

Appendix 4D and Interim Financial Report for the half-year ended 31 December 2018

Name of entity

Murray River Organics Group Limited
ABN 46 614 651 473

Reporting period

Report for the half-year ended 31 December 2018 ('current period')
Previous corresponding period is the half-year ended 31 December 2017 ('previous period')

Results for announcement to the market

(All amounts in this report are expressed in \$'000 unless otherwise stated)

Revenue from ordinary activities	Down	23.2%	to 30,251
Loss from ordinary activities after tax	Up	Not a meaningful figure	to (4,608)
Loss after tax attributable to members	Up	Not a meaningful figure	to (4,608)

Supplementary Comments

Please refer to the attached financial report for the half-year ended 31 December 2018 for an explanation of the above figures.

Interim Dividends (distributions)	Amount per security (cents per share)	Franked amount per security (cents per share)
Current period	Nil	Nil
Previous corresponding period	Nil	Nil
Record date for determining entitlements to the dividend	Not Applicable	

Net tangible assets per security

	Current period Cents per Share	Previous period Cents per Share
Net tangible asset backing per ordinary security	\$0.10	\$0.45

This half-year report should be read in conjunction with the most recent annual report.

This report is designed to meet the half-yearly reporting requirements and does not include the full disclosures as contained in the annual financial statements.

Murray River Organics Group Limited
ABN 46 614 651 473

Financial report for the half-year ended 31 December 2018

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Directors' Report

The directors of Murray River Organics Group Limited (the Company) submit herewith the financial report of the Company and its subsidiaries (the Group) for the half-year ended 31 December 2018. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of the company during or since the end of the half-year are:

Name

Mr Andrew Monk Non-Executive Independent Chairman	Appointed Non-Executive Director and Chairman on 24 January 2018
Mr Keith Mentiplay Non-Executive Independent Director	Appointed Non-Executive Director on 24 January 2018
Mr Michael Porter Non-Executive Independent Director	Appointed Non-Executive Director on 2 April 2018
Ms Valentina Tripp CEO and Managing Director	Appointed Non-Executive Director on 16 April 2018
Mr Steven Si Non-Executive Independent Director	Appointed Non-Executive Director on 24 January 2018 Resigned as a Director 10 August 2018

Company Overview

Murray River Organics is a leading Australian grower, processor, manufacturer and seller of organic and better-for-you food products. Our aim is to make organic, healthy and sustainable food choices a reality for our consumers in Australia and around the world.

Murray River Organics began in 2010 on a single 28-hectare farm in Merbein, Victoria. It now operates over 4,890 hectares of farmland in the Sunraysia region, including the largest organic dried vine fruit properties in Australia.

In addition to our farming assets and processing plant in Mourquong NSW, the Group operates a food manufacturing and distribution facility in Dandenong South, Victoria. From this site it packs and distributes an extensive range of organic and better-for-you food products under its own brands and for other retailers.

The Group's customers include domestic retail (sold in supermarkets and specialty retail under both Murray River Organics own brands and private label), wholesale and industrial (bulk product to wholesalers providing supply to other third parties (including retailers) and customers who use dried vine fruit in their products (for example bakery products, cereal products and confectionery), export to a variety of export channels across Asia, the US and Europe, and fresh fruit (citrus, wine grape and table grapes to processors and wine makers).

Review of operations

Key Strategic achievements

The half-year under review, saw Murray River Organics take major steps forward in restoring shareholder value despite challenging conditions whilst recapitalising the group. The Group is on track of successfully executing its business turnaround plan noting the following highlights:

- Successful capital raising of \$30.6 million.
- Renegotiation of a new three-year multi option banking facility with NAB expiring 30 November 2021.
- Settlement proceeds of \$1.420 million received from the sale of the Pomona farms, Cowanna house and Walnut Avenue warehouse.
- Embedded new leadership team and restructured the sales and procurement teams, as well as introduced a strategic sourcing unit.

- Reset our relationships with our major retail customers and our speciality retailers as well as wholesalers.
- Completed ranging of Pacific Organics “branded” products in Metcash.
- Established new pricing and costing disciplines which resulted in improved commercial returns on sourced and own grown branded product, and the exit of non-profitable lines.
- Transitioned pick ‘n pack wholesale business operations to South Park Drive and improved service and delivery for our customers
- Improved stock rotation and cleaned up a large portion of the slow and obsolete stock, which will continue to be an area of focus.
- Launch of taking ‘Sunraysia to Asia’, which is aimed at ranging new innovative products to Asia in both organic and natural better-for-you categories.
- Launch of “Growing Together” Program aimed at increasing the amount of fruit supplied by third party growers to supply export growth opportunities.
- We are implementing our remediation plan for our farming properties to strengthen vines and improve yields over the next 2 to 3 years.
- Achieved organic certification in relation to the Nangiloc property.

