



**Australian
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Projects Ltd**

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Full year 2019/20 Financial Results and Operating Review

ANNOUNCEMENT

31 AUGUST 2020

Trading result

The Company advises that the trading result for the year ended 30 June 2020 was a loss of \$1,668,144 (2019: loss of \$496,004), a result which was below managements initial expectations principally due to the low harvest volumes reported in July 2020. The key components of this result are:

- The 2020 harvest completed in June 2020 yielded a total of 241,700 litres which compares with 644,300 litres in 2019. This result was below management expectations and, while disappointing, initial enquiries have confirmed that our experience is consistent with the general industry result which has seen low oil production across all parts of Australia. The reduced harvest resulted in total revenues being reduced to \$1,124,177 compared with \$2,454,152 in the previous year.
- Total water costs amounted to \$363,577. The cost of water remained consistently high during the year and while the cost was well above expectations, the final expense reflects reduced water usage largely as a consequence of the replanting programme (refer comments below);
- Total funding costs of \$380,809 were 6% greater than the previous year principally as a consequence of the bank facilities being fully drawn for the whole of the year; and
- Depreciation expense of \$432,917. As explained in the financial statements, this item now incorporates the depreciation of the olive trees at the orchard assuming a productive life of 25 years.

In addition to the trading result summarised above the Company also recorded an upward revaluation of the olive trees of \$684,819 based upon the anticipated discounted net cash flows expected to be generated from the lease of the orchard assets to the projects the Company manages. The Directors obtain an independent valuation of these assets and the underlying land once every three years.

Cash flows

The Company's net cash flows from operations this year amounted to a deficit of \$117,650 (2019: deficit of \$753,682) reflecting the impact of the improved 2019 harvest which had the effect of increasing 2020 cash receipts by \$1,130,997 from the previous year. This benefit was partially offset by ongoing higher than expected water costs as well as the crystallisation of expenses accrued from prior years. The direct costs associated with the operation of the orchard, excluding water, were slightly lower than the previous year reflecting the smaller harvest.

The Company conducted a share entitlement issue in March 2020 (detailed below) and combined with the placement of the unsubscribed a number of shares, raised a total of \$1,495,888 net of costs. This amount was applied to the reduction of shareholder loans (\$254,000), the recoupment of the funds used to repay the 2019 short term financing facility (\$475,000) and augmenting working capital. This capital raising has placed the Company in an improved cash position at the start of the new financial year where forecast operating cashflows will be constrained as a consequence of the poor 2020 harvest.

The olive orchards

Covid-19

The Company has taken a careful approach to the issues presented by the Covid-19 pandemic.

The management team have implemented procedures at the orchard and office locations consistent with the advice provided by the State authorities. The largest risks identified involve the management of staff and contractors during the period of harvest as well as when labour teams are contracted for specific tasks. To date, we are pleased to report that we have not had any direct occurrence of the virus and the amended procedures do not significantly impact operations.

Initial reports indicate that the impact of the restrictions placed on the broader population have caused a surge in demand for olive oil sales in the packaged retail market. The Cobram Estate and Redisland brands have been beneficiaries of this surge with strong sales being experienced since March 2020. It is uncertain if this will convert into a long term change in consumer behaviour although it is reasonable to say that the Covid-19 situation has put upward pressure on this segment of the market which may flow through to price and volume benefits.

Operations

The orchard is in good health and the newly replanted portions of the orchard are growing as expected.

The aim of the management team at the orchard remains to be a low cost producer of quality extra virgin olive oil. This is achieved by performing as much of the orchard maintenance, harvesting and processing in house and not relying on contractors unless specialist skills or equipment is required. Contract labour is used as necessary for the few labour intensive tasks at the orchard.

The current focus of operations is to ensure that the sections of the orchard replanted in 2018 and 2019 come into commercial production 3 years after planting. To this end, the expectation is that those trees planted in 2018 will produce a crop this year which will provide further production guidance for those trees planted in 2019.



