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# FULL YEAR 2021/2022 FINANCIAL RESULTS AND OPERATING REVIEW

**ANNOUNCEMENT** **31 AUGUST 2022**

Australian Agricultural Projects Limited (**Company**) (ASX: **AAP**) is please to present its report for the year ended 30 Jue 2022.

## TRADING RESULT

The Company recorded a loss after income tax of $246,592 for the year ended 30 June 2022 (2021: profit of $978,230), a result which was in line with management's expectations. The key components of this trading result include:

- The 2022 harvest which was completed in late June 2022 yielded a total of 564,500 litres which compares with 752,900 litres in the previous year. This was a pleasing result in an "off" year in the biennial cycle of the orchard, more than twice the result of the previous "off" year; 241,700 litres in 2020. This harvest resulted in total revenue from lease and management fees derived from the projects the Company manages of $2,632,591 (2021: $3,319,410).
- Orchard operating costs totaled $2,036,872, up from 1,664,713 in 2021 primarily as a result of:
  - A longer and later harvest due primarily to wet harvest conditions;
  - Increased input costs such as fertiliser and diesel; and
  - Planned additional maintenance in orchard machinery, specifically the harvesters.
- Water costs continue to trend downwards with increased water supply in the irrigation district. This past year was the last year where the Company was committed to fixed price leasing for a portion of its water requirements.
- Funding costs of $596,636 peaked during the year as a consequence of the short-term syndicated loan facility. This facility was refinanced on a longer-term basis in May 2022 (see below) and the expectations are that these interest costs will decrease over the next twelve months even within the increasing interest rate environment.
- Depreciation expense of $577,677 (2021: $462,450) includes the depreciation of the olive trees that amounted to $373,729 (2021: $248,608).

In addition to the trading result summarised above, the Company also recorded an upward revaluation of the olive trees of $1,283,954 (2021: $1,474,080). 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 supported by an independent valuation the Directors obtained during the year. This result reflects the completion of the replanting programme in March of 2022 and 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 surplus of $892,890 (2021: deficit of $1,054,709). This result a direct reflection of the strong 2021 harvest as the proceeds of the sale of the oil produced is received in the 2022 year. Accordingly, cash receipts from operations totalled $4,498,723 compared with $1,451,556 in the previous year.

This surplus was used to fund the completion of the replanting programme ($720,284) and a net reduction in Company debt of $283,352.

The Company ended 2022 with a cash balance of $68,040 which has been supplemented since the end of the financial year with proceeds from the sale of oil.

**Balance sheet**

The Company's balance sheet improved over the year principally as a consequence of the increased valuation of the orchard assets. Net assets increased 9.5% to $8,236,553 (2021: $38% to 7,520,561). This trend of increasing net assets is expected to continue as a consequence of:

- improved projected net profits, especially in 2023 which is expected to be an "on" year;
- continued increases in the value of orchard assets; and
- the likely capital injection from the exercise of options due to expire in December 2023.

In May, the Company settled the refinance of its banking facilities with the National Australia Bank. The principal benefits of this refinance were:

- A reduction in the effective interest rate which will lead to interest savings over coming years;
- Access to an equipment finance facility of $500,000; and
- The expiry of the core debt facilities being set to 30 April 2025 with no principal reductions due until March 2024.

## 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 orchard management team continues to be 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 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.

With the completion of the replanting programme, the short-term focus of orchard management will now be centred on two objectives:

- the training of the newly planted trees so as to maximise their yielding potential while still being able to be harvested mechanically by available technology; and
- review, maintenance and reinvestment in orchard equipment so as to continue to simplify and streamline orchard processes as much as practical.

**Harvest**

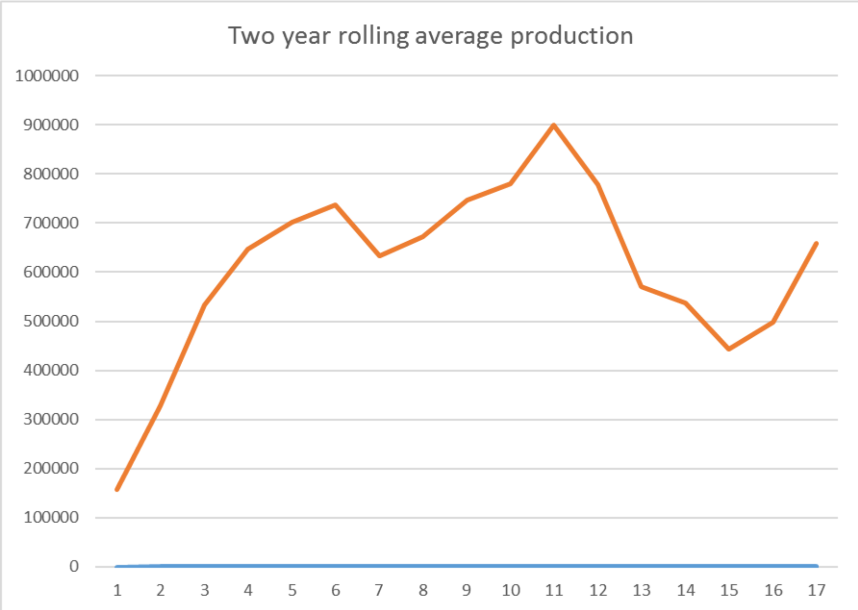
The annual harvest was completed in late June yielding 564,500 litres (2021: 752,900 litres). This harvest result was in line with management's expectations and should be considered in the following context:

- 2022 was an "off" year in the natural "on-off" biennial cycle of olive oil yield;
- a better comparative production year is 2020 in which 246,200 litres were produced as it was the previous "off" year; and
- a key contributing factor for the significant increase of the 2022 Harvest (564,500 litres) over the 2020 Harvest (246,200 litres) is the successful replanting strategy implemented in 2018 with the groves improving yield as they continue to mature.

The total harvest is summarised as follows:

| Project | Planted | Size | 2022 Harvest (Litres) |
|---|---|---|---|
| VOOP I | 2002 | 285 hectares | 382,700 |
| VOOP II | 2003 | 118 hectares | 89,200 |
| Peppercorn | 2006 | 108 hectares | 92,600 |
| | | **Total** | **564,500** |

The harvest result reflects an “off” year in the orchard which will likely be followed by an “on” year. Accordingly, management considers 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 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 continued this year and is expected to continue as the newly replanted areas continue to mature.




Testing of the oil to date has confirmed that the majority of this season’s oil produced is of a high extra virgin quality and will be supplied to Boundary Bend Olive Pty Ltd in support of the Cobram Estate and Redisland retail brands of extra virgin olive oil. The remaining portion of final production was adversely impacted by the late harvest and the unusually wet conditions. As a consequence, this portion was reclassified as virgin olive oil grade, the second highest grade of olive oil. A review of this year’s harvest operations specifically considered this quality issue and concluded that while the circumstances that gave rise to the virgin oil can reoccur, they are not systematic to the orchard operations. Specifically, the principal cause of this season’s quality issues related to the wet harvest conditions.

Orchard management’s outlook for the 2023 harvest is that it will almost certainly be greater than the previous “on” year which was the 2021 harvest, The Company is proceeding with an initial budget production for 2023 in the region of 800,000 – 850,000 litres and this will be refined by the orchard team later this year after flowering and fruit set in November. As always, the 2023 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.

As noted above, the virgin olive oil produced this year has been marketed directly by the Company rather than through Cobram. Current indications are that with a general shortage of olive oil resulting from a below average Australian harvest, customer demand is high and it is expected that total sales proceeds will be materially similar to management’s initial expectations.

**Water**

Rainfall across the wider Murray Darling Basin over the last year has been well above average resulting in a plentiful supply of irrigation water. Reports that the ”La Nina” effect may continue through to 2023 indicate that this scenario will not change over the next year.  Accordingly, spot water prices in our irrigation district are currently in the region of $40 per megalitre which compares with prices in the region of $700 per megalitre at the peak of the drought just three years ago.

Management's plan to acquire water for the orchard this year will make use of water carried over from last season in conjunction with purchases on the spot market.  The term lease the Company had for 500 megalitres ceased last season and is not expected to be renewed in the current market.   The expectation is that the cost of water to the Company over the short to medium term will be below the historical average.

In summary, the business risk associated with water has decreased.

The Company received a distribution of both high and low reliability water shares as a consequence of the distribution of the irrigator's share of water recovered under the GMW Connections Project.  The Company sold the high reliability water shares during the year and retained the low security water shares adding to the ability to carry water entitlements from one season to the next.

**Operating costs**

Business operations continue relatively smoothly although it is recognised that the limited access to reliable casual labour, especially over the harvest period, continues to complicate the planning of orchard activities. The Company has experienced upward cost pressure in areas such as fertiliser, diesel and energy costs and expect these to continue into the near future.  As noted above, savings are being experienced with water prices currently being low as a consequence of wetter than normal weather conditions.

**Replanting programme**

As previously reported, the replanting programme was competed in March 2022.  This marks the end of the capital expenditure associated with this project although it is noted that the recently planted areas will continue to incur some maintenance costs before they enter production.

With regard to the three tranches of the programme, we note:

- the 2018 replantings were harvested for the second time this season producing over 1,300 litres per hectare, consistent with initial expectations;
- the 2019 replanting had shown good canopy growth over the last year and were harvested for the first time this season.  The average yield of just below 1,000 litres per hectare was below that of the 2018 planting and reflects the smaller trees received at the time of planting.  These trees will 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; and
- the third tranche of approximately 56 hectares was planted in March 2022.  The quality of trees received from the nursery was above that of the 2019 planting and early indications are that the number of replants required is very low.  These trees are expected to enter commercial production in 2025.

*Figure 1. A view of the 2019 planting ready for harvest*

**COVID-19**

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

The Company continues to review the business 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 forward to deliver long term growth and to maximise value for all stakeholders.

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.

**Looking forward**

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**Appreciation**

As always, 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:**
**The Board of Directors**

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