Australian Agricultural Projects Limited
ABN: 19 104 555 455

Head Office
Suite 14, 456 St Kilda Road
Melbourne VIC 3004

P: 0417 001 446
E: admin@voopl.com.au

FULL YEAR 2020/21 FINANCIAL RESULTS AND OPERATING REVIEW

ANNOUNCEMENT **31 AUGUST 2021**

Australian Agricultural Projects Limited (**Company**) (ASX: **AAP**) is pleased to present its report for the year ended 30 June 2021.

TRADING RESULT

The Company recorded a profit after income tax of $594,969 for the year ended 30 June 2021 (2020: loss of $1,668,144), a result which was above management's expectations. The key components of this trading result include:

- The 2021 harvest completed in June 2021 yielded a total of 752,900 litres which compares with 241,700 litres in 2020. This significantly improved production yield resulted in total revenue from lease and management fees derived from the projects the Company manages increasing to $3,319,410 compared with $1,124,177 in the previous year;
- Total water costs continued their trend downwards towards their longer-term average. The 2021 expense of 293,990 was 42% less than that of the previous year's;
- Pleasingly, the cost of sales, which represents the operating costs at the orchard, reduced slightly despite the increased harvest. Markedly lower water costs contributed to this result;
- Total funding costs of $540,102 included the one-off application fee associated with the refinance of the banking facilities. Other than this fee, total funding costs were consistent with management's expectations and were slightly less than the previous year; and
- Depreciation expense of $462,450 (2020: $432,917) includes the depreciation of the olive trees that amounted to $248,608 (2020: $296,054).

In addition to the trading result summarised above, the Company also recorded an upward revaluation of the olive trees of $1,474,080 (2020: $684,819). This valuation is based upon the anticipated discounted net cash flows expected to be generated from the lease of the orchard assets to the projects the Company manages and is consistent with an independent valuation the Directors obtained during the year. Importantly, it reflects the increase in the market value of quality horticultural assets which has occurred over recent years.

Cash flows

The Company's net cashflows from operations this year amounted to a deficit of $1,054,709 (2020: a deficit of $117,650).The Company's operating cashflows is a direct reflection of its previous year's harvest. Accordingly, this cashflow deficit reflects the low cash receipts during the year as a consequence of the poor 2020 harvest with cash receipts from operations totalling $1,451,556 compared with $3,335,475 in the previous year.

This deficit was funded within the restructured financing facilities. Significantly better cashflows is expected from the sale of this year's improved harvest.

Balance sheet

The Company's balance sheet significantly improved over the year with a 38% increase in net assets to $7,520,561 (2020: $5,449,180). This was largely driven by the recognition of the increased value of the Company's land and orchard assets.

Net working capital improved as a result of the larger than expected harvest, the proceeds of which will be received over the year as the oil is sold.

In May, the Company settled the refinance of its banking facilities with a syndicated loan of $5,192,500 which better suits the cyclical working capital requirements of the business. It has an initial maturity date of August 2022 with the Company having the option to extend the facility to a further twelve-month term. Importantly, there are no fees or costs associated with early repayment of the facility.

THE OLIVE ORCHARDS

Operations

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

The aim of the management team at the orchard continues to be being a low-cost producer of quality extra virgin olive oil. This objective is achieved by performing as much of the orchard maintenance, harvesting and processing in house and having as little reliance on external contractors unless specialist skills or equipment is required. Contract labour is used as necessary for the few labour-intensive tasks at the orchard.

The immediate focus of operations continues to be the completion of the replanting programme which commenced in 2018. The objective of this programme is to replace the large sections of the orchard established with the barnea variety of olive tree with high density plantings of varieties which are expected to be more robust and amenable to "over-the-row" harvesting. The commercial performance of the barnea trees started to noticeably deteriorate in 2017 with reducing crop yields. It is expected that the replacement trees will replace this lost production as they enter commercial production and continue to mature.

Harvest

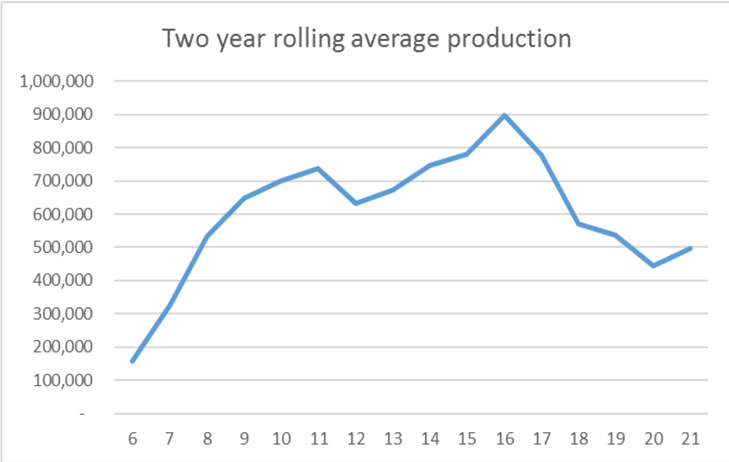
The annual harvest was completed in late June yielding 752,900 litres (2020: 241,700 litres). The highlights of this improved result are set out below:

- The excellent outcome follows on from the low 2020 harvest resulting in a two-year rolling average of 497,300 litres (2020 two year running average: 443,000 litres);
- The successful harvest validates the orchard re-planting strategy adopted in 2018 which will see in the region of 200 hectares (approximately 40%) of trees replaced with the higher density plantings which will enter production over the coming years;
- The 2021 harvest is the first time that the replanted trees yielded commercial quantities of oil and the contribution from the replanted areas will continue to scale up over the next 3 years as they approach maturity.

