



# APPENDIX 4E PRELIMINARY FINANCIAL REPORT

WELLARD LIMITED 2018/2019





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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

This report covers Wellard Limited ABN 53 607 708 190 (**Wellard** or **Company**) and the entities it controlled during the financial year ended 30 June 2019 (**Wellard Group** or **Group** or **Consolidated Group**), for the financial year ended 30 June 2019 (**FY2019**).

The previous corresponding period is the year ended 30 June 2018 (**FY2018**).

The financial statements are presented in Australian dollars (unless otherwise stated).

A summary of the financial results and key financial items is set out below.

Financial results and key financial items from continuing operations:

FOR THE YEARS ENDED JUNE	AUD	2019	2018	Movement %
<b>Total revenue</b>	<b>\$m</b>	<b>235.1</b>	<b>237.0</b>	<b>(0.8)</b>
Trading revenue <sup>1</sup>	\$m	181.7	186.6	(2.6)
Charter revenue <sup>2</sup>	\$m	51.9	46.5	11.6
Other revenue	\$m	1.5	3.9	(61.5)
<b>Gross profit</b>	<b>\$m</b>	<b>38.8</b>	<b>32.8</b>	<b>18.3</b>
<b>Gross margin</b>	<b>%</b>	<b>16.5%</b>	<b>13.8%</b>	<b>19.2</b>
<b>Expenses</b>	<b>\$m</b>	<b>(47.0)</b>	<b>(40.6)</b>	<b>(15.8)</b>
Operational expenses <sup>3</sup>	\$m	(16.9)	(17.3)	2.3
Administrative expenses	\$m	(7.7)	(9.5)	18.9
Impairment expenses	\$m	(22.4)	(13.8)	(62.3)
<b>EBITDA<sup>4</sup></b>	<b>\$m</b>	<b>12.0</b>	<b>9.8</b>	<b>22.4</b>
<b>Loss from continuing operations, before tax</b>	<b>\$m</b>	<b>(41.6)</b>	<b>(35.2)</b>	<b>(18.2)</b>
<b>Loss from discontinued operations, net of tax</b>	<b>\$m</b>	<b>(1.5)</b>	<b>(1.3)</b>	<b>(15.4)</b>
<b>Net loss after tax</b>	<b>\$m</b>	<b>(48.4)</b>	<b>(36.4)</b>	<b>(33.0)</b>
Operating cashflows before interest	\$m	29.8	7.7	287.0
Interest cover <sup>5</sup>	times	1.1	1.0	10.0
Net debt <sup>6</sup>	\$m	102.7	136.6	(24.8)
Debt to capital ratio <sup>7</sup>	%	65.6	58.8	(11.6)
Net tangible assets	\$m	54.7	87.2	(37.3)
Net tangible assets per security	cps	10.3	17.5	(41.2)

### Notes:

1. Trading revenue is generated from the buying and selling of livestock including related logistics for continuing operations.
2. Charter revenue is generated from the sale of space on the Company's vessels for the carriage of cargo owned by third parties.
3. Operating expenses include operational expenditure and other expenses.
4. EBITDA equals loss from continuing operations before income tax, less depreciation and amortisation expenses, less net finance costs, less other gains/(losses) arising from other activities, less impairment expense.
5. Interest cover equals EBITDA divided by net finance costs.
6. Net debt equals loans and borrowings less cash and cash equivalents.
7. Debt to capital ratio equals loans and borrowings divided by total equity plus loans and borrowings.



## DIVIDENDS

The Company does not intend to pay any dividends in respect of the year ended 30 June 2019 (2018: Nil).

## AUDIT STATUS

This report is based on accounts which are in the process of being audited. The 30 June 2019 financial report, when audited, is likely to contain an independent auditor's report which includes a material uncertainty over going concern. Additional disclosure has been included in Note 1 to the financial statements.

## WELLARD

The Group is an agribusiness that connects primary producers of cattle, sheep and other livestock to customers through a global and vertically integrated supply chain.

The Group trades and exports live cattle predominantly from Australia and is a supplier of seaborne transportation for livestock globally.

The Group also exported sheep meat from Australia, from its now sold Beaufort River Meats facility.

Wellard sources livestock in markets where production is surplus to domestic requirements (including Australia, Brazil and Uruguay) and sells livestock to customer markets where demand exceeds local production (including Indonesia, Vietnam, the Middle East, Turkey and China), utilising its own and third-party vessels.

Wellard charters its ships to third parties earning freight income by carrying live animals on their behalf.

To support its operations, the Group owns and/or controls a fleet of purpose-built livestock transport vessels.

## FINANCIAL REVIEW

FY2019 represents our second year in a row of positive EBITDA, and the Group's earnings of \$12.0 million represents a 22.4% (or \$2.2 million) improvement on last year. However, it was clearly a year of two distinctive halves, with the first half EBITDA of \$23.0 million offset by an EBITDA loss of \$11.0 million in the second half.

FY2019 commenced positively with record first half earnings, however market volatility and restructuring activities once again negatively impacted earnings in the second half of the year. Vessel utilisation fell, with the M/V Ocean Shearer spending all of the second half of FY2019 without a charter and the M/V Ocean Drover also significantly underutilised during that period. Wellard's full year EBITDA of \$12.0 million is a \$2.2 million improvement on last year but a full year net loss after tax of \$48.7 million, including \$22.4 million worth of impairments, is another disappointing result for the Group.

Figure 1: Improvement in EBITDA (FY2019 vs FY2018)



## HIGHLIGHTS

Second consecutive year of positive EBITDA up 22.4% to \$12.0 million.

\$22.1 million increase in net cash flows from operating activities.

Improved gross profit from continuing operations noting shift from livestock trading to livestock logistics – up \$6.0 million or 2.7 percentage point increase in gross margin.

Recurring operational overheads reduced by \$3.9 million or 25% to \$11.5 million p.a.

Net debt reduced by \$33.9 million to \$102.7 million.

Ship loan to book value (after impairment) ratio of 57.4% (down 3.7 percentage points).

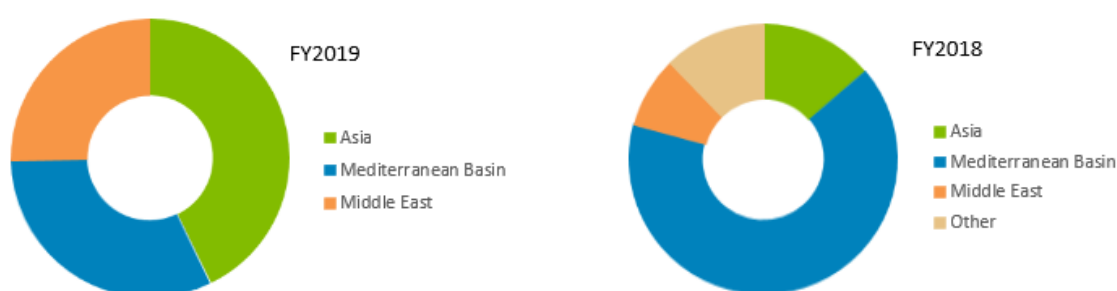
## REVENUE AND MARGIN

Total revenue from continuing operations was flat at \$233.6 million however there was an ongoing shift from trading revenue to charter revenue in line with the Group's strategic move to livestock logistics services. The Group shipped a total of 371,954 cattle on 40 voyages loaded in FY2019. 119,124 cattle were traded by the Group itself.

Charter revenue increased 11.6% to \$51.9 million whilst shipping capacity utilised on or available for external charter increased to 81.4% (FY2018: 70.0%). External charter revenue per available shipping capacity increased by 1.4%. Average rates earned, adjusted for utilisation, have been increasing over the past 2 years, however they remain well below rates earned in 2015/16.

External charter revenue was more evenly spread across the major import regions in FY2019 with South America being the largest contributor at 32.0% (FY2018: 64.0%). This reflects the wider base of customers we are attracting, with our vessels delivering livestock to 5 new import countries this financial year versus last.

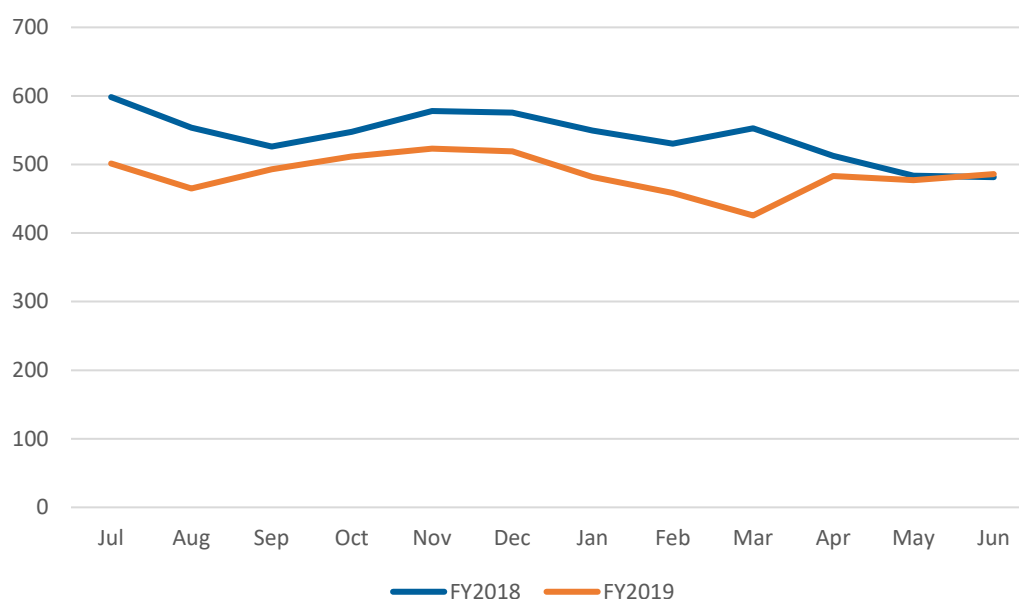
Figure 2: Charter revenue by voyage destination



As noted above, the Group has reduced its exposure to livestock trading and traded approximately 23,000 head less (i.e. 16.0%) in FY2019 versus the prior financial year. Trading revenue decreased by 22.0% compared to last year given the reduced volume as well as a change in the mix of cattle, with less higher value breeding cattle traded this year versus last.

Australian livestock prices started FY2019 13.0% - 16.0% below the prior year and generally traded that way for the first half of FY2019 before increasing and eventually overtaking prior year prices during the second half of FY2019. The Eastern Young Cattle Indicator (EYCI) finished FY2019 1.0% above the prior year<sup>1</sup> whilst quoted live export prices out of Darwin and Townsville finished FY2019 9.0% and 8.2% above the prior year respectively<sup>2</sup>.