Financial Overview

	Dec 18 ⁽ⁱ⁾	Dec 17 ⁽ⁱ⁾	Change	
	\$'000	\$'000	\$'000	%
Revenue	30,251	39,373	(9,122)	-23.2%
Underlying EBITDA (loss) excluding SGARA ⁽ⁱⁱⁱ⁾	(1,299)	(4,805)	3,506	73.0%
Underlying EBITDA excl. SGARA ⁽ⁱⁱ⁾ to Sales	-4.3%	-12.2%		7.9%
Underlying EBIT (loss) excluding SGARA ⁽ⁱⁱⁱ⁾	(3,542)	(7,764)	4,222	54.4%
Underlying EBIT excl. SGARA ⁽ⁱⁱ⁾ to Sales	-11.7%	-19.7%		8.0%
Reported loss after tax	(4,608)	(22,193)	17,585	79.2%
	Dec 18 ⁽ⁱ⁾	Jun 18 ⁽ⁱ⁾		
	\$'000	\$'000		
Working capital ^(iv)	17,358	11,098	6,260	56.4%
Net bank debt ^(v)	33,230	44,868	(11,638)	-25.9%
Gearing - Bank Debt ^(vi)	78%	225%		
Net Tangible Assets per share	0.10	0.16	(0.06)	-38.3%

⁽ⁱ⁾ Unaudited non-IFRS financial table

⁽ⁱⁱ⁾ EBITDA (Earnings Before Interest, Tax, Depreciation and Impairment)

⁽ⁱⁱⁱ⁾ EBIT (Earnings Before Interest and Tax)

^(iv) Trade and other receivables plus inventories less trade and other payables

^(v) Net borrowings less Colignan vineyard finance lease

^(vi) Net bank debt divided by total equity

NMF means Not a Meaningful Figure

SGARA means fair value revaluation of Self-Generating and Regenerating Assets (agricultural produce)

Reconciliation of Underlying EBIT and EBITA provided in the Directors' Report.

- Revenue for the half-year of \$30.251 million was \$9.122 million down compared to the corresponding period. During this period of turnaround and transition, major customer relationships were reinvigorated and continue to be healthy, however the half was impacted by inconsistent fill rates where cash constraints restricted the Group's ability to efficiently build adequate stock levels on time, to meet customer demands. Since completion of the

capital raising in October 2018, stock levels have been progressively realigned to sales forecasts.

During the current half-year, the sales and procurement teams were rebuilt, (as previously management had unfortunately reduced the local and overseas sales team), and new innovative product pipeline has been significantly enhanced which will enable the Group to grow its national retail and wholesale/industrial business going forward.

Export sales of \$3.671 million, were \$0.535 million below the corresponding period, as it was constrained by the quality of loose and cluster dried fruit, and inadequate supply of key dried fruit varieties from the 2018 harvest. Going forward, the fundamentals of demand remain strong with Global Dried Vine Fruit Market experiencing significant growth in demand. More than 80% of MRO's dried vine fruit is exported around the world.

Citrus sales of \$3.611 million, were up 51.8% and margin achieved with one of our marketing and packing partners, Simfresh was as expected. However, the margin outcome from the agreement negotiated by the previous management with Nutrano/Seven Fields business was extremely disappointing. The net price after their marketing, commission and distribution costs resulted in the net returns being significantly below expectations.

- Underlying EBITDA loss excluding SGARA was \$1.299 million, \$3.506 million or 73.0% improvement to the corresponding period last half-year. Significant work has been undertaken to improved sourcing and manufacturing efficiency (albeit, further significant improvements are foreseeable) and by focusing on maintaining/growing acceptable margins rather than participating in aggressive price reduction campaigns for the sake of higher sales growth.
- Depreciation was \$1.514 million below the corresponding period last half-year, of which \$0.798 million has been capitalised into the value of agricultural produce (biological assets), impacting the SGARA gain. The total depreciation incurred of \$2.243 million, was \$0.716 million below the corresponding period last year, following the impairment of plant, equipment and lease hold improvements at 30 June 2018 of \$10.420 million.
- The statutory consolidated net loss after tax of the Group for the half-year ended 31 December 2018 was \$4.608 million (2017: Net loss after tax of \$22.193 million, which was impacted by significant items including goodwill impairment, inventory write downs and provisioning, restructuring costs, and reversal of provision for group reorganisation, totalling \$19.084 million).
- As detailed in the 30 June 2018 financial report, the Group has realigned the valuation of its total dried fruit crop to a fair value less costs to sell based on the farm gate price of loose dried fruit (which reflects the pre-processed third party grower price at the point of harvest) in accordance with "AASB 141 *Agriculture*" and consistent with other agricultural growers. This approach has also been applied to fresh tables grapes and citrus. As a result of this change in accounting estimate, the fair value gain reported in the statement of profit or loss was \$0.061 million (2017: \$6.836 million).
- Net bank debt, excluding the Colignan property finance lease was \$33.230 million, with gearing down to 77.6% compared to June 2018 at 224.6%, following the successful capital raising (24 October 2018) of \$27.136 million (net of costs).
- Working capital increased by \$6.260 million from 30 June 2018, due to timing of customer receipts (which was consistent to December 2017) and increased supplier payments following tight management of suppliers' payments prior to the completion of the October 2018 capital raise.

