Australian Agricultural Projects Ltd

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# FINANCIAL REPORT

**for the year ended 30 June 2015**

Australian Agricultural Projects Ltd

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# CORPORATE DIRECTORY

**Directors**

Mr Paul Robert Challis ï Managing Director
Mr Phillip John Grimsey ï Non-Executive Director
Mr Anthony Ho ï Non-Executive Director

**Company Secretary**

Mr Kimberley Arnold Hogg

**Principal Place of Business**

Suite 2, 342 South Road
Hampton East, Victoria, 3188

Facsimile: (61-3) 9532 1556

**Registered Office**

79 Broadway
Nedlands, Western Australia, 6009

Telephone: (61-8) 6389 2688
Facsimile: (61-8) 6389 2588

**Auditor**

BDO East Coast Partnership
Level 14, 140 William Street
Melbourne, Victoria, 3001

**Bankers**

Commonwealth Bank of Australia
Level 1, 482 Dean Street
Albury, New South Wales, 2640

**Solicitor**

HWL Ebsworth
Level 26
530 Collins Street
Melbourne, Victoria, 3000

**Share Registry**

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia, 6000

Telephone: (61-8) 9323 2000
Facsimile: (61-8) 9323 2033

**Stock Exchange**

ASX Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia, 6000

ASX Code: AAP

Australian Agricultural Projects Ltd

ABN 19 104 555 455

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Australian Agricultural Projects Ltd

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# MANAGING DIRECTOR'S REVIEW

30 September 2015

Dear Shareholders,

The highlight of the past year was the harvest that was completed in June. The 951,700 litre harvest was ahead of expectations and maintained the upward trend in production within the biennial nature of the orchard. This record harvest has led to the largest operating profit in the history of the Company and confirms the Company's decision to simplify its operations.

The focus in the short term remains the consolidation of the balance sheet as the cash benefits from the sale of the harvest are brought to account.

The Company is looking forward to a period of solid harvests at a time when the world price is returning to historically high levels as a consequence of lower European levels of production. We look forward to this flowing through to the retail price over the coming years.

The operating and financial reviews on pages 3 to 6 detail the performance for the year.

The Company appreciates the ongoing support of its stakeholders.

Yours faithfully

**PAUL CHALLIS**
Managing Director

# DIRECTORS’ REPORT

*The directors present their report together with the financial report of the consolidated entity, being Australian Agricultural Projects Ltd "the Company" and its subsidiaries, for the financial year ended 30 June 2015 and the auditor's report thereon.*

## DIRECTORS

The directors of the Company at any time during the year and to the date of this report are:

**Mr Paul Challis**
*Managing Director* – Appointed 12 September 2007

Mr Challis is an accountant with more than 20 years’ experience in the finance, health and agricultural industries. Mr Challis has been involved with the olive industry, including a term as a director of the Australian olive industry’s peak body – the Australian Olive Association, since the planting of the Company’s first orchard in 2002. As part of his role as Managing Director, Mr Challis will continue to oversee grove operations.

**Mr Phillip Grimsey**
*Non-Executive Director* – Appointed 12 September 2007

Mr Grimsey is the founding partner of Grimsey Pty Ltd, a CPA practice specialising in the provision of an integrated financial services package to its predominantly professional client base. He has been actively involved in the development, structuring and marketing of the financial services of the group and has been a key contributor to the growth of Australian Agricultural Investments Ltd and its controlled entities (the “AAI Group”).

Mr Grimsey will be retiring by rotation and seeking re-election by shareholders at the 2015 Annual General Meeting.

**Mr Anthony Ho**
*Non-Executive Director* – Appointed 30 April 2003

Mr Ho graduated in 1980 with a Bachelor of Commerce from the University of Western Australia. He qualified as a Chartered Accountant in 1983. Mr Ho is presently the principal of a public practice specialising in providing corporate and financial services to companies listed on the ASX. He is currently a director of a number of companies listed on ASX.

## COMPANY SECRETARY

**Mr Kim Hogg**
*Company Secretary* – Appointed 18 November 2003

Mr Hogg has worked in the private sector for the past 20 years, predominantly in the coordination and documentation of capital raisings and as company secretary for both listed and unlisted companies. Mr Hogg is currently the secretary of a number of companies listed on the ASX.

## DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the year are as follows:

| Director | Company | Period of directorship From | To |
|---|---|---|---|
| Mr P Challis | Nil | - | - |
| Mr P Grimsey | Nil | - | - |
| Mr A Ho | Alchemy Resources Limited | 2011 | Present |
| | Newfield Resources Limited | 2011 | Present |
| | Siburan Resources Limited | 2009 | 25 November 2014 |
| | Glory Resources Limited (now delisted) | 2014 | Present |
| | Mustera Property Group Ltd | 2014 | Present |

## DIRECTORS' INTERESTS

The relevant interest of each director in the securities of the Company at the date of this report is as follows:

| Director | Ordinary Shares 2015 | Ordinary Shares 2014 |
|---|---|---|
| Mr P Challis | 12,473,845 | 12,473,845 |
| Mr P Grimsey | 33,263,585 | 33,263,585 |
| Mr A Ho | 2,000,001 | 2,000,001 |

## DIRECTORS' MEETINGS

The number of directorsômeetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

| | Board Meetings | | Nomination and Remuneration Committee Meetings | | Audit and Risk Committee Meetings | |
|---|---|---|---|---|---|---|
| Director | Held | Attended | Held | Attended | Held | Attended |
| Mr P Challis | 4 | 4 | N/A | N/A | N/A | N/A |
| Mr P Grimsey | 4 | 4 | 1 | 1 | 1 | 1 |
| Mr A Ho | 4 | 3 | 1 | - | 1 | - |

### Committee membership

As at the date of the report, the Company had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors. Members acting on the committees of the Board during the financial year were:

| Nomination and Remuneration Committee | Audit and Risk Committee |
|---|---|
| Mr P Grimsey (Chairman) | Mr A Ho (Chairman) |
| Mr A Ho | Mr P Grimsey |

## PRINCIPAL ACTIVITY

The Companyøs principal activity is the operation of the olive orchard located at Boort, Victoria and the operation of managed investment schemes.

## OPERATING AND FINANCIAL REVIEW

### Financial result

The Company advises that the trading result for the year ended 30 June 2015 was a profit of $568,280 (2014: loss of $459,963). The key components of this result are:

- Greater revenue of $3,469,505 (2014: $2,565,531) from the management of the Companyøs projects. This increase was directly related to the record 2015 harvest;
- No charge for discontinued operations (2014: $267,726) as a consequence of the premises at Braeside being tenanted; and
- A downward revaluation of the orchard asset of $161,933 (2014: upward revaluation of $223,315) following a change to the assumption regarding the long term cost of water.

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

This is a pleasing result that reflects the current structure of the business subsequent to the sale of the Redisland brand in November 2012, a period that is summarised in the following table highlighting EBITDA and adjustments to net profit after tax from continuing operations in conjunction with the harvest yield.

| | **2015** | **2014** | **2013** |
|---|---|---|---|
| | **(Continuing business only)** | | |
| **Harvest volume** | **Litres** | **Litres** | **Litres** |
| VOOP | 505,800 | 347,500 | 549,800 |
| VOOP II | 208,000 | 142,100 | 148,900 |
| Peppercorn | 237,900 | 119,100 | 185,500 |
| Total harvest (litres) | 951,700 | 608,700 | 884,200 |
| | **$** | **$** | **$** |
| **EBITDA attributable to AAP** | 1,400,654 | 285,402 | 1,187,551 |
| Depreciation | (283,940) | (283,970) | (423,580) |
| Interest | (386,501) | (416,984) | (636,530) |
| (Revaluations)/other add backs | (161,933) | 223,315 | (434,489) |
| Tax | - | - | (613,620) |
| **NPAT to AAP** | 568,280 | (192,237) | (920,668) |

This summary illustrates the correlation between the annual harvest from the orchard and the Company’s financial performance. While the Company’s principal revenue is from the management of the three projects, these fees are largely determined by the volume of the harvest.

The Company experienced surplus operating cash flows for the 2015 year amounting to $202,189, less than the 2014 operating cash flow surplus of $598,103. Structured debt facilities, that is commercial bills and hire purchase contracts, were reduced by $376,708 (2014: $210,099) over the year.

The net financial position of the business has improved over the past twelve months resulting in the net assets per share increasing 0.37 cents per share to 3.32 cents per share. Importantly, the Company’s finance facilities were reconfirmed in February of this year and the annual production covenant was satisfied. This has resulted in $2,105,000 of CBA facilities being reclassified from current liabilities to non-current liabilities in the Statement of Financial Position. Current liabilities still includes $920,000 of shareholders loans which are on a month to month basis and are still subject to renegotiation.

**The olive orchards**

*Operations*

As always, orchard operations are focused on maintaining the health of the orchard while being mindful of the importance of being a low cost producer of quality Extra Virgin Olive Oils. This year’s performance, especially the logistics around the handling of a record harvest, confirms that the Company is well positioned to continue to achieve these two objectives.

The orchard is generally in good health and we will take this year to assess the rejuvenation pruning program that has been in place for the past two years. A small portion of the orchard, approximately two percent, will be replanted as a trial comparison with a view to improving the long term management and yield potential of the orchard. This will give us the opportunity to replace trees with varieties that have demonstrated an ability to produce high consistent yields in our region.

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

There is an expectation that there will be a full water allocation for the coming season and that there will be sufficient water available to operate the orchard. Orchard management are continuing to monitor the price of water as the opening spot price for water this season has continued at similar levels to the closing price last season when the spot price of temporary water increased suddenly from around $125 per ML to $200 per ML.

There are no plans for significant capital expenditure over the next twelve months on the orchard.

We will continue to comment on orchard activity in our quarterly announcements.