Figure 3: EYCI price movement cents/kg (Source: MLA)

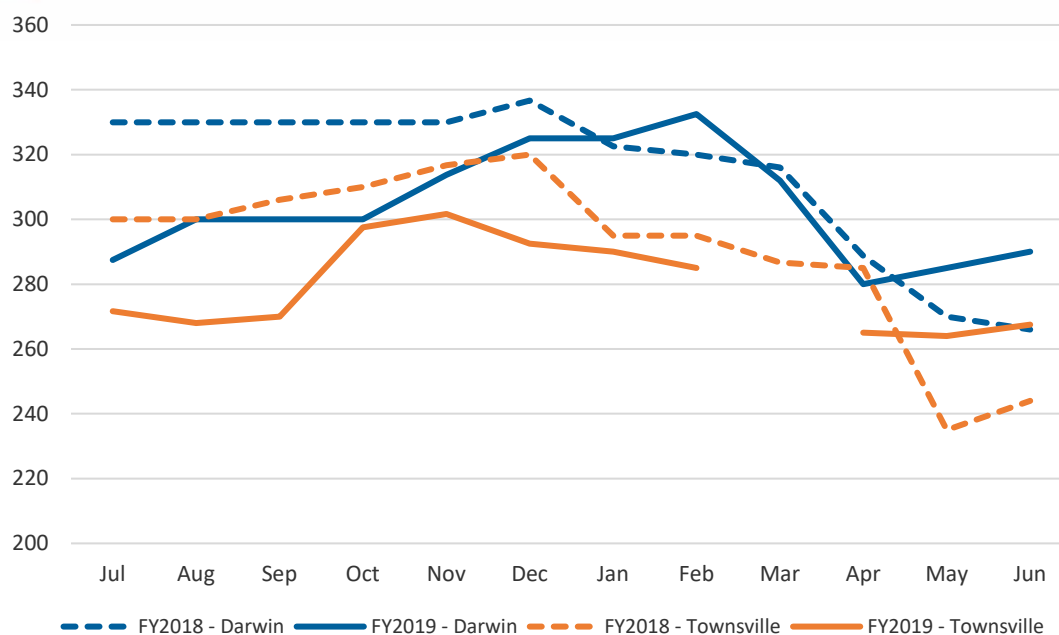


<sup>1</sup> NLRS prices quoted by Meat & Livestock Australia.

<sup>2</sup> Landmark prices for light steers quoted by Meat & Livestock Australia.

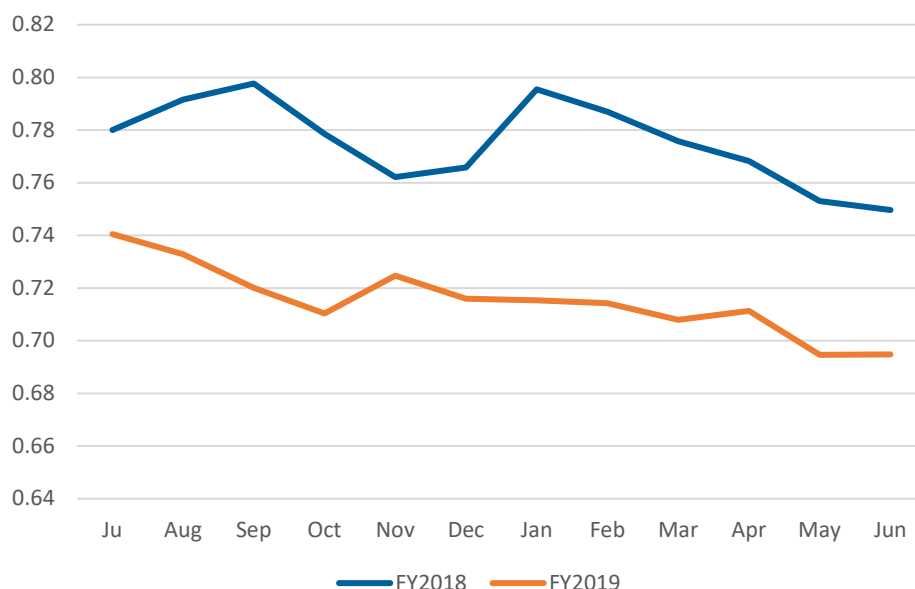


Figure 4: Live cattle export prices cents/kg (Source: MLA)



A 7.3% devaluation in the A\$ versus the US\$ to below 70 cents has helped keep live export prices in parity with last year. Live export prices in US\$ terms out of Darwin and Townsville finished FY2019 1.0% and 0.3% above the prior year respectively.

Figure 5: Monthly average A\$ vs US\$ exchange rate



Shipping rates have in general remained flat whilst operating costs have been volatile. Wellard's two major ship operating costs are crewing and bunker fuel. Labour rates are trending slowly upwards, whilst bunker fuel prices have fluctuated within a wide band. Singapore IFO380 average prices started the year at US\$470.50 and peaked at US\$526.00 in October 2018 before steadily declining to US\$429.00 at the end of FY2019. The outlook for bunker fuel prices remains uncertain particularly given the IMO 2020 lower sulphur content requirements.

The Group earned an additional \$6.0 million in gross profit from its trading and charter divisions in FY2019 (i.e. up 18.3% versus the prior year) reflecting more efficient voyage management.

## EXPENSES

The Group is continuing to restructure its operations and balance sheet, the effects of which are materially impacting upon its reported expenses.

The strategic move towards livestock logistics services as opposed to livestock trading is resulting in once off restructuring costs (e.g. redundancies). Total FY2019 restructuring and integration costs of \$1.9 million include \$1.1 million of costs of this nature (FY2018: \$0.9 million out of a total \$1.0 million).

The Group's like for like overheads base<sup>3</sup>, decreased by \$5.5 million or 22% year on year and stood at \$19.3 million p.a. in FY2019 versus \$24.8 million in FY2018 (FY2017: \$44.9 million).

Labour expenses recorded the single largest reduction in FY2019, decreasing by \$3.2 million or 22% versus last year, given reduced staff numbers post restructuring.

Bad and doubtful debts expense includes a \$3.5 million impairment for a longstanding livestock trading customer. The Group's decision to reduce trading volumes has impacted upon this customer's business structure and a repayment schedule for the outstanding balance has been negotiated.

The Group has previously noted that the maturity profile of its debt was not aligned with its operating cashflow (i.e. debt was maturing faster than earnings), and hence a program of asset sales and other restructuring options would need to be undertaken. During the first half of FY2019, the Group's noteholders demanded earlier redemption of their notes, thereby exacerbating the forecast shortfall in the Group's short-term cashflow.

In response to these events, the Group has entered into debt waiver and restructuring discussions with all of its financiers. This has resulted in increased legal and consulting costs, \$0.8 million of which are included within total restructuring and integration costs (FY2018: \$0.2 million). It has also resulted in penalty interest being charged by noteholders and hence total interest expense has increased by \$1.8 million to \$10.0 million at an average rate of 8.6% p.a. (FY2018: \$8.2 million at 6.8% p.a.).

Total impairments in FY2019 of \$22.4 million (FY2018: \$13.8 million) include \$20.4 million worth of impairment on 2 of the Group's vessels – the MV Ocean Swagman and the MV Ocean Ute. The Group has been forced to look at selling core assets (i.e. vessels) in order to meet its short-term debt repayment requirements. The global market for buying and selling dedicated livestock vessels is shallow and hence prices are volatile. Current conditions have resulted in the carrying values being reduced for these 2 vessels.

The United States \$ (US\$) has continued to gain strength over recent years and the Australian \$ (A\$) conversion rate further devalued by 7.3% during FY2019 (FY2018: 3.8% devaluation). This led to a \$3.5 million net foreign exchange loss in FY2019, all of which was unrealised (FY2018: \$7.1 million loss). Internal Group charges in US\$ for vessel charter represents the major item leading to this foreign exchange movement.

This \$3.5 million net foreign exchange loss corresponds with the \$4.9 million gain from foreign currency translation in FY2019 (FY2018: \$7.1 million loss offset by \$6.8 million gain). The Group's major assets and liabilities (i.e. vessels and related debt) are based in US\$ and hence a strengthening US\$ against the A\$ results in a gain.

## CASHFLOW

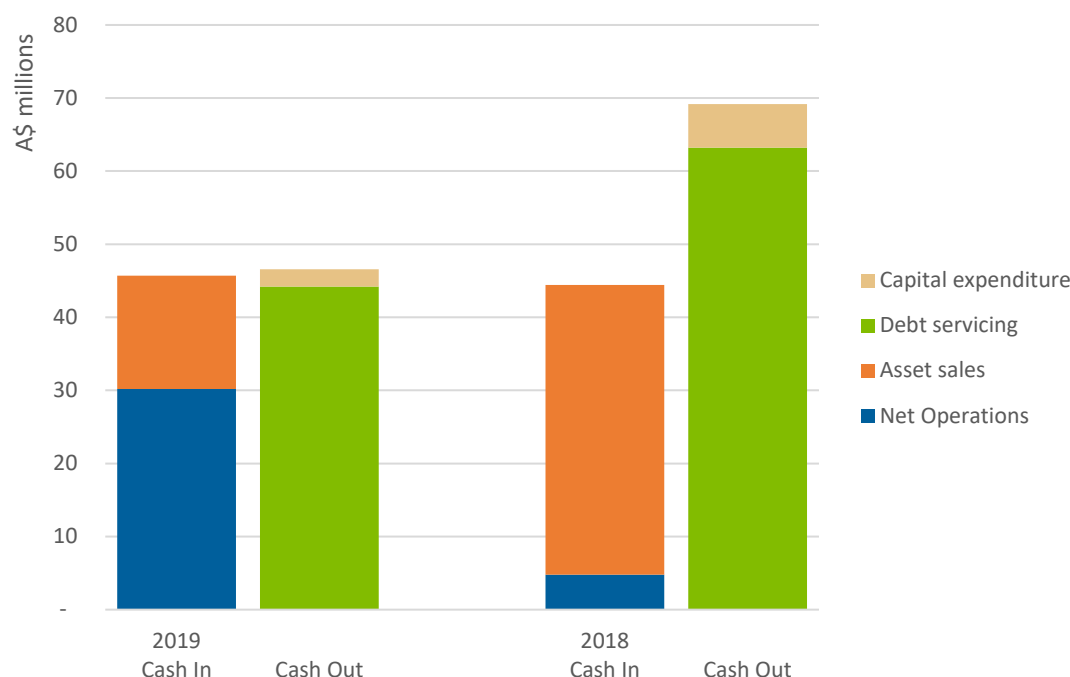
At year end the Group held \$7.4 million cash in hand plus \$0.1 million of restricted cash (FY2018: \$8.3 million plus \$2.5 million respectively).

All surplus cash generated from operations and asset sales continues to be utilised for debt reduction in line with the Group's objective to restructure its balance sheet. Net cash inflows totalled \$45.7 million versus net cash outflows of \$46.6 million in FY2019 (FY2018: \$44.4 million inflows versus \$69.2 million outflows).

