793
Capitalisation of borrowing costs	-	-	1	1
Disposals	(18)	-	-	(18)
Depreciation and impairment	(2,798)	(1,016)	(218)	(4,032)
Fair value adjustment - profit and loss	-	1,007	-	1,007
Fair value adjustment - other comprehensive income	643	4,068	792	5,503
Closing net book amount	125,580	23,815	11,387	160,782

Bearer plants are solely used to grow produce over their productive lives and are accounted for under AASB 116 *Property, Plant and Equipment*.

Bearer plants are held for long-term rental yields and are not operated by the Group. RFF initially measures and recognises bearer plants at cost, including planting costs and direct costs associated with establishing these plants to maturity. After initial measurement, the Group adopts the revaluation model and bearer plants are carried at fair value less any accumulated depreciation and accumulated impairment losses.

Bearer plants are subject to revaluations based on the Group's valuation policies. Increases in the carrying amounts arising from revaluation of bearer plants are recognised in other comprehensive income and accumulated in net assets attributable to unitholders under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss are recognised in profit or loss. Revaluation decreases which offset previous increases are recognised in other comprehensive income in the asset revaluation reserve. Any other decreases are recognised in profit and loss.

Rural Funds Group

Notes to the Financial Statements

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C3 Plant and equipment – bearer plants (continued)

Bearer plants are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. Depreciation commences when bearer plants are assumed ready for use which is based on when the trees reach maturity. The useful lives and maturity assumptions used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:	Depreciation commences from:
Almond bearer plants	30 years	6 years
Vineyard bearer plants	40 years	4 years
Macadamia bearer plants	45 - 55 years	13 years

At the end of each annual reporting period, the useful life, maturity assumptions and carrying amount of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Bearer plants as stated on a historical cost basis is as follows:

	2022 \$'000	2021 \$'000
Cost	172,268	130,585
Accumulated depreciation	(15,330)	(12,809)
Accumulated impairment	(5,752)	(1,827)
Bearer plants at historical cost less accumulated impairment	151,186	115,949

C4 Financial assets – property related

	2022 \$'000	2021 \$'000
Financial Assets - property related		
Investment - BIL	520	520
Investment - CICL	11,464	11,464
Finance Lease - Breeders	16,365	17,778
Finance Lease - Feedlots	58,802	55,615
Finance Lease - Equipment	1,522	1,066
Cattle Facility - Katena Pty Ltd ATF Schafferius Family Trust	-	532
Finance Lease - DA & JF Camm Pty Limited	-	6,004
Term Loan - DA & JF Camm Pty Limited	-	10,000
Other receivables	598	1,333
Total	89,271	104,312

Barossa Infrastructure Ltd (BIL) is an unlisted public Company supplying non-potable supplementary irrigation water for viticulture in the Barossa. The Group holds a minority interest in BIL.

Coleambally Irrigation Co-operative Limited (CICL) is one of Australia's major irrigation companies and is wholly owned by its farmer members. CICL's irrigation delivery system delivers water to 400,000 hectares of area across the Coleambally Irrigation District, in the Riverina, near Griffith, NSW. The Group holds a minority interest in CICL.

Finance Lease – Breeders is comprised of breeders owned by the Group which have been leased to Cattle JV, a wholly-owned subsidiary of Rural Funds Management Limited, for a term of ten years ending in 2026. As part of the arrangement, the lessee is required to maintain the breeder herd and maintain an active breeding program. The expected credit loss on the finance lease is assessed on the value of the breeder herd secured against the finance lease. This assessment involves the monitoring of the value of the breeder herd through a bi-annual mustering process conducted by Cattle JV and an annual valuation process. There has been no expected credit loss recognised at 30 June 2022 (2021: nil).

Finance Lease – Feedlots is comprised of feedlots leased to JBS Australia Pty Limited (JBS) for a term of ten years ending in 2028 with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group. The call option held by JBS can be exercised from year six but will incur a break fee if exercised before year ten.

Finance Lease – Equipment is comprised of agricultural plant and equipment leased to 2007 Macgrove Project and Cattle JV.

The secured loan and cattle finance extended to DA & JF Camm Pty Limited was fully repaid in January 2022.

Other receivables relate to recognition of rental revenue on a straight-line basis in accordance with AASB 16 Leases.

Rural Funds Group

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30 June 2022

C4 Financial assets – property related (continued)

Significant accounting judgements in the valuation of Coleambally Irrigation Co-operative and Barossa Infrastructure Limited shares

The investments in BIL and CICL are treated the same as water rights, that is, recorded at historical cost less accumulated impairment losses and not revalued.

Finance leases

Finance leases are measured at amortised cost. Each lease payment was allocated as a reduction to the finance lease receivable and as finance income. The finance income was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period. These represent leases of property or biological assets where all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are substantially transferred from the lessor.

Minimum lease payments receivable under non-cancellable finance leases of feedlots, breeders and equipment not recognised in the financial statements, are receivable as follows:

	2022	2021
	\$'000	\$'000
Within 1 year	6,027	5,880
Between 1 and 2 years	6,005	5,876
Between 2 and 3 years	5,960	5,858
Between 3 and 4 years	5,797	5,802
Between 4 and 5 years	21,888	23,183
Later than 5 years	61,360	63,567
Total	107,037	110,166

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C5 Intangible assets

Intangible assets are made up of water rights and entitlements. Refer to note B1 for Directors' valuation of water rights and entitlements.

2022	Almonds	Cattle	Vineyards	Cropping	Macadamias	Unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current							
Opening net book amount	66,707	1,848	500	4,236	4,464	32,663	110,418
Additions	-	4,190	-	3,500	-	38,403	46,093
Transfer from investment property	-	-	-	2,556	-	-	2,556
Transfers	-	-	-	(791)	791	-	-
Disposals	-	-	-	(329)	-	-	(329)
(Impairment)/reversal of impairment	-	-	-	(1,211)	186	(34)	(1,059)
Closing net book amount	66,707	6,038	500	7,961	5,441	71,032	157,679
Cost	67,462	6,750	500	13,100	5,601	71,066	164,479
Accumulated impairment	(755)	(712)	-	(5,139)	(160)	(34)	(6,800)
Net book amount	66,707	6,038	500	7,961	5,441	71,032	157,679
2021	Almonds	Cattle	Vineyards	Cropping	Macadamias	Unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current							
Opening net book amount	66,707	2,947	500	3,672	1,161	31,564	106,551
Additions	-	-	-	4,537	3,518	-	8,055
Transfers	-	(1,099)	-	-	-	1,099	-
Impairment	-	-	-	(3,973)	(215)	-	(4,188)
Closing net book amount	66,707	1,848	500	4,236	4,464	32,663	110,418
Cost	67,462	2,560	500	8,209	4,765	32,663	116,159
Accumulated impairment	(755)	(712)	-	(3,973)	(301)	-	(5,741)
Net book amount	66,707	1,848	500	4,236	4,464	32,663	110,418

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C5 Intangible assets (continued)

Water rights

Permanent water rights and entitlements are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