*Yield*

Olives and olive oil farmed on a broad acre, irrigated basis is still a relatively new crop in Australia. The first plantings of this nature were completed in 1995 and the orchards the Company owns and manages were established in the period from 2002 to 2006. Since this time, cropping conditions, especially in the region where the Company’s orchards are located have been extremely abnormal with drought in the years from 2006 to 2010 and then a one in a hundred year flood in 2011/2. Across this period, the total level of Australian production continues to trend upwards within the typical biennial cycle of the trees, and the level of productivity is increasing as well. This is certainly the experience at our own orchards.

The expectation is that the annual harvest at our orchard will continue to trend upwards over the medium term as the younger trees reach maturity and those sections of the orchard that have received remedial work subsequent to the floods re-enter production.

We are mindful that olives continue to be a biennial crop where total harvests fluctuate between “on” and “off” years. While the orchard management team endeavour to manage this process as much as practical, we expect this will always be a feature of the orchard and the industry as a whole. The 2015 harvest was an “on” year and as a consequence, 2016 is expected to be an “off” year.

*Price*

The Company continues to sell its produce through the olive oil supply agreement that was established as part of the sale of the Redisland brand of extra virgin olive oil to Boundary Bend Limited in 2012.

The nature of this supply agreement is that after a period of a fixed price, the price the Company will receive for its oil will be linked to the farm gate price of the packaged oil sold by Boundary Bend. In this way, the Company remains exposed to the movements in the value of oil at the retail level as though it continued to operate its own brand.

The Company notes the recent high prices for bulk oil reflected on the main European markets as a result of the poor 2014 European harvest. Recent prices of Euro 4,300 per tonne compare with Euro 3,050 at the start of this calendar year. While the 2015 European harvest (due to commence in a couple of months) is expected to be stronger, the low levels of carry over stock are an indication that bulk prices may remain high as demand continues to exceed the supply of oils available. This increase in bulk price compounded by the weaker Australian dollar has only recently started to flow through to increased shelf prices in the major supermarkets. This upward pressure is expected to continue in the short to medium term.

**Projects**

The Company continues to generate its revenues from the lease of its olive orchard and charging management fees on the three projects it operates.

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

Two of these projects are operated under the Managed Investment Scheme (MIS) regime and the Company retains its own licence in compliance with this role. While the total revenue from the sale of oil by these two projects is less than that originally projected at their conception in 2002 and 2004, they are both in a stable format. The ongoing success and viability of the projects are linked primarily to the total value of the harvest, that is yield multiplied by price, and as such, the Companyõs interests are aligned with those of the projects. This alignment is consistent with the Companyõs overall strategy of being a low cost producer of quality olive oils and as such has allowed for success in an environment where many other similar projects have failed.

These two MIS projects have an initial term to 2025 after which the lease and management agreements may be renegotiated for a further term.

**Industry**

The Australian olive oil industry is still relatively young and it continues to develop. It should be remembered that total Australian production represents less than 1% of the world production of olive oil. The Company estimates that the total 2015 Australian harvest was in the region of 20 million litres, up from approximately 13 million litres in 2014. This is consistent with the biennial nature of the industry.

The vast majority of this production is coming from orchards established in the period between 2000 and 2008 and since that time, there have been very few new plantings. With the return of the olive oil price to pre 2000 levels and with increased industry experience, it is likely that new plantings may again be considered in the near future.

As a general comment, the oil produced by Australia continues to be of excellent quality and this represents the advantage that Australia will continue to bring to the market. There remains a broad push for recognition of the additional benefits of Extra Virgin Olive Oil as well as increased diligence regarding the truth in labelling in an effort to extract value for this superior quality.

A large portion of Australian olive oil is marketed through the leading brands of Cobram Estate and Redisland which are both owned and operated by Boundary Bend Limited as a result of our sale of the Redisland brand to them in November 2012. It is into this market that the Companyõs supply agreement is linked.

**Looking forward**

The Company will continue to focus on the strengthening of its balance sheet in the short term and consolidating the gains from the current yearõs harvest. We reiterate that the future performance of the Company will be tied to the annual harvest and, while the 2016 harvest is expected to be less than the 2015 harvest in line with the on / off cycle of harvests, we expect the total average harvest to continue to increase in the medium term.

The Company remains open to other agricultural investments that would complement its current asset and skill base.

**Appreciation**

The Board recognises the ongoing effort of the small team who manage the orchard at an incredibly high standard. The Directors take this opportunity to record their appreciation.

**Impact of legislation and other external requirements**

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the consolidated entity. There were no changes in environmental or other legislative requirements during the year that have significantly affected the results or operations of the consolidated entity.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There has not been any significant change in the state of affairs of the Company during the year.

## RESULTS

The consolidated entity reported a profit of $568,280 (2013: loss of $459,963) after income tax for the year.

## DIVIDENDS

No dividend has been declared or paid by the Company during the year or to the date of this Report.

## MATTERS SUBSEQUENT TO REPORTING DATE

Other than any matters described in these financial statements, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## LIKELY DEVELOPMENTS

The consolidated entity will continue to operate the olive grove at Boort in line with the discussion above in the Operating and Financial Review.

## OPTIONS

### Options granted during the year

There were no options granted during the financial year. No options have been granted since the end of the financial year. No options were exercised during the year and no options lapsed during the year.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

### Indemnification

The Company has agreed to indemnify the current directors and company secretary of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet, to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

### Insurance Premiums

The Company paid a premium, during the year in respect of a director and officer liability insurance policy, insuring the directors of the Company, the company secretary, and all executive officers of the Company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directorsôand officersôliability and legal expensesôinsurance contracts; as such disclosure is prohibited under the terms of the contract.

## INDEMNIFICATION AND INSURANCE OF AUDITORS

The Company has not, during or since the financial year indemnified or agreed to indemnify an auditor of the Company or any related body corporate against a liability incurred as an auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

## NON-AUDIT SERVICES

No non-audit services were provided by the consolidated entity's auditor, BDO East Coast Partnership.

## OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF BDO EAST COAST PARTNERSHIP

There are no officers of the Company who are former audit partners of BDO East Coast Partnership.

## REMUNERATION REPORT

The remuneration report is set out on pages 10 to 16 and forms part of the Directors' Report.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 9 and forms part of the Directors' Report.

Dated at Melbourne, Victoria this 30th day of September 2015.

Signed in accordance with a resolution of the directors, made pursuant to s298(2)(a) of the Corporations Act 2001.

Paul Challis
*Managing Director*

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Melbourne VIC 3000
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Australia

**DECLARATION OF INDEPENDENCE BY ALEX SWANSSON TO THE DIRECTORS OF AUSTRALIAN AGRICULTURAL PROJECTS LTD**

As lead auditor of Australian Agricultural Projects Ltd for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Agricultural Projects Ltd and the entities it controlled during the period.

Alex Swansson
Partner

**BDO East Coast Partnership**

Melbourne, 30 September 2015

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

# REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the consolidated entity in accordance with the requirements of the *Corporations Act 2001* ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, key management personnel of the consolidated entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company.

## KEY MANAGEMENT PERSONNEL

The following were key management personnel of the consolidated entity at any time during the financial year and unless otherwise indicated were key management personnel for the entire financial year:

### Directors

| Name | Position held |
|---|---|
| Mr P Challis | Managing Director |
| Mr P Grimsey | Non-Executive Director |
| Mr A Ho | Non-Executive Director |

### Other Key Management Personnel

| Name | Position held |
|---|---|
| Mr K Hogg | Company Secretary |

## REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration policies for the directors and executives. If necessary, the Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the consolidated entity.

## PRINCIPLES OF REMUNERATION

The remuneration structures explained below are competitively set to attract and retain suitably qualified and experienced candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segments performance;
- the consolidated entity's performance including:
    - the consolidated entity's earnings; and
    - the growth in share price and delivering constant returns on shareholder wealth.

## REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive directorsô remuneration is clearly distinguished from that of executives.

### Non-executive director remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2003 General Meeting, is not to exceed $100,000 per annum. Directorsô fees cover all main board activities and membership of committees.

Non-executive directors do not receive any retirement benefits, nor do they receive any performance related compensation. Non-executive directorsô fees as at the reporting date is as follows:

| Name | Non-executive directors' fees (per annum) |
|---|---|
| Mr P Grimsey | - |
| Mr A Ho | $12,000 |

### Executive remuneration

Remuneration for executives is set out in employment agreements.

Executive directors may receive performance related compensation but do not receive any retirement benefits, other than statutory superannuation.

### Fixed remuneration

Fixed remuneration consists of base compensation as well as employer contributions to superannuation funds.

Fixed remuneration is reviewed by the Nomination and Remuneration Committee through a process that considers individual and overall performance of the consolidated entity. As noted above, the Nomination and Remuneration Committee has access to external advice independent of management.

### Other benefits

Key management personnel may receive benefits such as car allowances, and the Company pays fringe benefits tax on these benefits.

### Long-term incentives

Long-term incentives (**LTI**) may be provided to key management personnel via the Australian Agricultural Projects Ltd Employee Option Scheme (**EOS**). The LTI are provided as options over ordinary shares of the Company to key management personnel based on their position within the consolidated entity. Vesting conditions may be imposed on any LTI grants if considered appropriate, in accordance with the EOSô s terms and conditions.

LTI are considered to promote continuity of employment and provide additional incentive to recipients to increase shareholder wealth. Options may only be issued to directors subject to approval by shareholders in general meeting.

The Company has introduced a policy that prohibits employees and directors of the consolidated entity from entering into transactions that operate or are intended to operate to limit the economic risk or are designed or intended to hedge exposure to unvested Company securities. This includes entering into arrangements to hedge their exposure to LTI granted as part of their remuneration package. This policy may be enforced by requesting employees and directors to confirm compliance.