<sup>3</sup> Administration, labour and operating expenses adjusted for normalised bad and doubtful debts expense (i.e. the FY2018 amount of \$0.8 million)



Figure 6: Cash movement



FY2019 EBITDA of \$12.0 million converted into \$29.8 million of free operating cashflow<sup>4</sup> compared to last year's EBITDA of \$9.8 million converting into \$7.7 million of free operating cashflow.

This financial year Wellard benefited from the once off realisation of working capital linked to non-core assets and livestock trading, as well as the ongoing benefit of a shorter working capital cycle for livestock logistics compared to livestock trading.

In addition to positive free operating cashflow, the Group also generated \$17.9 million in free cashflow directly from the sale of non-core asset sales as announced during the year.

After determining that they were no longer core to Wellard's restructured strategy, non-core businesses and assets not directly associated with our livestock logistics strategy were sold during FY2019. That resulted in an inflow of cash in FY2019 as well as a reduction in fixed overheads required to support the Group going forward. It has also resulted in management efficiencies across our remaining divisions.

Included in these non-core assets sales were the Group's Australian-based livestock production businesses comprising the Beaufort River Meats processing plant (WA); Baldivis (WA) and Condah (Victoria) pre-export quarantine facilities; and Wongan Hills (WA) feed mill; which were sold for \$14.6 million, including inventory. An additional amount of \$2.6 million was collected from associated trade debtors less creditors on hand at the time of these disposals. Separately, rights owned by the Group entitling it to develop a livestock feedlot and processing facility in China were sold for \$3.3 million.

## ASSETS AND LIABILITIES

The Group's major asset is its fleet of 4 livestock vessels which accounts for 85%<sup>5</sup> of total assets (FY2018: 70%). Associated debt secured against those vessels accounts for 88% of the Group's total liabilities.

On 20<sup>th</sup> August 2019 the Group announced the sale of the MV Ocean Swagman, subject to Wellard shareholder approval, which will fund the full repayment of debt owed to the vessel's secured financier as well as a US\$10 million repayment to noteholders upon settlement of the sale. This transaction is expected to be completed by the end of October 2019.

<sup>4</sup> Cashflow from operating activities before interest and income tax.

<sup>5</sup> 3 vessels included within property, plant and equipment whilst MV Ocean Swagman accounted for as an asset held for sale.

As noted above, the Group reduced the carrying values of the MV Ocean Swagman and MV Ocean Ute by a combined amount of \$20.4 million reflecting the outcome of the sales discussions undertaken during the year. The Group assesses the carrying value of its vessels by obtaining independent market valuations, considering market offers, as well as considering forecast earnings over the vessel's lifetime.

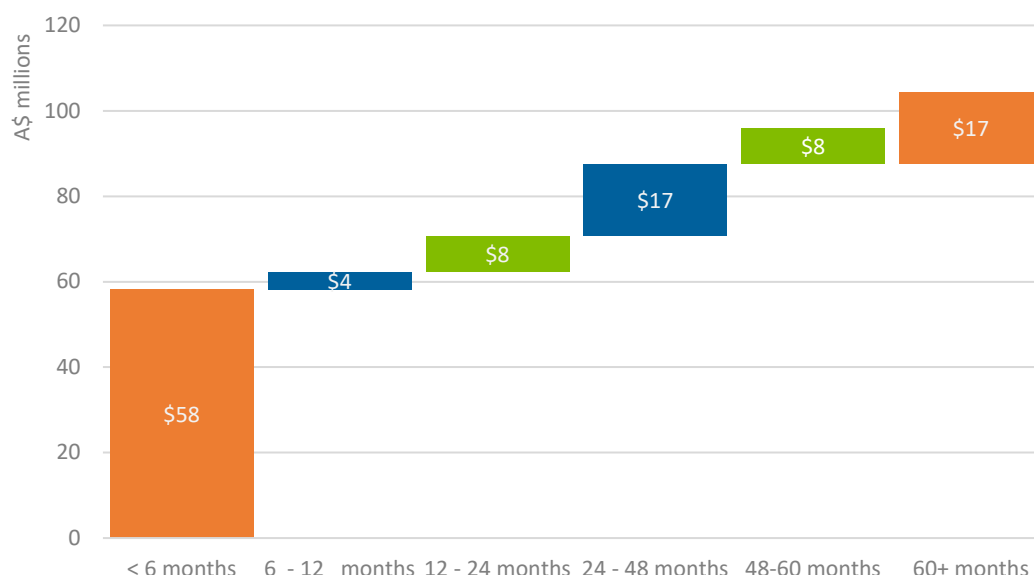
The Group does not believe the level of impairments recorded on the MV Ocean Swagman and the MV Ocean Ute are applicable to the MV Ocean Shearer and the MV Ocean Drover.

In FY2018 the Group impaired \$13.8 million paid under the build contract for the MV Ocean Kelpie. At that time, we reported it was possible the Group may breach future commitments under the contract and that it was too early to determine the outcome of negotiations. On 14 October 2018, we announced that the Croatian shipyard Uljanik D.D ("Uljanik") had terminated the build contract. Wellard has subsequently commenced arbitration in London against Uljanik for wrongful termination and a repudiation of the contract. The arbitration is progressing but has been delayed due to factors including the commencement of bankruptcy proceedings against Uljanik. Wellard will also pursue its rights under a Bank Refund Guarantee issued as part of the Kelpie build contract.

The Group met all of its scheduled ship debt servicing commitments and made an additional unscheduled debt repayment of US\$4.5 million to noteholders during FY2019. Net debt was reduced by \$33.9 million during the year, and the debt to capital ratio increased from 58.8% last year to 65.6% in FY2019 due to the impact of operating losses reducing equity. The outstanding ship loan balances secured against the Company's four vessels represents 57.4% of their combined net book values at year end (FY2018: 61.0%).

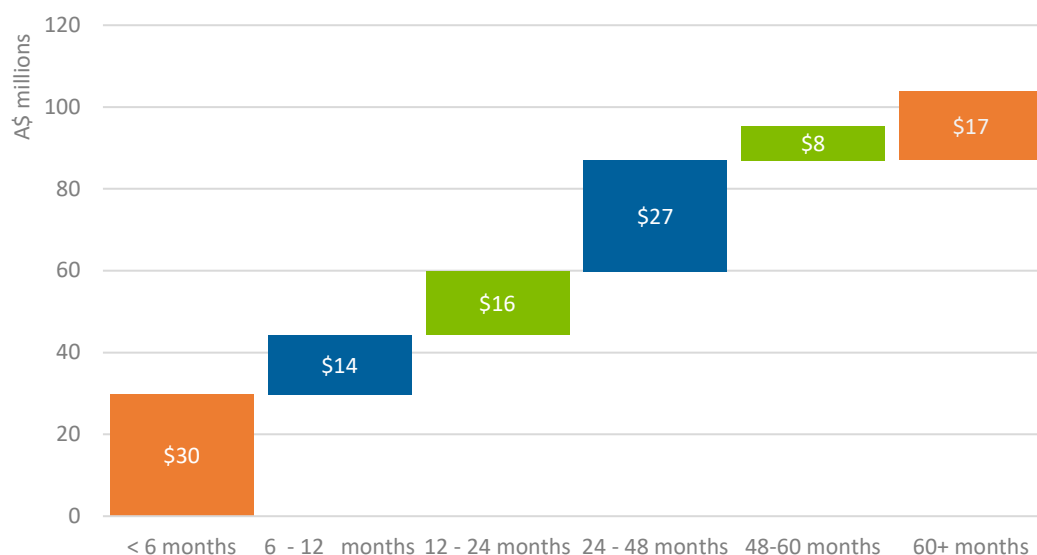
The Group's statement of financial position continues to be impacted by the reclassification of \$50.4 million worth of loans and borrowings scheduled for repayment beyond 12 months as current liabilities. Application of AASB 101 requires the reclassification given the Company has breached certain financial covenants and undertakings on its working capital facility, the notes and ship financing facilities.

*Figure 7: Debt payable within (before post 30 June 2019 announcements)*



The Group has signed a conditional term sheet for the extension of the residual amounts originally due on the MV Ocean Ute in August 2019 and on the MV Ocean Drover in December 2019, out to December 2021. If approved by 30 September 2019, this will significantly alter the Group's debt maturity profile by reducing the amount payable within 6 months by \$28.4 million.

Figure 8: Debt payable within (if MV Ocean Ute and Drover extension agreement is approved)



## TAXES

The Group reported a tax expense of \$5.9 million for FY2019 (FY2018: Nil). The Group has reported taxable losses in Australia and other countries and the tax expense reported in this year's financial statements reflects the decision to derecognise the benefits that will accrue in future years from the reversal of timing differences.

The Group has not recognised future tax benefits related to net timing differences plus carried forward tax effected losses totalling \$26.3 million as at the end of FY2019.

# PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 30 JUNE	NOTE	2019 \$'000	2018 \$'000
<b>CONTINUING OPERATIONS</b>			
Sales revenue	5	181,735	186,633
Charter revenue	5	51,866	46,472
Revenue from contracts for services	5	-	3,498
Other revenue	5	1,490	392
Cost of sales	6	(196,336)	(204,157)
<b>Gross profit</b>		<b>38,755</b>	<b>32,838</b>
Other losses	6	(5,867)	(1,096)
Net finance costs	6	(11,266)	(9,766)
Depreciation and amortisation expenses		(16,157)	(16,617)
Administration expenses	6	(7,733)	(9,492)
Impairment expense	7	(22,444)	(13,758)
Operating expenses	6	(15,087)	(16,196)
Other expenses	6	(1,836)	(1,133)
<b>Loss from continuing operations before income tax</b>		<b>(41,635)</b>	<b>(35,220)</b>
Income tax benefit / (expense)	10	(5,354)	116
<b>Loss from continuing operations</b>		<b>(46,989)</b>	<b>(35,104)</b>
<b>DISCONTINUING OPERATIONS</b>			
Loss from discontinued operations, net of tax	9	(1,454)	(1,333)
<b>Loss for the period after tax</b>		<b>(48,443)</b>	<b>(36,437)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified to profit or loss</i>			
Gain from foreign currency translation		4,827	6,773
<b>Other comprehensive income / (loss) for the period, net of tax</b>		<b>4,827</b>	<b>6,773</b>
<b>Total comprehensive loss for the period</b>		<b>(43,616)</b>	<b>(29,664)</b>
		<b>cents</b>	<b>cents</b>
<i>Loss per share from continuing operations attributable to ordinary equity holders of the company</i>			
Basic loss per share		(8.8)	(6.6)
Diluted loss per share		(8.8)	(6.6)

The accompanying notes form an integral part of this preliminary consolidated statement of comprehensive income.

## PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE	NOTE	2019 \$'000	2018 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		7,424	8,297
Trade and other receivables		2,278	24,947
Inventories		13,127	18,121
Biological assets		1,941	18,264
Derivative financial assets		-	326
Other assets		1,874	4,709
Assets held for sale	12	31,330	-
<b>Total current assets</b>		<b>57,974</b>	<b>74,664</b>
<b>NON-CURRENT ASSETS</b>			
Other assets		139	140
Property, plant and equipment	13	139,150	206,832
Intangible assets		3,082	8,384
Deferred tax assets	10	-	5,894
<b>Total non-current assets</b>		<b>142,371</b>	<b>221,250</b>
<b>Total assets</b>		<b>200,345</b>	<b>295,914</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		5,606	18,796
Loans and borrowings	11	110,090	144,945
Provisions		439	1,100
Deferred revenue		17,262	28,248
Derivative financial liabilities		-	1,180
Liabilities directly associated with assets held for sale	12	9,132	-
<b>Total current liabilities</b>		<b>142,529</b>	<b>194,269</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		21	150
<b>Total non-current liabilities</b>		<b>21</b>	<b>150</b>
<b>Total liabilities</b>		<b>142,550</b>	<b>194,419</b>
<b>Net assets</b>		<b>57,795</b>	<b>101,495</b>
<b>EQUITY</b>			
Issued capital		572,132	572,132
Reserves		(384,484)	(389,227)
Accumulated losses		(129,853)	(81,410)
<b>Total equity</b>		<b>57,795</b>	<b>101,495</b>

The accompanying notes form an integral part of this preliminary consolidated statement of financial position



## PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	RESERVES					TOTAL \$'000
	ISSUED CAPITAL \$'000	RETAINED EARNINGS \$'000	SHARE BASED PAYMENTS \$'000	OTHER RESERVES \$'000	COMMON CONTROL \$'000	
FOR THE YEARS ENDED 30 JUNE						
2019						
Opening balance	572,132	(81,410)	18,104	3,686	(411,017)	101,495
Comprehensive loss for the period:						
Loss for the period	-	(48,443)	-	-	-	(48,443)
Other comprehensive income	-	-	-	4,827	-	4,827
Total comprehensive gain / (loss) for the period	-	(48,443)	-	4,827	-	(43,616)
Transactions with owners in their capacity as owners:						
Share based payment	-	-	(84)	-	-	(84)
Closing balance	572,132	(129,853)	18,020	8,513	(411,017)	57,795
2018						
Opening balance	572,132	(44,846)	18,014	(3,087)	(411,017)	131,196
Adjustment on adoption of new revenue standard	-	(127)	-	-	-	(127)
	572,132	(44,973)	18,014	(3,087)	(411,017)	131,069
Comprehensive loss for the period:						
Loss for the period	-	(36,437)	-	-	-	(36,437)
Other comprehensive income	-	-	-	6,773	-	6,773
Total comprehensive loss for the period	-	(36,437)	-	6,773	-	(29,664)
Transactions with owners in their capacity as owners:						
Share based payment	-	-	90	-	-	90
Closing balance	572,132	(81,410)	18,104	3,686	(411,017)	101,495

The accompanying notes form an integral part of this preliminary consolidated statement of changes in equity.

## PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers (inclusive of GST)	293,029	318,516
Payments to suppliers and employees (inclusive of GST)	(263,183)	(310,852)
Interest paid	(8,412)	(7,999)
Interest received	-	2
Income tax paid / (refunded)	8	(2)
<b>Net cash flows from operating activities</b>	<b>21,442</b>	<b>(335)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(2,288)	(5,843)
Purchase of intangible assets	(63)	(102)
Sale of property, plant and equipment	3,835	5,273
Proceeds from sale of discontinued operations	11,989	-
Costs associated with sale of discontinued operations	(299)	-
Sale of assets classified as held for sale	2	34,780
Proceeds from sale of investment	-	1
Net cash on disposal of Wellana	-	(393)
<b>Net cash flows from investing activities</b>	<b>13,176</b>	<b>33,716</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	8,213	1,521
Repayments of borrowings	(44,025)	(56,739)
Transfers from / (to) restricted cash	2,489	(1,771)
<b>Net cash flows from financing activities</b>	<b>(33,323)</b>	<b>(56,989)</b>
<b>Net increase / (decrease) in cash held</b>	<b>1,295</b>	<b>(23,608)</b>
Cash at the beginning of the financial year	8,297	33,027
Effects of exchange rate changes on cash and cash equivalents	(2,168)	(1,122)
<b>Cash at the end of the financial year</b>	<b>7,424</b>	<b>8,297</b>

The cashflow is presented on a gross basis, including continuing and discontinuing operations.

The accompanying notes form an integral part of this preliminary consolidated statement of cashflows.

# NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

### A. CORPORATE INFORMATION

This consolidated financial report relates to the Group, comprising Wellard Limited (Company or Wellard) and the entities that it controlled (Group) during the year ended 30 June 2019, that were authorised for issue in accordance with a resolution of the Directors on 28 August 2019.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of operations and principal activities of the Group is an agribusiness that connects primary producers of cattle, sheep and other livestock to customers globally through a vertically integrated supply chain.

The address of the registered office is 1A Pakenham Street, Fremantle, Western Australia 6160.

### B. BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

Accounting standards adopted for the first time:

- AASB 9 Financial Instruments was adopted effective 1 July 2018.

The financial report has been prepared on a historical cost basis, except for:

- a) Biological assets – measured at fair value;
- b) Derivative financial assets and liabilities – measured at fair value;
- c) Share based payments – measured at fair value; and

- d) Assets held for sale – measured at fair value less costs to sell.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated, under the option available to the Company under Australian Securities and Investment Commission (ASIC) Instrument 2016/191. The Company is an entity to which the instrument applies.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

### C. GOING CONCERN

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

Despite the closure of major livestock trade routes as well as a downturn in the Group's livestock trading activities, both of which significantly impacted the Group's financial results in the second half of the 2019 financial year, the Group remained EBITDA and Cashflow positive for the full year.

The Group has \$71.4 million worth of debt becoming due and payable within the coming 12 months. The cashflow which is forecast to be generated from recurring operations is insufficient to meet the Group's debt servicing requirements in the coming 12 months.

As previously reported, the Group embarked on a non-core assets sales program during 2019 and funds generated from that program helped fund the reduction in total gross debt levels from \$148.0 million as at 30 June 2018 to \$121.8 million as at 30 June 2019.

In order to meet the forecast shortfall in free cashflow (i.e. after debt servicing) in the coming 12 months, the Group has announced the sale of the MV Ocean Swagman, subject to Wellard shareholder approval, which will

fund the full repayment of debt owed to the vessel's secured financier as well as a US\$10 million repayment to noteholders upon settlement of the sale. This transaction is expected to be completed by the end of October 2019.

The MV Ocean Ute and MV Ocean Drover have irregular balloon repayments due to the same financier in August 2019 and December 2019 respectively. The Group announced on 19 August 2019 that it has signed a conditional term sheet with the financier to extend the repayment of these balloon amounts until December 2021. The term sheet is subject to financier board approval which must be received by 30 September 2019.

After taking into account the above asset sales and finance extension transactions, the Group is forecasting to generate positive free cashflow for the coming 12 months and beyond.

During the year, entities within the Group breached financial covenants on its working capital facility, on its notes, and on its ship financing facilities.

While a breach remains outstanding, this allows the relevant financier to accelerate and enforce its facility. It may also allow Wellard's other financiers to accelerate and enforce their own facilities (by virtue of cross-default provisions in their own facilities, depending on the terms of these cross-default provisions).

The Group has completed or is negotiating standstill agreements with all of its financiers which will halt the acceleration and enforcement action of financiers until the completion of some or all of the above noted transactions.

The Group's working capital facility was cancelled in February 2019 and hence all breaches related to it were removed at that time.

Successful completion of the announced MV Ocean Swagman sale as well as the finance extension agreement will see the full repayment or full waiver of

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

outstanding breaches related to 3 of the Group's existing 4 vessels, as well as the full waiver of outstanding breaches on the Group's notes.

Wellard announced on 22 August 2019 the execution of a formal waiver and standstill agreement with its noteholders leading to a US\$10 million repayment to noteholders upon settlement of the sale of MV Ocean Swagman (as noted above). The balance owing to noteholders after making this payment will be repaid over 6 months from settlement of the MV Ocean Swagman sale.

The Group announced on 19 August 2019 that the financier for the MV Ocean Ute and MV Ocean Drover had waived all outstanding breaches as a part of the agreed finance extension term sheet.

In the case of the MV Ocean Swagman financier, Wellard will fully repay all amounts owing at the time of settlement of the vessel's sale (as noted above), Wellard expects to execute a waiver and standstill agreement as a part of the vessel sale process.

In the case of the MV Ocean Shearer financier, on 3 June 2019 we announced the removal of the financier's covenant requiring the Group to engage Mr. Mauro Balzarini in various capacities. We are continuing to discuss the terms of a formal agreement to waive existing covenant breaches, and to remove covenants relating to prescribed shareholdings of or related to Mr. Balzarini. We expect this agreement to be executed during the first half of FY2020. We are also in discussion about resetting the financial covenants related to this loan, given the significant change in the Group's business and balance sheet. This resetting is expected to be completed by the end of FY2020.

Wellard's previous working capital facility in Australia was cancelled in February 2019. The Group has been in discussion with financiers about establishing a new working capital facility in Australia, however the timing is subject to satisfaction of a number of the items noted above. Given the Group's

previously announced operating strategy which prioritises livestock logistics over livestock trading, a working capital facility in Australia is not an immediate priority for the Group.

The Group maintains a credit card facility in Australia as well as a working capital and credit card facility in Singapore. In Singapore, the working capital facility is used to fund ship operating costs as well as foreign exchange and commodity hedge transactions. The Singapore working capital facility is in breach by virtue of the cross-default provisions noted above. The Group has made all payments due under these facilities during the year. The financiers are working with the Group to allow it to implement the restructuring measures noted above. These facilities remain available to the Group.

As was the position in the prior period, due to the Group breaching financial covenants and undertakings as noted above, all of its loans and borrowings have been reclassified as current as at period end, despite \$50.4 million of those liabilities being due after 30 June 2020. This accounting treatment, which is in accordance with AASB 101, reflects the potential for the relevant financiers to accelerate and enforce their facilities, noting that as at the reporting date no financier had taken any acceleration or enforcement action. This reclassification of non-current liabilities to current has resulted in the Company reporting a working capital deficiency of \$84.6 million as at 30 June 2019 (30 June 2018: \$119.6 million). If loans and borrowings due beyond 12 months had not been classified as current liabilities, the Company would have reported a negative working capital position of \$34.2 million as at 30 June 2019 (30 June 2018: \$1.9 million).

