

**PEANUT COMPANY OF AUSTRALIA LIMITED**

**ACN 057 251 091**

**ANNUAL REPORT**

**YEAR ENDED 31 MARCH 2017**

## CORPORATE DIRECTORY

Peanut Company of Australia limited and its Controlled Entities

### CORPORATE OFFICE AND PROCESSING PLANT

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### OTHER PROCESSING PLANTS

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Gayndah QLD

### DIRECTORS

Ian Langdon, Chairman  
Niven Hancock  
Brett Heading

### CHIEF EXECUTIVE OFFICER

John Howard

### COMPANY SECRETARY

Don Mackenzie

### AUDITOR

BDO Audit Pty Ltd  
Level 10, 12 Creek Street  
Brisbane QLD 4000

### SHARE REGISTRY

Link Market Services Limited  
Level 15, 324 Queen Street  
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## CHAIRMAN'S FOREWORD

In respect of the year ended 31 March 2017

### Finance Performance

The continued productivity gains in processing and the beginnings of movement into the higher margin, branded retail sector both had positive impacts upon financial performance but were outweighed by a domestic harvest of 14,023 metric tonnes that did not achieve budget expectations of 18,686 metric tonnes. Consequently the financial performance of the Group was an EBITDA of \$0.283 million from gross revenues of \$52.6 million and a loss after interest and tax of \$4.935 million, inclusive of a \$1 million impairment against the gene pool (2016: profit after interest and tax of \$1.21 million). Asset revaluations during the year for Land and Buildings resulted in an increase in their valuation of \$4.946m.

Continuing productivity gains within the processing operations have lowered fixed costs significantly however failure to achieve budgeted domestic harvest volumes due to seasonal factors results in an inability to fully absorb the fixed component of processing costs thus reducing margins and impacting negatively on earnings. The company will continue to focus on providing pricing incentives and agronomic assistance to growers to reverse the recent trends in below budget domestic supply of peanuts.

### Operations, strategy and outlook

The Chief Executive's report details the achievements of the company in developing new, branded retail products facilitated by the commissioning of a new \$2.2 million packing plant within our Kingaroy premises. The new facility removes the dependence on third party processing for branded retail packs. PCA appreciates the support of its bankers, NAB in undertaking this significant investment.

Strategically PCA sees the benefit of introducing new equity into the business through the involvement of external parties with a common interest in promoting Australian content within the domestic food sector. Whilst effort along these lines is ongoing, the company will continue to focus on providing farmer suppliers with the financial incentives and technical advice to reverse recent trends of reducing domestic harvest volumes.

As highlighted in recent annual reports PCA is committed to the ongoing investment in its outstanding plant breeding programme. The long term prosperity, indeed survival of the peanut industry in Australia is dependent upon PCA's ability to continue the introduction of superior varieties suitable to the Australian growing environment. Despite financial pressures arising out of successive poor harvests due principally to seasonal conditions the commitment to the breeding programme is absolute.

The directors are most appreciative of the efforts of John Howard, his management team and all the staff throughout the organisation. Their achievements in reducing costs, increasing productivity are not adequately reflected in the net financial results yet such gains are real and the benefits will emerge in future years with increased harvest volumes. I also wish to express my appreciation to my fellow directors, Brett Heading and Niven Hancock and the Company Secretary, Don Mackenzie for their ongoing efforts and support.



**Ian Langdon**  
Chairman

27 June 2017

# CHIEF EXECUTIVE OFFICER'S REPORT

In respect of the year ended 31 March 2017

Driven by an extended dry period in the Burnett and North Queensland regions, planting intentions and therefore intake were reduced and as a consequence the financial year ending 31 March 2017 (FY17) was very challenging financially. Despite this, PCA has achieved some significant milestones most notably in driving the key strategic imperative of changing our capabilities to enable the sale of higher valued products. Our operating results for the year were below previous years, FY17 will be remembered as the year where PCA:

- Commissioned the new \$2.2 million processing line to manufacture, for itself, a range of Consumer Ready products. This is a first for PCA.
- Launched our own range of Picky Picky branded oil products in a 790ml bottle and a 3 litre tin.
- Obtained national ranging of our Picky Picky branded snacking and oil products as well as making sales to Dubai, Philippines, Hong Kong and Macau.
- Continued to drive demand for Australian peanuts assisted by the pending change in labelling laws within Australia for food products.

The great taste and Hi Oleic benefits of Australian grown peanuts have long been recognised by Australian growers and consumers and we are now well advanced in being able to manufacture, communicate and deliver this proposition directly to the consumer.

PCA's strategic initiatives are very clear and concise. FY17 has seen significant progress of the activities required to deliver on the initiatives that have been captured in the Review of Operations that follows.

## Strategic Initiatives



## Review of Operations

### Sales & Marketing

A key strategic imperative of PCA is to drive growth through the provision of Consumer Ready products, either through our own Picky Picky brand or for third parties, and ensuring that value is maximised for our Ingredient sales.

#### Consumer Ready

During FY17 PCA continued to drive the expansion of our range of Picky Picky branded products. The highlight of this was the launch of our Picky Picky Peanut Oil in August 2016 in both a 790ml bottle and 3 litre tin. This launch was successfully implemented with the products gaining national distribution in Coles and into other regional distributors. Not only is this product range the only Australian grown peanut oil in the marketplace, but also the only one with the premium High Oleic oil composition.

Another first for PCA was the investment in a Queensland wide radio advertising campaign for our Picky Picky snacking peanuts range. Utilising the very memorable "Pick the Peanuts Picky Peanut People Pick" tag line, significant awareness and feedback was obtained from this promotion that will be expanded upon in FY18. New Product Development work has also been a major focus that will result in the launch of a larger 200gm snacking range for Picky Picky in FY18.

In addition to our range of Consumer Ready snacking products, PCA are also co-manufacturing for third parties, including a major national food retailer. With the commissioning of our own snacking production and packing line in mid-2016 PCA now has significant capacity to drive growth in this higher value segment. Working closely with our customers we have been successful in expanding our third party manufacturing volume for FY18 and will provide 100% growth year on year.

# CHIEF EXECUTIVE OFFICER'S REPORT

In respect of the year ended 31 March 2017

## Ingredient Sales

The foundation of PCA's sales performance has been and will continue to be that of our Ingredient business. The importance of this has been further emphasised this year by the increased consumer, and therefore manufacturer, demand for Australian grown product and the impending changes to food labelling laws that will require food processors to explicitly illustrate the proportion of ingredients coming from Australia (grown). This is a great step forward for Australian growers and processors.

With a low volume 2016 domestic Australian crop provided us with less Australian product for sale, however, our Gross Sales margin increased again on the previous year driven by an improved sales mix and prudent cost management. In addition to this, despite the reduced Australian crop outcome, PCA's dual origin supply strategy supported the business in maintaining local peanut market share and further strengthened PCA's position as a viable long term supply partner.

Our sales focus and the targeted expansion of our customer base focuses on maximising PCA's clearly established position in the market of being the provider of high quality (clean & green) Australian peanuts possessing the benefits of a Hi Oleic fatty acid profile and the integrity of our product specifications.

## **Grower Relationships and Cropping Intake**

The 2015/16 growing season was very challenging highlighted by a very late start to the season in the Burnett and North Queensland regions. PCA's strategic imperative is to grow the level of Australian peanut production to satisfy an increasing consumer demand. PCA continues to lead the way in developing grower relationships in all areas, from the provision of clean seed, the collaboration of research and development activities with third parties, the development of agronomy capability and then during the harvesting process. PCA continues to work closely with government departments and private operators to drive advancements in our understanding of peanut agronomy and to reduce the cost of growing a crop.

| District                           | Yields (Metric Tonnes / Hectare) |      |      |      |      |
|------------------------------------|----------------------------------|------|------|------|------|
|                                    | 2016                             | 2015 | 2014 | 2013 | 2012 |
| North Qld (Dryland & Irrigated)    | 4.00                             | 5.29 | 4.66 | 4.07 | 4.6  |
| Irrigated (Central / Southern QLD) | 5.01                             | 4.38 | 4.90 | 4.98 | 3.3  |
| Dryland (Southern QLD)             | 2.18                             | 2.16 | 0.77 | 2.54 | 2.5  |

Despite the late start the dryland areas of southern Queensland saw yields average 2.18mt/ha, this was not replicated in North Queensland where the dry conditions saw a reduced yield average of 4.00mt/ha. Despite some issues with disease in the Bundaberg region increased yields were seen in the southern irrigated regions with crops averaging just over 5.0mt/ha.

PCA continues to work with government research departments, chemical companies and universities to assist growers in the need to increase productivity and efficiency. PCA understands the criticality of the need for peanut growers, and the broader peanut industry, to be profitable and that PCA's investment in research and development, not just directly but also through other third party initiatives, is a vital driver. These programs and projects, driven by PCA, are aimed at providing the knowledge and tools to assist growers and ultimately achieve PCA's objectives to increase the intake volume, quality and value for all stakeholders.

## **OPERATIONS**

The commissioning of the snacking line has been a real highlight in FY17. For the first time in PCA's 90+ year history we now have the capability to produce Consumer Ready products ourselves. This line provides PCA with the capability to manufacture a broad range of products into flexible packaged formats either for our own Picky brand or for other parties. This was a very exciting milestone for PCA.

PCA prides itself on providing a clear differentiation in the market through the supply of industry leading product quality. This position is only obtained through investment in leading manufacturing technologies, increased operational productivity and ensuring the efficient operation of these activities. This imperative continues to be our motive and has been incorporated into the design of the new \$2.2 million snacking line that was commissioned during FY17. Every element of product design, packing, process capability and branding has imbedded these clear market leading principles into the construction of this new line.

# CHIEF EXECUTIVE OFFICER'S REPORT

In respect of the year ended 31 March 2017

Our investment in new processes and systems continues to benefit our Sales and Operations Planning process, in particularly customer service delivery and improved productivity and efficiency within manufacturing.

## Employees, Training, Work Health and Safety

PCA prides itself on our treatment of employees and is highlighted by our large number of long serving employees. In 2016 we again held an Annual Dinner to recognise their contribution to the business and are proud that we have 59 employees who have been with us for 10 years or more. At this event presentations were made to 17 employees who had reached a 10, 15, 20, 25, 30 or 35 year milestone.

Of paramount importance within PCA is the provision of a safe workplace based on the use of a systematic risk control process, facilitated and supported by procedures and policies and critically PCA employees. The improvements gained in recent years have been maintained in 2016/17 especially in regards to Lost Time Injury Frequency Ratio, Severity Rate and Medically Treated Injury Frequency Ratio.

|   | Measure  | FY17 | FY16 | FY15 | FY14 |
|---|--|------|------|------|------|
| <b>Lost Time Injuries</b>               | # incurred   | 1    | 1    | 2    | 2    |
| <b>Lost Time Injury Frequency Ratio</b> | (No. of LTI's / No. of hours worked in period) X 1,000,000     | 3.5  | 3.6  | 7.6  | 7    |
| <b>Severity Rate</b>                    | (No. of Days Lost / No. of hours worked in period) X 1,000,000 | 14.1 | 58   | 64   | 14   |

A major imperative within PCA is the rigorous implementation of the Workplace Health and Safety (WH&S), Hazard Analysis Critical Control Point (HACCP) and Food Safety training programs we have in place. These programs continue to be delivered to new and existing employee's to ensure that we create a safe environment for both our employee's (WH&S) and the manufacturing of our products (HACCP, Food Safety).

PCA's ongoing impressive safety performance continues to result in PCA experiencing lower premium rates for Work Cover in contrast to comparable industries. For 2016/17 the differential between our rate and the Industry Rate remained high.

|                      | 16/17 | 15/16 | 14/15 | 13/14 |
|----------------------|-------|-------|-------|-------|
| <b>PCA Premium</b>   | 1.810 | 1.874 | 1.928 | 1.742 |
| <b>Industry Rate</b> | 3.938 | 3.601 | 3.261 | 3.735 |
| <b>Differential</b>  | 2.128 | 1.727 | 1.333 | 1.993 |

## Technical Highlights

PCA's National Association of Testing Authorities (NATA) accredited laboratory resource is paramount to deliver on our customer, legislative and company expectations. This investment allows PCA to effectively manage the cost of quality by improving both the effectiveness and efficiency of our products.