**REMUNERATION STRUCTURE (cont’d)**

**Consequences of performance on shareholder wealth**

In considering the consolidated entity’s performance and benefits for shareholder wealth, the directors have regard to the following indices in respect of the current financial year and the previous four financial years:

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Profit/(loss) for the year | $568,280 | ($459,963) | $1,924,789 | ($5,636,661) | $102,418 |
| Dividends paid | Nil | Nil | Nil | Nil | Nil |
| Change in share price | - | - | - | - | (1.0 cents) |
| Share price at beginning of the period | 1.0 cents | 1.0 cents | 1.0 cents | 1.0 cents | 2.0 cents |
| Share price at end of the period | 1.1 cents | 1.0 cents | 1.0 cents | 1.0 cents | 1.0 cents |
| (Loss)/Earnings per share | 0.37 cents | (0.30 cents) | 1.20 cents | (3.45 cents) | 0.06 cents |

The overall level of key management personnel’s compensation takes into account the performance of the consolidated entity since the Company’s incorporation on 30 April 2003. As a result, the level of compensation has remained relatively unchanged, other than the increase or decrease in compensation levels due to the appointment or resignation of key management personnel.

There were no performance related remuneration transactions during the financial year (2014: Nil).

**USE OF REMUNERATION CONSULTANTS**

The Nomination and Remuneration Committee did not engage the services of a remuneration consultant during the year.

**VOTING AND COMMENTS MADE AT THE COMPANY’S 2014 ANNUAL GENERAL MEETING**

The Remuneration Report for the 2014 financial year received positive shareholder support at the 2014 AGM with a vote of more than 80% in favour. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

**EMPLOYMENT AGREEMENTS**

The consolidated entity has employment agreements with all key executives who are not directors, that are capable of termination between one and three months’ notice. The terms of the contracts are open ended although the consolidated entity retains the right to terminate a contract immediately by making payment equal to the termination period in lieu of notice. The key executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The employment contract outlines the components of compensation paid to each executive but does not prescribe how compensation levels are to be modified year to year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performed by the executive and any changes to meet the principles of remuneration.

All directors of the Company are employed under a letter of appointment. The letters of appointment set out remuneration details and are rolling with no fixed term.

**REMUNERATION OF KEY MANAGEMENT PERSONNEL**

Details of the nature and amount of each major element of the remuneration of each key management person of the consolidated entity are:

| | | SHORT TERM | | LONG TERM | POST-EMPLOYMENT | SHARE-BASED PAYMENTS | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees $ | Other benefits $ | Long term benefits** $ | Superannuation benefits $ | Options $ | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
| **Directors** | | | | | | | | | |
| *Non-executive* | | | | | | | | | |
| Mr P Grimsey | 2015 | - | - | - | - | - | - | - | - |
| | 2014 | - | - | - | - | - | - | - | - |
| Mr A Ho* | 2015 | 12,000 | - | - | - | - | 12,000 | - | - |
| | 2014 | 12,000 | - | - | - | - | 12,000 | - | - |
| *Executive* | | | | | | | | | |
| Mr P Challis | 2015 | 120,000 | - | 2,350 | 11,400 | - | 133,750 | - | - |
| | 2014 | 120,000 | - | 2,350 | 11,100 | - | 133,450 | - | - |
| **Total, all directors** | **2015** | **132,000** | **-** | **2,350** | **11,400** | **-** | **145,750** | **-** | **-** |
| | **2014** | **132,000** | **-** | **2,350** | **11,100** | **-** | **145,450** | **-** | **-** |

## REMUNERATION REPORT (contôd)

| | | SHORT TERM | | LONG TERM | POST-EMPLOYMENT | SHARE-BASED PAYMENTS | TERMINATION PAYMENTS | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees $ | Other benefits $ | Long term benefits** $ | Superannuation benefits $ | Options $ | Redundancy and termination payments | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
| **Other key management personnel** | | | | | | | | | | |
| *Consolidated* | | | | | | | | | | |
| Mr K Hogg* | 2015 | - | - | - | - | - | | - | - | - |
| | 2014 | - | - | - | - | - | | - | - | - |
| **Total, all key management personnel** | **2015** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| | **2014** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total, all directors and key management personnel** | **2015** | **132,000** | **-** | **2,350** | **11,400** | **-** | **-** | **145,750** | **-** | **-** |
| | **2014** | **132,000** | **-** | **2,350** | **11,100** | **-** | **-** | **145,450** | **-** | **-** |

* In addition to the remuneration as disclosed above, a total of $nil (2014: $24,022) was paid to Anthony Ho and Associates for secretarial and accounting services provided by Kim Hogg to the Company.

** Long term benefits relate to the change in long service leave entitlements from the previous year.

**OPTION HOLDINGS BY KEY MANAGEMENT PERSONNEL**

There are no options held by key management personnel, and there were no movements during the year (2014: also nil).

**SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL**

| | Held at 1 July 2014 | Purchases | Received on exercise of options | Other changes | Held at 30 June 2015 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr P Challis | 12,473,845 | - | - | - | 12,473,845 |
| Mr P Grimsey | 33,263,585 | - | - | - | 33,263,585 |
| Mr A Ho | 2,000,001 | - | - | - | 2,000,001 |

| | Held at 1 July 2013 | Purchases | Received on exercise of options | Other changes | Held at 30 June 2014 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr P Challis | 12,473,845 | - | - | - | 12,473,845 |
| Mr P Grimsey | 33,263,585 | - | - | - | 33,263,585 |
| Mr A Ho | 2,000,001 | - | - | - | 2,000,001 |

No shares were granted to key management personnel during the reporting year as compensation in 2015 or 2014.

**Other key management personnel transactions with the Company or its controlled entities**

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company or its subsidiaries during the financial year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an armôs length basis.
The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

| | Transaction | Note | Transactions value year ended 30 June 2015 $ | Transactions value year ended 30 June 2014 $ | Balance outstanding as at 30 June 2015 $ | Balance outstanding as at 30 June 2014 $ |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr A Ho | Secretarial and accounting fees | (i) | - | 24,022 | (159,060) | (194,460) |
| Mr P Grimsey and Mr P Challis | Management fees | (ii) | 536,806 | 300,252 | - | - |
| | Shareholder Loans | (iii) | - | - | (1,466,000) | (1,466,000) |
| | Interest paid on loans | (iv) | 112,280 | 113,738 | (271,145) | (232,980) |

**Other key management personnel transactions with the Company or its controlled entities (continued)**

*Notes in relation to the table of related party transactions*

(i) A company associated with Mr Ho, provides company secretarial services in connection with the operations of the consolidated entity. No fees were charged in the year.
(ii) The consolidated entity manages an olive orchard for a company in which Mr P Challis and Mr P Grimsey are both beneficially entitled to minority shareholdings (approx 1.3% each). The management fees for this project had been paid in accordance with production sharing agreement. The fees charged for this project are of a similar amount and nature as the fees charged for management of other projects managed by the consolidated entity.
(iii) The consolidated entity entered into shareholder loan agreement with entities associated with Mr P Grimsey ($339,000) and Mr P Challis ($127,000) in 2009 for which these entities received lender options (15,066,500 and 5,644,500 respectively) in satisfaction of payment for a loan establishment fees of $16,950 and $6,350 respectively. In addition, an entity associated with Mr P Challis has provided a $1,000,000 unsecured loan facility to the Company, which was fully drawn at 30 June 2015.
(iv) The consolidated entity pays interest in relation to unsecured shareholder loan agreements stated in note (iii). Average interest rate for the year was 7.71%

## SHARE-BASED COMPENSATION

### Equity based payments

There were no equity based payments during the year ended 30 June 2015 (2014: Nil).

*Employee option scheme*

The Company operates an incentive scheme known as the Australian Agricultural Projects Ltd Employee Option Scheme ("EOS") approved at the general meeting on 30 May 2003.

The maximum number of options that can be granted under the Scheme is restricted to 5% of the total issued shares as at the date of the grant of options. There is no issue price for any options granted under the EOS.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the terms of the plan, is the highest of:

- 110% of the market price of the Company's shares on the date on which the options are issued;
- 20 cents; or
- any greater price determined by the Directors.

All options expire on the earlier of their expiry date or one month after termination of the employee's employment.

There were no options issued under the employee share scheme during the year ended 30 June 2015 (2014: nil).

At 30 June 2015 all options issued under this scheme had either been forfeited or unexercised. There are no voting or dividend rights attaching to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights would have been attached to the unissued ordinary shares if the options had been exercised.