C6 Property – owner occupied

2022	Land	Building	Irrigation	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	27,405	816	63	28,284
Acquisitions	45,563	5,753	-	51,316
Additions	482	433	546	1,461
Transfer to investment property	(9,002)	(529)	(9)	(9,540)
Disposals	(3,265)	(25)	-	(3,290)
Depreciation	-	(174)	(4)	(178)
Impairment	(659)	(253)	-	(912)
Fair value adjustment - other comprehensive income	1,272	14	-	1,286
Closing net book amount	61,796	6,035	596	68,427

2021	Land	Building	Irrigation	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	-	-	-	-
Additions	29,056	840	63	29,959
Impairment	(1,651)	-	-	(1,651)
Depreciation	-	(24)	-	(24)
Closing net book amount	27,405	816	63	28,284

Property – owner occupied relates to owner occupied property that is being used to conduct farming operations by the Group and accounted for under AASB 116 *Property, Plant and Equipment*. Property – owner occupied are held under the revaluation model. As at 30 June 2022, this included properties that were operated by the Group including the Maryborough properties (cropping), Baamba Plains (cropping), Beerwah, Bauple (macadamias), Cerberus and Yarra (cattle.)

These assets are subject to revaluations based on the Group's valuation policies. Increases in the carrying amounts arising from revaluation of Property are recognised in other comprehensive income and accumulated in net assets attributable to unitholders under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss are recognised in profit or loss. Revaluation decreases which offset previous increases are recognised in other comprehensive income in the asset revaluation reserve. Any other decreases are recognised in profit and loss.

Elements of Property – owner occupied are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. The useful lives and for each class of depreciable asset are shown below:

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:
Land	Not applicable
Buildings	20 years
Irrigation	40 years

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C6 Property – owner occupied (continued)

At the end of each annual reporting period, the useful life of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Property – owner occupied as stated on a historical cost basis is as follows:

2022	Land \$'000	Building \$'000	Irrigation \$'000	Total \$'000
Cost	62,834	6,450	600	69,884
Accumulated depreciation and impairment	(1,038)	(415)	(4)	(1,457)
Net book amount	61,796	6,035	596	68,427
2021	Land \$'000	Building \$'000	Irrigation \$'000	Total \$'000
Cost	29,056	840	63	29,959
Accumulated depreciation and impairment	(1,651)	(24)	-	(1,675)
Net book amount	27,405	816	63	28,284

C7 Plant and equipment – other

	2022 \$'000	2021 \$'000
Opening net book amount	8,716	3,201
Additions	10,438	7,187
Transfers from finance lease - equipment	44	-
Transfers from held for sale	-	248
Disposals	(382)	(767)
Depreciation	(1,456)	(787)
Decrement (depreciation capitalised to developments)	(830)	(337)
Impairment	-	(29)
Closing net book amount	16,530	8,716
Cost	26,767	16,711
Accumulated depreciation	(8,959)	(6,673)
Accumulated impairment	(1,322)	(1,322)
Net book amount	16,486	8,716

Classes of plant and equipment other than bearer plants are measured using the cost model as specified below. The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and removing the asset, where applicable.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The Group manages and monitors its leased assets and physically attends to properties where assets are located on a regular basis.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

C7 Plant and equipment – other (continued)

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:
Capital works in progress	Not applicable
Plant and equipment	2-16 years
Farm vehicles and equipment	2-16 years

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

C8 Assets held for sale

	Note	2022 \$'000	2021 \$'000
Investment property	C2	542	1,621
Bearer plants	C3	173	-
Total		715	1,621

At 30 June 2022, assets held for sale relates to the Dohnt vineyard.

C9 Deposits

	2022 \$'000	2021 \$'000
Deposit for acquisition of Kaiuroo property	18,504	-
Total	18,504	-

The Kaiuroo deposit includes stamp duty calculated on the amount paid.

C10 Capital commitments

Capital expenditure across all properties largely relates to macadamia developments, almond property improvements, cattle property developments and cropping property developments. These commitments are contracted for but not recognised as liabilities. Increase in the commitments during the year largely relates to the balance of settlement of the Kaiuroo property.

	2022 \$'000	2021 \$'000
Investment property	142,709	16,235
Bearer plants	17,254	38,923
Intangible assets	34,263	35,432
Plant and equipment	570	140
Total	194,796	90,730

Rural Funds Group

Notes to the Financial Statements

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D. TAX

Since 1 July 2014 both Rural Funds Trust and RFM Chicken Income Fund (a subsidiary of Rural Funds Trust at the time) became flow through trusts for tax purposes. As a result, it is no longer probable that a tax liability will be incurred in these entities in relation to future sale of assets for a gain or through trading. Rural Funds Trust considers itself an attribution managed investment trust (AMIT) RFM Chicken Income Fund was treated as a flow through trust up until the date of disposal. RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) is the head of a separate tax consolidated group, taxed in its own right. RF Active (a subsidiary of Rural Funds Trust) is a public trading trust and is taxed as a company.

D1 Income tax expense

The charge for current income tax expense is based on the profit adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding in a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged/credited in the income statement except where it relates to items that may be credited directly to net assets attributable to unitholders, in which case the deferred tax is adjusted directly against net assets attributable to unitholders.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on management's judgement, the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The major components of income tax expense comprise:

	2022	2021
	\$'000	\$'000
Current tax	-	283
Deferred tax	1,327	378
Adjustments in respect of deferred income tax of previous years	-	(3)
Income tax expense reported in the Statement of Comprehensive Income	1,327	658

Income tax expense is attributable to:

Profit from continuing operations	1,327	658
Total	1,327	658

Deferred income tax expense included in income tax expense comprises:

Increase in deferred tax liabilities	184	1,596
Total	184	1,596

Amounts charged or credited directly to equity

Capitalised issue costs	(16)	-
Change in fair value taken through asset revaluation reserve	(1,127)	1,220
Total	(1,143)	1,220

Rural Funds Group

Notes to the Financial Statements

30 June 2022

D1 Income tax expense (continued)

Numerical reconciliation of income tax expense to prima facie tax payable

	2022	2021
	\$'000	\$'000
Net profit before income tax	210,463	120,292
At the statutory income tax rate of 30% (2021: 30%)	63,139	36,088
Tax effect of amounts that are not taxable in determining taxable income	(61,812)	(35,427)
Adjustments in respect of tax of previous years	-	(3)
Total	1,327	658

Franking credits

At 30 June 2022 there are \$3,755,000 of franking credits available to apply to future income distributions (2021: \$2,434,000).