PCA's Food Safety and Quality Programme is HACCP certified and is complemented by having NATA, Halal and Kosher certification. Within PCA the yardstick sought is the accreditation of our systems, processes and procedures which is audited by the British Retail Consortium (BRC). Their expectations are seen as the benchmark by many domestic and international customers and this year PCA was able to achieve an AA rating from BRC (the highest available) and this recognition continues to be a significant benchmark that PCA is measured.

# CHIEF EXECUTIVE OFFICER'S REPORT

In respect of the year ended 31 March 2017

## Peanut Breeding

The need for productivity and efficiency gains in any industry is essential and growing peanuts is no different. PCA's peanut breeding program is a critical investment in developing new varieties that deliver grower stakeholders with higher yields and lower costs of production whilst ensuring market demands are met. The PCA breeding program is supported by a five year funding agreement that we have with the Grains Research and Development Corporation (GRDC) that enables the continued development of new peanut cultivars for the Australian industry. This breeding program is also supported by a five year agreement we have between PCA and the Queensland Department of Agriculture and Fisheries (QDAF).

The breeding program continues to target two different maturity groups; full season types (20 to 22 weeks) and ultra early types (approximately 16 to 18 weeks). Varieties are selected within these groups based on their ability to meet a market need, their Hi Oleic oil composition, are high yielding, possess low shell and high blanchability traits and have enhanced resistance to a range of foliar and soil borne diseases.

| High Kernel Yield                 | Reduce Cost of FS Production   | Sustainability  | Processing Efficiency  | Market Acceptance   |
|-----------------------------------|--|---|--|---|
| Exceeding current check varieties | <b>Foliar disease resistance</b><br>(leaf spot, leaf rust, net blotch)<br><br><b>Soil borne disease resistance</b><br>(CBR, Neocosmospora, Fusarium) | <b>Dryland and Irrigated environments</b><br><br><b>Maturity</b><br>Full Season<br>- 145+ days<br><br>Ultra Early<br>- 110 – 120 days | <b>Low Shelling</b><br>(aim <20%)<br><br><b>High Blanchability</b><br>(aim >90%) | <b>Hi Oleic Chemistry</b><br><br><b>Acceptable flavour</b><br><br><b>Runner and Virginia</b><br>type kernel with emphasis on larger Virginia grade in UE and FS types.<br><br><i>In longer term,</i><br>Functional Food/Nutritional Traits<br>(next Hi Oleic trait? - Calcium, Antioxidants...) |

PCA is very excited about some of the new varieties coming through the breeding program. Over the next two years we plan to have the following varieties commercially released to Australian peanut growers:

**TAABINGA** Is the first Early Maturity line developed by PCA in the joint breeding program ('P' lines) for potential commercial release. This line has continued to perform very well in all regional variety trials over the past 3 years, with superior kernel yield performance (20% higher than 'Redvale'), kernel size (>50% runner Jumbos) and excellent foliar disease tolerance (leaf spot, leaf rust, net blotch). Taabinga is in Level 1 pure seed production, with commercial release expected in 2019/20. PCA is a joint owner of this variety with GRDC and DAFQ.

**KAIRI** This full season maturity line (D281-p40-236A, to be called 'Kairi') has performed very well again during 2016/17 and is highly likely to progress to commercial release for the up-coming 2017/18 season. 'Kairi' has 5-15% higher kernel yield than 'Holt', 'Middleton' and 'Fisher', a larger Runner grade-out superior to 'Holt', and enhanced foliar disease tolerance (leaf spot, leaf rust and net blotch). It has shown very good broad adaptation with consistent superior performance against commercial checks in dryland (Burnett) and irrigated (NQ, Brisbane Valley, Bundaberg, CQ) environments. A working group at PCA is evaluating all aspects of the new variety (agronomics, maturity, grading, shelling, blanching, and marketing) to ensure it meets current specifications, and is acceptable and safe to replace currently grown commercial varieties. PCA is a joint owner of this variety with GRDC and DAFQ.

PCA's focus is to breed varieties for the Australian market and conditions; however, PCA has over the last few years entered into agreements with parties in South Africa and the USA to evaluate PCA's germplasm in these countries. PCA's varieties have performed well in these trials and we are hoping that they will move towards



## CHIEF EXECUTIVE OFFICER'S REPORT

In respect of the year ended 31 March 2017

commercial evaluation and release. The benefit for PCA is that, at little incremental cost, we will be able to earn royalties in these countries from our varieties through formal agreements that protect our Plant Breeder's Rights.

### Seed

Having a world class breeding program is diminished in its ability to deliver benefits to growers unless a pure seed program is implemented to support this. PCA's pure seed program and processing facility ensures the provision of quality pure seed to growers throughout the lifespan of a variety. The dedicated seed program PCA maintains is able to multiply current and new varieties for growers to access, with minimal risk of Hi Oleic or variety contamination. The purity of seed provided by PCA assists growers in achieving their required output margins.

### PCA and the Community

The Company recognises the important role it plays in the South Burnett and North Queensland as a major agribusiness, local employer and the figurehead of the Australian peanut industry. Despite the recent financial constraints, PCA has continued to provide support to as many local events and organisations as possible within these regional communities.



**John Howard**  
Chief Executive Officer

27 June 2017

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# DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities

The Directors of Peanut Company of Australia Limited present their report on the consolidated entity (Group) consisting of Peanut Company of Australia Limited ("PCA or the Company") and the entities it controlled at the end of, and during, the financial year ended 31 March 2017.

## 1. DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

| <b>Name, qualifications and independent status</b>  | <b>Experience, special responsibilities and other directorships</b>  |
|---|--|
| Ian Langdon<br>BCom, MBA, Dip Ed, FCPA,<br>FAICD<br><i>Independent</i><br><i>Non-Executive Chairman</i> | Ian was appointed as Chairman in March 2008 having joined the Board in March 2005. Ian is also chairman of the Audit and Risk Management Committee. He is currently Chairman of the Gold Coast Hospital and Health Board. His previous appointments include Chairman of Australian Co-operative Foods Ltd (the Dairy Farmers Group), and board positions included Rabo Bank Australia Limited, Delta Electricity and Pivot Limited. Ian has held various positions in tertiary education including Associate Professor and Dean of Business Faculty at Griffith University (Gold Coast Campus), Dean of Business at The Darling Downs Institute of Technology (now University of Southern Queensland) and Senior Lecturer in finance at Deakin University. |
| Niven Hancock<br><i>Independent</i><br><i>Non-Executive Director</i>                                    | Niven was appointed as non-executive Director on 24 August 1992. Until February 2009 he conducted peanut farming operations at Kumbia in the South Burnett in Queensland. He is also a member of the Audit and Risk Management Committee.  |
| Brett Heading<br><i>Non-Executive Director</i>  | Brett was appointed as non-executive Director on 30 November 2012. Through his family company Technology Farmers Pty Ltd, he has been a substantial shareholder for many years. He is an experienced corporate lawyer and company director. Brett's family has been involved in the South Burnett for over 110 years and he currently has beef, wine (Clovely Estate) and olive interests in this region.  |

## 2. SENIOR EXECUTIVES

|  |  |
|--|--|
| John Howard<br>MBA<br><i>Chief Executive Officer</i> | John is responsible for all supply and processing operations within PCA, including grower regions North Queensland, Bundaberg and Emerald and site operations at Kingaroy, Tolga and Gayndah. He commenced his association with PCA as the Director of Supply and Operations on 21 September 2009 and was appointed Chief Executive Officer on 30 November 2012. John is the former General Manager Commercial / Procurement at Golden Circle and Commercial Director at Mars. |
| Don Mackenzie<br><i>Company Secretary</i>            | Don was appointed Company Secretary in November 2004, and provides his services on a part time basis. After working in Chartered Accounting firms and becoming a Chartered Accountant, he held senior positions with public companies in the rural and manufacturing industries. In 1993 he began providing corporate services to companies in a wide range of industries and has held positions as a Director and or Company Secretary of ASX listed and unlisted companies.  |

## 3. DIRECTORS' MEETINGS

The number of meetings and attendance details by each Director of the Company during the financial year were:

| <b>Director</b> | <b>Director's Meetings</b> |                      | <b>Audit and Risk Management Committee Meetings</b> |                      |
|-----------------|----------------------------|----------------------|---|----------------------|
|                 | <b>Meetings attended</b>   | <b>Meetings held</b> | <b>Meetings attended</b>                            | <b>Meetings held</b> |
| Ian Langdon     | 16                         | 17                   | 2   | 2                    |
| Niven Hancock   | 17                         | 17                   | 2   | 2                    |
| Brett Heading   | 16                         | 17                   | 2   | 2                    |

## 4. CORPORATE GOVERNANCE

PCA adopts a code of corporate governance and where practical, observes the ASX Corporate Governance Council guidelines.

## DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities

### 5. REMUNERATION

Remuneration is referred to as compensation throughout this section.

Key management personnel include the Directors of the Company and senior executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced Directors and executives and the Board obtains independent advice when required on the appropriateness of compensation packages for the Group given trends with comparative companies locally, and the objectives of the Company's compensation strategy.

Compensation packages include a mix of fixed and variable compensation, and short and long term performance - based incentives.

#### 5.1 FIXED COMPENSATION

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually through a process that considers individual and overall performance of the Group. A senior executive's compensation is also reviewed on promotion.

#### 5.2 PERFORMANCE LINKED COMPENSATION

Performance linked compensation includes short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding the Board approved objectives.

These incentives are "at risk" performance based bonus provided in the form of cash. The Board did not exercise any discretion on the payment of bonuses in the period.

#### 5.3 SHORT-TERM INCENTIVE BONUS

The Board has approved individual Key Measures to be used in the assessment of performance related incentives which are payable in cash on achieving satisfactory completion of predetermined tasks which in all cases require that the Group firstly reaches satisfactory financial performance, which is the achievement of the budgeted EBITDA set at the beginning of the financial year.

The quantum is based on a percentage of the senior executive's package. The method of assessment was chosen as it provides the Board with an objective assessment of the individual's performance. The Board reserves the right to pay bonuses relating to the current year's performance.

No amount has been provided in the current year for this short-term incentive bonus.

#### 5.4 SERVICE CONTRACTS

|                      |   |
|----------------------|---|
| Name:                | John Howard   |
| Title:               | Chief Executive Officer   |
| Agreement commenced: | 30 November 2012  |
| Term of agreement:   | No fixed term   |
| Details:             | Base salary determined on 1 October 2015 of \$313,748 plus superannuation and fully maintained company car. In addition, six months termination notice by either party or payment in lieu of notice, bonus of 25% - 40% subject to meeting or exceeding budgeted EBITDA target. Long term incentive of 1.25% of growth in the market capitalisation of the Company beyond a base valuation of \$1.00 per share. |

In appointing John Howard as Chief Executive Officer with a reduced executive team and associated costs, the Board recognised the need to adjust his salary, however decided that the increase should be subject to performance, i.e. at risk. Consequently the salary adjustment was limited to 3.4% with a STI of 15% if EBITDA target was achieved with a 40% STI cap if EBITDA (post incentive payments) reached a "stretch" target. No performance based remuneration has been accrued in the year ended 31 March 2017 (2016: Nil).

## DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities

### 5. REMUNERATION (cont'd)

#### 5.5 NON-EXECUTIVE DIRECTORS

Non-executive Directors are paid a fixed remuneration for their services. Where they undertake additional duties over and above their normal Board duties, additional payments must be approved by the Board. Non-executive Directors do not receive profit performance related compensation.

#### 5.6 MOVEMENTS IN OPTIONS OVER EQUITY INSTRUMENTS IN THE YEAR ENDED 31 MARCH 2017

During the reporting period, no options over ordinary shares in Peanut Company of Australia Limited were held by key management persons (2016: Nil).

#### 5.7 MOVEMENTS IN SHARES HELD BY KEY MANAGEMENT PERSONS IN THE YEAR ENDED 31 MARCH 2017

The movement during the reporting period in the number of ordinary shares in Peanut Company of Australia Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, are as follows:

|                   | Held at<br>31 March 2016 | Held at<br>31 March 2017 |
|-------------------|--------------------------|--------------------------|
| Ian Langdon       | 73,561                   | 73,561                   |
| Niven Hancock (1) | 44,174                   | 44,174                   |
| Brett Heading (2) | 1,323,960                | 1,323,960                |
| Don Mackenzie (3) | 3,403                    | 3,403                    |

#### Notes

- These shares are held in the name of Candowie Farming Company, which Niven Hancock has a beneficial interest.
- These shares are held in the name of Technology Farmers Pty Ltd, a company which Brett Heading has a beneficial interest.
- These shares are held in the name of Rotherby Super Fund, a fund which Don Mackenzie has a beneficial interest.