*Modification of terms of equity-settled share-based payment transactions*

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2015

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| Revenue from continuing operations | 3 | 3,469,505 | 2,565,531 |
| Cost of sales | | (1,840,556) | (2,004,093) |
| Gross profit | | 1,628,949 | 561,438 |
| Other income | 4 | 1,614 | 6,618 |
| Corporate and administrative expenses | | (230,009) | (301,953) |
| Depreciation and amortisation | | (283,940) | (283,970) |
| Borrowing costs | | (386,501) | (416,984) |
| Net fair value gain on investment property | 13 | (161,933) | 223,315 |
| Profit on sale of assets | | 100 | 19,299 |
| **Profit / (Loss) before income tax from continuing operations** | | **568,280** | **(192,237)** |
| Income tax expense | 7 | - | - |
| **Profit / (Loss) after income tax from continuing operations** | | **568,280** | **(192,237)** |
| (Loss) after income tax from discontinued operations | 25 | - | (267,726) |
| **Profit / (Loss) after income tax** | | **568,280** | **(459,963)** |
| **Other Comprehensive Income** | | | |
| *Items that may be reclassified subsequently to profit and loss* | | | |
| Movement in foreign exchange reserve | | - | (44) |
| Total Other Comprehensive (Expense) | | - | (44) |
| Total Comprehensive Income / (Loss) from continuing operations | | 568,280 | (192,281) |
| Total Comprehensive Income/ (Loss) from discontinuing operations | | - | (267,726) |
| **Total Comprehensive Income / (Loss) attributable to the members of Australian Agricultural Projects Limited** | | **568,280** | **(460,007)** |

| | Note | 2015 | 2014 |
|---|---|---|---|
| Earnings per share ï Continuing operations | | | |
| Basic and diluted profit / (loss) per share (cents) | 20 | 0.37 | (0.13) |
| Earnings per share ï Overall | | | |
| Basic and diluted profit / (loss) per share (cents) | 20 | 0.37 | (0.30) |

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2015

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | 63,765 | 170,097 |
| Trade and other receivables | 9 | 3,190,681 | 2,246,104 |
| Inventories | 10 | 375,557 | 258,018 |
| Other current assets | 11 | 54,472 | 87,867 |
| **Total Current Assets** | | 3,684,475 | 2,762,086 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant & equipment | 12 | 1,547,518 | 1,824,890 |
| Investment property | 13 | 8,384,167 | 8,546,100 |
| **Total Non-Current Assets** | | 9,931,685 | 10,370,990 |
| **TOTAL ASSETS** | | 13,616,160 | 13,133,076 |
| **CURRENT LIABILITIES** | | | |
| Bank overdraft | 8 | 495,230 | 420,575 |
| Trade and other payables | 14 | 3,196,545 | 2,904,386 |
| Provisions | 15 | 336,179 | 411,481 |
| Loans and borrowings | 16 | 1,458,981 | 3,526,694 |
| **Total Current Liabilities** | | 5,486,935 | 7,263,136 |
| **NON-CURRENT LIABILITIES** | | | |
| Loans and borrowings | 16 | 3,069,527 | 1,378,522 |
| **Total Non-Current Liabilities** | | 3,069,527 | 1,378,522 |
| **TOTAL LIABILITIES** | | 8,556,462 | 8,641,658 |
| **NET ASSETS** | | **5,059,698** | **4,491,418** |
| **EQUITY** | | | |
| Issued capital | 17 | 22,840,966 | 22,840,966 |
| Reserves | 17 | 259,784 | 259,784 |
| Accumulated losses | | (18,041,052) | (18,609,332) |
| **TOTAL EQUITY** | | **5,059,698** | **4,491,418** |

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended 30 June 2015

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts in the course of operations | | 3,045,539 | 4,064,202 |
| Cash payments in the course of operations | | (2,529,620) | (3,151,147) |
| Interest received | | 1,614 | 6,618 |
| Interest paid | | (315,344) | (321,570) |
| ***Net cash provided by operating activities*** | 24 | 202,189 | 598,103 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (6,568) | (129,549) |
| Proceeds from sale of plant and equipment | | 100 | 21,700 |
| ***Net cash used in investing activities*** | | (6,468) | (107,849) |
| **Cash flows from financing activities** | | | |
| Proceeds from hire purchase facilities | | - | 88,215 |
| Repayment of secured bank facilities | | (225,000) | (50,000) |
| Repayment of hire purchase liabilities | | (151,708) | (248,314) |
| ***Net cash used in financing activities*** | | (376,708) | (210,099) |
| **Net (decrease) / increase in cash and cash equivalents** | | (180,987) | 280,155 |
| **Cash and cash equivalents at the beginning of the year** | | (250,478) | (530,589) |
| Effect of exchange rate fluctuations | | - | (44) |
| **Cash and cash equivalents at the end of the year** | 8 | **(431,465)** | **(250,478)** |

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

| | Issued capital $ | Reserves $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|
| **Balance as at 1 July 2013** | **22,840,966** | **259,828** | **(18,149,369)** | **4,951,425** |
| Profit for the year after income tax | - | - | (459,963) | (459,963) |
| Other comprehensive income for the year | - | (44) | - | (44) |
| Total comprehensive income for the year | - | (44) | (459,963) | (460,007) |
| **Balance as at 30 June 2014** | **22,840,966** | **259,784** | **(18,609,332)** | **4,491,418** |
| | | | | |
| **Balance as at 1 July 2014** | **22,840,966** | **259,784** | **(18,609,332)** | **4,491,418** |
| Profit for the year after income tax | - | - | 568,280 | 568,280 |
| Other comprehensive income for the year | - | - | - | - |
| Total comprehensive loss for the year | - | - | 568,280 | 568,280 |
| **Balance as at 30 June 2015** | **22,840,966** | **259,784** | **(18,041,052)** | **5,059,698** |

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting entity

The consolidated financial report of Australian Agricultural Projects Ltd for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 30th September 2015.

Australian Agricultural Projects Ltd (the **Company**) is a company limited by shares incorporated in Australia whose shares are quoted on the Australian Securities Exchange. The registered office for the Company is 79 Broadway, Nedlands, Western Australia, 6009 and the principal place of business is Suite 2, 342 South Road, Hampton East VIC 3188.

Separate financial statements for Australian Agricultural Projects Ltd as an individual entity are no longer presented as consequence of a change to the Corporation Act 2001, however limited financial information for Australian Agricultural Projects Limited as an individual entity is included in Note 26.

The nature of the operations and principal activities of the consolidated entity are described in the Directors' Report.

### Basis of preparation

*Statement of compliance*

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (**AASBs**) and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) as appropriate for profit oriented entities. The consolidated financial report of the consolidated entity also complies with the International Financial Reporting Standards (**IFRSs**) as issued by the International Accounting Standards Board.

*Basis of measurement*

The financial report is prepared on the accruals basis and the historical cost basis with the exception of financial assets and liabilities and the investment property which are recorded at fair value. The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

*Significant accounting policies*

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the consolidated entity.

### Going Concern

The financial report has been prepared on the basis of a going concern, as the directors expect the consolidated entity to be in a position to pay its debts as and when they become due for a period of twelve months from the date of approving this financial report.

The long term profitability and cash flows of the consolidated entity are dependent upon the volume of future harvests along with the value of extra virgin olive oil. These factors are subject to many influences outside of the consolidated entity's control such as growing conditions, movements in the AUD exchange rate and global supply conditions. These uncertainties create some doubt about the consolidated entity's profitability and cashflows beyond the twelve month forecast period.

Separate to the continuation of normal operations, the consolidated entity has the ability to restructure its existing finance facilities or to raise funds from additional capital raising from existing shareholders or make a placement of shares to institutional or sophisticated investors.

Should the consolidated entity be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its debts as and when they fall due.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

(a) Note 7 - Recognition of Deferred Tax Assets
(b) Note 13 - Investment Property

### Principles of consolidation

*Subsidiaries*

Subsidiaries are entities controlled by the consolidated entity.

Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. The reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment charges.

*Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency

*Functional and presentation currency*

Both the functional and presentation currency of the company and its Australian subsidiaries is Australian dollars ($). The United States subsidiariesô functional currency is United States Dollars which is translated to presentation currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

*Translation of Group companies functional currency to presentation currency*

The results of the United States subsidiaries are translated into Australian Dollars using average exchange rates which approximate the rates applicable to the transactions. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translations reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in United States subsidiaries are taken to the foreign currency translation reserve. If a United States subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of profit or loss and other comprehensive income.

### Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with any of the consolidated entityôs other components) whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment, assess its performance and for which discrete financial information is available.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for ñall other segmentsò.

### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included in current liabilities in the statement of financial position.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible monies. An allowance for doubtful debts is made when there is objective evidence that the consolidated entities will not be able to collect the debts. Bad debts are written off when identified.

### Financial instruments

*Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

*Derivative financial instruments*

The consolidated entity may hold derivative financial instruments to hedge its foreign currency exposure. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

<u>Cash flow hedges</u>

Changes in the fair value of the derivative hedging instruments designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (cont'd)

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

### Issued capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

### Property, plant and equipment

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

*Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

*Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

| | |
|---|---|
| Plant and equipment | 2.5 to 14 years |
| Motor vehicles | 5 to 10 years |
| Office furniture and equipment | 2.5 to 14 years |
| Buildings | 10 to 25 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### Non-current assets classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a non-current asset and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current asset classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which is based on discounted cash flows of future income streams, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

### Intangible assets

*Goodwill*

Goodwill arises on the acquisition of subsidiaries or other business combinations. Goodwill represents the excess of the cost of the acquisition over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of the goodwill is included in the carrying amount of the investment.

*Permanent water rights*

Permanent water rights are measured at cost, including transaction costs. The carrying value is reviewed annually for any impairment indicators.

Permanent water rights have an indefinite life term and they are not amortised.

### Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and the leased assets are not recognised in the consolidated entity's statement of financial position.

### Impairment

*Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

*Non-financial assets*

The carrying amounts of the consolidated entity's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment (cont'd)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less associated costs to sell.

### Provisions

A provision is recognised if, as a result of a past event, the consolidated entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The time value of money is not material to the currently recognised provisions and they are not discounted to expected future cash flows at a pre-tax rate.

### Employee Benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

*Share-based payments*

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The Company operates an incentive scheme to provide these benefits, known as the Australian Agricultural Projects Limited Employee Option Scheme ("EOS") approved at the general meeting on 30 May 2003.

The cost of these share-based payment transactions is measured by reference to the fair value at the date at which the options are granted. The fair value is determined using a Black-Sholes model.

In valuing share-based payment transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Australian Agricultural Projects Limited ("market conditions").

The cost of share-based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee Benefits (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the prices is fixed and generally title has passed.

*Rendering of services*

Revenue from the management and ongoing maintenance of the orchard schemes not subject to production sharing is recognised by reference to separate contracts. The rates are set at the beginning of the financial year and billed when proceeds from the sale of the produce is available.

*Production sharing revenue*

Revenue from the production sharing arrangement is earned under lease and management agreements whereby the company is entitled to an agreed percentage of the crops proceeds. Revenue is recognised once the company has sufficient information to enable determination with reasonable certainty of the Company's share of the value of the oil.