	Dec 18 ⁽ⁱ⁾	Jun 18 ⁽ⁱ⁾	Change	
	\$'000	\$'000	\$'000	%
Working Capital				
Trade and other receivables	8,734	6,729	2,005	29.8%
Inventories	16,707	16,194	513	3.2%
Trade and other payables	(8,083)	(11,825)	3,742	-31.6%
Working Capital	17,358	11,098	6,260	56.4%
Agricultural produce	7,090	2,621	4,469	170.5%
Working Capital incl Agricultural produce	24,448	13,719	10,729	78.2%

⁽ⁱ⁾ Unaudited non-IFRS financial table

Agricultural produce increased by \$4.469 million from June 2018, reflecting the seasonal nature of the Group's crop, which comprised predominately of dried fruit and fresh table grapes on vines, with full maturity to be reached throughout January and March, subject to weather. As a result, inventory is expected to increase following the completion of the harvest during March/April.

- Operating cash flows from "operating activities" for the half-year was negative \$14.090 million, \$8.124 million greater compared to the previous corresponding period. This is largely driven by overall lower sales for the period, an increase in debtors arising from additional sales with major retail customer, additional supplier payments, prepayment of insurance premiums and imported inventory (prior to shipment), grower Christmas bonus prepayments, farming input costs relating to the 2019 harvest and GST refunds over the comparative half-year periods.

Operating cash flows for the half-year ended 31 December 2017 also included an interim cash inflow benefit of \$2.026 million arising from a reduction in prepayments in the prior period and the benefit of stock reductions between June and December 2017.

	Dec 18 ⁽ⁱ⁾	Dec 17 ⁽ⁱ⁾	Change	
	\$'000	\$'000	\$'000	%
Reported loss after tax	(4,608)	(22,193)	17,585	79.2%
Income tax benefit	-	1,631	(1,631)	
Finance costs	1,925	1,569	356	-22.7%
EBIT (loss)	(2,683)	(18,993)	16,310	85.9%
Significant items				
Impairment of non-current assets	-	(10,376)	10,376	
Inventory write down	-	(8,344)	8,344	
Business restructuring costs	-	(1,405)	1,405	
Reversal of provision for group reorganisation	-	1,041	(1,041)	
Underlying EBIT (loss)	(2,683)	91	(2,774)	NMF
Less SGARA gain	(61)	(7,855)	7,794	-99.2%
Less Depreciation included in Agricultural Produce	(798)	-	(798)	
Underlying EBIT (loss) excluding SGARA	(3,542)	(7,764)	4,222	54.4%
Total depreciation incurred	(2,243)	(2,959)	716	24.2%
Underlying EBITDA (loss) excluding SGARA	(1,299)	(4,805)	3,506	73.0%

⁽ⁱ⁾ Unaudited non-IFRS financial table

NMF means Not a Meaningful Figure

Outlook

The Board remains confident in the business fundamentals, with continued focus on improving customer service and delivering commercially acceptable margins rather than participating in aggressive sales growth. Solid inroads were achieved in the first half to reduce costs and we expect these to continue to improve as the farming and manufacturing operations are reset.

Our turnaround and growth strategy are well underway, with a large amount of work still ahead of us this year.

Demand for organic dried fruit remains strong, with long term investment continuing on our farms to grow supply.

Subsequent events

There have been no events subsequent to reporting date which would have a material effect on the Group's consolidated financial statements as at 31 December 2018.

Dividend

No dividends were paid or declared during the half-year (2017: nil).

Auditor's independence declaration

The auditor's independence declaration, obtained in accordance with s.307C of the *Corporations Act 2001*, is included on page 8 of the half-year financial report.

Rounding off of amounts

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

Director



Andrew Monk
Chairman

Director



Valentina Tripp
Managing Director

28 February 2019

Auditor's Independence Declaration to the Directors of Murray River Organics Group Limited

As lead auditor for the review of half-year financial report of Murray River Organics Group Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Murray River Organics Group Limited and the entities it controlled during the financial period.