D2 Deferred tax and current tax payable

	2022	2021
	\$'000	\$'000
Deferred tax liabilities		
Bearer plants	2,947	5,051
Plant and equipment	1,447	1,026
Fair value investment property	4,895	4,838
Other assets	1,276	383
Gross deferred tax liabilities	10,565	11,298
Set off of deferred tax assets	(2,931)	(3,848)
Net deferred tax liabilities	7,634	7,450
Deferred tax assets		
Investments	47	223
Other	61	33
Unused income tax losses	2,823	3,592
Gross deferred tax assets	2,931	3,848
Set off of deferred tax liabilities	(2,931)	(3,848)
Net deferred tax assets	-	-

Recognised tax assets and liabilities

	Current income tax		Deferred income tax	
	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000
Opening balance	477	(1,533)	(7,450)	(5,855)
Charged to income	-	(283)	(1,327)	(375)
Credited to equity	-	-	1,143	(1,220)
Tax payments	561	2,293	-	-
Closing balance	1,038	477	(7,634)	(7,450)
Tax expense in the Consolidated Statement of Comprehensive Income			1,327	658
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax asset			-	-
Net deferred tax liability			(7,634)	(7,450)

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

RFM, the Responsible Entity of RFF, is responsible for managing the policies designed to optimise RFF's capital structure. This is primarily monitored through an internal gearing ratio target range of 30-35% calculated as interest bearing liabilities as a proportion of adjusted total assets. The optimal capital structure is reviewed periodically, although this may be impacted by market conditions which may result in an actual position which may differ from the desired position.

E1 Interest bearing liabilities

	2022	2021
	\$'000	\$'000
Current		
Equipment loans (ANZ)	2,525	2,407
J&F Guarantee - Borrowing loss provision	198	49
Total	2,723	2,456
Non-current		
Borrowings (ANZ)	220,864	220,252
Borrowings (Rabobank)	184,236	123,891
Borrowings (NAB)	50,000	-
Total	455,100	344,143

Interest bearing liabilities are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost. Any difference between cost and redemption value is recognised in the consolidated statement of comprehensive income over the entire period of the borrowings on an effective interest basis. Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least twelve months from the balance sheet date.

J&F Guarantee Accounting policy

Subsequent to initial recognition, financial guarantee contracts are measured as financial liabilities at the higher of any loss allowance calculated and the amount initially recognised. A loss allowance is recognised for expected credit losses on a financial guarantee contract. The expected credit loss is assessed based on the probability of default and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the risk of default at the reporting date is compared to the risk of default at the date of initial recognition. Consideration is made to factors that could impact the financial guarantee such as actual or expected significant adverse changes in business, financial or economic conditions, and any material / adverse changes to the operating results of the associated parties of the financial guarantee.

J&F Guarantee

The J&F Guarantee is a \$132.0 million (2021: \$99.9 million) limited guarantee provided by the Group to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited, for a period of ten years from August 2018. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B3, paid on a monthly basis. The guarantee is currently used to support \$132.0 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. Given J&F's primary source of income is from payments from JBS, a J&F default is only likely to occur in the event of a JBS default. In the event of a JBS default, J&F would cease buying cattle and commence selling cattle in the feedlots. As cattle are sold, J&F bank loans would be repaid. Given that lot-fed cattle can gain up to 2kgs per day, and are sold on a per kg basis, a material fall in the cattle price would be required for there to be a shortfall. The guarantee would be called to cover any shortfall between J&F borrowings and cattle sales but limited to \$132.0 million.

The guarantee fee received from J&F during the year was \$9,662,000 (2021: \$7,117,000). The return to the Group relating to the guarantee fee arrangement for the year was approximately 10.8% (2021: 10.6%) inclusive of interest offset savings. There was no event of default during the year, and as a result, the guarantee has not been called.

Rural Funds Group

Notes to the Financial Statements

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E1 Interest bearing liabilities (continued)

J&F Guarantee (continued)

The financial guarantee was recognised at fair value at inception, which was nil. Subsequently, it is carried at the value of the expected credit loss. The credit loss has been calculated considering the likelihood of the financial guarantee being triggered and its financial impact on the Group. In calculating the allowance, consideration is given to counterparty risk associated with the arrangement, with JBS being the ultimate counterparty. The credit risk of JBS was determined to not have increased significantly since initial recognition, therefore the loss allowance for the guarantee has been recognised at an amount equal to 12-month expected credit losses. Consideration is also given to the value of cattle in assessing any potential shortfall should the guarantee be called by the Group. The credit loss allowance is recognised at fair value through profit or loss. The additional credit loss provision recognised in the year was \$149,000 (2021: \$10,000).

As part of the JBS transaction, the Group purchased five feedlots from JBS Australia Pty Limited (JBS) and leased them back to JBS. The feedlots are classified as a finance lease with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group as noted in C4. The call option held by JBS can be exercised from year six but will incur a break fee if exercised before year ten in 2028.

Borrowings

At 30 June 2022 the core debt facility available to the Group was \$520,000,000 (2021: \$380,000,000), with a drawn balance of \$455,100,000 (2021: \$344,143,000). The facility is split into two tranches, with a \$470,000,000 tranche expiring in November 2024 and a \$110,000,000 tranche expiring in November 2023.

As at 30 June 2022 RFF had active interest rate swaps totaling 40.2% (2021: 53.2%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

Loan covenants

Under the terms of the updated borrowing facility, the Group was required to comply with the following financial covenants for the year ended 30 June 2022:

- maintain a maximum loan to value ratio of 55% (2021: 50%);
- maintain net tangible assets (including water entitlements) in excess of \$400,000,000;
- an interest cover ratio for the Group not less than 3.00:1.00 with distributions permitted if the interest cover ratio is not less than 3.15:1.00.

The loan to value ratio calculation includes the J&F guarantee of \$132.0 million (2021: \$99.9 million).

Rural Funds Group has complied with the financial covenants of its borrowing facilities during the year.

Loan amounts are provided at the Bankers' floating rate, plus a margin. For bank reporting purposes, these assets are valued at market value based on the latest external valuation report. Refer to section B1 for Directors' valuation of water rights and entitlements.

Borrowings with Australian and New Zealand Banking Group (ANZ), Rabobank Australia Group (Rabobank) and National Australia Bank (NAB) are secured by:

- a fixed and floating charge over the assets held by Australian Executor Trustee Limited (AETL) as custodian for Rural Funds Trust, RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) and RF Active; and
- registered mortgages over all property owned by the Rural Funds Trust and its subsidiaries provided by AETL as custodian for Rural Funds Trust and its subsidiaries.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E1 Interest bearing liabilities (continued)

The following assets are pledged as security over the loans:

2022	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased Properties	786,981	86,647	190,488	70,786	-	715	1,135,617
Other assets	-	71,032	-	17,887	-	-	88,919
Equipment	-	-	-	-	16,530	-	16,530
Total	786,981	157,679	190,488	88,673	16,530	715	1,241,066

2021	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased Properties	596,924	75,648	160,782	70,464	-	1,621	905,439
Other assets	-	34,770	-	24,848	-	-	59,618
Equipment	-	-	-	-	8,716	-	8,716
Total	596,924	110,418	160,782	95,312	8,716	1,621	973,773

E2 Financial assets – other (non-property related)

	2022	2021
	\$'000	\$'000
Investment - Marquis Macadamias Limited	5,270	824
Investment - Almondco Australia Limited	3,188	2,041
Total	8,458	2,865

The Group acquired additional shares in Marquis Macadamias Limited during the year at a cost of \$4.6m.