*Interest Revenue*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Rental Revenue*

Rental revenue from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Lease payments

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognisable for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Tax consolidation*

The Company and its wholly-owned Australian resident entities have agreed to form a tax-consolidated group on 1 July 2007. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Agricultural Projects Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amount of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

*Tax funding agreement*

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Amounts are recognised as payable to or receivable by the head entity and each member of the group in relation to any tax liability/asset assumed by the head entity.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goods and Services Tax

Revenues, 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 Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### Loans and borrowings

Loans are recognised at their principal amount, subject to set-off arrangements. Borrowing costs are recognised as an expense when incurred.

### Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. Trade accounts payable are normally settled within 60 days.

### Earnings per share

The consolidated entity presents basic earnings per share (ĒEPSö) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

**New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)**

*AASB 15 Revenue from Contracts with Customers*
This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 2015-2 - Amendments to Australian Accounting Standards*
Disclosure Initiative: Amendments to AASB 101 amends AASB 101 Presentation of Financial Statements to clarify that:

- materiality applies to all four financial statements and the notes, including specific minimum disclosures set out in Accounting Standards
- Line items in the Statement of Profit or Loss and Other Comprehensive Income' and 'Statement of Financial Position' can be disaggregated if relevant to a user's understanding
- Additional subtotals must comprise IFRS items only (e.g. 'EBITDA' acceptable but 'Earnings before abnormal items' is not) and not be displayed more prominently than IFRS totals
- Entities have flexibility in ordering the notes to give more prominence to relevant areas (e.g. larger item notes placed before smaller items, or particular items grouped together, e.g. all items measured at fair value)

These amendments affect presentation and disclosures only. Therefore on first time adoption of these amendments on 1 July 2016, comparatives will need to be restated in line with presentation and note ordering.

**Determination of fair values**

A number of the consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Investment Property*

The fair value of the investment property is based on the discounted cash flows expected to be derived from the property.

*Property, plant and equipment*

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on directors' estimates and the quoted market prices for similar items.

*Intangible assets*

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Inventory*

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

*Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

*Share-based payment transactions*

The fair value of incentive options is measured using the Black-Sholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 2. FINANCIAL RISK MANAGEMENT

### Overview

The consolidated entity has exposure to the following risks from the use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the consolidated entityõs exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included in Note 18.

The Companyõs risk management framework is supported by the Board, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the consolidated entityõs risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the consolidated entity and considering the effectiveness of its internal control system. Management and the Audit and Risk Committee report to the Board.

The Board has established an overall Risk Management Policy which sets out the consolidated entityõs system of risk oversight, management of material business risks and internal control.

### Financial risk management objectives

The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

**Credit risk**

Credit risk is the risk of financial loss to the consolidated entity if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entityøs cash and cash equivalents.

The consolidated entity does not hold any credit derivatives to offset its credit exposure.

*Trade and other receivables*

The consolidated entityøs exposure to credit risk is influenced principally by the ability to collect fees from the participants in the projects it manages.

The consolidated entityøs current policy is to only invoice fees once an equivalent amount of oil has been harvested. In this way the collectability of fees is linked to the sale of the bulk oil and this has been secured under the olive oil supply agreement with Boundary Bend Ltd (õBBLö). The consolidated entity maintains a constant credit watch on BBL due to the critical nature of this agreement.

The consolidated entityøs policy in respect to receivables not covered by oil supplies is to only recognise those balances that it expects to recover from the proceeds of the sale of future harvests.

The consolidated entity has not sourced new customers or projects to manage and therefore there is no new credit risk to the consolidated entity.

**Liquidity risk**

Liquidity risk arises from the financial liabilities of the consolidated entity and the consolidated entityøs subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the Companyøs short, medium and long-term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows. This is done in the context of an annual forecast and projected inventory levels.

**Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and commodity prices will affect the consolidated entityøs income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

*Foreign currency risk*

The consolidated entity is not exposed to currency risk on transactions that are denominated in a currency other than the Australian dollar (AUD) as part of its ordinary operations.

In respect of monetary assets and liabilities denominated in foreign currencies, the consolidated entity ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when necessary to address short-term imbalances. The consolidated entity has no material assets or liabilities denominated in foreign currencies.

The investment in subsidiaries is not hedged as that currency position is considered to be long-term in nature.

The Board believes the balance date risk exposures are representative of the risk exposure inherent in financial instruments.

*Interest rate risk*

The consolidated entityøs exposure to interest rates primarily relates to the consolidated entityøs long-term debt obligations. The consolidated entity manages market risk by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates.

**Capital management**

When managing capital, the Boardõs objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board is constantly adjusting the capital structure to take advantage of favorable costs of capital or high return on assets. As the market is constantly changing, management may issue new shares, sell assets to reduce debt or consider payment of dividends to shareholders.

The Board has no current plans to issue further shares on the market. There are no options on issue that have not already lapsed.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 16, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings).

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels. This position has not changed from the previous year. The consolidated entity had loans and borrowings (including overdraft) totaling $5,023,738 at 30 June 2015 (2014: $5,325,791).

There were no changes in the consolidated entityõs approach to capital management during the year.

The consolidated entity is not subject to any externally imposed capital requirements.

| | Consolidated | |
|---|---|---|
| | 2015 $ | 2014 $ |
| **3. REVENUE** | | |
| Sales of bulk oil | 259,491 | 417,497 |
| Management fees | 1,459,562 | 532,089 |
| Lease fees from the investment property | 649,853 | 630,925 |
| Production sharing | 1,100,599 | 985,020 |
| | 3,469,505 | 2,565,531 |
| **4. OTHER INCOME** | | |
| Interest received | 1,614 | 6,618 |
| | 1,614 | 6,618 |
| **5. PERSONNEL EXPENSES** | | |
| Wages and salaries costs | 506,960 | 521,314 |
| Superannuation costs | 63,351 | 50,168 |
| Change in liability for annual and long service leave | 4,391 | 21,340 |
| Non-executive directorsõfees | 12,000 | 12,000 |
| | 586,702 | 604,822 |

In 2015, $521,002 (2014: $539,272) of personnel expenses were included in cost of sales and the balance, $65,700 (2014: $65,550) was included in corporate and administrative expenses.

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **6. AUDITOR'S REMUNERATION** | | |
| **Audit services** | | |
| Auditors of the Company (BDO East Coast Partnership) | | |
| - audit and review of this financial report | 38,000 | 54,250 |
| - audit and review of other financial statements | 62,000 | 36,000 |
| | 100,000 | 90,250 |

## 7. INCOME TAX

### (a) Income tax

The major components of income tax are:

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **Income statement** | | |
| Current income tax charge | - | - |
| Deferred tax - origination and reversal of timing differences | - | - |
| Adjustment recognised for prior period | - | - |
| Aggregate income tax expense | - | - |

### (b) Numerical reconciliation between tax credit and pre-tax net loss

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Profit / (Loss) from continuing operations | 568,280 | (192,237) |
| Profit / (Loss) from discontinued operations | - | (267,726) |
| Profit/(Loss) before income tax | 568,280 | (459,963) |
| Income tax expense calculated at 30% | 170,484 | (137,989) |
| Tax effect on the following amounts: | | |
| Depreciation entitlement attached to fixed assets | (84,373) | (81,936) |
| Current year tax (benefit) / losses not recognised from jurisdiction outside Australia | - | 825 |
| Fair value on investment property | 48,580 | (66,940) |
| Deferred tax written back | (134,691) | - |
| Tax loss not brought to account | - | 286,040 |
| Income tax credit reported in the statement of comprehensive income | - | - |

### (c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Tax losses - Revenue | 2,325,118 | 2,428,494 |
| Deductible temporary differences | 738,558 | 769,873 |
| Unrecognised deferred tax asset | 3,063,676 | 3,198,367 |

The benefits of the deferred tax benefits not brought to account will only be recognised if the conditions for deductibility set out in the accounting policies note occur.

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **8. CASH AND CASH EQUIVALENTS** | | |
| Cash at bank and in deposits | 63,765 | 170,097 |
| Bank overdrafts | (495,230) | (420,575) |
| Cash and cash equivalents in the statement of cash flows | (431,465) | (250,478) |

The consolidated entityœs exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18.

**9. TRADE AND OTHER RECEIVABLES**

**Current**

| | 2015 $ | 2014 $ |
|---|---|---|
| Trade receivables | 3,190,681 | 2,246,104 |
| | 3,190,681 | 2,246,104 |

The consolidated entityœs exposure to credit and currency risks and impairment losses related to trade and receivables are disclosed in Note 18.