Ernst & Young



David Petersen
Partner

28 February 2019

Independent Auditor's Review Report to the Members of Murray River Organics Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Murray River Organics Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

For the half-year ended 31 December 2018, the Group incurred a net loss of \$4.608 million and net cash outflows from operating activities of \$14.090 million. These factors along with the other risks outlined in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.


Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



David Petersen
Partner
Melbourne

28 February 2019

Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, 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
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with Accounting Standard AASB134 *Interim Financial Reporting* and giving a true and fair view of the financial position as at 31 December 2018 and performance for the half-year ended on that date of the Group.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Director



Andrew Monk
Chairman

28 February 2019

Director



Valentina Tripp
Managing Director

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2018

		Half-year ended	
	Note	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Revenue		30,251	39,373
Other income	4	448	71
Fair value gain on agricultural produce		61	7,855
Change in finished goods		(1,083)	1,259
Raw materials, consumables used and farming input costs		(22,331)	(35,124)
Administration expense		(1,266)	(1,237)
Selling expenses		(447)	(597)
Employee benefits expense		(4,068)	(4,852)
Freight out and distribution expenses		(1,292)	(1,926)
Depreciation expense	5	(1,445)	(2,959)
Other expenses		(1,511)	(1,772)
Finance costs	6	(1,925)	(1,569)
Inventory write down		-	(8,344)
Business restructuring costs		-	(1,405)
Reversal of provision for group reorganisation		-	1,041
Goodwill impairment		-	(10,376)
Loss before tax		(4,608)	(20,562)
Income tax expense		-	(1,631)
Loss for the half-year		(4,608)	(22,193)
Attributed to:			
Equity holders of the parent		(4,608)	(22,193)
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Net movement in cash flow hedges		98	-
Income tax effect of other comprehensive income		-	-
Total other comprehensive income		98	-
Total comprehensive loss for the half-year attributable to equity holders of the parent		(4,510)	(22,193)
Basic earnings per share		(0.02)	(0.19)
Diluted earnings per share		(0.02)	(0.19)

Notes to the financial statements are included on pages 16 to 25.

Condensed consolidated statement of financial position as at 31 December 2018

	Note	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Current assets			
Cash and cash equivalents		1,431	4
Trade and other receivables		8,734	6,729
Inventories		16,707	16,194
Agricultural produce		7,090	2,621
Other financial assets		267	169
Other assets		1,588	1,320
		35,817	27,037
Assets held for sale	7	6,361	7,642
Total current assets		42,178	34,679
Non-current assets			
Property, plant and equipment		70,117	67,610
Total non-current assets		70,117	67,610
Total assets		112,295	102,289
Current liabilities			
Trade and other payables		8,083	11,825
Borrowings	11	4,106	47,161
Provisions		467	755
Total current liabilities		12,656	59,741
Non-current liabilities			
Borrowings	11	56,282	22,133
Provisions		544	440
Total non-current liabilities		56,826	22,573
Total liabilities		69,482	82,314
Net assets		42,813	19,975
Equity			
Contributed equity	9	150,968	123,832
Reserves		(39,817)	(40,127)
Accumulated losses		(68,338)	(63,730)
Total equity		42,813	19,975

Notes to the financial statements are included on pages 16 to 25.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2018

	Contributed equity \$'000	Retained earnings/ (Accumulated losses) \$'000	Corporate re- organisation reserve \$'000	Share-based payments reserve \$'000	Asset revaluation reserve \$'000	Hedging Reserve \$'000	Total equity \$'000
Balance at 1 July 2017	112,002	(4,123)	(47,453)	511	5,342	-	66,279
Loss for the half-year	-	(22,193)	-	-	-	-	(22,193)
Total comprehensive loss for half-year	-	(22,193)	-	-	-	-	(22,193)
Revaluation of assets	-	-	-	-	(174)	-	(174)
Issue of shares	12,106	-	-	-	-	-	12,106
Equity raising costs (net of tax)	(456)	-	-	-	-	-	(456)
Share-based payments expense	180	-	-	(177)	-	-	3
Balance at 31 December 2017	123,832	(26,316)	(47,453)	334	5,168	-	55,565
Balance at 1 July 2018	123,832	(63,730)	(47,453)	427	6,781	118	19,975
Loss for the half-year	-	(4,608)	-	-	-	-	(4,608)
Other comprehensive income	-	-	-	-	-	98	98
Total comprehensive loss for half-year	-	(4,608)	-	-	-	98	(4,510)
Issue of shares	30,618	-	-	-	-	-	30,618
Equity raising costs (net of tax)	(3,482)	-	-	206	-	-	(3,276)
Share-based payments expense	-	-	-	6	-	-	6
Balance at 31 December 2018	150,968	(68,338)	(47,453)	639	6,781	216	42,813