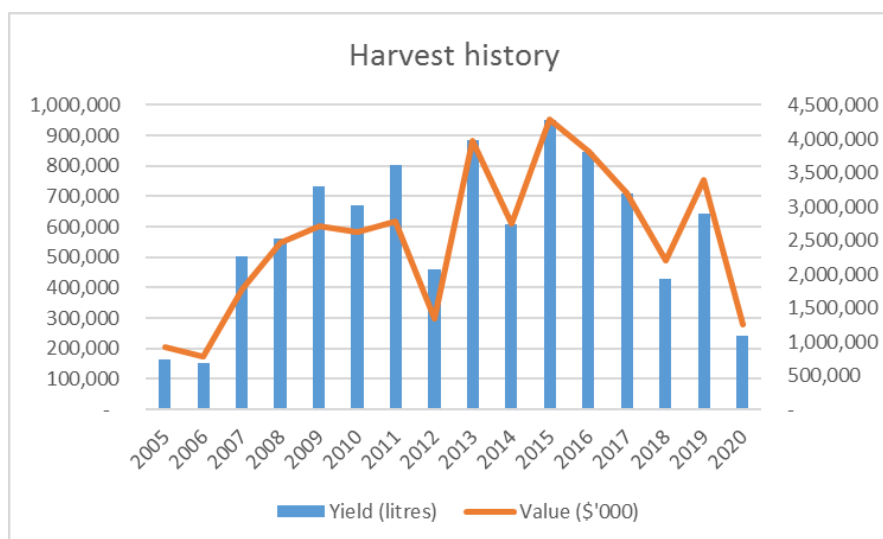
A portion of the 2018 plantings

Harvest

The Company completed the 2020 harvest and the result of 241,700 litres (2019: 644,300 litres) was at the very low end of management's expectations. This year's orchard result was largely driven by three factors:

- this being the point in the replanting programme where the orchard has the lowest number of productive trees;
- the poor fruit set, especially in the picual variety, after what was a lengthy flowering; and
- it being an "off" year in the biennial cycle of orchard production.

The following graph summarises the total harvests from the orchards since inception. The impact of the deterioration of the barnea trees which initiated the replanting programme is apparent from 2015 onwards.



Orchard management's outlook for the 2021 harvest is that it may be in the region of the 2019 harvest, that is around 650,000 litres which will reflect the orchard being in an "on" year and the inclusion of the first harvest from the 2018 replanting. As always, this result will depend on general climatic and growing conditions during the season. The Company will continue to report each significant event such as flowering and fruit set as well as indicators of oil accumulation through its quarterly reports.

Water

The price of irrigation water to the orchard during the year remained stubbornly high with spot prices peaking at \$700 per megalitre (2019: \$580) although the Company managed to average \$552 during the year (2019: \$430). The principal reasons for these high prices remain the same as last year, being:

- The extended dry conditions resulting in low allocations combined with water being moved from our irrigation district to those in the Lower Murray put upward pressure on prices; and
- A change in the normal supply and demand conditions in the local market as large water speculators remained in the market.

Pleasingly, the end of the season saw significant rainfall across the catchments and significant improvements in dam storage levels. The current outlook is that water allocations in our region will reach 100% with a long term (3 month) forecast of above medium rainfall across all of the Murray Darling basin. This has had the effect of reducing spot water prices early in the current season to around \$200 on very low volumes of water being traded. Management's long term view remains unchanged in that the spot price for water will continue to reduce over the medium term and return to levels close to long term averages.

Management's plan to acquiring water for the orchard remains the same, that is it utilises a combination of strategies including carry over from the previous year, short and medium term water leases and acquisition on the spot market.

Replanting programme

As previously reported, no trees were planted in the past year as part of the replanting programme although preparations were made for the third tranche of 52 hectares with the existing trees and drip line having been removed. Despite the initial plan being for this final tranche to be planted in March 2021, management are now considering the option of deferring this to either spring 2021 or autumn 2022 to provide greater flexibility with regard to the business cashflows. A final decision with regard to this replanting will be made in October 2020.

Those trees planted in March 2018 (two years old) were harvested this year as they carried a small, uncommercial crop which needed to be removed so as to promote as much new growth and fruit set for the coming 2021 season.

Funding

During the year, the Company restructured its capital and debt profile by undertaking the following steps:

- Completing a share entitlement issue at 1 cent per share on a 1 for 1 basis with 1 free option for every two shares issued. This issue, along with the subsequent placement of the unsubscribed shares, raised \$1,495,888 net of costs on the issue of 152,358,384 shares.
- Loans of \$729,000 were repaid during the year, partially from the proceeds of the funds raised from the share issue.
- The remaining \$1,466,000 of shareholder loans were extended to October 2023 on an interest only basis.

The principal banking facilities available to the Company are through the Commonwealth Bank and comprise:

- \$3,600,000 loan through to July 2021. The Company will look to extend the term of this facility; and
- \$500,000 overdraft facility.

Looking forward

The immediate goal of the Company is to return future harvest yields to more normal levels and continue to improve them as the newly planted trees enter production with increased revenue without significant additional management costs.

The Company will continue to review opportunities in the agribusiness sector in which the Company's management has considerable experience or where immediate cash flows can be created.

Appreciation

The Company continues to rely on a small team who manage the orchard and produce cost effective results. The Directors take this opportunity to record their appreciation for their ongoing efforts.

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