**10. INVENTORIES**

| | 2015 $ | 2014 $ |
|---|---|---|
| Finished goods at cost | 375,557 | 258,018 |
| | 375,557 | 258,018 |

**11. OTHER CURRENT ASSETS**

| | 2015 $ | 2014 $ |
|---|---|---|
| Prepayments | 54,472 | 87,867 |
| | 54,472 | 87,867 |

## 12. PROPERTY, PLANT & EQUIPMENT

**Consolidated**

| **Year ended 30 June 2015** | **Plant & equipment** | **Motor vehicles** | **Office furniture & equipment** | **Buildings** | **Total** |
|---|---|---|---|---|---|
| At 1 July 2014, net of accumulated depreciation | 1,093,928 | 185,293 | 16,066 | 529,603 | 1,824,890 |
| Additions | 5,387 | - | 1,181 | - | 6,568 |
| Disposals | - | - | - | - | - |
| Depreciation charge for the year | (182,610) | (52,479) | (6,928) | (41,923) | (283,940) |
| At 30 June 2015, net of accumulated depreciation | 916,705 | 132,814 | 10,319 | 487,680 | 1,547,518 |
| **At 30 June 2015** | | | | | |
| Cost | 3,579,672 | 855,589 | 60,215 | 1,061,417 | 5,556,893 |
| Accumulated depreciation | (2,662,967) | (722,775) | (49,896) | (573,737) | (4,009,375) |
| Net carrying amount | 916,705 | 132,814 | 10,319 | 487,680 | 1,547,518 |
| **Year ended 30 June 2014** | | | | | |
| At 1 July 2013, net of accumulated depreciation | 1,259,102 | 145,415 | 5,277 | 571,918 | 1,981,712 |
| Additions | 13,636 | 100,238 | 15,675 | - | 129,549 |
| Disposals | - | (2,401) | - | - | (2,401) |
| Depreciation charge for the year | (178,810) | (57,959) | (4,886) | (42,315) | (283,970) |
| At 30 June 2014, net of accumulated depreciation | 1,093,928 | 185,293 | 16,066 | 529,603 | 1,824,890 |
| **At 30 June 2014** | | | | | |
| Cost | 3,574,285 | 871,109 | 62,709 | 1,061,417 | 5,569,520 |
| Accumulated depreciation | (2,480,357) | (685,816) | (46,643) | (531,814) | (3,744,630) |
| Net carrying amount | 1,093,928 | 185,293 | 16,066 | 529,603 | 1,824,890 |

*Restrictions on property plant and equipment*

Plant and equipment with the net carrying value of $412,974 secures hire purchase finance for that equipment
Motor vehicles with the carrying value of $132,813 secures hire purchase finance for those motor vehicles.
All buildings are included in the security provided to the Commonwealth Bank of Australia in support of the finance facilities the bank has provided to the consolidated entity.

| 13. INVESTMENT PROPERTY | Consolidated 2015 $ | 2014 $ |
|---|---|---|
| Land, trees and orchard assets held to earn lease fees | 8,384,167 | 8,546,100 |
| Movement consists of: | | |
| Investment property opening balance | 8,546,100 | 8,322,785 |
| Orchard revaluation | (161,933) | 223,315 |
| | 8,384,167 | 8,546,100 |

The investment property is a level 3 asset for the purposes of determining fair value. The investment property comprises a 403 hectare olive orchard including the land, trees, irrigation infrastructure and associated buildings. It is leased to two managed investment schemes for an initial period to 2025 plus an option of another 25 years.

The value of the investment property was determined by the directors at 30 June 2015 by discounting the cash flows of expected future net income streams over the 35 year term (including option) of the lease generated by the investment property based on the following key assumptions:

- Future cash inflows were estimated as the budgeted rental to be received from the investment property increased by CPI indexation of 3 percent per annum. Where the rental forms a percentage of the proceeds from the sale of the produce from the property, the long term average value of the production was assumed to increase by 3 percent per annum;
- Pre tax discount rate of 12.5 percent was applied to future cash flows, which is based on group cost of funding plus risk premium.
- The orchard has a long term yield of 11 tonnes of fruit per hectare per annum.
- The long term average price of water available to the orchard is $115 per ML.

The sensitivity of these assumptions are as follows:

| Assumption | Assumed Value | Sensitivity | Change in Valuation |
|---|---|---|---|
| CPI | 3.0% | if increased to 3.5% | 470,682 |
| | | if reduced to 2.5 % | (436,645) |
| Discount rate | 12.50% | if increased to 13.5% | (773,080) |
| | | if reduced to 11.5 % | 908,376 |
| Harvest yield | 11 t per ha | if increased to 12 tonne per ha | 215,070 |
| | | if reduced to 10 tonne per ha | (215,071) |
| Price of water | $115 per ML | if increased to $150 per ML | (440,740) |
| | | if decreased to $80 per ML | 440,740 |

The investment property has been pledged as security in support of the consolidated entities finance facilities provided by the Commonwealth Bank of Australia.

The lease agreement requires the consolidated entity to provide sufficient water to the property to allow for the commercial growing of olives and meet all outgoings associated with the property.

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **14. TRADE AND OTHER PAYABLES** | | |
| **Current** | | |
| Trade payables | 2,654,243 | 2,709,968 |
| Other payables and accruals | 542,302 | 194,418 |
| | 3,196,545 | 2,904,386 |
| **15. PROVISIONS** | | |
| Liability for employee benefits (i) | 235,735 | 231,343 |
| Provision for onerous contract | 100,444 | 180,138 |
| | 336,179 | 411,481 |

(i) The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The amount of the provision of $235,735 (2014: $231,343) is presented as current since the group does not have an unconditional right to the defer settlement for any of these obligations. However, based upon past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current leave obligations expected to be settled after 12 months is $40,646 (2014: $32,045).

## 16. LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate risk, see Note 18.

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **Current** | | |
| Hire purchase liabilities | 213,981 | 151,694 |
| Secured bank facilities | 325,000 | 2,655,000 |
| Unsecured loan facilities | 920,000 | 720,000 |
| | 1,458,981 | 3,526,694 |
| **Non-current** | | |
| Hire purchase liabilities | 164,527 | 378,522 |
| Secured bank facilities | 2,105,000 | - |
| Unsecured loan facilities | 800,000 | 1,000,000 |
| | 3,069,527 | 1,378,522 |

## 16. LOANS AND BORROWINGS (CONTINUED)

*Hire purchase facilities*

The hire purchase liabilities are secured by the leased assets, as such in the event of default, the assets revert to the lessor. These assets are included in the categories of Plant and Equipment and Motor Vehicles.

Hire purchase liabilities of the consolidated entity are payable as follows:

| | Consolidated | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | **Minimum payments 2015** | **Interest 2015** | **Principal 2015** | **Minimum payments 2014** | **Interest 2014** | **Principal 2014** |
| Less than one year | 237,021 | 23,040 | 213,981 | 187,977 | 36,303 | 151,694 |
| Between one and five years | 173,087 | 8,560 | 164,527 | 410,573 | 32,051 | 378,522 |
| Later than 5 years | - | - | - | - | - | - |
| | 410,108 | 31,600 | 378,508 | 598,570 | 68,354 | 530,216 |

### Terms of loans and borrowings

*Secured loan facilities*

The secured loan facilities bear an average weighted interest rate of 6.85% pa (2014: 6.96% pa). The above noted facilities comprise the following:

- Commercial bill of $2,430,000 (2014: $2,655,000), with the principal repayment of $75,000 per quarter from August 2015 increasing to $100,000 per quarter in May 2016 until February 2017.
- The commercial bill facility included a condition that the annual harvest exceed 720,000 litres. The 2015 harvest of 951,700 litres was above this benchmark. In 2014, the annual harvest amounted to 608,700 litres which was below this benchmark and as a consequence, all of the facility balance was recorded as a current liability as at 30 June 2014. The Companyøs bankers confirmed in September 2014 that there would be no change to the conditions set out in the letter of offer dated 14 April 2014.

*Unsecured loan facilities*

The unsecured loan facilities bear interest rates the greater of 8% or the RBA cash rate plus 5%.

The current unsecured loan facilities include loans of $720,000 (2014: $720,000) from shareholders which matured in October 2012 and are continuing on a month by month basis until more formal arrangements are made.

### Assets pledged as security

The finance facilities provided by the Commonwealth Bank of Australia comprise commercial bills, an overdraft facility and credit card facilities. These facilities are secured by:

- a first registered mortgage over rural property situated at Wytchitella Road, Boort, and;
- a first registered charge over the assets of all Australian subsidiaries.

## 17. ISSUED CAPITAL AND RESERVES

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **Issued capital** | | |
| 152,358,384 (2014: 152,358,384) fully paid ordinary shares | 22,840,966 | 22,840,966 |

*Movements in ordinary share capital*

There have been no movements in share capital during the reporting period.
Ordinary shares have no par value.

### Options

*Options granted during the year*

There were no options granted during the financial year. No options have been granted since the end of the financial year. No options were exercised during the year.

*Unissued shares under option*

The company had no options on issue as at 30 June 2015 (2014: nil).

| **Reserves** | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Foreign currency translation reserve | 259,784 | 259,784 |
| Balance at the beginning of the year | 259,784 | 259,828 |
| Currency translation differences | - | (44) |
| Balance at the end of the year | 259,784 | 259,784 |

*Foreign currency translation reserve*

This reserve is used to record the value of exchange differences arising on translation of the foreign controlled entities.

## 18. FINANCIAL INSTRUMENTS DISCLOSURE

### Credit risk

*Exposure to credit risk*

The carrying amount of the consolidated entityõs financial assets represents the maximum credit exposure. The consolidated entityõs maximum exposure to credit risk at the reporting date was:

| | Consolidated Carrying Amount 2015 $ | Consolidated Carrying Amount 2014 $ |
|---|---|---|
| Cash and cash equivalents | 63,765 | 170,097 |
| Trade receivables | 3,190,681 | 2,246,104 |
| | 3,254,446 | 2,416,201 |

All of the consolidated entity's exposure to credit risk for trade receivables at reporting date was within Australia (2014: 100%).

The aging of the consolidated entityõs trade receivables at reporting date was:

| | Gross 2015 $ | Impairment 2015 $ | Gross 2014 $ | Impairment 2014 $ |
|---|---|---|---|---|
| Not past due | 2,824,642 | - | 1,838,683 | - |
| Past due 0-30 days | - | - | - | - |
| Past due 31-120 days | - | - | - | - |
| Past due 121 days + | 366,039 | - | 407,421 | - |
| | 3,190,681 | - | 2,246,104 | - |

Receivables past due for more than 30 days are amounts that relate to management and lease fees, due from Victorian Olive Oil Project growers, which have resulted from insufficient project returns to enable growers to offset oil proceeds against the fees. Management anticipates that these projects will be restructured, which will result in a portion of the receivables being collected by way of deduction from future harvest proceeds or by way of equity in the restructured project.