As a consequence of the above matters, a material uncertainty exists that may cast significant doubt as to whether Wellard will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the

normal course of business and at the amounts in this report.

However, the Directors believe that there are reasonable grounds to believe that the use of the going concern basis remains appropriate as there is an expectation that the Group:

- will be able to obtain standstills and waivers for any outstanding covenant breaches, or otherwise that the Group's financiers will not take any acceleration or enforcement action in respect of any outstanding covenant breaches or in respect of any cross-defaults that arise as a result of those outstanding covenant breaches;
- will be able to extend existing finance facilities or establish new facilities; and
- will be able to raise sufficient amounts of either debt or equity or cash from asset sales if required.

This financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Wellard Group not continue as a going concern.

### D. COMPLIANCE WITH IFRS

This financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).



# NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies adopted in the preparation of the financial statements have been consistently applied to all the periods presented, unless otherwise stated. In addition to these accounting policies, the following policies and critical accounting estimates were applied:

### A. REVENUE

AASB 15 Revenue from Contracts with Customers, states that an entity shall recognise revenue (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of the asset.

If revenue is not recognised over time it is recognised at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the following requirements are considered:

- The entity has a present right to payment for an asset;
- The customer has legal title to the asset;
- The entity has transferred physical possession of the asset, however physical possession may not coincide with control of the asset;
- The customer has significant risks and rewards of ownership of the asset; and
- The customer has accepted the asset

### Sale of goods

Revenue is determined on a per shipment or per contract basis and is recognised in line with the customer trading terms.

Wellard currently trade using CIF contract terms (cost, insurance and freight). Control of the assets does not pass until unloading of the vessel, as such shipping is not

a separate performance obligation. Revenue is recognised on discharge.

### Vessel chartering

Freight revenue for external shipments meets the criteria of a performance obligation satisfied over time.

Voyage charter revenue is recognised on a percentage of completion basis which is determined on a time proportion method of each individual voyage. Any demurrage and dispatch are recognised when considered probable.

### Contract balances

The timing of revenue recognition, cash collections results in invoiced accounts receivable and customer advances and deposits (contract liabilities) on the Consolidated Statement of Financial Position.

Generally, amounts are invoiced, and deposits received in advance of providing the good or service.

Deposits received are recognised on a per shipment basis, these deposits are recorded as a liability on the balance sheet and liquidated on discharge when the revenue is recognised.

Deposits received at the time of booking a vessel for charter are recorded as a liability on the balance sheet and liquidated on a percentage complete basis when the revenue is recognised.

### B. BORROWING COSTS

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred regarding arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

Loan establishment costs have been capitalised to deferred

borrowing costs and are amortised over the life of the loan facility.

Borrowing costs relating to loans extinguished during the period have been expensed.

### C. INTEREST REVENUE

Interest 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.

### D. INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Current income tax expense or benefit is the tax on the current period's taxable income/taxable loss based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities. It is calculated based on tax laws that have been enacted or are substantially enacted by the end of the reporting period.

Current tax payable is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### E. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled, based on the tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. The measurement of



## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to the income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### F. TAX CONSOLIDATION

Wellard Limited, and its Australian subsidiaries formed a tax consolidated Group with effect from 11 December 2015.

The parent entity and subsidiaries in the tax consolidated Group have entered into a tax funding agreement such that each entity in the tax consolidated Group recognises the assets, liabilities, revenues and expenses in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and

- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiary to the parent entity as intercompany payables or receivables.

Adjustments may be made for transactions and events occurring within the tax consolidated Group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the head entity level of the Group. The tax consolidated Group will enter into a tax sharing agreement to limit the liability of subsidiaries in the tax consolidated Group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

### G. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

- the profit (loss) attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares,

by

- the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares.

Potential ordinary shares are only considered dilutive if the loss per share decreases on conversion to ordinary shares.

Convertible notes issued during the year are considered to be potential ordinary shares, however these have not been included in the determination of dilutive earnings per share from their date

of issue because they are antidilutive in the current period.

### H. LOANS AND BORROWINGS

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### I. CONVERTIBLE NOTES LIABILITY

On initial recognition the liability component of the convertible notes is measured at the residual between the value of the financial instrument as a whole less the fair value of the embedded derivative. Directly attributable transaction costs relating to the issue of the note are allocated to the convertible note liability. After initial recognition, as with loans and borrowings, the liability component of the convertible note is measured at amortised cost using the effective interest method.

The convertible note liability and derivative are removed from the statement of financial position when the obligations in the contract are discharged. The convertible note liability and derivative are classified as current liabilities as there is no unconditional right to defer payment for 12 months.

### J. CASH

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term and highly liquid cash deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. For the purposes of the statement of cash flows, cash includes cash on hand, demand deposits and cash equivalents.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for carrying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

### K. ISSUED CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### L. INVENTORIES

Bunker fuel used for the operation of the vessels and with a high turnover rate is not written down to the net realisable value when the market price falls below cost if the overall shipping activity is expected to be profitable.

All other inventories are measured at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- fuel: purchase cost on a first in, first out basis;
- raw materials and consumables: purchase cost on a first in, first out basis; and
- finished goods and work in progress: cost of direct material and labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of production and the estimated costs necessary to complete the sale.

### M. BIOLOGICAL ASSETS

Biological assets in the statement of financial position comprise cattle and sheep and are measured on initial recognition and at each

reporting date at their fair value less estimated point of sale costs. The fair value is determined on the actual selling prices approximating those at period end less estimated point of sale costs. Fair value increments or decrements are recognised in profit or loss.

Where fair value cannot be measured reliably, biological assets are measured at cost. Net increments and decrements in the fair value of the biological assets are recognised as income or expense in profit or loss, determined as:

- the difference between the total fair value of the biological assets recognised at the beginning of the period and the total fair value of the biological assets recognised at the end of the period; and
- costs incurred in maintaining or enhancing the biological assets recognised at the beginning of the period and the total fair value of the biological assets recognised at the end of the period.

Livestock on hand that have not yet been sold at the reporting date are valued internally by the Group as there is no observable market for them. The value is based on the estimated price per kilogram and the changes for the weight of each animal class as it changes through natural biological transformation. The key factors affecting the value of each animal are price per kilogram and weight. Significant increases or decreases in any of the significant unobservable valuation inputs for livestock in isolation would result in significant lower or higher fair value measurement.

Valuation of biological assets  
To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its biological assets into the three levels prescribed under the accounting standards.

### N. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-

sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of the financial instruments at initial recognition.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

### Foreign exchange contracts

The Group enters into foreign exchange contracts to manage its exposure against foreign currency risk in line with the entity's risk management strategy.

### O. TRADE AND OTHER RECEIVABLES

Trade receivables are recognised initially at fair value less any expected credit losses.

Wellard uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers, which comprise a small number of large balances in its trading and chartering operations and a very large number of small balances in its meat processing and distribution operations.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics - geographic region, age of customer relationship and type of product purchased.

Loss rates are based on actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

Export customers have payment terms ranging from a percentage payable on load of vessel, to percentage payable 14 days after discharge of livestock. Non-export trading terms are generally 14 days.

### P. ASSETS HELD FOR SALE

Non-current Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable.

Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

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

Non-current assets, including those as part of a disposal group, are not depreciated or amortised while they are classified as held for sale.

Non-current assets are held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from the liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business, is part of a single co-ordinated plan to dispose of such line of business. The results of the discontinued operations are presented separately in the statement of profit or loss.

### Q. TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.

The amounts are unsecured and are usually paid within 14 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period.

They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Due to the short-term nature of trade and other payables, their carrying amount approximates fair value.

### R. DEFERRED REVENUE

These amounts represent payments collected but not earned at the end of the reporting period. These payments are recognised in line with AASB15 Revenue Recognition.

### S. PROPERTY, PLANT AND EQUIPMENT

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

#### Vessels

Vessels are measured on a cost basis. Depreciation rate: 4.0% - 5.0%, straight line basis after deducting expected scrap value of the vessel.

#### Land and Buildings

Land and buildings are measured on a cost basis. Depreciation rate: 2.5% - 20.0%, straight line basis.

#### Plant and Equipment

Plant and equipment is measured on a cost basis. Depreciation rate: 4.5% - 40.0%, straight line basis.

#### Improvements

Improvements are measured on a cost basis. Depreciation rate: 6.0% - 11.2%, straight line basis.

#### Depreciation

The depreciable amount of all fixed assets is depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Land owned by the Group is freehold land and accordingly is not depreciated.

### Leasehold improvements

Are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

### Assets under construction

Are measured at cost and not depreciated until the assets are ready for use.

### T. INTANGIBLE ASSETS

#### Goodwill

Goodwill is recognised initially at the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in the case of a step acquisition), less the fair value of the identifiable assets acquired, and liabilities assumed.

Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

#### Software

Software is measured initially at the cost of acquisition and amortised over the useful life of the software. Expenditure on software development activities is capitalised only when it is expected that future benefits will exceed the deferred costs, and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the intangible asset over its estimated useful life (not exceeding ten years) commencing when the intangible asset is available for use. Other development expenditure is recognised as an expense when incurred.

#### Assets acquired separately or from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any



## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are capitalised when the Group is certain that there are future economic benefits that will arise from these assets. Other internally generated intangible assets that do not fit this recognition criterion are charged against profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each period end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the nature of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level.

Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

**Recoverability of goodwill**  
Goodwill is allocated to CGUs according to applicable business operations. The recoverable amount of a CGU is based on

value in use calculations. These calculations are based on projected cash flows approved by management covering a period of ten years. Management's determination of cash flow projections and gross margins is based on past performance and its expectation for the future.

**Recoverability of non-financial assets other than goodwill**  
All assets are assessed for impairment at each period end by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the Group. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists, the recoverable amount of the asset is determined.

### U. PROVISIONS

Provisions are recognised if, as a result of a past event, the Group 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, long service leave and any other employee benefits expected to be settled within 12 months of the end of the period are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit

obligations are presented as payables.

#### Long-term employee benefit obligations

Liabilities arising in respect of long service leave and annual leave which are not expected to be settled within 12 months of the end of the period are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the end of the period. Employee benefit obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the end of the period, regardless of when the actual settlement is expected to occur.

#### Termination benefits

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement date, or when the Group provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy. The Group recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

### V. BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. Cost is measured as the fair value of the assets acquired and liabilities assumed, or shares issued at the acquisition date. Transaction costs are expensed as they are incurred, except if they relate to the issue of debt or equity securities.

### W. CONSOLIDATION

#### Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are

# NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

eliminated in preparing the consolidated financial statements.

## Foreign currency translation and balances

### Functional and presentation currency

The financial statements of each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is Wellard's functional and presentation currency.

### Transactions and balances

Transactions in foreign currencies of entities within the Group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the period.

Except for certain foreign currency transactions, all resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the period.