Notes to the financial statements are included on pages 16 to 25.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2018

	Half-year ended	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities		
Receipts from customers	31,417	39,500
Payments to suppliers and employees	(42,948)	(43,270)
Interest received	-	11
Interest paid	(2,559)	(2,207)
Net cash used in operating activities	(14,090)	(5,966)
Cash flows from investing activities		
Payments for property, plant & equipment	(2,833)	(14,259)
Payment for business acquisitions	-	(2,626)
Proceeds from sale of property, plant and equipment	1,420	-
Net cash used in investing activities	(1,413)	(16,885)
Cash flows from financing activities		
Proceeds from related parties	-	15
Proceeds from borrowings	37,911	37,062
Repayment of borrowings	(44,571)	(29,552)
Proceeds from leases	-	4,310
Proceeds from equipment financing	853	153
Repayment of equipment financing	(799)	(553)
Proceeds from issue of share capital and trust units	30,618	12,106
Transaction costs paid on issue of securities	(3,276)	(651)
Net cash generated by financing activities	20,736	22,890
Net increase in cash and cash equivalents	5,233	39
Cash and cash equivalents at the beginning of the half-year	(3,802)	2,724
Cash and cash equivalents at the end of the half-year	1,431	2,763

Notes to the financial statements are included on pages 16 to 25.

Notes to the consolidated financial statements

1. General information and group reorganisation

These are the half-year condensed consolidated financial statements of Murray River Organics Group Limited (the “Group” or the “Company”).

2. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report of Murray River Organics Group Limited for the year ended 30 June 2018, together with any public announcements made by the Murray River Organics Group Limited during the half-year ended 31 December 2018. This annual financial report is available on the ASX website.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

The accounting policies and methods of computation adopted in the preparation of the interim condensed financial report are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2018, except for the impact of the adoption of the new and revised accounting policies' discussed below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The critical accounting judgements and key sources of estimation uncertainty remain consistent, with those disclosed in the Group's annual financial report for the year ended 30 June 2018.

Certain classifications have been made in the condensed consolidated financial statements to ensure prior period comparative information conforms to current year presentations.

Going concern basis

The condensed consolidated financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At the date of this report, the Directors have reviewed the Group's turnaround plan and detailed financial forecasts and whilst as expected in the normal course of business, there may be some variability in the amount and timing of operating cash flows, the Directors are confident that the Group will be able to successfully execute its turnaround plan within its existing NAB banking facility.

As part of the existing multi-option banking facility with the National Australia Bank (“NAB banking facility”), the Group has an additional working capital facility of \$1.000 million on 31 May 2019 and \$10.500 million available from 31 July 2019, and other additional facilities, as described in Note 11.

Notwithstanding the above, in the event that the Group is not able to meet its trading and cash flow forecasts or raise sufficient additional funding, if required, there is a material uncertainty whether the Group will be able to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

2. Significant accounting policies (continued)

Changes in accounting policy, accounting standards and interpretations

The Group has adopted the applicable changes in the accounting standards for the half-year ended 31 December 2018 and are of the view that the adoption of the standards did not have an effect on the financial position or the performance of the Group. These are outlined below.

In addition, the Group has not elected to adopt any new standards and amendments issued but not yet effective, including AASB 16 *Leases*.

The Group continues to finalise the expected impact of such new standards and amendments on the financial position and performance of the Group. Based on the Group's assessment to date, the expected impact disclosures in the annual financial report for the year end 30 June 2018 remain applicable.

The Group has adopted the following new accounting standards during the half-year ended 31 December 2018:

AASB 15 *Revenue from Contracts with Customers*

AASB 118 *Revenue* and related Interpretations applied to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard, AASB 15 *Revenue from Contracts with Customers*, establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The adoption of AASB 15 has not impacted the timing of revenue recognition on the sale of goods, which continues to be recognised on a point in time basis. Revenue from the sale of goods is recognised when the performance obligation relating to the sale has been completed; being the point in time at which the customer accepts delivery of the goods consistent with the trading terms of the contract with the customer. This is consistent with the basis under which revenue was recognised prior to the application of AASB 15.

Revenue is measured based on contracted selling prices, rebates and promotional expenditure. Rebates and promotional expenditure are deducted from the selling price in determining reported revenue. Rebates and promotional expenditure are recognised concurrently with the sale of the related goods.

Based on the assessment undertaken by the Group, there has been no material impact to the statement of financial position as at 31 December 2018 and statement of profit or loss and other comprehensive income for the half-year ended 31 December 2018, and the comparative period.