#### 5.8 OTHER KEY MANAGEMENT PERSONNEL AND DIRECTOR TRANSACTIONS

There were no transactions with the Company or its subsidiary in the reporting period from key management personnel and directors.

From time to time, key management personnel or directors of the Group may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by the Group employees or customers and are trivial or domestic in nature.

#### 5.9 DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION (COMPANY AND CONSOLIDATED)

Details of the nature and amount of each major element of remuneration of each key management:

| Expressed in Whole Dollars           | Year | Short-term    |                       |           |       | Total   | Long-term        | Post Employment | Total   | Performance Related Remuneration % |
|--------------------------------------|------|---------------|-----------------------|-----------|-------|---------|------------------|-----------------|---------|------------------------------------|
|                                      |      | Salary & Fees | Non Monetary Benefits | Bonus (3) | Other |         | Leave Provisions | Super Benefits  |         |                                    |
| <b>Non Executive Directors</b>       |      |               |                       |           |       |         |                  |                 |         |                                    |
| Ian Langdon (1)                      | 2017 | 95,600        | -                     | -         | -     | 95,600  | -                | 9,082           | 104,682 | -                                  |
|                                      | 2016 | 95,600        | -                     | -         | -     | 95,600  | -                | 9,082           | 104,682 | -                                  |
| Niven Hancock                        | 2017 | 41,800        | -                     | -         | -     | 41,800  | -                | 3,971           | 45,771  | -                                  |
|                                      | 2016 | 41,800        | -                     | -         | -     | 41,800  | -                | 3,971           | 45,771  | -                                  |
| Brett Heading (2)                    | 2017 | 41,800        | -                     | -         | -     | 41,800  | -                | 3,971           | 45,771  | -                                  |
|                                      | 2016 | 44,848        | -                     | -         | -     | 44,848  | -                | 923             | 45,771  | -                                  |
| <b>Senior Executives</b>             |      |               |                       |           |       |         |                  |                 |         |                                    |
| John Howard (CEO)                    | 2017 | 313,748       | 22,000                | -         | -     | 335,748 | 4,769            | 29,806          | 370,323 | -                                  |
|                                      | 2016 | 309,179       | 22,000                | -         | -     | 331,179 | 20,686           | 29,372          | 381,237 | -                                  |
| Donald Mackenzie (Company Secretary) | 2017 | 29,763        | -                     | -         | -     | 29,763  | -                | -               | 29,763  | -                                  |
|                                      | 2016 | 27,811        | -                     | -         | -     | 27,811  | -                | -               | 27,811  | -                                  |

#### Notes.

- This amount includes audit committee remuneration of \$12,000 per year.
- Fees until June 2015 were paid to McCullough Robertson, a firm of which Brett was a partner.

## DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities

### 5. REMUNERATION (cont'd)

#### 5.10 OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

There were no options issued in the year ended 31 March 2017, or since the end of the financial year.

#### 5.11 SHARE TRANSACTIONS BY DIRECTORS AND EXECUTIVES

Any dealing in shares of the Company by Directors or executives is required to be vetted by the Chairman.

### 6. PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were the purchasing, shelling, grading, processing and marketing of peanuts.

### 7. RESULT OF OPERATIONS

In the year ended 31 March 2017, the Group yielded a loss after interest and tax of \$4.935 million (2016: profit after interest and tax of \$1.21 million). The 2017 results have been impacted by lower than average intake of Australian peanuts driven by an extended dry period in the Burnett and North Queensland regions, resulting in increased importing of high cost peanuts, higher costs of production and reduced volume of sales.

|   |        | 2017       | 2016       | 2015       | 2014      | 2013      |
|---|--------|------------|------------|------------|-----------|-----------|
| Revenues  | \$'000 | 52,582     | 52,762     | 55,083     | 52,323    | 56,052    |
| Earnings (loss) before interest, tax, depreciation and amortisation (EBITDA) (see note 1 below) | \$'000 | 283        | 4,289      | 2,440      | 25,014    | 81        |
| Earnings (loss) before interest and tax (EBIT)  | \$'000 | (2,711)    | 2,482      | 1,055      | 23,035    | (6,579)   |
| Net operating profit (loss) before tax (NPBT)   | \$'000 | (4,367)    | 879        | (450)      | 20,138    | (10,267)  |
| Net operating profit (loss) after tax (NPAT)  | \$'000 | (4,935)    | 1,210      | (17)       | 13,147    | (8,165)   |
| Total assets  | \$'000 | 52,579     | 53,983     | 50,254     | 50,804    | 58,743    |
| Net assets per share  |        | \$2.26     | \$2.42     | \$1.75     | \$1.81    | \$0.26    |
| Basic earnings per share  |        | (\$0.54)   | \$0.13     | \$0.00     | \$1.61    | (\$1.12)  |
| Diluted earnings per share  |        | (\$0.41)   | \$0.10     | \$0.00     | \$1.36    | (\$1.12)  |
| Dividends per share   |        | -          | -          | -          | -         | -         |
| Issued shares   |        | 9,086,382  | 9,086,382  | 9,086,382  | 9,086,382 | 7,269,106 |
| Weighted average number of shares   |        | 9,086,382  | 9,086,382  | 9,086,382  | 8,190,191 | 7,269,106 |
| Weighted average number of shares/warrants  |        | 12,115,177 | 12,115,177 | 12,115,177 | 9,725,334 | 7,269,106 |

Note 1 In the year ended 31 March 2014, the financial performance was significantly impacted by the accounting treatment of the debt for equity swap provided by the National Australia Bank which contributed \$21.917 million in earnings before interest, tax, depreciation and amortisation.

#### 7.1 OBJECTIVES

The Group's objectives for the business are:

- Focus on our core products
- Increase product value
- Strategic investment opportunity
- Stakeholder engagement

## DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities

### 8. EVENTS SUBSEQUENT TO REPORTING DATE

In June, 2017 the Group has negotiated borrowing facilities with NAB to ensure that sufficient cash is available to meet the debt obligations of the Group as and when they fall due. These finance facilities with NAB include:

- (a) \$16.5 million NAB Business Markets Facility – Flexible Loan Rate;
- (b) \$14.5 million Multi Option Facility covering an Overdraft Facility, Letter of Credit and Market Rate Facility;
- (c) \$35,000 Business Card Facility;
- (d) \$0.8 million Master Asset Finance Agreement;
- (e) \$2.2 million Trade Finance Facility and;
- (f) Foreign Exchange and/or Hedge Contracts.

No event has occurred after reporting date that has significantly or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the period subsequent to 31 March 2017.

### 9. LIKELY DEVELOPMENTS

The Group will continue to implement its Strategic Intent as outlined in the Chairman's and Chief Executive Officer's Report. Further likely developments include increasing the domestic peanut crop reducing the reliance on imported peanuts enabling more development of marketing opportunities.

### 10. OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

No options were granted to any Directors or Officers of the Company during the year ended 31 March 2017.

### 11. UNISSUED SHARES UNDER OPTION

As at 31 March 2017, there were unissued 3,028,795 warrants (2016: 3,028,795).

Under the warrant the holder has a right to be granted 3,028,795 ordinary shares in the Company for \$1 in aggregate. These shares have been recognised as equity given there is no substantive exercise price to be paid on exercise of the warrant as well as other relevant terms and conditions relating to the warrant. In addition to the fixed number of ordinary shares to be issued (the 3,028,795 ordinary shares), the warrant holder has a right to obtain further shares in certain circumstances. Further, the holder has the right to be issued additional ordinary shares for no consideration if there is a capital raising by the Company subject to a \$5 million cap. This embedded feature of the warrant has been recognised as a derivative liability measured at fair value (described as the warrant equity kicker).

### 12. INDEMNIFICATION

The Company, as at the date of this report, has agreed to indemnify the following current Directors and Officers of the Company:

Directors: Ian Langdon, Niven Hancock and Brett Heading.

Officers: John Howard and Don Mackenzie.

Former Directors and Officers are also indemnified for a period of five years from the date of cessation of them acting in their respective capacities.

During the year ended 31 March 2017, the Company paid insurance premiums of \$33,986 in respect of Directors' and Officers' liability and legal expenses' insurance contracts, for current and former Directors and Officers, including company secretaries of the Company and of its controlled entities.

The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving breach of duty or improper use of information or position to gain a personal advantage.

The Company has not indemnified or insured its auditor.

## DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities

### 13. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached on Page 7.

### 14. ENVIRONMENTAL REGULATION COMPLIANCE

The Group is subject to environmental regulation in respect of the operations at all peanut processing facilities and monitors other operations in accordance with our Department of Environment and Resource Management Permit.

To the best of the Directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

### 15. DETAILS OF PROCEEDINGS ON BEHALF OF THE COMPANY

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

### 16. ROUNDING OFF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investment Commission, relating to the "rounding-off" of amounts in the Directors' report and Financial report. Amounts in the Directors' report and Financial report have been rounded off in accordance with that ASIC Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Directors.



Ian Langdon  
Chairman

27 June 2017



**AUDITOR'S INDEPENDENCE DECLARATION**  
Peanut Company of Australia Limited and Controlled Entities



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Australia

**DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF PEANUT COMPANY OF AUSTRALIA LIMITED**

As lead auditor of Peanut Company of Australia Limited for the year ended 31 March 2017, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Peanut Company of Australia Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'T J Kendall', is written over a horizontal line.

T J Kendall  
Director

**BDO Audit Pty Ltd**

Brisbane, 27 June 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Peanut Company of Australia Limited and Controlled Entities

For the year ended 31 March 2017

|   |             | <b>Consolidated</b> |               |
|---|-------------|---------------------|---------------|
|   |             | <b>2017</b>         | <b>2016</b>   |
|   | <b>Note</b> | <b>\$'000</b>       | <b>\$'000</b> |
| Sale of goods   |             | 52,582              | 52,762        |
| Cost of sales   |             | (47,975)            | (47,028)      |
|   |             | <hr/>               | <hr/>         |
| <b>Gross profit</b>   |             | 4,607               | 5,734         |
| Other income  | 5           | 617                 | 3,322         |
| Finance income  |             | 1                   | 55            |
| Distribution expenses   |             | (1,887)             | (2,009)       |
| Marketing expenses  |             | (2,172)             | (1,701)       |
| Administrative expenses   |             | (2,804)             | (2,884)       |
| Research and development expenses   |             | (46)                | (35)          |
| Finance costs   | 6           | (1,683)             | (1,603)       |
| Impairment  | 15          | (1,000)             | -             |
|   |             | <hr/>               | <hr/>         |
| <b>Profit (loss) before income tax</b>                                    |             | (4,367)             | 879           |
| Income tax benefit (expense)  | 8           | (568)               | 331           |
| <b>Profit (loss) for the year</b>   |             | <hr/>               | <hr/>         |
|   |             | (4,935)             | 1,210         |
| <b>Other comprehensive income</b>   |             |                     |               |
| <b>Items that will be re-classified subsequently to profit or loss</b>    |             |                     |               |
| (Loss) gain in fair value of cash flow hedges taken to equity, net of tax |             | 31                  | (376)         |
| <b>Items that will not be re-classified to profit or loss</b>             |             |                     |               |
| Profit in fair value of land and buildings, net of tax                    |             | 3,462               | -             |
|   |             | <hr/>               | <hr/>         |
| <b>Other comprehensive income (loss) for the year, net of tax</b>         |             | 3,493               | (376)         |
|   |             | <hr/>               | <hr/>         |
| <b>Total comprehensive income (loss) for the year</b>                     |             | (1,442)             | 834           |
|   |             | <hr/>               | <hr/>         |
| <b>Profit (loss) is attributable to:</b>                                  |             |                     |               |
| Owners of Peanut Company of Australia Limited                             |             | (4,935)             | 1,210         |
|   |             | <hr/>               | <hr/>         |
| <b>Total comprehensive income (loss) for the year is attributable to:</b> |             |                     |               |
| Owners of Peanut Company of Australia Limited                             |             | (1,442)             | 834           |
|   |             | <hr/>               | <hr/>         |
| <b>Earnings per share for profit for the year</b>                         |             |                     |               |
| Basic earnings per share  | 20          | (\$0.54)            | \$0.13        |
| Diluted earnings per share  | 20          | (\$0.41)            | \$0.10        |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Peanut Company of Australia Limited and Controlled Entities