Entities that have a functional currency different from the presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date;
- income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## X. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries are initially recognised at cost (fair value of consideration paid plus directly attributable costs). Costs incurred in investigating and evaluating acquisitions up to formal commitment are expensed as incurred. Where the carrying value of an investment exceeds the recoverable amount, an impairment charge is recognised in profit or loss which can subsequently be reversed in certain conditions.

## Y. SHARE BASED PAYMENTS

The fair value of shares granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

## Z. LEASES

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement, so as to reflect the risks and benefits incidental to ownership.

### Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values.

The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in profit or loss. Leased assets are depreciated on a

straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

### Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the term of the lease. Lease incentives received and contracted predetermined rent increases under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

## AA. GOODS AND SERVICES TAX

Revenues, expenses, assets and liabilities are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the 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 in the statement of financial position are shown inclusive of GST.

## BB. IMPAIRMENT

### Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss



## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised, causing the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment indicators include market capitalisation, declining product or processing performance, technology changes, adverse changes in the economic or political environment or future product expectations.

**Useful life and residual value of livestock carrying vessels**  
Management reviews the appropriateness of the useful life and residual value of vessels at each balance date. Certain estimates regarding the useful life and residual value of vessels are made by management based on past experience and these are in line with the industry. Changes in the expected level of usage, scrap value of steel and market factors could impact the economic useful life and residual value of the vessels. When there is a material change in the useful life and residual value of vessels, such a change will impact both the depreciation charges in the period in which the changes arise and future depreciation charges.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

### Investment in subsidiaries

All assets are assessed for impairment at each period end by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the Group. Impairment indicators include market capitalisation, declining product or processing performance, technology changes, adverse changes in the economic or political environment or future product expectations.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### A. DEFERRED TAX ASSET

Management assesses the extent to which it is probable that future taxable profits will be available against which the deferred tax assets can be utilised.

Management has assessed that there is sufficient uncertainty in the recovery of the Deferred Tax Asset and has therefore decided to derecognise all current deferred tax assets and liabilities from temporary assets and carry forward losses.

The Wellard Limited Australian tax consolidated group derecognised deferred tax assets and deferred tax liabilities of \$3.9 million and \$0.5 million, respectively, during the financial year ended 30 June 2019.

Deferred tax assets, tax effected, of \$19.7 million, (2018: \$13.1 million) relating to the tax losses of the Australian tax consolidated group, \$2.4 million (2018: \$2.0 million) relating to Uruguay, \$3.3 million (2018: \$3.3 million) relating to Brazil and \$0.8 million (2018: \$0.7 million) relating to Singapore have not been recognised. There is no expiration date for these amounts other than a five-year limit for Uruguay.

#### A. VALUATION OF BIOLOGICAL ASSETS

Biological assets are measured on initial recognition and at each reporting date at their fair values less estimated point of sale costs. The fair value is determined based on the actual selling prices approximating those at year end less estimated point-of-sale costs.

#### B. IMPAIRMENT

**Impairment of non-financial assets**  
In order to assess the fair value less cost of sale for the vessel fleet CGU, management requested and received two independent market valuations for each vessel.

### Investment in subsidiaries

We have estimated the recoverable amount based on the value in use of the subsidiaries. An impairment of \$19.7 million (2018: A\$409.3) has been recognised in respect of the recoverable amount of investment in subsidiaries, this had been eliminated on consolidation in the Group accounts. The impairment of investment in subsidiaries is considered a critical accounting estimate for the parent entity only and not for the Group.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### 4. NEW ACCOUNTING STANDARDS AND INTERPRETATION

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of new standards and interpretations is set out below:

Title	AASB 16 Leases
<b>Nature of change</b>	AASB 16 was issued in February 2016. Under the new standard, the Group is required to recognise a right of use asset and lease liability for all leases with a term or more than 12 months, unless the underlying asset is of a low value.
<b>Impact</b>	<p>The standard will impact the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$1.434 million (2018: \$8.955 million).</p> <p>The Group has assessed that approximately 5.8% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.</p> <p>The Group will recognise right of use assets and corresponding lease liability of approximately \$1.1 million on 1 July 2019. The Group is expecting an increase in earnings before income tax, depreciation and amortisation of \$0.7 million and a \$0.02 million reduction in net profit after tax.</p>
<b>Date of adoption by group</b>	The Group has adopted AASB 16 from 1 July 2019. The Group has applied the modified transition approach and will not restate comparative amounts for the year prior to adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### 5. REVENUE

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
Trading revenue	181,735	186,633
Charter revenue	51,866	46,472
Revenue from contracts for services	-	3,498
Other revenue	1,490	392
	<b>235,091</b>	<b>236,995</b>

Trading revenue is derived at a point in time and includes revenue generated from the buying and selling of livestock and livestock products by the company including related logistics.

Charter revenue is derived over time and includes revenue generated from the sale of space on the Company's vessels for the carriage of cargo owned by third parties.

### 6. EXPENSES

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
<b>A) COST OF SALES</b>		
Trading	145,750	162,161
Shipping	50,586	41,996
	<b>196,336</b>	<b>204,157</b>
<b>B) OTHER (GAINS) / LOSSES</b>		
<i>(Gains) / losses arising from trading and chartering activities</i>		
Net (gain) / loss from changes in fair value of biological assets	2,077	(2,070)
Net (gain) / loss from changes in fair value of fuel hedge	1	(1,697)
	<b>2,078</b>	<b>(3,767)</b>
<i>(Gains) / losses arising from other activities</i>		
Net loss on disposal of property, plant and equipment	533	256
Fair value gain on other financial assets	(255)	(1,062)
Net gain on disposal of subsidiary	-	(784)
Net foreign exchange losses	3,511	7,081
Foreign currency translation reserve recognised on disposal	-	(628)
	<b>3,789</b>	<b>4,863</b>
	<b>5,867</b>	<b>1,096</b>
<b>C) NET FINANCE COSTS</b>		
Interest income	-	(2)
Interest expense	10,021	8,191
Borrowing costs	1,245	1,577
	<b>11,266</b>	<b>9,766</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

FOR THE YEARS ENDED 30 JUNE	2019 \$'000	2018 \$'000
<b>D) ADMINISTRATION EXPENSES</b>		
Consulting costs	3,017	3,294
Occupancy costs	1,932	2,391
General and administration costs	2,074	2,454
Travel expenses	710	1,353
	<b>7,733</b>	<b>9,492</b>
<b>E) OPERATING EXPENSES</b>		
Bad and doubtful debts expense	3,483	894
Labour expenses 6(g)	11,144	14,352
Motor vehicle expenses	210	377
Repairs and maintenance costs	250	573
	<b>15,087</b>	<b>16,196</b>
<b>F) OTHER EXPENSES</b>		
Restructuring and integration costs	1,920	1,043
Share based payments expense	(84)	90
	<b>1,836</b>	<b>1,133</b>
<b>G) LABOUR EXPENSES</b>		
Wages and salaries	9,668	11,695
Employee entitlements and on costs	494	1,533
Superannuation	576	703
Payroll tax	406	421
	<b>11,144</b>	<b>14,352</b>

## 7. IMPAIRMENT

FOR THE YEARS ENDED 30 JUNE	2019 \$'000	2018 \$'000
Impairment of vessels	20,421	-
Impairment of vessel spare parts	253	-
Impairment of asset under construction	-	13,758
Impairment of goodwill	1,770	-
	<b>22,444</b>	<b>13,758</b>

### Impairment of vessels

Wellard regularly assesses its fleet for triggers of impairment. An impairment expense of \$20.4 million has been recorded for the MV Ocean Swagman and MV Ocean Ute to records their assets at fair value less costs of sale. An additional impairment of \$0.25 million has been recorded for the spare parts on board the MV Ocean Swagman.

### Impairment of Goodwill

The impairment expense for goodwill relates to the investment by Wellard in the Wellao feedlot and Pre-Export Quarantine (PEQ) facility (Wellao Feedlot). The Wellao Feedlot was leased on a long-term basis from the Nandagang government in China with the rights for land use owned by Wellard's wholly owned Chinese subsidiary (Wellao). The capital required to develop this project within China is not readily available and hence Wellao has

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

entered into negotiations with the relevant authorities in China for them to buy back the land and rights held by Wellard. The buyback was completed in March 2019. Subsequently the Chinese government agreed to wind up the Wellao subsidiary in June 2019, and the remaining investment funds were returned to Wellard.

### 8. SEGMENT INFORMATION

The Group's management has considered the reportable segments in which the Group will report in this financial statement and in the future.

As a result of this process, Wellard's management has determined that livestock marketing, export and transportation represents the only reportable segment, including the marketing and export of cattle and sheep. These export activities have similar production and distribution channels, similar products and similar end customers, and as such are aggregated and classified as one segment. Meat processing and distribution as well as corporate services are not considered to be reportable operating segments and have been presented in an 'other segments' column.

These classifications are in accordance with AASB 8 guidelines.

#### Description of segments and principal activities

- a) **Trading and Chartering:** This segment is engaged in the business of livestock marketing, buying livestock from multiple sources for export to buyers in international markets and all the logistics and transportation required to deliver livestock globally. In the table below, this segment is further reported as (i) Trading revenue, being revenue generated from the buying and selling of livestock by the company including related logistics; and (ii) Charter revenue, being revenue generated from the sale of space on the Company's vessels for the carriage of cargo owned by third parties.
- b) **Other segments:** This segment consists of meat processing and distribution as well as corporate services. Meat processing and distribution operates abattoirs and markets the processed meat to domestic and international markets. The processed meat is sourced from the Beaufort River Meats abattoir, which was owned and operated by the Group, or procured from external suppliers. The Beaufort River Meats facility was sold in April 2019. Corporate services consist of a centralised support function which provides specialised services across several disciplines to the rest of the Group, including human resources, finance and payroll, information technology and communication, legal services and the board of directors.

Management primarily uses a measure of statutory net profit / loss before income tax to assess the performance of the operating segments. However, management also receives financial information about segment revenue, EBITDA, interest expense, assets and liabilities on a monthly basis.