The Group's investments in Marquis Macadamias Limited (formerly Macadamia Processing Co Limited) and Almondco Australia Limited are held at fair value through profit and loss (level 3 – see section E4). Fair value has been assessed based on the operational nature of the companies, financial information relating to the investment and management's assessment of net realisable value.

E3 Derivative financial instruments measured at fair value

	2022	2021
	\$'000	\$'000
Assets		
Non-current		
Interest rate swaps	33,698	2,930
Total other assets	33,698	2,930
Current		
Interest rate swaps	589	3,604
Total other liabilities	589	3,604
Non-current		
Interest rate swaps	-	18,069
Total other liabilities	-	18,069

The Group's derivative financial instruments are held at fair value (level 2 - see section E4).

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E4 Fair value measurement of assets and liabilities

This note explains the judgements and estimates made in determining fair values of Investment property, Plant and equipment – bearer plants and financial assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified each item into the three levels prescribed under Australian Accounting Standards as mentioned above.

Level 1 Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).

Level 2 Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

RFF's financial assets and liabilities relating to interest rate swap derivatives are level 2.

At 30 June 2022, cattle biological assets are level 2, and all other non-financial assets are level 3.

RFF's unlisted equity investments, BIL, CICL, Marquis Macadamias Ltd and Almondco are level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2021: nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments via level 2 inputs include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves

Specific valuation techniques used to value financial assets, investment property and bearer plants via level 3 are discussed in section C1.

E5 Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

a. Financial assets

Financial assets are divided into the following categories which are described in detail below:

- financial assets at amortised cost; and
- financial assets at fair value through profit or loss.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

b. Financial assets at amortised cost

Financial assets held with the objective of collecting contractual cash flows are recognised at amortised cost. After initial recognition these are measured using the effective interest method, less provision for expected credit loss. Any change in their value is recognised in profit or loss.

Discounting is omitted where the effect of discounting is considered immaterial.

For trade receivables, finance lease receivables and loans receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited against other income in profit or loss.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E5 Financial instruments (continued)

c. Financial assets at fair value through profit or loss

The group classifies the following financial assets at fair value through profit or loss:

- debt investments that do not qualify for measurement at either amortised cost
- equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income

The Group's derivatives, investments in Marquis Macadamias Ltd and Almondco are at fair value through profit or loss.

Assets included within this category are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

d. Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are reported in profit or loss and are included in the income statement line item titled "finance costs".

Financial liabilities that are measured at fair value through profit or loss include the Group's derivatives. All other financial liabilities are measured at amortised cost.

E6 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in financial assets.

The most significant financial risks which the Group is exposed to are described below:

- Market risk - interest rate risk and price risk
- Credit risk
- Liquidity risk

The principal categories of financial instrument used by the Group are:

- Loans and receivables
- Finance lease receivables
- Cash at bank
- Bank overdraft
- Trade and other payables
- Floating rate bank loans
- Interest rate swaps

a. Financial risk management policies

Risks arising from holding financial instruments are inherent in the Group's activities and are managed through a process of ongoing identification, measurement and monitoring. The Responsible Entity is responsible for identifying and controlling risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Group from changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

Concentrations of risk arise where a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E6 Financial risk management (continued)

b. Interest rate risk and swaps held for hedging

Interest rate risk is managed by using a floating rate debt and through the use of interest rate swap contracts. The Group does not speculate in the trading of derivative instruments.

Interest rate swap transactions are entered into by the Group to exchange variable to fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The economic entity has variable interest rate debt and enters into swap contracts to receive interest at variable rates and pay interest at fixed rates.

The notional principal amounts of the swap contracts approximate 40.2% (2021: 53.2%) of the Group's drawn down debt at 30 June 2022.

At balance date, the details of the effective interest rate swap contracts are:

	Effective average interest rate payable		Balance	
	2022 %	2021 %	2022 \$'000	2021 \$'000
Maturity of notional amounts				
Settlement - between 0 to 3 years	3.42	2.70	13,000	15,000
Settlement - 3 to 5 years	3.06	3.24	93,000	73,000
Settlement - greater than 5 years	3.01	2.97	77,000	95,000
Total			183,000	183,000

The following interest rate swap contracts that have been entered into but are not yet effective as at 30 June 2022 are:

	Effective average interest rate payable		Balance	
	2022 %	2021 %	2022 \$'000	2021 \$'000
Maturity of notional amounts				
Settlement - between 3 to 5 years	3.59	-	40,000	-
Settlement - greater than 5 years	2.27	1.99	230,000	90,000
Total			270,000	90,000

The net gain recognised on the swap derivative instruments for the year ended 30 June 2022 was \$51,852,000 (2021: \$12,923,000 gain).

At 30 June 2022 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2022 \$'000	2021 \$'000
Cash	4,961	11,647
Interest bearing liabilities (non-current)	(455,100)	(344,143)
Total	(450,139)	(332,496)

At 30 June 2022, 0.55% (2021: 0.72%) of the Group's debt is fixed, excluding the impact of interest rate swaps.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E6 Financial risk management (continued)

c. Interest rate risk (sensitivity analysis)

At 30 June 2022, the effect on profit before tax and net assets attributable to unitholders as a result of changes in the interest rate, including the effect of interest rate swaps, finance income and revaluation of derivatives, with all other variables remaining constant, would be as follows:

	2022	2021
	\$'000	\$'000
Change in profit before income tax:		
Increase in interest rate by 1%	22,530	17,353
Decrease in interest rate by 1%	(25,135)	(18,923)
Change in equity:		
Increase in interest rate by 1%	22,530	17,353
Decrease in interest rate by 1%	(25,135)	(18,923)

d. Credit risk

The maximum exposure to credit risk (excluding the value of any collateral or other security) at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets. This has been disclosed in the Consolidated Statement of Financial Position and notes to the financial statements.

Credit risk and associated impacts are also managed through security, in the form of guarantees, security deposits and property security in favor of the group. Counterparty credit risk for finance leases and term loans have also been assessed and accounted for through the recognition of credit loss provisions.

All of the entity's debt investments at amortised cost are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months' expected losses. Management considers the credit risk to be low where the counterparty does not have material outstanding repayments and has capacity to meet its contractual debt obligations. Debt investments are secured against collateral which is monitored by management. In recognising any potential credit loss provisions, management also assesses the collateral held. Where the fair value of such collateral is greater than the debt investment, a lower loss allowance amount is recognised.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

E6 Financial risk management (continued)

e. Liquidity risk and capital management

The Responsible Entity of the Group defines capital as net assets attributable to unitholders. The Group's objectives when managing capital are to safeguard the going concern of the Group and to maintain an optimal capital structure. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate headroom on borrowing facilities are maintained. The Group is able to maintain or adjust its capital by divesting assets to reduce debt or adjusting the amount of distributions paid to unitholders.