AASB 9 *Financial Instruments*

The Group has adopted AASB 9 Financial Instruments from 1 July 2018, replacing AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 introduces new requirements for:

- Classification and measurement of financial assets and financial liabilities
- Impairment of financial assets
- Hedge accounting

(a) Classification and measurement

Under AASB 9, the Group has determined that there is no change to classification and measurement to financial assets and financial liabilities.

2. Significant accounting policies (continued)

AASB 9 *Financial Instruments* (continued)

The table below outlines the accounting treatment for financial assets and financial liabilities under AASB 139 as compared to AASB 9:

Asset/Liability	Previous Accounting Treatment AASB 139	New Accounting Treatment AASB 9
Cash and cash equivalents	Amortised cost	Amortised cost
Trade and other receivables	Amortised cost	Amortised cost
Foreign currency forward contracts	Fair value through profit or loss (effective cash flow hedge portion through other comprehensive income)	Fair value through profit or loss (effective cash flow hedge portion through other comprehensive income)
Other consideration payable	Amortised cost	Amortised cost
Borrowings and loans	Amortised cost	Amortised cost

(b) Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for trade and other receivables by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

The Group has applied the simplified approach in AASB 9 and has calculated ECLs based on lifetime expected credit losses. A provision for ECLs is determined based on historic credit loss rates and adjusted for forward looking factors specific to the debtor and the economic environment, further considering the Group's limited trading history.

Based on the assessment undertaken by the Group, there has been no material impact to the statement of financial position and statement of profit or loss and other comprehensive income for the half-year ended 31 December 2018, and the comparative period.

(c) Hedge accounting

The Group uses derivative financial instruments such as forward currency contracts to hedge its risk associated with foreign currency fluctuations.

The Group has applied hedge accounting prospectively under AASB 9. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships.

Based on the assessment undertaken by the Group, there has been no material impact to the statement of financial position and statement of profit or loss and other comprehensive income for the half-year ended 31 December 2018, and the comparative period.

3. Segment information

The Group operates in one industry being the production of food and food products within Australia. All of the Group's revenue is attributable to this group of products. Approximately 88% of the Group's revenue is attributed to domestic customers, and the remainder relates to exports to USA (5%), Asia (7%) and Europe.

The chief operating decision maker (being the Managing Director) regularly reviews entity wide information that is compliant with Australian Accounting Standards. There is only one segment for segment reporting purposes and the information reviewed by the chief operating decision maker is the same as the information presented in the statement of financial position, statement of profit and loss and other comprehensive income and statement of cash flows.

During the half-year ended 31 December 2018, the Group generated sales revenue of \$15.181 million from a single customer that amounts to 50% of the Group's total sales revenue.

4. Other income

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Net gain on sale of property, plant and equipment	140	-
Net foreign exchange gains	176	-
Government grants	6	5
Interest income	-	11
Other	126	55
Total	448	71

5. Depreciation expense

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Depreciation of property, plant and equipment	2,243	2,959
Depreciation capitalised into agricultural produce	(798)	-
Net depreciation expense	1,445	2,959

6. Finance costs

	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Interest on banking facilities	1,222	987
Interest on finance lease – Colignan property	1,337	1,220
Capitalised interest relating to qualifying assets	(634)	(638)
Net finance costs	1,925	1,569

7. Assets held for sale

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Property assets	6,361	7,642

Property assets (comprising property, plant and equipment) held for sale at 31 December 2018 relate to the Fifth Street property.

The assets held for sale are measured at the lower of existing carrying value and fair value less costs to sell.

8. Impairment of non-current assets

The Group operates as a single Cash Generating Unit ("CGU"). In accordance with the Group's accounting policies and process, the Group evaluated the cash generating unit ('CGU') at 31 December 2018, to determine whether there were any indications of impairment. Where an indicator of impairment exists a formal estimate of the recoverable amount is performed.

After consideration of potential indicators which could impact the carrying amount of the CGU, the Group conducted an impairment test at 31 December 2018.

The recoverable amount of the CGU has been determined based on a value-in-use methodology which requires the use of various assumptions. This methodology uses cash flow forecasts based on financial projections by management covering a 9.5 year period, discounted at a pre-tax discount rate of 19.3%.

The Directors believe the use of a 9.5 year period is appropriate to reflect: (1) the turnaround performance of the Group from its current position; (2) the key assets are long term in nature and cash flows from those assets are achieved over time; and (3) the organic and better-for-you food industry is forecast to grow at a rate in excess of inflation for an extended period.

No impairment of the carrying amount of the CGU was identified at 31 December 2018.