The movement in the amount allowed for impairment in respect of trade receivables during the year was as follows:

| | 2015 $ | 2014 $ |
|---|---|---|
| Balance at 1 July | - | 746,683 |
| Balance written off | - | (746,683) |
| Impairment loss recognised | - | - |
| Balance at 30 June | - | - |

## 18. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### Liquidity risk

The following are the contractual maturities of financial liabilities:

**Consolidated**

| 30 June 2015 | Remaining contractual maturities | 1 year | 2-5 years | More than 5 years |
|---|---|---|---|---|
| Secured bank loans | 2,430,000 | 325,000 | 2,105,000 | - |
| Hire purchase liabilities | 410,108 | 237,021 | 173,087 | - |
| Unsecured loans | 1,720,000 | 920,000 | 800,000 | - |
| Trade and other payables | 3,196,545 | 3,196,545 | - | - |
| Bank overdraft | 495,230 | 495,230 | - | - |
| | 8,251,883 | 5,173,796 | 3,078,087 | - |

| 30 June 2014 | Remaining contractual maturities | 1 year | 2-5 years | More than 5 years |
|---|---|---|---|---|
| Secured bank loans | 2,655,000 | 2,655,000 | - | - |
| Hire purchase liabilities | 598,570 | 187,997 | 410,573 | - |
| Unsecured loans | 1,720,000 | 720,000 | 1,000,000 | - |
| Trade and other payables | 2,904,386 | 2,904,386 | - | - |
| Bank overdraft | 420,575 | 420,575 | - | - |
| | 8,298,531 | 6,887,958 | 1,410,573 | - |

### Foreign currency risk

*Exposure to foreign currency risk*

The consolidated entity has no material exposure to foreign currency risk (2014: nil).

### Interest rate risk

*Profile*

At the reporting date the interest rate profile of the consolidated entity's interest bearing financial instruments was:

| | Consolidated Carrying Amount | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Interest rate p.a. | $ | Interest rate p.a. | $ |
| **Fixed rate instruments** | | | | |
| Hire purchase liabilities | 6.0% - 8.6% | 378,508 | 5.8% - 9.1% | 530,216 |
| | | 378,508 | | 530,216 |
| **Variable rate instruments** | | | | |
| Secured bank loans | WA 6.85% (i) | 2,430,000 | WA 7.0% (i) | 2,655,000 |
| Unsecured loans | WA 7.71% (i) | 1,720,000 | WA 7.8% (i) | 1,720,000 |
| Bank overdraft | WA 9.48% (i) | 495,230 | WA 10.0% (i) | 420,575 |
| | | 4,645,230 | | 4,795,575 |
| **Interest free instruments** | | | | |
| Trade and other payables | | 3,196,545 | | 2,904,386 |
| | | 8,220,283 | | 8,230,177 |

(i) Weighted Average

## 18. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### Interest rate risk (continued)

*Cash flow sensitivity analysis for variable rate instruments*

A change in interest rates at reporting date of 100 basis points, an amount management considers possible over the next 12 months, would have (decreased)/increased equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | Profit after tax | | Equity | |
|---|---|---|---|---|
| **30 June 2015** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Variable rate instruments | (46,452) | 46,452 | (46,452) | 46,452 |

| | Profit after tax | | Equity | |
|---|---|---|---|---|
| **30 June 2014** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Variable rate instruments | (47,955) | 47,955 | (47,955) | 47,955 |

### Fair value of financial instruments

Fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows.

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

### Fair value measurement

Details regarding fair value measurement of investment property is disclosed in Note 13.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair value due to their short tern mature.

| | Consolidated | |
|---|---|---|
| | **2015 $** | **2014 $** |
| **19. COMMITMENTS** | | |
| **Operating lease commitments** | | |
| Future operating lease rentals not provided for in the financial statements and payable: | | |
| Not later than one year | 263,748 | 263,883 |
| Later than one year but not later than five years | 260,104 | 516,203 |
| More than five years | - | - |
| | 523,852 | 780,086 |

The consolidated entity leases two properties under operating leases. The lease on the property from which the Company used to operate its bottling plant runs until July 2017, with an option to renew after that date. One lease runs until April 2016 with an option to renew after that date.

## 19. COMMITMENTS (continued)

### Operating lease payments receivable

Future operating lease rentals receivable not provided for in the financial statements and receivable:

| | | |
|---|---|---|
| Not later than one year | 193,920 | - |
| Later than one year but not later than five years | 206,848 | - |
| More than five years | - | - |
| | 400,768 | - |

The Company subleases the property from which the Company used to operate its bottling plant and the lease expires one day before the head lease expires.

The consolidated entity also leases the investment property set out in note 13. A significant portion of the lease payments from this property are directly linked to the value of the agricultural production each year and as a consequence, the directors cannot measure the future receivables with reliable certainty.

These lease payments are included in the valuation model of the investment property as set out in note 13.

## 20. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2015 was based on the profit attributable to ordinary shareholders of $568,280 (2014: loss of $459,963) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2015 of 152,358,384 (2014: 152,358,384) calculated as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Profit attributable to ordinary shareholders** | | |
| Net profit / (loss) for the year | 568,280 | (459,963) |
| | **Number<br>2015** | **Number<br>2014** |
| Weighted average number of ordinary shares at 30 June | 152,358,384 | 152,358,384 |

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2015 was based on the profit attributable to ordinary shareholders of $568,280 (2014: loss of $459,963) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2015 of 152,358,384 (2014: 152,358,384) calculated as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Profit attributable to ordinary shareholders** | | |
| Net profit/(loss)for the year | 568,280 | (459,963) |
| | **Number<br>2015** | **Number<br>2014** |
| Weighted average number of ordinary shares at 30 June | 152,358,384 | 152,358,384 |

## 21. RELATED PARTY DISCLOSURES

### (a) Controlled entities

The consolidated financial statements include the financial statements of Australian Agricultural Projects Limited and the subsidiary listed in the following table:

| | Country of Incorporation | Equity interest 2014 | Equity interest 2013 |
|---|---|---|---|
| AOX Pty Ltd | Australia | 100% | 100% |
| Australian Agricultural Investments Ltd | Australia | 100% | 100% |
| Victorian Olive Oil Project limited | Australia | 100% | 100% |
| Popeye Holdings Pty Ltd | Australia | 100% | 100% |
| Lanyons Paddock Pty Ltd | Australia | 100% | 100% |
| Terrapee Contractors Pty Ltd | Australia | 100% | 100% |
| Victorian Olive Processors Pty Ltd | Australia | 100% | 100% |
| EVOO Marketing Pty Ltd | Australia | 100% | 100% |
| Finest Food Import Corporation | USA | 100% | 100% |
| EVOO Export Pty Ltd | Australia | 100% | 100% |
| Oilpack Australia Pty Ltd | Australia | 100% | 100% |
| Red Island Australian Food Corporation | USA | 100% | 100% |

Investments in controlled entities are measured at cost.

### (b) Ultimate parent

Australian Agricultural Projects Ltd is the ultimate parent of the consolidated entity.

### (c) Key management personnel

Details relating to key management personnel, including remuneration paid and related party transactions are included in Note 22.

### (d) Key transactions with related parties

A member of the consolidated entity, Victorian Olive Oil Project Ltd, acts as the responsible entity for two managed investment schemes. The consolidated entity transacts with these schemes in accordance with contracts which are fundamental to the operation of the schemes. Paul Challis is a director of Victorian Olive Oil Project Ltd.

| | | | Transactions value year ended 30 June | | Balance outstanding as at 30 June | |
|---|---|---|---|---|---|---|
| | Transaction | Note | 2015 $ | 2014 $ | 2015 $ | 2014 $ |
| **Scheme** | | | | | | |
| Victorian Olive Oil Project | Lease fees | (i) | 649,853 | 630,925 | 863,335 | 654,863 |
| | Management fees | (ii) | 1,084,694 | 614,757 | 1,118,057 | 645,176 |
| Victorian Olive Oil Project II | Lease fees as part of production sharing | (i) | 234,914 | 162,856 | 234,000 | 159,862 |
| | Management fees as part of production sharing | (ii) | 328,879 | 247,180 | 569,718 | 498,097 |
| | Oil purchased | (iii) | - | - | (840,597) | (772,384) |

## 21. RELATED PARTY DISCLOSURES (cont'd)

*Notes in relation to the table of key transactions with associated entities*

(i) The consolidated entity receives lease fees in respect to the land, trees and orchard assets which are leased to the schemes. These lease fees are as set out in the scheme constitution and original product disclosure statement.

(ii) The consolidated entity receives management fees for the management of the orchard and the processing of the annual harvest from the investors in the managed investment schemes as well as for acting as responsible entity. These fees are as set out in the scheme constitution and the original disclosure statement

(iii) The consolidated entity purchased oil from the investors in the managed investment schemes in accordance with the oil take off agreement which formed part of the acquisition of the AAI group of companies.

### (e) Loans from director related parties

The Company has entered into shareholder loan agreements with entities associated with Mr P Grimsey ($339,000) and Mr P Challis ($1,127,000). These loans are unsecured with an interest rate being the lower of 8% or the bank bill 30 day swap rate plus 5%. The maturity profile of these loans is as follows

| | Carrying amount | At call | 1 year | 2-5 years |
|---|---|---|---|---|
| Mr P Grimsey | 339,000 | 339,000 | - | - |
| Mr P Challis | 1,127,000 | 127,000 | 200,000 | 800,000 |
| | 1,466,000 | 466,000 | 200,000 | 800,000 |

### (f) Loans to related parties

Loans are made by the Company to its wholly owned subsidiary for capital purchases and working capital purposes. The loans outstanding between the Company and its subsidiaries have no fixed date of repayment and are non-interest bearing.