For the year ended 31 March 2017

|                                      |             | <b>Consolidated</b> |               |
|--------------------------------------|-------------|---------------------|---------------|
|                                      |             | <b>2017</b>         | <b>2016</b>   |
|                                      | <b>Note</b> | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Assets</b>                        |             |                     |               |
| <b>Current assets</b>                |             |                     |               |
| Cash and cash equivalents            | 9(a)        | 108                 | 192           |
| Trade and other receivables          | 10          | 5,192               | 5,157         |
| Inventories                          | 11          | 8,310               | 11,804        |
| Prepayments                          | 12          | 877                 | 1,073         |
|                                      |             | <u>14,487</u>       | <u>18,226</u> |
| Assets held for sale                 | 21          | -                   | 586           |
| <b>Total current assets</b>          |             | <u>14,487</u>       | <u>18,812</u> |
| <b>Non-current assets</b>            |             |                     |               |
| Trade and other receivables          |             | 93                  | 50            |
| Deferred tax assets                  | 13          | -                   | 2,052         |
| Property, plant and equipment        | 14          | 31,148              | 25,436        |
| Intangible assets                    | 15          | 6,851               | 7,633         |
|                                      |             | <u>38,092</u>       | <u>35,171</u> |
| <b>Total non-current assets</b>      |             | <u>38,092</u>       | <u>35,171</u> |
| <b>Total assets</b>                  |             | <u>52,579</u>       | <u>53,983</u> |
| <b>Liabilities</b>                   |             |                     |               |
| <b>Current liabilities</b>           |             |                     |               |
| Trade and other payables             | 16          | 4,225               | 3,804         |
| Financial liabilities                | 17          | 23,314              | 8,588         |
| Provisions                           | 19          | 1,667               | 1,630         |
| Derivatives                          | 18          | 328                 | 359           |
|                                      |             | <u>29,534</u>       | <u>14,381</u> |
| <b>Total current liabilities</b>     |             | <u>29,534</u>       | <u>14,381</u> |
| <b>Non-current liabilities</b>       |             |                     |               |
| Financial liabilities                | 17          | 1,728               | 16,828        |
| Derivatives                          | 18          | 550                 | 550           |
| Provisions                           | 19          | 227                 | 242           |
|                                      |             | <u>2,505</u>        | <u>17,620</u> |
| <b>Total non-current liabilities</b> |             | <u>2,505</u>        | <u>17,620</u> |
| <b>Total liabilities</b>             |             | <u>32,039</u>       | <u>32,001</u> |
| <b>Net assets</b>                    |             | <u>20,540</u>       | <u>21,982</u> |
| <b>Equity</b>                        |             |                     |               |
| Issued capital                       | 20          | 23,555              | 23,555        |
| Reserves                             | 20          | 11,773              | 8,280         |
| Accumulated losses                   |             | (14,788)            | (9,853)       |
|                                      |             | <u>20,540</u>       | <u>21,982</u> |
| <b>Total equity</b>                  |             | <u>20,540</u>       | <u>21,982</u> |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

| <b>Consolidated 2017</b>                           | <b>Issued<br/>capital<br/>\$'000</b> | <b>Asset<br/>revaluation<br/>reserve<br/>\$'000</b> | <b>Hedge<br/>reserve<br/>\$'000</b> | <b>Accumulated<br/>losses<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|--|--------------------------------------|---|-------------------------------------|--|-------------------------|
| Balance at 1 April 2016                            | 23,555                               | 8,639   | (359)                               | (9,853)                                  | 21,982                  |
| <b>Total comprehensive income for the period</b>   |                                      |   |                                     |  |                         |
| Loss for the period                                | -                                    | -   | -                                   | (4,935)                                  | (4,935)                 |
| <i>Other comprehensive income</i>                  |                                      |   |                                     |  |                         |
| Gain in fair value of cash flow hedges, net of tax | -                                    | -   | 31                                  | -  | 31                      |
| Net change in fair value of land and buildings     | -                                    | 3,462   | -                                   | -  | 3,462                   |
| Total other comprehensive income (loss)            | -                                    | 3,462   | 31                                  | -  | 3,493                   |
| Total comprehensive income (loss) for the period   | -                                    | 3,462   | 31                                  | (4,935)                                  | (1,442)                 |
| Balance at 31 March 2017                           | 23,555                               | 12,101  | (328)                               | (14,788)                                 | 20,540                  |
| <b>Consolidated 2016</b>                           |                                      |   |                                     |  |                         |
|  | <b>Issued<br/>capital<br/>\$'000</b> | <b>Asset<br/>revaluation<br/>reserve<br/>\$'000</b> | <b>Hedge<br/>reserve<br/>\$'000</b> | <b>Accumulated<br/>losses<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
| Balance at 1 April 2015                            | 23,555                               | 8,639   | 17                                  | (11,063)                                 | 21,148                  |
| <b>Total comprehensive income for the period</b>   |                                      |   |                                     |  |                         |
| Profit for the period                              | -                                    | -   | -                                   | 1,210                                    | 1,210                   |
| <i>Other comprehensive income</i>                  |                                      |   |                                     |  |                         |
| Loss in fair value of cash flow hedges, net of tax | -                                    | -   | (376)                               | -  | (376)                   |
| Total other comprehensive income (loss)            | -                                    | -   | (376)                               | -  | (376)                   |
| Total comprehensive income (loss) for the period   | -                                    | -   | (376)                               | 1,210                                    | 834                     |
| Balance at 31 March 2016                           | 23,555                               | 8,639   | (359)                               | (9,853)                                  | 21,982                  |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Peanut Company of Australia Limited and Controlled Entities

For the year ended 31 March 2017

|   | <b>Consolidated</b> |                |
|---|---------------------|----------------|
|   | <b>2017</b>         | <b>2016</b>    |
| <b>Note</b>   | <b>\$'000</b>       | <b>\$'000</b>  |
| <b>Cash flows from operating activities</b>           |                     |                |
| Cash receipts from customers                          | 55,851              | 58,888         |
| Cash paid to suppliers and employees                  | (51,516)            | (58,792)       |
| Interest received                                     | 1                   | 10             |
| Interest paid   | (1,655)             | (1,528)        |
| <b>Net cash outflow from operating activities</b>     | <u>2,681</u>        | <u>(1,422)</u> |
| <b>Cash flows from investing activities</b>           |                     |                |
| Purchase of property, plant and equipment             | (1,503)             | (2,037)        |
| Purchase of intangibles                               | (888)               | (941)          |
| <b>Net cash outflow from investing activities</b>     | <u>(2,391)</u>      | <u>(2,978)</u> |
| <b>Cash flows from financing activities</b>           |                     |                |
| Proceeds from borrowings                              | 4,246               | 9,164          |
| Proceeds from lease borrowings                        | 2,198               | 107            |
| Payment of borrowings                                 | (6,411)             | (4,700)        |
| Payment of finance lease liabilities                  | (407)               | (154)          |
| <b>Net cash inflow from financing activities</b>      | <u>(374)</u>        | <u>4,417</u>   |
| Net increase (decrease) in cash and cash equivalents  | (84)                | 17             |
| Cash and cash equivalents at beginning of period      | 192                 | 175            |
| <b>Cash and cash equivalents at the end of period</b> | <u>108</u>          | <u>192</u>     |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

## 1. Reporting entity

Peanut Company of Australia Limited (the "Company") is a public unlisted company incorporated and domiciled in Australia. The address of the Company's registered office is 133 Haly Street, Kingaroy, Queensland. The consolidated financial statements of the Company as at and for the year ended 31 March 2017 comprise the Company and controlled entities (together referred to as the "Group" or "Consolidated Entity" and individually as "Group Entities"). The Group is primarily involved in the purchasing, shelling, grading, processing and marketing of peanuts.

## 2. Basis of preparation

### (a) Statement compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit-entity for financial reporting purposes under Australian Accounting Standards. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 27 June 2017.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position;

- assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell
- land and buildings are measured using the revaluation model
- derivative financial instruments are measured at fair value

The financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

As at 31 March 2017, the Group's total assets exceed its total liabilities by \$20.54 million (2016: \$21.982 million). The Group has an excess of current liabilities over its current assets of \$15.047 million (2016: \$4.431 million). In June, 2017 the Group has negotiated borrowing facilities with NAB to ensure that sufficient cash is available to meet the debt obligations of the Group as and when they fall due. These have been detailed below.

Finance facilities have been entered into with NAB which included

- (a) \$16.5 million NAB Business Markets Facility – Flexible Loan Rate; (classified as current financial liability)
- (b) \$14.5 million Multi Option Facility covering an Overdraft Facility, Letter of Credit and Market Rate Facility (classified as current financial liability);
- (c) \$35,000 Business Card Facility;
- (d) \$0.8 million Master Asset Finance Agreement;
- (e) \$2.2 million Trade Finance Facility and;
- (f) Foreign Exchange and/or Hedge Contracts.

The Multi Option Facility does fluctuate throughout the year based on our budget requirements and has a ceiling limit of \$14.5 million.

The Directors' have determined that the Consolidated Entity is a going concern based on the following:

- cashflow and budget forecasts demonstrate a capacity to meet ongoing financial covenants and pay debts as and when they fall due;
- the Group has continued to meet its financial obligations in a timely manner subsequent to balance date; and has
- the continued financial support of National Australia Bank.

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

**2. Basis of preparation (cont'd)**

**(c) Functional and presentation currency**

- (i) Functional and presentation currency  
Items included in the financial statements of the Group entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The consolidated financial statements are presented in Australian dollar (\$), which is Peanut Company of Australia Limited's functional and presentation currency.
- (ii) Transaction and balances  
Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the rates of exchange ruling at that date. Foreign currency differences arising on retranslation are recognised in the profit or loss, except for differences arising from qualifying cash flow hedges, which are recognised in other comprehensive income.

**(d) Rounding of amounts**

The Company is of a kind referred to in Instrument 2016-191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(e) Use of estimates and judgements**

The preparation of financial statements in conformity with the Australian Accounting Standard Board requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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.

Management have discussed with the Board the development, selection and disclosure of the Group's critical accounting policies and basis of estimates, and have reviewed the application of these policies and estimates. The matters that have the most significant effect on the amounts recognised in the financial statements are detailed:

**Intangible assets – capitalised development costs (refer Note 15)**

The carrying amount of the Group's intangible asset representing the development value of the peanut breeding gene pool at 31 March 2017 is \$2.983 million (2016: \$3.765 million). The carrying amounts for the water right are \$3.868 million (2016: \$3.868 million). An impairment review was undertaken in 2017 and further impairment of \$1 million for the gene pool was recognised.

**Valuation of property plant and equipment (refer Note 14)**

The Group's land and buildings are carried at fair value at \$24.03 million (2016: \$18.969 million).

**Inventory (refer Note 11)**

As at 31 March 2017, and as part of the review to determine the carrying value of inventory, totalling \$8.310 million (2016 \$11.804 million), the judgements, estimates and assumptions by management took account of current circumstances relating to raw materials and finished goods on hand in light of the prevailing market conditions.

**Recognition of deferred tax asset relating to tax losses (refer Note 13)**

The Group has not recognised any carry forward revenue tax losses in 2017.

**(f) New accounting standards adopted**

There are no new or amended accounting standards that became effective as of 1 April 2016 that has material impact to the Group.

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

**3. Significant accounting policies**

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

**(a) Basis of consolidation**

(i) Controlled Entities

The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

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

**(b) Financial instruments**

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provision of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that are created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when the Group has a legal right to offset the amounts and intends to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets:

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables include trade and other receivables. Grower debtors are a component of trade and other receivables and represent monies receivable for the supply of peanut seed, chemicals and equipment. Individual contracts are entered into with growers on varying terms and conditions. Grower debtors are stated at amortised cost less impairment losses and collected either on 30 day payment terms, set-off against payment due for the delivery of peanuts or other arrangements which are approved by the Board.

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

(ii) Non-derivative financial liabilities

The Group's financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.