The table below reflects all contractually fixed repayments and interest resulting from recognised financial liabilities as at 30 June 2022. The amounts disclosed in the table are the contractual undiscounted cash flows which have been estimated using interest rates applicable at the reporting date. For interest rate swaps, the undiscounted cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Financial liabilities												
Interest bearing liabilities	5,540	1,660	5,540	1,660	466,759	348,846	-	-	-	-	477,839	352,166
Trade and other payables	5,153	3,195	-	-	-	-	-	-	-	-	5,153	3,195
Equipment loans	350	315	435	290	1,275	1,311	464	491	-	-	2,524	2,407
Interest rate swaps	589	1,802	-	1,802	-	7,134	-	6,039	-	4,230	589	21,007
Total	11,632	6,972	5,975	3,752	468,034	357,291	464	6,530	-	4,230	486,105	378,775

Rural Funds Group

Notes to the Financial Statements

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E7 Issued units

	2022		2021	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	339,900,556	385,140	337,713,420	360,574
Units issued during the year	42,614,203	103,039	2,187,136	4,920
Distributions to unitholders	-	(16,382)	-	19,646
Units on issue	382,514,759	471,797	339,900,556	385,140

The holders of ordinary units are entitled to participate in distributions and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary units has one vote in person or by proxy, and upon a poll each unit is entitled to one vote. Voting is determined based on the closing market value of each unit.

The Group does not have authorised capital or par value in respect of its units.

Distributions totaling \$44,778,000 were declared during the year. Distributions are allocated to the components of equity which is comprised of issued units and retained earnings.

E8 Distributions payable

	2022	2021
	\$'000	\$'000
Distributions payable	11,756	10,022
Total	11,756	10,022

Rural Funds Group

Notes to the Financial Statements

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F. OTHER ASSETS AND LIABILITIES

F1 Cash and cash equivalents

	2022	2021
	\$'000	\$'000
Cash at bank	4,961	11,647
Total	4,961	11,647

Reconciliation of cash

Cash and cash equivalents reported in the Statement of Cash flows are reconciled to the equivalent items in the Statement of Financial Position as follows:

	2022	2021
	\$'000	\$'000
Cash and cash equivalents	4,961	11,647

F2 Trade and other receivables

	2022	2021
	\$'000	\$'000
Current		
Trade receivables	6,239	3,427
Sundry receivables	154	787
Receivables from related parties	349	731
Total	6,742	4,945

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue with no significant overdue amounts.

F3 Other current assets

	2022	2021
	\$'000	\$'000
Current		
Prepayments	1,922	797
Deposits	-	4,137
Other	-	61
Total	1,922	4,995
Non-current		
Deposits	10,005	-
Other	129	-
Total	10,134	-

Rural Funds Group

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F4 Biological assets

	Soy beans	Sugar	Macadamias	Cropping	Cattle	Total
2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	-	2,988	-	-	-	2,988
Additions	2	2,696	1,440	422	2,930	7,490
Increases/(decrease) due to biological transformation	(2)	2,102	2,834	120	-	5,054
Decreases due to sales	-	(5,349)	(2,349)	(8)	-	(7,706)
Closing net book amount	-	2,437	1,925	534	2,930	7,826

	Soy beans	Sugar	Macadamias	Cropping	Cattle	Total
2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	-	-	-	-	-	-
Additions	373	1,964	-	-	-	2,337
Increases due to biological transformation	105	1,030	-	-	-	1,135
Decreases due to sales	(478)	(6)	-	-	-	(484)
Closing net book amount	-	2,988	-	-	-	2,988

Biological assets relate to the Group's farming operations. In accordance with AASB 141 *Agriculture* the Group's biological assets have been recognised at fair value as determined based on the present value of expected net cash flows from the crops.

Cattle biological assets as at 30 June 2022 relates to livestock acquired in June 2022. The cost of acquisition approximates fair value at 30 June 2022.

Fair value has been based on expected net cash flows from the crops discounted from the time of harvest. The main level 3 inputs used by the Group includes estimates based on production costs (including input and harvest costs) and the estimated time of harvest adjusted for the risks of the cash flows.

Significant estimates used in determining the expected net cash flows:

Sugar from cane planted (tonnes per ha)	The higher the sugar from cane planted, the higher the fair value
Yield	The higher the yield, the higher the fair value
Price (\$ per tonne)	The higher the net price, the higher the fair value

Changes in the fair value of biological assets are recognised in the statement of comprehensive income in the year they arise.

Judgements and estimates are made in determining the fair values of the biological assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its biological assets into three levels prescribed under the accounting standards.

	Level 1	Level 2	Level 3	Total
2022	\$'000	\$'000	\$'000	\$'000
Sugar	-	-	2,437	2,437
Macadamias	-	-	1,925	1,925
Cropping	-	-	534	534
Cattle	-	2,930	-	2,930
Total biological assets	-	2,930	4,896	7,826

	Level 1	Level 2	Level 3	Total
2021	\$'000	\$'000	\$'000	\$'000
Sugar	-	-	2,988	2,988
Total biological assets	-	-	2,988	2,988

Rural Funds Group

Notes to the Financial Statements

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F4 Biological assets (continued)

Farming operations	Fair value at		Unobservable inputs**	Range of inputs	
	2022 \$'000	2021 \$'000		2022	2021
Sugar	2,437	2,988	Sugar from cane planted (tonnes per ha)	4.2 - 6.8 tonnes per ha	4.3 - 7.0 tonnes per ha
			Net price (\$ per tonne) (+/- 10%)	\$479 - \$586 per tonne	\$366 - \$464 per tonne
Macadamias	1,925	-	Macadamia yield (tonnes) (+/- 10%)	690.4 - 843.9 tonnes	-
			Farmgate NIS price (\$ per tonne) (+/-10%)	\$3,400 - \$4,200 per tonne	-
Cropping (mungbean)	184	-	Mungbean yield (tonnes per ha) (+/-10%)	0.90 - 1.10 tonnes per ha	-
			Mungbean price (\$ per tonne) (+/-10%)	\$861 - \$1,052 per tonne	-
Cropping (other crops)	350	-	Cost approximates fair value less costs to sell	-	-
Total	4,896	2,988			

F5 Inventories

	2022 \$'000	2021 \$'000
Current		
Agricultural produce - farming operations	8	-
Other	447	-
Total	455	-

F6 Trade and other payables

	2022 \$'000	2021 \$'000
Trade payables	2,142	1,597
Accruals	2,136	1,413
Sundry creditors	875	185
Total	5,153	3,195

F7 Unearned income

	2022 \$'000	2021 \$'000
Unearned lease income	657	-
Total	657	-

F8 Other non-current liabilities

	2022 \$'000	2021 \$'000
Lessee deposits	3,206	4,421
Total	3,206	4,421

Rural Funds Group

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F9 Asset revaluation reserve

	2022	2021
	\$'000	\$'000
Opening balance	48,347	59,412
Disposal of bearer plants	-	(15,348)
Property - owner occupied revaluation	1,286	-
Bearer plants revaluation	(1,343)	5,503
Total comprehensive income	(57)	5,503
Income tax applicable	1,127	(1,220)
Closing balance	49,417	48,347

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G. ADDITIONAL INFORMATION

G1 Key management personnel

Related parties are persons or entities that are related to the Group as defined by AASB 124 *Related Party Disclosures*. These include directors and other key management personnel and their close family members and any entities they control as well as subsidiaries and associates of the Group. The following provides information about transactions with related parties during the year as well as balances owed to or from related parties as at 30 June 2022.