	Trading and chartering \$'000	Other \$'000	Total \$'000
<b>FOR THE YEAR ENDED 30 JUNE 2019</b>			
Revenue			
Trading revenue	181,735	-	181,735
Charter revenue	51,866	-	51,866
Revenue from contracts for services	-	-	-
Other revenue	1,490	-	1,490
<b>Total revenue</b>	<b>235,091</b>	<b>-</b>	<b>235,091</b>
Depreciation and amortisation expenses	(15,726)	(431)	(16,157)
Net finance costs	(6,413)	(4,853)	(11,266)
Loss from continuing operations before income tax	(28,741)	(12,894)	(41,635)
<b>Total segment assets</b>	<b>195,660</b>	<b>4,685</b>	<b>200,345</b>
<b>Total segment liabilities</b>	<b>114,379</b>	<b>28,171</b>	<b>142,550</b>



## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

	Trading and chartering \$'000	Other \$'000	Total \$'000
<b>FOR THE YEAR ENDED 30 JUNE 2018</b>			
Revenue			
Trading revenue	186,633	-	186,633
Charter revenue	46,472	-	46,472
Revenue from contracts for services	3,498	-	3,498
Other revenue	392	-	392
<b>Total revenue</b>	<b>236,995</b>	<b>-</b>	<b>236,995</b>
Depreciation and amortisation expenses	(16,177)	(440)	(16,617)
Net finance costs	(6,424)	(3,342)	(9,766)
Loss from continuing operations before income tax	(26,706)	(8,514)	(35,220)
<b>Total segment assets</b>	<b>262,602</b>	<b>33,312</b>	<b>295,914</b>
<b>Total segment liabilities</b>	<b>171,761</b>	<b>22,658</b>	<b>194,419</b>

Revenues of approximately \$83.9 million were derived from four external customers of the Trading and Chartering segment, which individually account for greater than 7.0% of total revenue (2018: revenue of approximately \$72.3 million from three external customers, which individually account for greater than 7.0% of total revenue).

An impairment expense of \$22.4 million (2018: \$13.8 million) was recognised in respect of the Trading and Chartering segment, and no impairment (2018: \$0.1 million) has been recognised in respect of the other segment. For further information refer note 13.

### Geographical information

Wellard operates in several geographical locations around the world, spanning multiple continents for both procurement and sales of livestock, as well as sale of space on the Company's vessels.

External revenues based on the origin country of sale are as follows:

<b>FOR THE YEAR ENDED 30 JUNE</b>	<b>Australia \$'000</b>	<b>Singapore \$'000</b>	<b>Uruguay \$'000</b>	<b>Brazil \$'000</b>	<b>Total \$'000</b>
2019	133,057	83,724	18,129	181	235,091
2018	161,997	74,790	34	174	236,995

The non-current assets of the group (excluding deferred tax assets) are located across the following countries:

<b>AS AT 30 JUNE</b>	<b>Australia \$'000</b>	<b>Singapore \$'000</b>	<b>China \$'000</b>	<b>Brazil \$'000</b>	<b>Other \$'000</b>	<b>Total \$'000</b>
2019	3,216	139,093	-	8	54	142,371
2018	13,448	195,882	5,890	67	69	215,356

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### 9. DISCONTINUED OPERATIONS

#### (a) Description

During the second half of 2019, the Beaufort River Meats (BRM), Wellard Feeds, 'La Bergerie' Pre-Export Quarantine businesses and Wellao feedlot were sold and are reported in the current period as discontinued operations.

The sale of the Wellard Feeds and 'La Bergerie' Pre-Export Quarantine businesses to Ausvision Rural Services (Ausvision), was completed on 28 February 2019. On 1 April 2019, Wellard announced it had also contracted to sell its BRM business to Ausvision after the counterparty to the original sales agreement defaulted on the sales contract. The BRM sale was completed on 8 April 2019.

On 18 January 2019, Wellard contracted to sell back the Wellao feedlot in China to the Nandagang government. The sale was completed on 1 March 2019.

#### (b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the ten months ended 30 April 2019 and the year ended 30 June 2018.

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
Revenue	48,974	54,121
Other losses	(158)	(21)
Expenses	(51,110)	(55,316)
<b>Losses before income tax</b>	<b>(2,294)</b>	<b>(1,215)</b>
Income tax expenses	(585)	(118)
<b>Losses after income tax of discontinued operations</b>	<b>(2,879)</b>	<b>(1,333)</b>
Gain on sale of the discontinued operations after income tax	1,425	-
<b>Losses from discontinued operations</b>	<b>(1,454)</b>	<b>(1,333)</b>
Exchange differences on translation of discontinued operations	231	-
<b>Other comprehensive income from discontinued operations</b>	<b>231</b>	<b>-</b>
Basic loss per share from discontinued operations (cents)	(0.3)	(0.3)
Diluted loss per share from discontinued operations (cents)	(0.3)	(0.3)
<b>Cash flows from discontinued operations</b>		
Net cash inflow/(outflow) from operating activities	825	(4,591)
Net cash inflow/(outflow) from investing activities	10,636	(7,250)
Net cash inflow/(outflow) from financing activities	(11,899)	1,256
<b>Net cash flows for the year generated by discontinued operations</b>	<b>(438)</b>	<b>(10,585)</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### (c) Details of the sale of the discontinued operations

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
Consideration received or receivable:		
Cash – land, property, plant & equipment	11,989	-
Cash – inventory	2,368	-
<b>Total disposal consideration</b>	<b>14,357</b>	<b>-</b>
Carrying amount of net assets sold	(12,402)	-
Other expenses directly attributable to sale of discontinued operations	(299)	-
<b>Gain on sale before income tax and reclassification of foreign currency translation reserve</b>	<b>1,656</b>	<b>-</b>
Reclassification of foreign currency translation reserve	(231)	-
Income tax expense on gain	-	-
<b>Gain on sale after income tax</b>	<b>1,425</b>	<b>-</b>

### (d) Assets and liabilities of the discontinued operations

The carrying amounts of assets and liabilities as at the respective date of sales were:

	2019	2018
	\$'000	\$'000
Property, plant and equipment	5,183	-
Land	1,598	-
Intangibles	3,253	-
Inventory	2,368	-
<b>Total assets</b>	<b>12,402</b>	<b>-</b>
<b>Net assets</b>	<b>12,402</b>	<b>-</b>

## 10. TAXATION

### INCOME TAX EXPENSE

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
<b>INCOME TAX EXPENSE</b>		
Major components of income tax expense are:		
Current tax	45	276
Deferred tax	2,919	(20)
(Over) / under provision for income tax in prior years	2,975	(255)
<b>Income tax expense reported in the income statement</b>	<b>5,939</b>	<b>1</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### NUMERICAL RECONCILIATION

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
Loss from continuing operations before income tax	41,635	35,220
Loss from discontinued operations before income tax	1,100	1,215
	<b>42,735</b>	<b>36,435</b>
Tax at the Australian tax rate of 30% (2018: 30%)	(12,821)	(10,931)
<b>Add / (less) the effect of other assessable items</b>		
Attributable foreign income	475	370
(Over) / under provision for deferred income tax in prior years	2,975	(255)
Current year losses and temporary differences not recognised	13,176	12,341
Utilisation of carried forward tax losses	-	(2,737)
Other non-allowable items	7	1
Share based payments	(25)	27
<b>Total other assessable items</b>	<b>3,787</b>	<b>(1,184)</b>
<b>Add / (less) the effect of other non-assessable items</b>		
Effect of different rates on tax on overseas profit	2,152	1,067
<b>Total other non-assessable items</b>	<b>2,152</b>	<b>1,067</b>
<b>Income tax expense reported in the income statement</b>	<b>5,939</b>	<b>117</b>

### DEFERRED TAX BALANCES

FOR THE YEAR ENDED	Provisions and accruals \$'000	Unrealised foreign exchange gains / losses \$'000	Borrowing costs \$'000	Other \$'000	Property, plant and equipment \$'000	Assessed tax losses carried forward \$'000	Total \$'000
<b>Deferred tax assets</b>							
<b>2019</b>							
Opening balance	4,130	636	100	989	39	-	5,894
Movement in profit and loss	(3,128)	1,462	(45)	(293)	(39)	-	(2,043)
Derecognition of DTA	(1,002)	(2,098)	(55)	(696)	-	-	(3,851)
<b>Closing amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2018</b>							
Opening balance	1,501	(273)	130	2,825	-	1,691	5,874
Movement in profit and loss	2,629	909	(30)	(1,836)	39	(1,691)	20
<b>Closing amount</b>	<b>4,130</b>	<b>636</b>	<b>100</b>	<b>989</b>	<b>39</b>	<b>-</b>	<b>5,894</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

FOR THE YEAR ENDED	Provisions and accruals \$'000	Unrealised foreign exchange gains / losses \$'000	Borrowing costs \$'000	Other \$'000	Property, plant and equipment \$'000	Assessed tax losses carried forward \$'000	Total \$'000
<b>Deferred tax liabilities</b>							
<b>2019</b>							
Opening balance	-	-	-	-	-	-	-
Movement in profit and loss	-	(509)	-	(4)	-	-	(513)
Derecognition of DTL	-	509	-	4	-	-	513
<b>Closing amount</b>	-	-	-	-	-	-	-
<b>2018</b>							
Opening balance	-	-	-	-	-	-	-
Movement in profit and loss	-	-	-	-	-	-	-
<b>Closing amount</b>	-	-	-	-	-	-	-

Unrecognised tax losses, tax effected, of \$19.7 million (2018: \$13.1 million) relating to the tax losses of the Australian tax consolidated group, \$2.4 million (2018: \$2.0 million) relating to Uruguay, \$3.3 million (2018: \$3.3 million) relating to Brazil and \$0.8 million (2018: \$0.7 million) relating to Singapore have not been recognised. There is no expiration date for these amounts other than a five-year limit for Uruguay.

## 11. LOANS AND BORROWINGS

AS AT 30 JUNE	2019 \$'000	2018 \$'000
<b>CURRENT</b>		
<b>Secured</b>		
Bank loans <sup>1</sup>	58,815	75,327
Finance leases <sup>2</sup>	29,576	43,313
<b>Un-secured</b>		
Trade asset finance	-	48
Other loans <sup>3</sup>	1,567	3,340
Notes <sup>4</sup>	22,756	26,016
<b>Borrowing costs</b>		
Deferred borrowing costs	(2,624)	(3,099)
<b>Total current borrowings</b>	<b>110,090</b>	<b>144,945</b>

### Notes:

- Bank loans at 30 June 2019 represents the vessel financing agreement from Intesa Sanpaolo, and in the prior financial year, two separate vessel finance agreements from financiers Intesa Sanpaolo and Norddeutsche Landesbank Girozentrale. The vessel finance agreements are secured by the carrying amount of its pledged assets and are supported by a guarantee from the Company.
- Finance leases represents the sale and leaseback of two vessels from Ruchira Ships Limited. The finance lease arrangements are secured by the carrying amounts of its pledged assets and are supported by a guarantee from the Company.
- Other Loans represent the bunker facility.
- The convertible notes were issued in two tranches in April and June 2017. On 1 April 2019, the convertibility of the notes was removed. 4.5 million of notes worth US\$4.5 million were redeemed during the year.



## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

The Company's working capital facility expired on 28 February 2019.