Significant judgement and assumptions are required in making estimates of the CGU's recoverable amount. The cash flow forecasts used in estimating the recoverable amount are subject to variability in key assumptions, including:

- Sales growth: Sales are forecast to grow at a compound annual growth rate of approximately 18.4% per annum for forecast FY19 to FY23 and then 5.5% per annum for FY24 to FY28 reflecting management's assessment of growth in demand, additional availability of product from its farms and additional supply from third party producers.
- Operating costs: A significant proportion of the Group's farm, processing and administrative costs are considered to be relatively fixed in nature and forecast to increase by an inflationary indexation.
- Yields: Yields per hectare are based on Group forecasts for FY19 and then remain constant in future years.
- Capital expenditure: Significant capital expenditure is forecast over FY20, FY21 and FY22 to complete the Group's current vine development program after which capital expenditure is expected to remain at modest levels reflecting the Group's recently acquired infrastructure which is currently underutilised.
- Long term growth rate: 2.5%
- Discount rate: A pre-tax discount rate of 19.3% (30 June 2018: 19.3%) has been used reflecting the extended period of the forecast and inherent risks.

An adverse change in any of the above key assumptions would likely result in the carrying value of the CGU exceeding its recoverable amount.

9. Equity securities issued

	Half-year ended 31 Dec 2018		Half-year ended 31 Dec 2017	
	Number '000	\$ '000	Number '000	\$ '000
Opening balance (1 July)	127,577	123,832	87,087	112,002
Issue of shares to other employees	-	-	138	180
Issue of shares via Placement/Entitlement Offer	306,184	30,618	40,352	12,106
Equity raising costs (net of tax)	-	(3,482)	-	(456)
Closing balance (31 December)	433,761	150,968	127,577	123,832

On 24 October 2018, a 2.4 for 1 accelerated pro-rate renounceable entitlement offer of \$30.6 million new fully paid ordinary shares was completed, raising net proceeds of \$30.618 million before taking into account equity raising costs recorded in equity of \$3.482 million for the half-year ended 31 December 2018.

On 30 August 2017, a placement and entitlement offer of 40,351,692 new fully paid ordinary shares was completed, raising net proceeds of \$12.106 million, before taking into account capital raising costs recorded in equity of \$0.456 million (net of tax) for the half-year ended 31 December 2017.

10. Fair value of financial instruments

The only financial assets or financial liabilities carried at fair value are foreign currency contracts. The Directors consider the foreign currency contracts to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurements are derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between level 1, 2 and 3 for recurring fair value measurements during the half-year ended 31 December 2018. The foreign currency contracts fair values have been obtained from third party valuations derived from discounted cash flow forecasts of forward rates (from observable yield curves at the end of the reporting period) and contract rates.

The following table gives information about how the fair values of these financial liabilities are determined (the valuation techniques and inputs used).

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31 Dec 18 \$'000	30 Jun 18 \$'000		
1) Foreign currency forward contracts	Asset: 267	Asset: 169	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counterparties.

The Directors consider that the carrying amount of other financial assets and financial liabilities recorded in the financial statements approximate their fair values.

11. Borrowings and banking facilities

a) Borrowings

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
<u>Current</u>		
<i>Secured borrowings:</i>		
Bank overdraft	-	3,806
Bank and trade finance loans	-	35,122
Lease liabilities – equipment loans	1,727	5,944
Lease liabilities – Colignan property	2,450	2,289
Deferred borrowing costs	(71)	-
Total	4,106	47,161
<u>Non-current</u>		
<i>Secured borrowings:</i>		
Bank loans	28,662	-
Lease liabilities – equipment loans	4,272	-
Lease liabilities – Colignan property	23,477	22,133
Deferred borrowing costs	(129)	-
Total	56,282	22,133
b) Gearing ratio		
Bank debt (bank, trade finance and equipment loans)	34,661	44,872
Cash and cash equivalents	(1,431)	(4)
Net Bank Debt	33,230	44,868
Total Equity	42,813	19,975
Net Bank Debt to Equity ratio	78%	225%
Net Borrowings (Net Bank Debt and Colignan property finance lease)	59,157	69,290
Net Borrowings to Equity ratio	138%	347%

The bank financing arrangements (comprising term loans, equipment finance and other facilities) are secured by the Group's assets by registered mortgage freeholds over the land and buildings, and first ranking fixed and floating charges over the Company and its subsidiaries (with corresponding cross guarantee). The multi-option banking facilities expiry on 30 November 2021. The details of the banking facilities are as follows:

- a \$34.000 million term loan facility (comprising a \$31.000 million facility and \$3.000 million fixed rate term facility), with \$6.0 million in additional staged drawdowns;
- a \$10.500 million working capital facility commencing on 31 July 2019 and increasing to \$15.000 million from 31 July 2020; and
- equipment finance loan, bank guarantee and card facilities.