Directors

The Directors of RFM are considered to be key management personnel of the Group. The Directors of the Responsible Entity in office during the year and up to the date of this report are:

Guy Paynter
David Bryant
Michael Carroll
Julian Widdup
Andrea Lemmon (appointed on 1 November 2021)

Interests of Directors of the Responsible Entity

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2022 are:

	Guy Paynter	David Bryant*	Michael Carroll	Julian Widdup	Andrea Lemmon
	Units	Units	Units	Units	Units
Balance at 30 June 2020	1,559,104	15,238,034	84,734	110,203	-
Additions	-	-	133,668	5,562	-
Balance at 30 June 2021	1,559,104	15,238,034	218,402	115,765	-
Additions	185,606	1,087,428	36,338	19,261	183,357
Balance at 30 June 2022	1,744,710	16,325,462	254,740	135,026	183,357

*Includes interests held by Rural Funds Management Limited as the Responsible Entity.

Other key management personnel

In addition to the Directors noted above, RFM, as Responsible Entity of the Group is considered to be key management personnel with the authority for the strategic direction and management of the Group.

The constitutions of Rural Funds Trust and RF Active (the stapled entities forming the Group) are legally binding documents between the unitholders of the Group and RFM as Responsible Entity. Under the constitutions, RFM is entitled to the following remuneration:

- Management fee: 0.6% per annum (2021: 0.6%) of adjusted total assets; and,
- Asset management fee: 0.45% per annum (2021: 0.45%) of adjusted total assets.

Compensation of key management personnel

No amount is paid by the Group directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 *Related Party Disclosures* is paid by the Group to the Directors as key management personnel. Fees paid and payable to RFM as Responsible Entity are disclosed in note G2.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G2 Related party transactions

Responsible Entity (Rural Funds Management) and related entities

Transactions between the Group and the Responsible Entity and its associated entities are shown below:

	2022	2021
	\$'000	\$'000
Management fee	6,850	6,296
Asset management fee	5,138	4,722
Total management fees	11,988	11,018
Expenses reimbursed to RFM	8,290	6,664
Expenses reimbursed to RFM Macadamias	6,927	1,703
Expenses reimbursed to the Cattle JV	383	-
Expenses reimbursed to the RFM Farming	363	-
Dividends declared to the Responsible Entity	1,460	1,336
Total amount paid to RFM and related entities	29,411	20,721
Rental income received from RFM Almond Fund	-	2,123
Rental income received from RFM	20	8
Rental income received from RFM Farming	1,748	1,640
Rental income received from Cattle JV	2,001	1,702
Rental income received from Cotton JV	2,871	2,502
Rental income received from 2007 Macgrove Project	1,296	1,219
Finance income from Cattle JV	1,835	1,618
Interest income from Cattle JV	-	50
Finance income from J&F Australia	9,662	7,117
Expenses charged to RFM Almond Fund	-	788
Expenses charged to RFM Macadamias	305	123
Expenses charged to RFM Farming	69	2
Expenses charged to Cattle JV	152	-
Total amounts received from RFM and related entities	19,959	18,892

The terms and nature of the historical transactions between the Group and related parties have not changed during the year ended 30 June 2022. Transactions entered between related parties during the year have been reviewed.

The key movements during the year:

Expenses reimbursed to RFM relates to expenses incurred or paid by RFM on behalf of the Group which are subsequently reimbursed by the Group. Examples of these expenses include corporate overheads, service recharge cost recoveries, professional service fees such as legal, audit and tax matter costs and regulatory fees and charges. During the year ended 30 June 2022, additional costs were incurred by RFM on behalf of the Group as a result of an increase in the Group's operations.

RFM Macadamias and RFM Farming perform management activities, including capital development and farm management on behalf of the Group. Expenses include service recharge cost recoveries, costs relating to farm management and capital development. These costs incurred by RFM Macadamias and RFM Farming are subsequently reimbursed by the Group.

Rental income from RFM Farming largely relates to rental income from the Mayneland property. Rental income from Cattle JV largely relates to rental income from Mutton Hole and Oakland Park. Rental income from Cotton JV relates to rental income from the Lynora Downs.

Rental income from RFM Almond Fund ceased on 2 December 2020 when the Group completed the sale of the Moorall almond orchard and associated plant and equipment. Expenses charged to RFM Almond Fund largely relate to the usage of water entitlement allocations for the Moorall orchard.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G2 Related party transactions (continued)

Responsible Entity (Rural Funds Management) and related entities (continued)

Finance income from J&F Australia Pty Limited (J&F) relates to the \$132.0 million (2021: \$99.9 million) limited guarantee provided to J&F, a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income.

Debtors and finance lease receivables

	2022	2021
	\$'000	\$'000
RFM Farming Pty Limited	-	329
RFM Macadamias Pty Limited	1,639	946
Cattle JV Pty Limited	16,769	18,120
Total	18,408	19,395

Receivables are not secured and have terms of up to 30 days. Finance lease receivables are secured by the Group's ownership of the relevant assets. Outstanding balances are settled through payment.

Finance lease receivable from Cattle JV relates to the breeders and agricultural plant and equipment leased to Cattle JV. \$1,365,000 of the breeder lease balance was settled and \$56,000 agricultural plant and equipment principal repayments were received during the year.

Finance lease receivable from RFM Macadamias largely relates to the agricultural plant and equipment leased to 2007 Macgrove Project. \$248,000 principal repayments were received during the year.

Creditors

	2022	2021
	\$'000	\$'000
Rural Funds Management Limited	884	-
RFM Farming Pty Limited	17	-
RFM Macadamias Pty Limited	30	-
Total	931	-

Custodian fees

	2022	2021
	\$'000	\$'000
Australian Executor Trustees Limited	365	309
Total	365	309

Financial Guarantee

The Group provides a \$132.0 million (2021: \$99.9 million) guarantee to J&F Australia Pty Limited (J&F), a subsidiary of RFM. The guarantee is currently used to support \$132.0 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

Entities with influence over the Group

	2022		2021	
	Units	%	Units	%
Rural Funds Management	12,538,659	3.28	11,843,659	3.48

Other

Andrea Lemmon is a director and chair of Marquis Macadamia Limited. Marquis Macadamia Limited provides processing and selling services for the Group's farming operations on the Beerwah and Bauple properties. The Group also holds shares in Marquis Macadamia Limited. Marquis Macadamia Limited is not a related party as defined by AASB 124 *Related Party Disclosure*. Procedures are in place to manage any potential conflicts of interest.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G3 Parent entity information

The Group was formed by the stapling of the units in two trusts, Rural Funds Trust and RF Active. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and the Rural Funds Trust has been identified as the parent for preparing Consolidated Financial Reports. RFM Australian Wine Fund and Agricultural Income Trust Fund 1, holding the Group's vineyard assets, are wholly owned subsidiaries of Rural Funds Trust. The financial information of the parent entity, Rural Funds Trust has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at historical cost less any accumulated impairment. Distributions received from equity investments are recognised in the parent entity's profit or loss when its right to receive the distribution is established.