**NOTES TO THE FINANCIAL STATEMENTS**  
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For the year ended 31 March 2017

**3. Significant accounting policies (cont'd)**

**(b) Financial instruments (cont'd)**

The Group has the following non-derivative financial liabilities: loans and borrowings; bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Grower creditors are a component of trade and other payables and represent those monies payable to growers for the supply of peanuts. Individual contracts are entered into with growers based on varying terms and conditions. All payments are made progressively over a period not exceeding one year.

(iii) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

***Other derivatives***

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

**(c) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the consolidated statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the consolidated statement of financial position.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. Significant accounting policies (cont'd)**

**(d) Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**(e) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

**(f) Property plant and equipment**

(i) Recognition and measurement

*Freehold land, and buildings on freehold land*

Freehold land, and buildings on freehold land, are measured using the revaluation model. Where necessary, the asset is revalued to reflect its fair value as assessed by Directors in conjunction with independent valuations.

Where adjustments are required, any increment or decrement will be accounted for as follows –

- A revaluation increment will be credited to other comprehensive income and accumulated in the asset revaluation reserve except that, to the extent that, the increment reverses a revaluation decrement previously recognised as an expense in respect of the same asset, it will be recognised as revenue in the profit or loss.
- A revaluation decrement will be recognised immediately as an expense, except that, to the extent that, a credit balance exists in the asset revaluation reserve for that same asset, the revaluation decrement will be debited to other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
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**3. Significant accounting policies (cont'd)**

**(f) Property plant and equipment (cont'd)**

*Plant and equipment*

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gains or loss on qualifying cash flow hedges of foreign currency purchase of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property plant and equipment and are recognised within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation, with the exception of freehold land, is calculated over the depreciable amount, which is the cost of an asset, or the amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Group also uses the straight line and reducing balance method of depreciation for certain items of property which better reflects the consumption of their economic benefit. The significant depreciation rates used for each class of asset in both the current and prior year are:

|                            | <b>Straight line</b> | <b>Reducing balance</b> |
|----------------------------|----------------------|-------------------------|
|                            | %                    | %                       |
| Buildings                  | 2.5 – 4.0            | -                       |
| Plant and equipment        | 2.5 – 40.0           | 2.5 – 50.0              |
| Leased plant and equipment | 2.5 – 40.0           | -                       |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
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**3. Significant accounting policies (cont'd)**

**(g) Intangible assets**

***Peanut breeding gene pool***

**(i) Research and development program**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life currently 6 years of capitalised development costs. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if necessary.

***Water rights***

Water rights represent perpetual water allocation rights and no amortisation is recognised. These rights are assessed annually for impairment. Fixed costs associated with water rights are payable quarterly in advance and are recognised in profit or loss as an expense as incurred. In addition, variable costs determined by usage, are also recognised in profit or loss as an expense.

**(h) Leased assets**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payments is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Other leases are operating leases and are not recognised in the Group's consolidated statement of financial position.

**(i) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and present location.

In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of both variable and fixed costs. Fixed costs have been allocated on the basis of normal operating capacity.

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

### 3. Significant accounting policies (cont'd)

#### (j) Impairment

##### (i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at a specific level.

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 receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease of the impairment loss is reversed through profit or loss.

##### (ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generating units reduce the carrying amounts of assets in the unit, on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. Significant accounting policies (cont'd)**

**(k) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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 of an assets (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

**(l) Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**(m) Employee benefits**

**(i) Contribution to superannuation funds**

Obligations under the Superannuation Guarantee Charge for employee's contributions and paid to superannuation funds are recognised as an expense in the profit or loss when they are due.

**(ii) Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date of recognised securities that have maturity dates approximating the terms of the Group's obligations.

**(iii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

**(n) Provisions**

A provision is 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. The unwinding of the discount is recognised as finance cost.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. Significant accounting policies (cont'd)**

**(o) Revenue recognition**

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

**(p) Government grants**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

**(q) Finance income and finance costs**

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(r) Income tax**

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

**3. Significant accounting policies (cont'd)**

**(r) Income tax (cont'd)**

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

(i) Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Peanut Company of Australia Limited.

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

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

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

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

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities will be payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**(s) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

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



**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. Significant accounting policies (cont'd)**

**(t) Earnings per share**

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to 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.

(ii) 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 financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**(u) Accounting standards issued but not yet effective**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

- **AASB 9 Financial Instruments (effective from 1 January 2018).** The AASB9 amends the classification and measurement of financial assets:
  - Financial assets will either be measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss.
  - Financial assets are measured at amortised costs or fair value through other comprehensive income if certain restrictive conditions are met. All other financial assets are measured at fair value through profit or loss.
  - All investments in equity instruments will be measured at fair value. For those investments in equity instruments that are not held for trading, there is an irrevocable election to present gains and losses in OCI. Dividends will be recognised in profit and loss.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group.

- **AASB 15 Revenue from contracts with customers (effective from 1 January 2018).** An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under AASB 18 *Revenue*. Management has not yet made a detailed assessment of the impact of this standard.
- **AASB 16 Leases (effective from 1 January 2019).** The AASB eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 *Leases*. It requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. Due to the recent release of this standard, management has not yet made a detailed assessment of the impact of this standard.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The items valued at fair value have been disclosed in Note 23.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining values is disclosed in the notes specific to that asset or liability.

**Property, plant and equipment**

The fair value of freehold land and buildings recognised, under the revaluation model, is the price that would be received to sell the asset in an orderly transaction between market participants at measurement date. The Directors have assessed the fair value of land and buildings based on advice provided by external valuers. The latest valuation was performed on 31 March 2017 .

**Trade and other receivables/payables**

The carrying value of trade and other receivables/payables approximate their fair value as they are short-term in nature or receivables/payable on demand.

**Non-derivative financial liabilities**

Finance lease liabilities

The carrying amount relates to the present value of the minimum lease payments which is a reasonable estimate of the fair value.

Bank loans

The carrying amount approximates its fair value due to its short-term nature.

**Derivative financial liabilities**

The fair value of derivatives, not traded in the open market, have been determined based on the present value and the discount rates used was adjusted for counterparty or own credit risk.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

**5. Other income**

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2017</b>         | <b>2016</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| GRDC funding   | 357                 | 473           |
| Insurance claims                                     | 3                   | 307           |
| Sundry income  | 61                  | 175           |
| Sub licence income                                   | 196                 | 324           |
| Revaluation of warranty derivative- refer to note 23 | -                   | 2,043         |
|  | 617                 | 3,322         |

**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. Expenses**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2017</b>         | <b>2016</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| Profit (loss) before income tax includes the following specific expenses: |                     |               |
| <i>Amortisation expense</i>   |                     |               |
| Plant and equipment under finance lease                                   | 196                 | 81            |
| Gene Pool   | 670                 | 586           |
|   | <u>866</u>          | <u>667</u>    |
| <i>Depreciation expense</i>   |                     |               |
| Buildings   | 471                 | 486           |
| Plant and equipment   | 656                 | 655           |
|   | <u>1,128</u>        | <u>1,141</u>  |
| Employee benefits   | 11,418              | 10,770        |
| Research and development  | 48                  | 36            |
| <i>Finance Costs</i>  |                     |               |
| Interest paid/payable   | 1,567               | 1,565         |
| Finance charges under finance leases and hire purchase contracts          | 89                  | 38            |
| Foreign currency losses   | 27                  | -             |
| Total finance costs expensed  | <u>1,683</u>        | <u>1,603</u>  |
| Operating lease expense   | 596                 | 638           |
| Write-down of inventories to net realisable value                         | 197                 | 344           |

**7. Personnel expenses**

|                                      | <b>Consolidated</b> |               |
|--------------------------------------|---------------------|---------------|
|                                      | <b>2017</b>         | <b>2016</b>   |
|                                      | <b>\$'000</b>       | <b>\$'000</b> |
| Wages, salaries and related on costs | 11,418              | 10,770        |

During the year ended 31 March 2017, the Group made contributions to defined contribution superannuation funds. The amount recognised as an expense was \$874,000 (2016: \$844,000).

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**8. Income tax expense (benefit)**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2017</b>         | <b>2016</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <b>(a) The components of tax expense comprise:</b>  |                     |               |
| Current tax expense (benefit)   | -                   | (474)         |
| Deferred tax expense  | 568                 | 143           |
| Income tax expense/(benefit) attributable to continuing operations  | 568                 | (331)         |
| <b>(b) The prima facie tax on profit (loss) before income tax is reconciled to the income tax expense as follows:</b> |                     |               |
| Total profit (loss)   | (4,367)             | 879           |
| Income tax thereon at 30% (2016: 30%)   | (1,310)             | 264           |
| Deferred tax asset on tax losses de-recognised (i)  | 3,045               | -             |
| Permanent differences   |                     |               |
| Warranty option   | -                   | (613)         |
| Impairment of assets  | 300                 |               |
| Non-deductible other expenses   | 17                  | 18            |
| Previously unrecognised capital losses used to reduce deferred tax expense (ii)                                       | (1,484)             | -             |
| Aggregate income tax expense (benefit) on pre-tax profit  | 568                 | (331)         |

- (i) Tax losses not recognised as deferred tax asset at 31 March 2017 are \$3,044,634.  
(ii) Capital losses not recognised as a deferred tax asset at 31 March 2017 are \$431,540.

**9. Cash flows**

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2017</b>         | <b>2016</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| <b>(a) Cash and cash equivalents</b>   |                     |               |
| Cash at bank and in hand   | 108                 | 192           |
| <b>Reconciliation of Cash</b>  |                     |               |
| The above figures are reconciled to the cash at the end of the financial year as shown in the consolidated statement of cash flows as follows: |                     |               |
| Balances as above  | 108                 | 192           |
| Balances per consolidated statement of cash flows  | 108                 | 192           |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

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**9. Cash flows (cont'd)**

|   | <b>Consolidated</b> |                |
|---|---------------------|----------------|
|   | <b>2017</b>         | <b>2016</b>    |
|   | <b>\$'000</b>       | <b>\$'000</b>  |
| <b>(b) Reconciliation of loss after income tax to net cash flow from operating activities</b> |                     |                |
| Profit (loss) for the year  | (4,935)             | 1,210          |
| Write down of inventory   | 197                 | 344            |
| Net foreign exchange loss (gain)  | 27                  | (45)           |
| Depreciation  | 1,324               | 1,222          |
| Amortisation  | 670                 | 586            |
| Impairment recognised   | 1,000               | -              |
| Net loss/(gain) on revaluation of land and buildings  | -                   | -              |
| Net loss/(gain) on sale of property, plant and equipment and intangibles                      | -                   | -              |
| Net loss/(gain) on warranty kicker  | -                   | (2,043)        |
| Change in operating assets (net of impact from purchase of controlled entity)                 |                     |                |
| - (Increase)/decrease in trade debtors  | (8)                 | 1,386          |
| - (Increase)/decrease in prepayments  | 162                 | (276)          |
| - (Increase)/decrease in inventories  | 3,288               | (3,692)        |
| - (Increase)/decrease in deferred tax assets  | 568                 | (331)          |
| - Increase/(decrease) in trade creditors  | 393                 | 84             |
| - Increase/(decrease) in other provisions   | (5)                 | 133            |
| - <b>Net cash flow from operating activities</b>  | <b>2,681</b>        | <b>(1,422)</b> |

**(c) Non-cash investing and financing activities**

During the year the Group purchased property, plant and equipment for \$1,503,000 (2016: \$2,037,000) of which

- \$785,000 (2016: \$107,000) was funded by finance lease;
- \$718,000 (2016: \$516,000) by cash and;

In FY16, trade finance facility was used to purchase plant and equipment costing \$1,414,000 and was repaid with a finance lease in FY17.