The harvest result also reflects an "on" year in the orchard which will likely be followed by an "off" year. This may result in lower oil production next harvest. Accordingly, management assesses future performance of the orchard on a two-year rolling average of oil produced as a better performance measurement to accommodate the volatility associated with the biennial productive nature of olive trees. The expectation is that the two-year rolling average will continue to improve as a consequence of the increasing production from the newly replanted areas.

Testing of the oil to date has confirmed the oil produced this season to be high-quality extra virgin oil. The oil will be supplied to Cobram Estate Olive Limited (**Cobram**) (formerly Boundary Bend Olive Pty Ltd) in support of the Cobram Estate and Redisland retail brands of extra virgin olive oil.

The following graph summarises the total harvests from the orchards on a two-year rolling average basis since the first harvest in 2006. The impact of the deterioration of the barnea trees which initiated the replanting programme is apparent from 2017 onwards and the uptick in the trend this year is expected to continue as the newly replanted areas enter commercial production.



Orchard management's outlook for the 2022 harvest has yet to be set other than it will almost certainly be greater than the previous "off" year which was the 2020 harvest, The Company is proceeding with an initial budget production for 2022 in the region of 500,000 – 550,000 litres and this will be refined by the orchard team later this year after flowering and fruit set in November 2021. As always, the 2022 result will depend on general climatic and growing conditions during the season. The Company will continue to report each significant event such as flowering and fruit set as well as indicators of oil accumulation through its quarterly reports.

Price

The Company sells the olive oil produced through an Olive Oil Supply Agreement with Cobram entered into in December 2012. The basis of this offtake arrangement is that the Company will supply all of the oil produced to Cobram in support of their Australian retail packaged products. The pricing mechanism of this offtake arrangement is such that our Company benefits from Cobram's ability to more effectively negotiate pricing improvements in the retail market.

We are pleased to note that after several years of static prices, in February 2021 Cobram was able to negotiate a retail price increase with the major supermarket chains in Australia. The benefit of this price increase has commenced to flow through to the Company in the form of increased cash receipts as the 2021 harvest is sold to Cobram.

Water

The price of irrigation water for the orchard on the temporary market has fallen during the year and appears to have consolidated around $100 - $120 per mega litres (**ML**). This compares with spot prices eighteen months ago in the region of $700 per ML. Consistent with this decrease in price, the availability of water in the region has also increased with the increased volume of water held in the dams which influences the pricing in the region. Further, the wet start of the irrigation season should continue to reduce early demand for temporary water as well as assist with strong inflows into dams.

Management's plan to acquire water for the orchard remains the same, that is, it utilises a combination of strategies including carry-over rights from the previous year, short- and medium-term water leases and acquisition on the spot market. One consequence of this strategy is that the Company's average price of water in the past was below the spot price due to the pricing of the leased water and may be slightly above the local spot price this year for the same reason.

Separate to the pricing, the volume of water used by the orchard is still lower than average as a consequence of the replanting programme and the reduced water requirement of the younger trees.

In summary, the business risk associated with water has decreased back to more normal levels.

Replanting programme

As previously reported, no trees were planted in the past year as part of the replanting programme largely because of management's desire to ensure larger nursery stock which experience has shown to result in a superior outcome at an overall lower cost. With regard to the three tranches of the programme, we note:

- The 2018 replantings were harvested this year producing over 1,000 litres per ha, slightly above initial expectations. The trees will most likely receive a manual prune this year with a view of reducing growth of hard wood into the row and to encourage growth down the row;
- The 2019 replanting has shown good canopy growth since summer and given the experience with the prior year's planting, supporting expectations of a commercial harvest from these trees as part of the 2022 harvest; and
- The management team are finalising the revised budget and plan for the replanting of the final tranche of trees (approx. 56 ha). The goal is to finalise the replanting programme in March 2022.

COVID-19

The Company continues to take a careful approach to the issues presented by the COVID-19 pandemic.

The management team have implemented procedures at the orchard and office locations consistent with the advice provided by the State authorities. The largest risks identified involve the management of staff and contractors during the period of harvest as well as when labour teams are contracted for specific tasks. To date, we are pleased to report that we have not had any occurrence of the virus either at the orchard and office locations and the amended procedures do not significantly impact operations. The greatest impact on the practical operations of the business has been the longer time taken to access and ship spare parts for the maintenance of equipment especially where these parts need to be imported. These timeframes have now been factored into maintenance schedules.

LOOKING FORWARD

The immediate goal of the Company is to return future harvest yields and cash flow to historical levels and this is now nearing completion with the finalisation of the replanting programme and the newly planted trees entering production.

The Company has now commenced a strategic review with a focus on the structure of the managed schemes and projects. The broad aim of this review is to assess the Company's current structures to determine the best path to deliver long term growth and to maximise shareholder value.

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

APPRECIATION

The Company continues to rely on a small team which manages the orchard and produces cost effective results. The Directors take this opportunity to record their appreciation for their ongoing efforts as well as for the ongoing support of our shareholders.

AUTHORISED BY:
Paul Challis
Managing Director

Enquiries may be directed to:
Paul Challis – Managing Director
E: paul.challis@voopl.com.au