The individual financial statements of the parent entity, Rural Funds Trust, show the following aggregate amounts:

	2022	2021
	\$'000	\$'000
Statement of Financial Position		
ASSETS		
Current assets	29,321	19,183
Non-current assets	1,321,574	977,665
Total assets	1,350,895	996,848
LIABILITIES		
Current liabilities	16,746	12,563
Non-current liabilities	458,306	374,422
Total liabilities	475,052	386,985
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Issued units	465,075	380,440
Asset revaluation reserve	47,505	45,093
Retained earnings	363,263	184,330
Total equity	875,843	609,863
Statement of Comprehensive Income		
Net profit after income tax	207,328	118,089
Other comprehensive income for the year, net of tax	2,413	1,435
Total comprehensive income attributable to unitholders	209,741	119,524

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G4 Cash flow information

Reconciliation of net profit after income tax to cash flow from operating activities

	2022	2021
	\$'000	\$'000
Net profit after income tax	209,136	119,634
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Gain on sale of assets	(320)	(32,868)
Depreciation and amortisation/impairment - other	1,634	840
Depreciation - bearer plants	4,103	4,032
Amortisation of lease incentives	200	200
Finance income - lease receivable	(3,187)	(769)
Finance lease income received but excluded from profit	-	235
Capitalised borrowing costs	(260)	-
Change in fair value of investment property	(123,191)	(42,289)
Change in fair value of financial assets/liabilities	(669)	(116)
Change in fair value of bearer plants	5,533	(1,007)
Impairment of property - owner occupied	912	1,651
Impairment of intangible assets	1,059	4,188
Change in fair value of biological assets	(5,054)	(1,136)
Change in fair value of interest rate swaps	(51,852)	(12,923)
Straight-lining of rental revenue	735	852
Dividend income classified as investing cash flows	(65)	(64)
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	(1,798)	503
Increase in inventories	(455)	-
Increase in other assets	(848)	(4,159)
Increase/(decrease) in trade and other payables	1,789	(305)
Increase in unearned income	657	-
Increase/(decrease) in net tax liabilities	750	(1,635)
(Decrease)/increase in other liabilities	(1,215)	544
Net cash inflow from operating activities	37,594	35,408

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Reconciliation of net debt is presented below:

	2022	2021
	\$'000	\$'000
Cash and cash equivalents	4,961	11,647
Borrowings - repayable within one year	(2,525)	(2,407)
Borrowings - repayable after one year	(455,100)	(344,143)
Net debt	(452,664)	(334,903)
Cash and cash equivalents	4,961	11,647
Gross debt - fixed interest rates	(2,525)	(2,407)
Gross debt - variable interest rates	(455,100)	(344,143)
Net debt	(452,664)	(334,903)

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G5 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	2022	2021
	\$	\$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	379,576	396,657
Other statutory assurance services:		
Compliance audit	35,647	20,395
Total	415,223	417,052

G6 Other accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments with less than 3 months of original maturity which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of trade and other receivables or payables in the Consolidated Statement of Financial Position.

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

Leases

Leases of fixed assets or biological assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred from the lessor, are classified as finance leases.

Lease payments for operating leases, where substantially all of the risks and benefits have not been transferred from the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the income statement.

Provisions for distributions

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

Rural Funds Group

Notes to the Financial Statements

30 June 2022

G7 Events after the reporting date

On 22 July 2022, the Group completed the acquisition of Brooklands, a 978 hectare property located west of Rockhampton in Central Queensland for \$5.9m including transaction costs.

On 9 August 2022, the Group completed the acquisition of Greenfields, a 230ha property west of Rockhampton in Central Queensland for \$3.0m including transaction costs. This property will be incorporated as part of Rookwood Farms.

In August 2022, the following changes were made to the Group's loan covenant and banking requirements. The interest cover ratio was decreased for the Group to be not less than 2.00:1.00 with distributions permitted if the interest cover ratio is not less than 2.15:1.00. In addition, the hedging requirement was decreased to 30% for the year ending 30 June 2023.

No other matter or circumstance has arisen since the end of the year that has significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

G8 Contingent liabilities

Other than what has been disclosed in the accounts there are no contingent liabilities as at 30 June 2022.

Rural Funds Group

Directors' Declaration

30 June 2022

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 14 to 67 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
- 2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note A confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the persons performing the chief executive officer and chief financial officer functions as required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of the Directors of Rural Funds Management Limited.



David Bryant
Director

31 August 2022



Independent auditor's report

To the stapled security holders of Rural Funds Group

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Rural Funds Trust (the Registered Scheme) and its controlled entities (together Rural Funds Group, or the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2022
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The structure of Rural Funds Group is commonly referred to as a “stapled group”. In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the units in Rural Funds Trust have been stapled to the units in RF Active. For the purposes of consolidation accounting, Rural Funds Trust is 'deemed' the parent and the Group financial report reflects the consolidation of Rural Funds Trust and its controlled entities, including RF Active.



Materiality

- For the purpose of our audit, we used overall Group materiality of \$2,200,000 million, which represents approximately 5% of the Group's Adjusted Funds from Operations.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Adjusted Funds from Operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The audit of the Group was performed by a team which included individuals with industry expertise and property valuation experts.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of agricultural properties, which comprise:</p> <ul style="list-style-type: none"> - Investment property \$787m - Bearer plants \$190.5m - Intangibles (water entitlements) \$157.7m - Property – owner occupied \$68.4m <p><i>(Refer to note C2, C3, C5 and C6)</i></p> <p>The Group holds agricultural properties for long-term leasing or for development into orchards. Cropping operations are performed on an interim basis for unleased portions of land where developments have not commenced.</p> <p>Each agricultural property held for leasing or development comprises one or more of the following three components:</p> <ul style="list-style-type: none"> • investment property (including land and infrastructure attached to land) • bearer plants (including almond trees, macadamia trees and wine grape vines) • water entitlements. <p>Agriculture properties on which cropping operations are currently conducted by the Group are classified as property–owner occupied.</p> <p>The Group’s valuation policy requires agricultural properties to be externally valued by an expert at least every two years or more often where the Group considers appropriate.</p> <p>External valuations provide an aggregate value for each agricultural property. Key variables and considerations in the valuations can include discount rates, passing rents, comparable sales, market rent, cattle carrying capacity, value per cattle adult equivalent. Factors such as associated lease agreements, prevailing market conditions, and the individual nature, condition and location of these properties impact these variables, and overall valuations.</p>	<p>For a selection of external valuations obtained by the Group, together with PwC real estate property valuation experts:</p> <ul style="list-style-type: none"> • we assessed the competency, qualifications, experience and objectivity of the external valuers • we read the valuers’ terms of engagement to identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation • we interviewed external valuers in relation to a selection of properties subject to valuation and on the rationale behind the chosen allocation techniques • we compared a sample of inputs used in the valuation and allocation models, such as rental income and lease terms, to the relevant lease agreements and/or other supporting documents • we assessed the reasonableness of certain inputs including, where applicable, market rents, discount rates and capitalisation rates, rates per ha, cattle carrying capacity, value per cattle adult equivalent used in the valuation and allocation models, for a sample of properties based on benchmark market data • we inspected the final valuation reports and compared the fair value as per the valuation to the value recorded in the Group’s accounting records. <p>For properties not subject to external valuations, we discussed with the directors and evaluated the directors’ internal assessment of the fair value of the properties and their assertion that the properties are carried at fair value</p>