**10. Trade and other receivables**

|                              | <b>Consolidated</b> |               |
|------------------------------|---------------------|---------------|
|                              | <b>2017</b>         | <b>2016</b>   |
|                              | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Current</b>               |                     |               |
| Trade receivables            | 4,007               | 3,683         |
| Allowance for doubtful debts | (5)                 | (32)          |
| Grower receivables           | 1,170               | 1,155         |
|                              | <b>5,172</b>        | <b>4,806</b>  |
| Other receivables            | 20                  | 351           |
| Trade and other receivables  | <b>5,192</b>        | <b>5,157</b>  |

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**10. Trade and other receivables (cont'd)**

The aging of the Group's current receivables at reporting date was:

|                               | <b>Gross<br/>2017<br/>\$'000</b> | <b>Impairment<br/>2017<br/>\$'000</b> | <b>Gross<br/>2016<br/>\$'000</b> | <b>Impairment<br/>2016<br/>\$'000</b> |
|-------------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|
| Not past due                  | 4,748                            | -                                     | 3,909                            | -                                     |
| Past due 0-30 days            | 422                              | -                                     | 886                              | -                                     |
| Past due 31-120 days          | -                                | -                                     | 34                               | 28                                    |
| Past due 121 days to one year | -                                | -                                     | -                                | -                                     |
| More than one year (1)        | 7                                | 5                                     | 9                                | 4                                     |
|                               | <u>5,177</u>                     | <u>5</u>                              | <u>4,838</u>                     | <u>32</u>                             |
| Net trade receivables         | <u>5,172</u>                     |                                       | <u>4,806</u>                     |                                       |

Notes

- (1) Based on historic default rates, the Group believes that no further impairment allowance is necessary in respect of trade receivables not past due, or past due by up to 30 days. Assessment has made of all receivables past due by more than 30 days to determine if impairment is necessary. An impairment charge of \$5,000 has been made against receivables where there is doubt over their collection.

Payment terms on receivables past due but not considered impaired have not been re-negotiated. The Group has been in direct contact with the relevant customers and are reasonably satisfied that payment will be received in full.

|   | <b>Consolidated</b>    |                        |
|---|------------------------|------------------------|
|   | <b>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
| <b>Analysis of allowance account</b>      |                        |                        |
| Opening balance                           | 32                     | 4                      |
| Provisions for doubtful receivables       | 2                      | 28                     |
| Receivables written off during the period | (25)                   | -                      |
| Reversal of amounts provided              | (4)                    | -                      |
| Closing balance                           | <u>5</u>               | <u>32</u>              |

**11. Inventories**

|  | <b>Consolidated</b>    |                        |
|--|------------------------|------------------------|
|  | <b>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
| Raw materials – at cost                  | 2,651                  | 3,463                  |
| Work in progress – at cost               | 2,641                  | 4,705                  |
| Finished goods – at net realisable value | 3,018                  | 3,636                  |
|  | <u>8,310</u>           | <u>11,804</u>          |

During 2017, \$197,000 (2016: \$344,000 of which \$239,000 was offset by an insurance claim) was recognised as an expense for inventories carried at net realisable value. This is recognised in the cost of sales.

**12. Prepayments**

|                     | <b>Consolidated</b>    |                        |
|---------------------|------------------------|------------------------|
|                     | <b>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
| Insurance           | 264                    | 286                    |
| Advances to growers | 458                    | 647                    |
| Workcover           | 4                      | 37                     |
| Rates and land tax  | 45                     | 25                     |
| Other expenses      | 106                    | 78                     |
|                     | <u>877</u>             | <u>1,073</u>           |

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**13. Deferred tax assets and liabilities**

| <b>Consolidated</b>                    | <b>Assets</b> |               | <b>Liabilities</b> |                | <b>Net</b>    |               |
|--|---------------|---------------|--------------------|----------------|---------------|---------------|
|  | <b>2017</b>   | <b>2016</b>   | <b>2017</b>        | <b>2016</b>    | <b>2017</b>   | <b>2016</b>   |
|  | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>      | <b>\$'000</b>  | <b>\$'000</b> | <b>\$'000</b> |
| Property, plant and equipment          | 784           | 827           | (5,680)            | (4,262)        | (4,896)       | (3,435)       |
| Intangible assets                      | -             | -             | (1,544)            | (1,479)        | (1,544)       | (1,479)       |
| Other                                  | 214           | 254           | (15)               | (105)          | 199           | 149           |
| Leases                                 | -             | -             | (111)              | (51)           | (111)         | (51)          |
| Provisions                             | 629           | 603           | -                  | -              | 629           | 603           |
| Tax losses carry forward recognised    | 4,239         | 6,265         | -                  | -              | 4,239         | 6,265         |
| Previously unrecognised capital losses | -             | -             | 1,484              | -              | 1,484         | -             |
| <b>Net tax assets/(liabilities)</b>    | <b>5,866</b>  | <b>7,949</b>  | <b>(5,866)</b>     | <b>(5,897)</b> | <b>-</b>      | <b>2,052</b>  |

**Movement in temporary differences during the year**

**Consolidated 2017**

|   | <b>1 April</b> | <b>Recognised</b> | <b>Recognised</b> | <b>31 March</b> |
|---|----------------|-------------------|-------------------|-----------------|
|   | <b>2016</b>    | <b>in Income</b>  | <b>in Equity</b>  | <b>2017</b>     |
|   | <b>\$'000</b>  | <b>\$'000</b>     | <b>\$'000</b>     | <b>\$'000</b>   |
| Property, plant and equipment                             | (3,435)        | 23                | (1,484)           | (4,896)         |
| Intangible assets   | (1,479)        | (65)              | -                 | (1,544)         |
| Other   | 149            | 50                | -                 | 199             |
| Leases  | (51)           | (60)              | -                 | (111)           |
| Provisions  | 603            | 26                | -                 | 629             |
| Tax losses  | 6,265          | (2,026)           | -                 | 4,239           |
| Previously unrecognised capital losses brought to account | -              | 1,484             | -                 | 1,484           |
|   | <b>2,052</b>   | <b>(568)</b>      | <b>(1,484)</b>    | <b>-</b>        |

**Consolidated 2016**

|                               | <b>1 April</b> | <b>Recognised</b> | <b>Recognised</b> | <b>31 March</b> |
|-------------------------------|----------------|-------------------|-------------------|-----------------|
|                               | <b>2015</b>    | <b>in Income</b>  | <b>in Equity</b>  | <b>2016</b>     |
|                               | <b>\$'000</b>  | <b>\$'000</b>     | <b>\$'000</b>     | <b>\$'000</b>   |
| Property, plant and equipment | (3,503)        | 68                | -                 | (3,435)         |
| Intangible assets             | (1,372)        | (107)             | -                 | (1,479)         |
| Other                         | 273            | (124)             | -                 | 149             |
| Leases                        | (30)           | (21)              | -                 | (51)            |
| Provisions                    | 562            | 41                | -                 | 603             |
| Tax losses                    | 5,791          | 474               | -                 | 6,265           |
|                               | <b>1,721</b>   | <b>331</b>        | <b>-</b>          | <b>2,052</b>    |

These tax losses have been incurred from operating losses and do not contain any capital losses in the calculations. The deferred tax assets have been de-recognised in 2017.

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**14. Property plant and equipment**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2017</b>         | <b>2016</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Land</b>                                     |                     |               |
| At valuation - 2017                             | 5,665               | 5,005         |
| <b>Total land</b>                               | <u>5,665</u>        | <u>5,005</u>  |
| <b>Buildings</b>                                |                     |               |
| At valuation - 2017                             | 18,365              | 14,680        |
| Accumulated depreciation                        | -                   | (716)         |
| <b>Total buildings</b>                          | <u>18,365</u>       | <u>13,964</u> |
| <b>Total land and buildings</b>                 | <u>24,030</u>       | <u>18,969</u> |
| <b>Plant and equipment</b>                      |                     |               |
| At cost   | 31,700              | 30,904        |
| Accumulated depreciation                        | (27,452)            | (26,906)      |
|   | <u>4,248</u>        | <u>3,998</u>  |
| <b>Leased plant and equipment</b>               |                     |               |
| At cost   | 3,055               | 874           |
| Accumulated amortisation                        | (383)               | (190)         |
|   | <u>2,672</u>        | <u>684</u>    |
| <b>Plant and equipment under construction</b>   |                     |               |
| At cost   | 198                 | 1,785         |
|   | <u>198</u>          | <u>1,785</u>  |
| Total plant and equipment                       | 7,118               | 6,467         |
| Total non-current property, plant and equipment | <u>31,148</u>       | <u>25,436</u> |



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**14. Property plant and equipment (cont'd)**

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant & equipment at the beginning and end of the current and previous financial year are set out below:

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2017</b>         | <b>2016</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Land</b>  |                     |               |
| Carrying amount at beginning of financial year   | 5,005               | 5,325         |
| Additions  | -                   | -             |
| Disposals  | -                   | -             |
| Transfers  | -                   | -             |
| Transfer from (to) assets held for sale  | 320                 | (320)         |
| Revaluation  | 340                 | -             |
| Depreciation   | -                   | -             |
| Carrying amount at end of financial year   | 5,665               | 5,005         |
| <b>Buildings</b>   |                     |               |
| Carrying amount at beginning of financial year   | 13,964              | 14,716        |
| Additions  | -                   | -             |
| Disposals  | -                   | -             |
| Transfers  | -                   | -             |
| Transfer from (to) assets held for sale  | 266                 | (266)         |
| Revaluation  | 4,606               | -             |
| Depreciation   | (471)               | (486)         |
| Carrying amount at end of financial year   | 18,365              | 13,964        |
| <b>Plant &amp; Equipment</b>   |                     |               |
| Carrying amount at beginning of financial year   | 3,998               | 3,987         |
| Additions  | 892                 | 666           |
| Disposals  | -                   | -             |
| Transfers from leased plant and equipment  | 14                  | -             |
| Depreciation   | (656)               | (655)         |
| Carrying amount at end of financial year   | 4,248               | 3,998         |
| <b>Leased Plant &amp; Equipment</b>  |                     |               |
| Carrying amount at beginning of financial year   | 684                 | 658           |
| Additions  | 2,198               | 107           |
| Disposals  | -                   | -             |
| Transfers to plant and equipment   | (14)                | -             |
| Depreciation   | (196)               | (81)          |
| Carrying amount at end of financial year   | 2,672               | 684           |
| <b>Capital Works in Progress</b>   |                     |               |
| Carrying amount at beginning of financial year   | 1,785               | 521           |
| Additions transferred to additions in plant and equipment and leased plant and equipment | (1,587)             | 1,264         |
| Transfers  | -                   | -             |
| Carrying amount at end of financial year   | 198                 | 1,785         |

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**14. Property plant and equipment (cont'd)**

**(a) Valuation of land and buildings**

As disclosed in Note 3(f), the Group's land and buildings are measured on the revaluation model. Further analysis of fair value has been performed in Note 23.

**(b) Leased Plant and equipment**

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment. At 31 March 2017, the net carrying amount of the Group's leased plant and machinery was \$2.672 million (2016: \$0.684 million). The leased equipment secures lease obligations (see Note 17 and 24).

**(c) Security**

At 31 March 2017, land and buildings with a carrying value of \$24.03 million (2016: \$18.969 million) are subject to a registered mortgage to secure bank loans, however it should be noted that the bank has an equitable charge over all assets of the Group (see Note 17).

**(d) Historical cost depreciation**

Had land and buildings been stated at historical cost amounts they would be recognised at follows:

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2017</b>         | <b>2016</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| Cost                                     | 13,347              | 12,999        |
| Accumulated depreciation                 | (3,868)             | (3,310)       |
| Carrying amount at end of financial year | 9,479               | 9,689         |

**15. Intangible assets**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2017</b>         | <b>2016</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Peanut breeding gene pool</b>        |                     |               |
| At cost                                 | 17,113              | 16,226        |
| Accumulated amortisation and impairment | (14,130)            | (12,461)      |
|   | 2,983               | 3,765         |

**Water rights**

|                         |         |         |
|-------------------------|---------|---------|
| At cost                 | 6,169   | 6,169   |
| Accumulated impairment  | (2,301) | (2,301) |
|                         | 3,868   | 3,868   |
| Total intangible assets | 6,851   | 7,633   |

**Reconciliations**

**Gene pool**

|                                      |         |       |
|--------------------------------------|---------|-------|
| Carrying amount at beginning of year | 3,765   | 3,410 |
| Additions – internal development     | 888     | 941   |
| Impairment recognised                | (1,000) | -     |
| Amortisation recognised              | (670)   | (586) |
| Carrying amount at end of year       | 2,983   | 3,765 |

**Water rights**

|                                      |       |       |
|--------------------------------------|-------|-------|
| Carrying amount at beginning of year | 3,868 | 3,868 |
| Disposals                            | -     | -     |
| Carrying amount at end of year       | 3,868 | 3,868 |

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**15. Intangible assets (cont'd)**

**Amortisation and Impairment Charge**

The amortisation and impairment charge is recognised in the following line items in the statement of comprehensive income:

|                                       | <b>Consolidated</b> |               |
|---------------------------------------|---------------------|---------------|
|                                       | <b>2017</b>         | <b>2016</b>   |
|                                       | <b>\$'000</b>       | <b>\$'000</b> |
| Amortisation charged to cost of sales | 670                 | 586           |
| Impairment recognised                 | 1,000               | -             |
|                                       | 1,670               | 586           |

***Peanut cultivars***

The Group has undertaken an assessment of its peanut cultivar development in accordance with the requirements of AASB 138: *Intangible Assets* and the Directors have agreed that the carrying value of \$2.983 million (2016: \$3.765 million) fairly reflects their worth to the Group as suppliers of peanut seed and runners to the industry.