11. Borrowings and banking facilities (Continued)**(b) Banking facilities**

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Summary of financing arrangements		
<u>Facilities limit at reporting date:</u>		
Bank overdraft	-	4,000
Trade finance loan	-	14,000
Equipment loans & leases	7,300	8,500
Bank loans	34,000	19,583
Bank guarantee	1,285	1,530
	42,585	47,613
<u>Facilities utilised at reporting date:</u>		
Bank overdraft	-	3,806
Trade finance loan	-	13,950
Equipment loans & leases	5,999	7,629
Bank loans	28,662	19,487
Bank guarantee	1,285	1,514
	35,946	46,386
<u>Facilities not utilised at reporting date:</u>		
Bank overdraft	-	194
Trade finance loan	-	50
Equipment loans & leases	1,301	871
Bank loans	5,338	96
Bank guarantee	-	16
	6,639	1,227

12. Share Based payments

Following the successful completion of the capital raise dated 24 October 2018, share options were granted to the Directors and new Retention Incentive options were granted to the Chief Executive Officer and Managing Director. Options granted to Chief Executive Officer and Managing Director in April 2018 were subject to shareholder approval at the November 2018 Annual General Meeting (at which a shareholder resolution was not presented) and, therefore, the original options were forfeited and replaced by the below Retention Incentive options.

As part of the completion of the capital raise dated 24 October 2018, share options were also issued to EM Advisory, that acted as the financial advisor on the transaction.

In addition, performance rights were issued to the Chief Executive Officer and Managing Director, and Chief Financial Officer under the Group's Long Term Incentive ("LTI") Plan.

The Director and executive share options and performance rights were approved by shareholders at the Annual General Meeting on 22 November 2018.

Share Options

The fair value of each share option is estimated at the grant date by taking into account the terms and conditions upon which the share options were granted. The fair value of the share options granted were estimated on the grant date using the following assumptions:

	Andrew Monk	Keith Mentiplay	Michael Porter	Valentina Tripp (Retention Incentive)			EM Advisory
				Tranche A	Tranche B	Tranche C	
Number of options	1,000,000	1,000,000	1,000,000	6,000,000	6,000,000	6,000,000	3,825,000
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected volatility	90%	90%	90%	90%	90%	90%	90%
Risk-free interest rate	2.12%	2.12%	2.12%	2.08%	2.17%	2.75%	2.06%
Expiry date	22/11/21	22/11/21	22/11/21	16/04/21	16/04/22	16/04/23	1/11/21
Exercise share price	\$0.10	\$0.10	\$0.10	\$0.10	\$0.18	\$0.27	\$0.12
Fair value of share options at grant date (per share option)	\$0.0478	\$0.0478	\$0.0478	\$0.0429	\$0.0397	\$0.0401	\$0.0539

Information with respect to the number of share options granted is as follows:

	2018 Number
Outstanding balance at 30 June 2018	6,000,000
- Granted	24,825,000
- Forfeited	(6,000,000)
- Exercised	-
- Expired	-
Outstanding balance at 31 December 2018	24,825,000

The weighted average fair value of the options granted during the half-year ended 31 December 2018 was \$0.0437 (year ended 30 June 2018: \$0.11).

Performance Rights ("PR")

The fair value of each PR is estimated at the grant date by taking into account the terms and conditions upon which the PR were granted. The fair value of the PR granted were estimated on the grant date using the assumptions detailed below.

	Valentina Tripp	Albert Zago
Number of Performance Rights	2,325,451	901,112
Grant date	21/11/18	1/11/18
Valuation model	Monte Carlo	Monte Carlo
Dividend yield	0.0%	0.0%
Expected volatility	90%	90%
Risk-free interest rate	2.12%	2.06%
Expiry date	21/11/21	1/11/21
Fair value of share options at grant date (per share option)	\$0.054	\$0.062

The PRs will vest subject to achieving a Total Shareholder Return ('TSR') Compound Annual Growth Rate ('CAGR') over the performance period, which is a 3 year period from the date of grant. This TSR vesting condition is market based vesting condition. Details of the vesting conditions are summarised below:

TSR CAGR	Vesting %	
Less than 10% per annum	0%	
10% per annum	25%	Straight line interpolation between 10% and 12.5%
12.5% per annum	50%	Straight line interpolation between 12.5% and 15%
15% per annum	100%	

For the half-year ended 31 December 2018, the Group has recognised a share-based payment expense of \$6,000 in the statement of profit or loss.

The Group has additionally recognised \$206,000 of share-based payments as an equity transaction cost directly in contributed equity in relation to the options granted to EM Advisory.

13. Events subsequent to reporting date

There have been no events subsequent to the reporting date which would have a material effect on the Group's condensed consolidated financial statements as at 31 December 2018.