Key audit matter	How our audit addressed the key audit matter
<p>The aggregate value of each agricultural property is allocated across the components of investment property (carried at fair value), bearer plants (carried under revaluation model), water entitlements (carried at cost less accumulated impairment), and property – owner occupied (carried under revaluation model).</p> <p>The directors, or external valuers where appropriate, determined the suitable allocation technique to be applied to each agricultural property, considering the nature and characteristics of the property including any lease encumbrances.</p> <p>This was a key audit matter because:</p> <ul style="list-style-type: none">• agricultural properties are fundamental to the Group’s business model. Investment properties, bearer plants and water entitlements, and property – owner occupied form the majority of the Group’s assets in the consolidated statement of financial position• the nature of agricultural property valuations is inherently subjective due to the use of assumptions and estimates in the valuation model.• the selection and application of allocation techniques are inherently subjective due to the unique characteristics of each property• the valuations and allocation outcomes are sensitive to key inputs/assumptions in the model such as the discount rate and capitalisation rates, the utilisation of comparable sales data and to allocation techniques.	<p>as per the latest external valuation report, adding any capital expenditure made during the intervening period.</p> <p>We conducted site inspections of selected macadamia and cattle properties in Maryborough, Bundaberg and around Rockhampton in Queensland.</p> <p>We assessed the adequacy of the disclosures in Notes C1, C2, C3, C5 and C6 of investment property, bearer plants, water entitlements and property-owner occupied considering the requirements of Australian Accounting Standards.</p>



Key audit matter	How our audit addressed the key audit matter
------------------	--

Related party transactions

(Refer to note G2)

The Group's Responsible Entity, along with other funds for which it is the Responsible Entity, are considered related parties of the Group.

Key transactions with these parties include:

- rental income from the lease of agricultural properties
- finance income from the lease of cattle
- finance and interest income
- management fees and asset management fees paid
- distributions from investments
- reimbursement of operating expenses and development costs
- provision of a limited financial guarantee and receipt of associated fee income

Related party transactions were a key audit matter due to the significant impact of these transactions on the results of the Group. Additionally, because of their nature, they are pervasive and material to the presentation of and disclosures within the financial report.

We developed an understanding of the Group's relevant controls and processes for identifying related parties and related party transactions.

For significant contracts entered into during the year, we verified that the transactions were appropriately approved.

For a sample of lease income recorded during the year, we compared the lease income to the relevant supporting documents including the lease agreements.

For a sample of cropping expenses/macadamia development costs recharged, we obtained and agreed to relevant supporting documents including invoices.

For management fees and asset management fees, we compared the rates used to determine fees to the rates disclosed in the explanatory memorandum issued on formation of the Group.

We discussed the related party transactions with management to develop an understanding of the business rationale for the transactions.

In relation to the financial guarantee, we developed an understanding of the arrangement from reading the historic Explanatory memorandum, subsequent amendments and from discussions with management and others of the purpose, terms and conditions, and substance of the arrangement. For a sample of guarantee income recorded we agreed to relevant supporting documents including invoices.

We assessed the adequacy of the disclosures in Note G2, of related party relationships and transactions considering the requirements of Australian Accounting Standards.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report, Additional Information for Listed Public Entities and the Corporate Directory. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Responsible Entity and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity are responsible for the preparation of the 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 of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A handwritten signature of 'Rod Dring' in black ink.

Rod Dring
Partner

Sydney
31 August 2022

Rural Funds Group

Additional Information for Listed Public Entities

30 June 2022

Unitholder information

Additional information required by the ASX Limited listing rules and not disclosed elsewhere in this report is set out below. The information is effective as at 30 June 2022.

Distribution of equity securities

Analysis of number of unitholders by size of holding:

	Unitholders 2022
1 - 1,000	2,215,526
1,001 - 5,000	16,177,367
5,001 - 10,000	19,103,049
10,001 - 100,000	98,153,607
100,001 and over	246,865,210

RFM considers that there are 748 holders of a less than marketable parcel of units at 30 June 2022.

Substantial unitholders

The number of substantial unitholders and their associates are set out below:

	Units held	%
HSBC Custody Nominees (Australia) Limited	65,593,801	17.15%
J P Morgan Nominees Australia Limited	45,359,563	11.86%
Argo Investments Limited	19,170,328	5.01%

Voting rights

Ordinary units

All ordinary units carry one vote per unit without restriction.

Twenty largest unitholders at 30 June 2022

	Units held	%
HSBC Custody Nominees (Australia) Limited	65,593,801	17.15%
J P Morgan Nominees Australia Limited	45,359,563	11.86%
Argo Investments Limited	19,170,328	5.01%
Citicorp Nominees Pty Limited	15,856,369	4.15%
Netwealth Investments Limited (Wrap services)	13,282,315	3.47%
Rural Funds Management Limited	12,538,659	3.28%
National Nominees Limited	9,356,731	2.45%
BNP Paribas Nominees Limited	7,984,853	2.09%
Bryant Family Services Pty Limited	3,768,012	0.99%
Netwealth Investments Limited (Super services)	2,910,728	0.76%
One Managed Investment Funds Limited	2,815,000	0.74%
Morgan Stanley Australia Securities (Nominee) Pty Limited	1,853,528	0.48%
Neweconomy.com.au Nominees Pty Limited	1,735,863	0.45%
BNP Paribas Nominees Pty Ltd Hub24 Costodial	1,670,681	0.44%
SCCASP Holdings Pty Limited	1,663,073	0.43%
BNP Paribas Nominees Pty Limited ACF Clearstream	1,497,040	0.39%
Boskenna Pty Limited	1,353,044	0.35%
BNP Paribas Nominees Pty Limited	1,166,161	0.30%
Merrill Lynch (Australia) Nominees Pty Limited	1,029,364	0.27%
Warbont Nominees Pty Limited	1,017,872	0.27%
Total	211,622,985	55.33%

Securities exchange

The Group is listed on the Australian Securities Exchange (ASX).

Rural Funds Management Ltd

**ABN 65 077 492 838
AFSL 226 701**

Rural Funds Group comprises:

**Rural Funds Trust
ARSN 112 951 578 and
RF Active ARSN 168 740 805**

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