Peanut cultivars are carried at cost less amortisation, and impairment if applicable. As part of the annual assessment relating to the carrying value of peanut cultivars, it is further confirmed that the average life of the peanut cultivar remains at six years (2016: six years).

***Water rights***

Water rights are carried at cost less impairment if applicable and comprise perpetual water allocations with an indefinite life supported by their legal entitlements arising out of contractual obligations of the issuer. The Group has the capacity to assign its water entitlements to third parties at no cost as part of the strategic plan to encourage growers to supply peanuts to the Company.

The recoverable amount of the Group's water rights is considered as part of the overall assessment of the value in use calculation for all assets of the Group that comprise the cash generating unit.

***Impairment testing***

An assessment was made of both the peanut cultivars and the water rights and it was determined that they are not stand alone cash generating units (CGU) but rather form part of the main CGU being the peanut processing and marketing operations. This assessment was made having regard to the interdependence of the peanut cultivar programme with the rest of the business. Likewise the water rights have been purchased with the aim of enabling farmers to grow more peanuts for the business and therefore are linked in with the main CGU. This treatment is consistent with previous years.

The recoverable amount of the cash-generating unit as mentioned above is determined based on the value-in-use. Value-in-use is calculated based in the present value of cash flow projection over a five year period extending beyond five years extrapolated using an estimated growth rate. The calculation utilises the best estimate forecast model prepared and approved by the board for the years ended 31 March 2018 to 2020 based on known circumstances and decisions. A growth rate of 4% has been applied to the 2020 forecast for the remainder of the forecast period (2021-2022). A perpetual growth rate is assumed in the determination of the terminal value which is based on a capitalisation of the 2022 forecast using a discount rate which is reduced by the perpetual growth rate. The discount rate used for the determination of the terminal value has also been increased to include an estimate for the long-term debt rate given we are currently in a period of low debt rates.

The following key assumptions were used in the value-in-use calculations:

- Growth rate beyond forecast period 3%
- Pre-tax discount rate (short-term cost of debt) 8.84%
- Pre-tax discount rate (long-term cost of debt) 9.16%

A shortfall was noted in comparing carrying amounts of intangible assets to their value-in-use. An impairment has been applied against the peanut cultivars of \$1m.

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**15. Intangible assets (cont'd)**

**Sensitivity**

As disclosed in note 1(e), management together with the directors have made judgements, estimates and assumptions in respect to the carrying amounts of its intangible assets. Should these judgements and estimates not occur the resulting carrying amounts may change and result to an additional impairment. The following represents the impact on impairment resulting from changes in key variables:

| <b>Sensitivity Variable</b> | <b>Change in variable</b>                             | <b>Additional Impairment</b> |
|-----------------------------|---|------------------------------|
| Annual cash flows           | Decrease by \$200K per annum including terminal value | \$573K                       |
| Pre-tax discount rate       | Increase by 0.5%                                      | \$601K                       |

**16. Trade and other payables**

|                | <b>Consolidated</b> |               |
|----------------|---------------------|---------------|
|                | <b>2017</b>         | <b>2016</b>   |
|                | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Current</b> |                     |               |
| Trade payables | 1,989               | 1,999         |
| Other payables | 2,236               | 1,805         |
|                | <u>4,225</u>        | <u>3,804</u>  |

**17. Financial liabilities**

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2017</b>         | <b>2016</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Current</b>                                 |                     |               |
| <i>Secured</i>                                 |                     |               |
| Bank loans                                     | 22,740              | 8,414         |
| Lease liabilities                              | 574                 | 174           |
| <b>Total current financial liabilities</b>     | <u>23,314</u>       | <u>8,588</u>  |
| <b>Non-Current</b>                             |                     |               |
| <i>Secured</i>                                 |                     |               |
| Bank loans                                     | -                   | 16,490        |
| Lease liabilities                              | 1,728               | 338           |
| <b>Total non-current financial liabilities</b> | <u>1,728</u>        | <u>16,828</u> |

**Fair value**

Refer to Note 4.

**Secured bank loan**

The bank has security over all assets of the Group.

All bills are denominated in Australian dollars.

The weighted average interest rate on the bills at 31 March 2017 is 5.28% pa (2016: 5.30% pa).

**Finance lease liabilities**

The Group's lease liabilities are secured by the leased assets. In the event of default the assets revert to the lessor. The effective interest rate for the leased assets as at 31 March 2017 is 6.18% pa (2016: 7.26% pa) and is fixed for five years.

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**17. Financial liabilities (cont'd)**

**Bank overdraft**

The bank overdrafts are repayable on demand and are secured by a registered first mortgage over certain of the Group's land and buildings and an equitable charge over the assets of the Group. At 31 March 2017, the bank overdraft interest rate was 9.02% pa (2016: 9.37% pa) and is subject to periodic review. There was no overdraft utilised as at 31 March 2017.

**Details of security**

The carrying value of property, plant and equipment (including assets held for sale) pledged as security over the Group's financing facilities is \$31.148 million as at 31 March 2017 (2016: \$26.022 million). The carrying value of water rights also pledged as security of the Group's financing facilities was \$3.868 million (2016: \$3.868 million). Refer to Note 14 and 15.

**Unused Facilities**

As at 31 March 2017, the Group had unused

- Bank overdraft facilities of \$250,000 (2016: \$250,000);
- Seasonal facility of \$1,300,000 (2016: \$550,000);
- Master asset finance of \$461,000 (2016: \$288,000) and;
- Trade facility finance closed (2016: \$786,000)

**18. Derivatives**

|                           | <b>Consolidated</b> |               |
|---------------------------|---------------------|---------------|
|                           | <b>2017</b>         | <b>2016</b>   |
|                           | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Current</b>            |                     |               |
| Cash flow hedge           | 328                 | 359           |
|                           | <hr/> 328           | <hr/> 359     |
| <b>Non-current</b>        |                     |               |
| Warrant equity kicker (1) | 550                 | 550           |
|                           | <hr/> 550           | <hr/> 550     |

- (1) In addition to the fixed number of shares to be issued under the warrant (accounted for as equity) there are a variable number of shares to be issued under the warrant. The variable number of shares to be issued (the equity kicker) has been accounted for as a derivative.

**19. Provisions**

|                    | <b>Consolidated</b> |               |
|--------------------|---------------------|---------------|
|                    | <b>2017</b>         | <b>2016</b>   |
|                    | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Current</b>     |                     |               |
| Employee benefits  | 1,667               | 1,630         |
|                    | <hr/> 1,667         | <hr/> 1,630   |
| <b>Non-current</b> |                     |               |
| Employee benefits  | 227                 | 242           |
|                    | <hr/> 227           | <hr/> 242     |

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**20. Capital and reserves**

**(i) Share capital**

|  | <b>2017</b>      | <b>2016</b>      |
|--|------------------|------------------|
|  | <b>Number</b>    | <b>Number</b>    |
| Number of ordinary shares on issue at 1 April  | 9,086,382        | 9,086,382        |
| Shares issued                                  | -                | -                |
| Number of ordinary shares on issue at 31 March | <u>9,086,382</u> | <u>9,086,382</u> |
| Number of warrants issue at 1 April            | 3,028,795        | 3,028,795        |
| Warrants issued (1)                            | -                | -                |
| Number of warrants on issue at 31 March        | <u>3,028,795</u> | <u>3,028,795</u> |

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are entitled to any surplus proceeds on liquidation.

- (1) These warrants were issued as part of the debt forgiveness transaction entered into during the prior year. They entitle the holder to convert these to shares for \$1 in aggregate anytime over a period of 10 years or earlier if specific events occur. In addition to the fixed number of shares to be issued under the warrant (accounted for as equity) there is a variable number of shares to be issued under the warrant. The variable number of shares to be issued (the equity kicker) has been accounted for as a derivative in note 18.

**Asset revaluation reserve**

The asset revaluation reserve records the net balance of increments and decrements (up to the extent of the reserves) resulting from the revaluation of land and buildings.

**Hedge reserve**

The hedging reserve comprises the effective portion of the cumulative net changes in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**(ii) Dividends**

**2017**

No dividends were declared or paid during or since the year ended 31 March 2017. There has been no dividend declared in respect of the results for the year ended 31 March 2017.

**2016**

No dividends were declared or paid during or since the year ended 31 March 2016. There has been no dividend declared in respect of the results for the year ended 31 March 2016.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**20. Capital and reserves (cont'd)**

**(iii) Dividend franking account**

|  | <b>Consolidated</b> |               |
|--|---------------------|---------------|
|  | <b>2017</b>         | <b>2016</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> |
| 30% franking credits available to shareholders of Peanut Company of Australia Limited for subsequent financial years | 3,820               | 3,820         |

The above available amounts are based on the balance of the dividend franking account at year adjusted for:

- (a) franking credits that will arise from the payment of current tax liabilities;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end; and
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

**(iv) Earnings per share**

The calculation of basic earnings per share at 31 March 2017 was based on the loss attributable to ordinary shareholders of \$4.935 million (2016: profit of \$1.21 million). The weighted average number of ordinary shares at 31 March 2017 was 9,086,382 (2016: 9,086,382).

The calculation of diluted earnings per share at 31 March 2017 was based on the loss attributable to ordinary shareholders of \$4.935 million (2016: \$1.21 million profit). The weighted average number of ordinary shares after adjusting for the effects of all dilutive potential ordinary shares at 31 March 2017 was 12,115,177 (2016: 12,115,177).

**Ordinary shares**

|   | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Number issued at 31 March   | 9,086,382   | 9,086,382   |
| Weighted average number issued at 31 March                                | 9,086,382   | 9,086,382   |
| Potentially dilutive instruments on issue at 31 March (options – note 20) | 3,028,795   | 3,028,795   |
| Basic earnings per share  | (\$0.54)    | \$0.13      |
| Diluted earnings per share  | (\$0.41)    | \$0.10      |

In September 2013, the Company granted an option to NAB Nominee, the right to subscribe for such number of unissued PCA shares that will, when aggregated with the Subscriber Shares, result in NAB Nominee holding 40% of the then issued share capital of the Company.

**21. Assets classified as held for sale**

|           | <b>Consolidated</b> |               |
|-----------|---------------------|---------------|
|           | <b>2017</b>         | <b>2016</b>   |
|           | <b>\$'000</b>       | <b>\$'000</b> |
| Land      | -                   | 320           |
| Buildings | -                   | 266           |
|           | -                   | 586           |

These assets represent the land and buildings in the Gayndah depot. The contract lapsed and this property is no longer for sale.

## NOTES TO THE FINANCIAL STATEMENTS

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### 22. Financial risk management

#### Overview

The Group has exposure to risks from use of financial instruments and to manage these risks, the Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and is responsible for developing and monitoring risk management policies.

The risk management policies identify and analyse the risks faced by the Group; set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and growers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 32 percent (2016: 33 percent) of the Group's revenue is attributable to sales transactions with a single customer over the course of the year.

The Group has established procedures in which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings where available. Purchase limits are established for each customer. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of specific trade and other receivables.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash resources to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group has included in its arranged funding facilities appropriate seasonal finance to specifically cater for purchase of peanuts, and also has overdraft facilities.

Details of the finance facilities are disclosed in Note 17.

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Group's income. In order to manage market risk, the Group follows guidelines set by the Board which permit the Group to enter into derivatives to manage volatility in the profit or loss arising from buying and selling peanuts on international markets.



**NOTES TO THE FINANCIAL STATEMENTS**  
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**22. Financial risk management (cont'd)**

**Currency risk**

The Group is exposed to currency risk, primarily the United States dollar (US\$), on sales and purchases that are denominated in a currency other than the functional currency of the Group.

In order to protect against exchange rate movements, the company has entered into forward foreign exchange contracts. Management has a risk management policy to hedge 70 percent of its estimated foreign currency exposure in respect of forecast sales and purchases. The Group uses forward exchange contracts or options to hedge its currency risk, most with a maturity of less than one year from the reporting date.