At 30 June 2019 and in the prior year, the Group has two finance lease arrangements, structured as sale and leaseback agreements on two separate vessels. At various stages throughout the lease term, the Group is entitled to buy back one of the vessels for an agreed price. The agreed purchase price reduces over the term of the lease. The Group is obliged to buy back both of the vessels for an agreed price at the expiry of the lease. The sale and leaseback agreements also include other terms such as undertakings, prepayment, events of default and early payment penalties typical for agreements of this nature. Any breach of these undertaking or representations, or occurrence of the events of default, may lead to the cancellation of the sale and leaseback agreements, and either immediate re-delivery of the asset to the financier, or the balance of all lease and buy-back payments falling due and payable. On 19 August 2019, Wellard announced that it has reached a conditional agreement to extend the repayment schedules and sale and leaseback for 24-28 months, until December 2021.

Due to changes in the structure of the convertible note agreements during the 2019 financial year, deferred borrowing costs incurred during the establishment of the convertible notes have been fully expensed during the current period.

For bank loans and finance leases, the fair values are not materially different to their carrying amounts since the interest payable on the loans and borrowings are close to the current market rates.

Refer to note 1(c) for details about covenants and the classification of borrowings as a current liability.

AS AT 30 JUNE	Currency	Financial year of maturity	2019 \$'000	2018 \$'000
<b>CURRENT</b>				
<b>Secured</b>				
Bank loans	USD	2026	58,815	63,775
Bank loans <sup>1</sup>	USD	2022	-	11,552
Finance leases <sup>2</sup>	USD	2020	24,755	33,062
Finance leases <sup>2</sup>	USD	2020	4,821	10,251
<b>Un-secured</b>				
Trade asset finance	EUR	2019	-	48
Bank loans	USD	2020	1,567	3,340
Notes	USD	2020	22,756	26,016
			<b>112,714</b>	<b>148,044</b>

**Notes:**

1. Secured bank loans of \$9.1m have been reclassified to liabilities directly associated with assets held for sale as at 30 June 2019, refer to note 12.
2. On 19 August 2019, Wellard announced that it has reached a conditional agreement to extend the repayment schedules until December 2021 (i.e. FY2022).

**Liabilities directly associated with assets held for sale:**

AS AT 30 JUNE	Currency	2019 \$'000	2018 \$'000
<b>SECURED LIABILITIES</b>			
Bank loans	USD	9,132	-

**Convertible notes**

On 11 April and 6 June 2017, Wellard issued tranche 1 and tranche 2 convertible notes of US\$7.35 million and US\$12.65 million respectively, totalling US\$20.0 million.

On 18 December 2018, the Company entered into a standstill agreement under which the noteholders agreed not to take any enforcement action in respect of outstanding breaches during a Standstill Period which ended on 31 March 2019. Those breaches remained outstanding at the end of the Standstill Period, and the noteholders were entitled to take enforcement action in respect of those breaches from the end of the Standstill Period. The standstill agreement also called for an early redemption of 3.5 million convertible notes, worth US\$3.5 million.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

On 1 April 2019, Wellard announced the extension of the Standstill Period from 31 March 2019 to 30 September 2019. This standstill agreement required monthly redemption of US\$500,000 worth of convertible notes and a coupon rate of 14% per annum on the face value of the outstanding notes. The parties also agreed that the notes are no longer convertible into shares in the Company. Redemptions of 1.0 million notes, worth US\$1.0 million, were made during this period. The Second Standstill Period ended on 7 June 2019, as Wellard were not able to grant certain security to the noteholders, as required under the terms of the standstill agreement.

As at 30 June 2019, the standstill period had ended and the noteholders were entitled under the terms of the note documentation to demand immediate repayment of their outstanding notes, due to the defaults. As such, the outstanding balance of the notes at 30 June 2019 represents the value of the outstanding notes and accrued interest payable.

On 22 August 2019, Wellard announced that it had reached agreement with the noteholders for a further standstill period. This standstill agreement requires a payment of US\$10 million worth of notes upon settlement of the sale of the MV Ocean Swagman, followed by monthly redemptions of US\$500,000 worth of notes for 5 months, followed by redemption of the remaining balance owing to noteholders in the 6<sup>th</sup> month after settlement of the MV Ocean Swagman sale.

There are 15.5 million notes on issue at 30 June 2019, 4.5 million of which have been redeemed as at 30 June 2019 (2018: Nil).

Movement in notes are shown below:

	2019 \$'000	2018 \$'000
<b>FOR THE YEARS ENDED 30 JUNE</b>		
<b>SUBSEQUENT MOVEMENT</b>		
Opening balance	26,016	24,571
Redemption of notes	(6,408)	-
Interest expense	2,691	2,041
Interest paid	(2,241)	(1,586)
Other fair value movement	1,305	-
Foreign exchange revaluation	1,393	990
<b>Closing balance</b>	<b>22,756</b>	<b>26,016</b>

Interest expense is calculated by applying the effective interest rate of the original deed and subsequent standstill agreements to the liability component.

Schedule of current year movements in loans and borrowings:

Financier	Secured bank loans \$'000	Finance leases \$'000	Trade asset finance \$'000	Unsecured bank loans \$'000	Notes \$'000	Deferred borrowing costs \$'000	Total \$'000
Opening balance	75,327	43,313	48	3,340	26,016	(3,099)	144,945
Cashflows	(11,446)	(16,075)	(48)	(1,953)	(6,408)	-	(35,930)
Effect of movements in exchange rates	4,066	2,338	-	180	1,427	(148)	7,863
Other non-cash movements	-	-	-	-	1,721	623	2,344
Assets held for sale	(9,132)	-	-	-	-	-	(9,132)
	<b>58,815</b>	<b>29,576</b>	<b>-</b>	<b>1,567</b>	<b>22,756</b>	<b>(2,624)</b>	<b>110,090</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

The Group made all payments due under its working capital facility and ship financing facilities during the reporting period, and as noted above, has either finalised or is continuing to finalise standstill and waiver agreements with all of its financiers.

As was the position in the financial year ended 30 June 2018, due to the Group breaching financial covenants as noted above, all of its loans and borrowings have been reclassified as current as at period end, despite \$72.8 million of those liabilities being due after 30 June 2019. This accounting treatment, which is in accordance with AASB 101, reflects the potential for the relevant financiers to accelerate and enforce their facilities, noting that as at the reporting date no financier had taken any acceleration or enforcement action.

### 12. ASSETS HELD FOR SALE

	2019	2018
FOR THE YEARS ENDED 30 JUNE	\$'000	\$'000
<b>ASSETS HELD FOR SALE</b>		
Property, plant and equipment – vessel	31,330	-
<b>LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE</b>		
Borrowings	(9,132)	-
	<b>22,198</b>	<b>-</b>

#### Vessel held for sale

As announced to the ASX on 4 July 2019, Wellard has planned to recapitalise and restructure the operations of the Group by reducing its debt level by selling one vessel of its fleet. A term sheet was signed between Wellard and Heytesbury Holding Company Pty Ltd on the key terms and conditions for the sale and leaseback of the MV Ocean Swagman for US\$22.0 million.

Subsequently on 6 August, Wellard announced that it had received and accepted a superior offer to sell the MV Ocean Swagman to Nova Marine Holdings (SA) for US\$25.2 million. However, on 20 August 2019, Wellard announced that conditions precedent were not fulfilled by Nova, and Wellard would proceed with the sale to Heytesbury. Wellard is expected to complete the sale of the MV Ocean Swagman by October 2019.

In accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations, an impairment of US\$7.6 million (A\$10.6 million) was recognised in the 2019 financial year to write down the asset to its fair value less costs to sell.

The sale agreement to Heytesbury includes a Bareboat Charter of the MV Ocean Swagman for a fixed period ending 31 March 2021, with an option to extend. In accordance with AASB 16 Leases, the Bareboat Charter will create a Right of Use (ROU) asset, equal to the lease liability.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### 13. PROPERTY, PLANT AND EQUIPMENT

AS AT 30 JUNE	FREEHOLD LAND \$'000	SHEDS AND BUILDINGS \$'000	PLANT AND EQUIPMENT \$'000	TOTAL \$'000
<b>2019</b>				
Opening net book amount	4,052	2,255	200,525	206,832
Additions	-	2	2,297	2,299
Disposals	(4,052)	(1,976)	(7,140)	(13,168)
Foreign exchange revaluation	-	8	9,827	9,835
Impairment expense	-	-	(20,290)	(20,290)
Depreciation expense	-	(127)	(14,901)	(15,028)
Transfer to assets held for sale	-	-	(31,330)	(31,330)
<b>Closing balance</b>	<b>-</b>	<b>162</b>	<b>138,988</b>	<b>139,150</b>
Cost	-	625	252,097	252,722
Accumulated depreciation and impairments	-	(463)	(113,109)	(113,572)
<b>Closing balance</b>	<b>-</b>	<b>162</b>	<b>138,988</b>	<b>139,150</b>
<b>2018</b>				
Opening net book amount	7,134	3,160	220,441	230,735
Additions	-	29	5,819	5,848
Disposals	(3,082)	(747)	(1,733)	(5,562)
Foreign exchange revaluation	-	6	6,884	6,890
Impairment expense	-	-	(13,889)	(13,889)
Depreciation expense	-	(193)	(16,997)	(17,190)
<b>Closing balance</b>	<b>4,052</b>	<b>2,255</b>	<b>200,525</b>	<b>206,832</b>
Cost	4,084	3,255	319,567	326,906
Accumulated depreciation and impairments	(32)	(1,000)	(119,042)	(120,074)
<b>Closing balance</b>	<b>4,052</b>	<b>2,255</b>	<b>200,525</b>	<b>206,832</b>

Property, plant and equipment with a carrying amount of \$138,584,132 (2018: \$194,849,218) are pledged as security for the current liabilities as disclosed in note 11.

The Company has impaired the MV Ocean Swagman and MV Ocean Ute for \$20.4 million, as disclosed in note 7. Due to the sale of assets of Beaufort River Meats, an impairment of \$0.1 million has been reversed.

Included in plant and equipment are unimpaired assets under construction of \$Nil (2018: \$2,123,792).

## DIRECTORS

John Klepec  
Executive Chairman

John Stevenson  
Executive Director

Kanda Lu  
Executive Director

Philip Clausius  
Non-Executive Director

## COMPANY SECRETARY

Michael Silbert

## AUDITORS

PricewaterhouseCoopers

Level 15  
125 St Georges Terrace  
Perth WA 6000

Phone: +61 8 9238 3000  
Facsimile: +61 8 9238 3999  
Website: [www.pwc.com.au](http://www.pwc.com.au)

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

1A Pakenham Street  
Fremantle WA 6160

Phone: +61 8 9432 2800  
Facsimile: +61 8 9432 2880  
Website: [www.wellard.com.au](http://www.wellard.com.au)

## SHARE REGISTRY

Link Market Services

Level 4  
152 St Georges Terrace  
Perth WA 6000

Phone: +61 1300 554 474  
Facsimile: +61 8 9287 0303  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## SECURITIES EXCHANGE LISTING

Shares in Wellard Limited are listed on the Australian Securities Exchange (ASX:WLD).