Aggregate amounts receivable from the subsidiaries are as follows:

| | Company | |
|---|---|---|
| | 2015<br>$ | 2014<br>$ |
| **Non-current** | | |
| Unsecured loans (from) / to controlled entities | | |
| EVOO Marketing Pty Ltd | (2,061,450) | (2,037,261) |
| Oilpack Australia Pty Ltd | (219,002) | (218,817) |
| Popeye Holdings Pty Ltd | 10,793,415 | 11,009,289 |
| Australian Agricultural Investments Ltd | (3,751) | (3,589) |
| AOX Pty Ltd | (54,455) | (54,201) |
| Lanyons Paddock Pty Ltd | (28,141) | (84,775) |
| Njoi Australian Food Pty Ltd | (11,809) | (11,646) |
| Terrapee Contractors Pty Ltd | 746,288 | 716,758 |
| Victorian Olive Oil Project Limited | 221,778 | 197,607 |
| Victorian Olive Processors Pty Ltd | 405,286 | 313,363 |
| Allowance for impairment loss | (11,534,460) | (11,725,447) |
| | (1,746,301) | (1,898,720) |

No dividends were received from the subsidiaries in the 2015 or 2014 financial years.

## 22. KEY MANAGEMENT PERSONNEL

**Details of key management personnel**

The following were key management personnel of the consolidated entity at any time during the year and unless otherwise indicated were key management personnel for the entire year:

- Mr P Challis (Managing Director)
- Mr P Grimsey (Non-Executive Director)
- Mr A Ho (Non-Executive Director)
- Mr K Hogg (Company Secretary)

**Key management personnel compensation**

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Short-term employee benefits | 132,000 | 132,000 |
| Post-employment benefits | 11,400 | 11,100 |
| Long term benefits | 2,350 | 2,350 |
| | 145,750 | 145,450 |

The Company has entered into loan agreements with entities related to Mr P Grimsey and Mr P Challis. Details of these loans are set out in Note 21(e).

Detailed remuneration disclosures are provided in the Remuneration Report on pages 10 to 16.

## 23. SEGMENT INFORMATION

**Business segments**

*Identification of reportable operating segments*

The Company only operates in one segment, being the operation of an olive grove located in Boort, Victoria.

## 24. RECONCILIATION OF CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit / (loss) for the year | 568,280 | (459,963) |
| Adjustments for: | | |
| (Profit) on sale of assets | (100) | (19,299) |
| Revaluation of investment property | 161,933 | (223,315) |
| Depreciation | 283,940 | 283,970 |
| Change in trade and other receivables | (944,577) | 988,111 |
| Change in inventories | (117,539) | 150,209 |
| Change in other assets | 33,395 | (3,367) |
| Change in provisions and employee benefits | (75,302) | 19,263 |
| Change in trade and other payables | 292,159 | (137,506) |
| Net cash provided by operating activities | 202,189 | 598,103 |

## 25. DISCONTINUED OPERATIONS

### Details of discontinued operations

On 29 November 2012, the Company sold its olive oil retailing business (including the Redisland brand) and subsequent to the date of the sale, the Company continued operations until 12 February 2013 to meet outstanding export orders and production commitments.

The 2014 expense records the additional expense incurred in re letting the premises from which the business used to operate. There was no expense in the 2015 financial year from these discontinued operations.

### Financial performance of the discontinued operations

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Occupancy expenses | - | (267,726) |
| (Loss)/Profit before income tax | - | (267,726) |
| Income tax expense | - | - |
| (Loss)/Profit after income tax | - | (267,726) |
| Income tax expense | - | - |
| Profit on disposal after income tax expense | - | - |
| Profit after income tax from discontinued operations | - | (267,726) |
| Earnings per share from discontinued operations | | |
| Basic earnings per share (cents) | - | (0.18) |
| Diluted earnings per share (cents) | - | (0.18) |

### Cash flows from discontinued operations

| | 2015 | 2014 |
|---|---|---|
| Net cash (used in)/provided by operating activities | - | (267,726) |
| Net cash provided by/(used in) investing activities | - | - |
| Net cash (used in)/provided by financing activities | - | - |
| Net decrease in cash and cash equivalents from discontinued operations | - | (267,726) |

## 26. PARENT ENTITY INFORMATION

The following details information related to the parent entity, Australian Agricultural Projects Limited as at 30 June 2015. The information presented has been prepared using accounting policies as disclosed in Note 1.

**Statement of financial position**

| | Company 2015 $ | Company 2014 $ |
|---|---|---|
| Current Assets | 646,273 | 525,999 |
| Non Current Assets | 6,975,889 | 6,183,393 |
| **TOTAL ASSETS** | 7,622,162 | 6,709,392 |
| Current Liabilities | 4,334,471 | 4,133,798 |
| Non Current Liabilities | 800,000 | 1,000,000 |
| **TOTAL LIABILITIES** | 5,134,471 | 5,133,798 |
| **NET ASSETS** | **2,487,691** | **1,575,594** |
| **EQUITY** | | |
| Contributed equity | 22,840,966 | 22,840,966 |
| Reserves | - | - |
| Accumulated losses | (20,353,275) | (21,265,372) |
| **TOTAL EQUITY** | **2,487,691** | **1,575,594** |
| Comprehensive profit/(loss) of parent entity | 912,097 | (2,060,814) |

## 27. COMMITMENTS AND CONTINGIENT LIABILITIES

The Company does not have any capital commitments or contingent liabilities at balance and reporting dates.

## 28. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Australian Agricultural Projects Ltd

ABN 19 104 555 455

# DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Dated at Melbourne, Victoria this 30th day of September 2015.

Paul Challis
*Managing Director*

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**INDEPENDENT AUDITOR'S REPORT**

To the members of Australian Agricultural Projects Ltd

## Report on the Financial Report

We have audited the accompanying financial report of Australian Agricultural Projects Ltd, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company 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 determine 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Agricultural Projects Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

**Opinion**

In our opinion:

(a) the financial report of Australian Agricultural Projects Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of Australian Agricultural Projects Ltd for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

**BDO East Coast Partnership**

BDO

**Alex Swansson**
**Partner**

Melbourne, 30 September 2015

## SHAREHOLDER INFORMATION

***Details of shares and options as at 25 September 2015:***

**Top holders**

The 20 largest holders of each class of quoted security as at 25 September 2015 were:

*Fully paid ordinary shares*

| | Name | No. of Shares | % |
|---|---|---|---|
| 1. | Grimfam Holdings Pty Ltd <Grimsey Family A/C> | 18,413,153 | 12.09 |
| 2. | Madfam Holdings Pty Ltd <The Madden Family A/C> | 12,473,845 | 8.19 |
| 3. | Patrac Holdings Pty Ltd <The Challis Family A/C> | 12,473,845 | 8.19 |
| 4. | Bliss on Banksia Hairdressing Pty Ltd <The Stefanest Egg A/C | 9,298,000 | 6.10 |
| 5. | Mr Phillip John & Mrs Deborah Faye Grimsey <The Grimsey S/F A/C> | 7,910,000 | 5.19 |
| 6. | Mr Phillip John & Mrs Deborah Faye Grimsey <The Grimsey S/F A/C> | 6,940,432 | 4.56 |
| 7. | Petto Holdings Pty Ltd | 6,236,923 | 4.09 |
| 8. | Petto Holdings Pty Ltd <The Pettofrezza Family A/C> | 6,236,922 | 4.09 |
| 9. | Citicorp Nominees Pty Limited | 5,537,784 | 3.63 |
| 10. | Mr Robert Brydon Rudd | 4,002,515 | 2.63 |
| 11. | HSBC Custody Nominees (Australia) Limited | 3,339,990 | 2.19 |
| 12. | Beaver Super Pty Ltd <The Beaver S/F A/C> | 3,225,413 | 2.12 |
| 13. | Joefield Company Limited | 2,755,000 | 1.81 |
| 14. | Ms Amy Jo Hoban + Mr Peter Johns | 2,729,000 | 1.79 |
| 15. | Mr Stephen Leslie McMartin | 2,500,000 | 1.64 |
| 16. | Mr Anthony Ho | 2,000,001 | 1.31 |
| 17. | Mr Patrick Joseph Frayne | 1,990,000 | 1.31 |
| 18. | Mr Trevor Neil Hay | 1,772,500 | 1.16 |
| 19. | Bliss on Banksia Hairdressing Pty Ltd <The Stefanest Egg A/C | 1,678,750 | 1.10 |
| 20. | Ms Maria Liouros & Ms Franca Bortolotti & Mr Con Panayotopoulos <S/F A/C> | 1,600,000 | 1.05 |
| | | 113,114,073 | 74.24 |

**Distribution schedules**

A distribution of each class of equity security as at 31 August 2015:

*Fully paid ordinary shares*

| Range | | | Holders | Units | % |
|---|---|---|---|---|---|
| 1 | - | 1,000 | 8 | 221 | 0.00 |
| 1,001 | - | 5,000 | 44 | 137,394 | 0.09 |
| 5,001 | - | 10,000 | 103 | 985,466 | 0.65 |
| 10,001 | - | 100,000 | 125 | 6,065,028 | 3.98 |
| 100,001 | - | Over | 99 | 145,170,275 | 95.28 |
| Total | | | 379 | 152,358,384 | 100.00 |

**Substantial shareholders**

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

| Substantial shareholder | Number of Shares |
|---|---|
| Grimfam Holdings Pty Ltd <Grimsey Family A/C> | 33,263,585 |
| Madfam Holdings Pty Ltd <The Madden Family A/C> | 12,473,845 |
| Patrac Holdings Pty Ltd <The Challis Family A/C> | 12,473,845 |
| Bliss on Banksia Hairdressing Pty Ltd <The Stefanest Egg A/C | 10,976,750 |

**Unmarketable parcels**

Holdings less than a marketable parcel of ordinary shares (being 50,000 as at 31 August 2015):

| Holders | Units |
|---|---|
| 214 | 2,662,853 |

**Voting Rights**

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

**On-Market Buy Back**

There is no current on-market buy-back.