**Interest rate risk**

The Group monitors its exposure to changes in interest rates on borrowings having regard to its working capital requirements and debt funding for property acquisition and development and determines the mix of fixed and variable interest rates based on its funding needs.

**Capital management**

The Board's policy is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Group has not been in a position to pay a dividend in recent years.

A significant change to the Group's capital management plan took place during the 2014 year, with the issue of shares and warrants, and details are set out in note 20. Neither the Company or its subsidiary are subject to externally imposed capital requirements other than its obligations to its bankers. These obligations include a wide range of covenants including the provision of monthly management accounts, compliance with covenants and loan amortisation.

**Financial instruments**

**(a) Credit risk**

The maximum exposure to credit risk of financial assets of the Group which have been recognised on the Consolidated Statement of Financial Position is generally the carrying amount, net of any allowance for impairment losses.

With respect to receivables, the majority of the Group's credit risk is in Australia and generally concentrated to the peanut growing and processing industry. The group manages this risk by maintaining strong relationships with a limited number of quality customers. Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality.

**Exposure to credit risk**

The carrying amount of the Group's financial assets represents the maximum credit risk exposure. The Group's maximum exposure to credit risk at reporting date was:

|                             | <b>Note</b> | <b>2017<br/>\$'000</b> | <b>2016<br/>\$'000</b> |
|-----------------------------|-------------|------------------------|------------------------|
| Cash and cash equivalents   | 10(a)       | 108                    | 192                    |
| Trade and other receivables | 17          | 5,192                  | 5,157                  |
|                             |             | <u>5,300</u>           | <u>5,349</u>           |

The group has a credit risk exposure with three customers who as at 31 March 2017 owed the group \$1.25 million (24% of trade receivables) (2016: \$1.13 million (25% of trade receivables)). In addition the Company has extended seed credit to our growers as at 31 March 2017 which will be recovered from the new season crop \$1.2 million (23% of trade receivables) (2016: \$1.1 million (22% of trade receivables)). There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with the customers to manage risk.

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22. Financial risk management (cont'd)

(b) Liquidity risk

Consolidated

|   | Year ended 31 March 2017 (\$'000) |                       |                  |             |                   |
|---|-----------------------------------|-----------------------|------------------|-------------|-------------------|
|   | Carrying amount                   | Contractual cash flow | Within 12 months | 1 – 5 years | More than 5 years |
| <b>Non derivative financial instruments</b> |                                   |                       |                  |             |                   |
| Secured bank loans                          | 22,740                            | 23,723                | 23,723           | -           | -                 |
| Finance lease liabilities                   | 2,302                             | 2,596                 | 693              | 1,903       | -                 |
| Total                                       | 25,402                            | 26,319                | 24,416           | 1,903       | -                 |
| <b>Other financial liabilities</b>          |                                   |                       |                  |             |                   |
| Trade and other payables                    | 4,225                             | 4,225                 | 4,225            | -           | -                 |

Consolidated

|   | Year ended 31 March 2016 (\$'000) |                       |                  |             |                   |
|---|-----------------------------------|-----------------------|------------------|-------------|-------------------|
|   | Carrying amount                   | Contractual cash flow | Within 12 months | 1 – 5 years | More than 5 years |
| <b>Non derivative financial instruments</b> |                                   |                       |                  |             |                   |
| Secured bank loans                          | 24,904                            | 26,833                | 9,684            | 17,149      | -                 |
| Finance lease liabilities                   | 512                               | 569                   | 203              | 366         | -                 |
| Total                                       | 25,416                            | 27,402                | 9,887            | 17,515      | -                 |
| <b>Other financial liabilities</b>          |                                   |                       |                  |             |                   |
| Trade and other payables                    | 3,804                             | 3,804                 | 3,804            | -           | -                 |

Refer to Note 2 (b) for details of the secured bank facilities.

(c) Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts.

|                              | 2017<br>USD'000 | 2016<br>USD'000 |
|------------------------------|-----------------|-----------------|
| USD bank account             | (65)            | (90)            |
| Trade receivables            | (79)            | (131)           |
| Trade payables               | 456             | -               |
| Total balance sheet exposure | 312             | (221)           |
| Estimated forecast sales     | (1,942)         | (1,876)         |
| Estimated forecast purchases | 11,009          | 5,598           |
| Total forecast               | 9,067           | 3,722           |
| Gross exposure               | 9,379           | 3,501           |
| Forward exchange contracts   | (6,640)         | (3,508)         |
| Net exposure                 | 2,739           | (7)             |

The Group had net liabilities of \$312,000 in foreign currency as at 31 March 2017 (2016: net assets \$221,000). Based on this exposure, had the Australian dollar weakened by 5% / strengthened by 5% against these foreign currencies with all other variables held constant, the consolidated Group's loss before tax for the year would have been \$136,950 higher / \$136,950 lower (2016: profit \$350 lower / \$350 higher). The percentage change is the expected overall volatility of the significant currency, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 31 March 2017 was \$27,000 (2016: gain of \$45,000).

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**22. Financial risk management (cont'd)**

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date was as follows:

|                | Sell Australian dollars |        | Average exchange rates |       |
|----------------|-------------------------|--------|------------------------|-------|
|                | 2017                    | 2016   | 2017                   | 2016  |
|                | \$'000                  | \$'000 |                        |       |
| Buy US dollars |                         |        |                        |       |
| Maturity:      |                         |        |                        |       |
| 0 - 6 months   | 3,985                   | 1,545  | 0.735                  | 0.692 |
| 6 - 12 months  | 2,655                   | 1,963  | 0.729                  | 0.720 |

The following significant exchange rates applied during the year:

|     | Average rate |       | Reporting date spot |       |
|-----|--------------|-------|---------------------|-------|
|     | 2017         | 2016  | 2017                | 2016  |
|     |              |       |                     |       |
| USD | 0.752        | 0.736 | 0.764               | 0.765 |

**(d) Interest rate risk**

**Profile**

The Group regularly monitors its interest rate risk within the confines of the Bank Facilities Agreement and currently hold some fixed rate and some floating rate debt.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with variable interest rates, with carrying amount of \$22.74M (2016:\$24.904M).

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss before tax by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

| Consolidated | Profit or Loss  |                 |                 |                 |
|--------------|-----------------|-----------------|-----------------|-----------------|
|              | 2017            |                 | 2016            |                 |
|              | 100bsp Increase | 100bsp Decrease | 100bsp Increase | 100bsp Decrease |
|              | \$'000          | \$'000          | \$'000          | \$'000          |
| Bank loans   | (226)           | 226             | (247)           | 247             |

**NOTES TO THE FINANCIAL STATEMENTS**  
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**23. Fair Value**

AASB 13 requires disclosure of fair value measurements by level of the fair value hierarchy, as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial assets and financial liabilities measured and recognised at fair value at 31 March 2017 and 31 March 2016 on a recurring basis are as follows:

| <b>31 March 2017</b>                 | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|--------------------------------------|----------------|----------------|----------------|---------------|
|                                      | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b> |
| Assets                               |                |                |                |               |
| - Land and buildings                 | -              | -              | 24,030         | 24,030        |
| - Assets held for sale               | -              | -              | -              | -             |
| - Forward foreign currency contracts | -              | (328)          | -              | (328)         |
| Liabilities                          |                |                |                |               |
| - Warrant equity kicker              | -              | -              | (550)          | (550)         |
| Net fair value                       | -              | (328)          | 23,480         | 23,152        |
| <b>31 March 2016</b>                 | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|                                      | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b> |
| Assets                               |                |                |                |               |
| - Land and buildings                 | -              | -              | 18,969         | 18,969        |
| - Assets held for sale               | -              | -              | 586            | 586           |
| - Forward foreign currency contracts | -              | (359)          | -              | (359)         |
| Liabilities                          |                |                |                |               |
| - Warrant equity kicker              | -              | -              | (550)          | (550)         |
| Net fair value                       | -              | (359)          | 19,005         | 18,646        |

The methods and valuation techniques used for the purpose of measuring fair value for material assets and liabilities measured and recognised at fair value are as follows:

***Warranty equity kicker***

The Group's derivative position in relation to the warrant equity kicker is based on management's best estimate about the underlying assumptions that market participants would make in determining the fair value.

The fair value has been determined using a calculation based on the following significant assumptions:

- Estimation of the company share price at the time the warrants would be exercised
- Estimation of the probability of the warrants being exercised
- Estimation of additional capital raisings

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would significantly change the amounts recognised.

The assumptions used have taken into account the dilutive impact of the warrants on the expected value of the company on a per share basis. This dilutive impact has been calculated based on a \$5 million capital raising adjusting the company's per share value to \$2.84. This value has then been used to determine the anticipated value of the equity kicker and the 18% probability of the warrants being exercised factored in to calculate the value of the equity kicker.

There has been no change in the assumptions this year, so there is no change to the warranty equity kicker.

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**23. Fair Value (cont'd)**

**Land and Buildings**

Fair value of the properties was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property. For land and buildings and where similar asset sales were available, the valuer utilised these market prices after taking into account factors that were unique to the asset. Where the assets were of a specialised nature and there was no active market for the assets, fair value has been determined on the basis of replacement with a new asset having similar service potential including allowances for professional fees.

In March 2017, formal valuations were performed by Jones, Lang and LaSalle, accredited independent valuers. At each reporting period, the Directors verify the major inputs to the external valuers' model with reference to current observable market data and analyse the movement in the value of the assets.

**Land**

The fair value has been determined by Market Approach.

This approach seeks to estimate the fair value of an asset with reference to recent market transactions involving indentical or comparable assets.

Inputs – Prices and other relevant information generated by market transactions involving plant and equipment assets were considered.

**Buildings**

The fair value has been determined by Depreciated Replacement Cost.

The amount a market participant would be prepared to pay to acquire or construct a substitute asset of comparable utility, adjusted for physical depreciation and obsolescence.

Inputs – Current prices for substitute assets. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the assets under consideration.

The following table presents the changes in assets classified within Level 3:

|  | <b>31 Mar 2017</b> | <b>31 Mar 2016</b> |
|--|--------------------|--------------------|
|  | <b>\$'000</b>      | <b>\$'000</b>      |
| <b>Land and buildings</b>                  |                    |                    |
| <b>Opening balance</b>                     | 18,969             | 20,041             |
| Gains or losses recognised in:             |                    |                    |
| - Profit or loss                           | (471)              | (486)              |
| - Other comprehensive income               | 3,462              | -                  |
| - Deferred tax asset                       | 1,484              | -                  |
| - Transfer (to) from assets held for sale  | 586                | (586)              |
| <b>Closing balance</b>                     | <b>24,030</b>      | <b>18,969</b>      |
| <b>Assets held for sale</b>                |                    |                    |
| <b>Opening balance</b>                     | 586                | -                  |
| Gains or losses recognised in:             |                    |                    |
| - Transferred (to) from land and buildings | (586)              | 586                |
| <b>Closing balance</b>                     | <b>-</b>           | <b>586</b>         |
| <b>Warranty equity kicker</b>              |                    |                    |
| <b>Opening balance</b>                     | 550                | 2593               |
| Gains or losses recognised in:             |                    |                    |
| - Profit or loss                           | -                  | (2,043)            |
| <b>Closing balance</b>                     | <b>550</b>         | <b>550</b>         |

There have been no transfers between levels of the fair value hierarchy during the year.

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**24. Capital and other commitments**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2017</b>         | <b>2016</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Capital commitments</b>  |                     |               |
| <i>Property, plant and equipment</i>  |                     |               |
| Payable:  |                     |               |
| Within one year   | 31                  | 645           |
| Later than one year but not later than 5 years  | -                   | -             |
| Later than 5 years  | -                   | -             |
|   | 31                  | 645           |
| <b>Other commitments</b>  |                     |               |
| <i>Import purchasing contracts</i>  |                     |               |
| Within one year   | 14,776              | 7,918         |
|   | 14,776              | 7,918         |
| In respect of the payment for import purchasing contracts, there is hedging covering \$9,060,000. |                     |               |
| <b>Lease commitments</b>  |                     |               |
| <i>Non-cancellable operating leases – future minimum lease payments</i>                           |                     |               |
| Payable:  |                     |               |
| Within one year   | 511                 | 527           |
| Later than one year but not later than 5 years  | 701                 | 787           |
| Later than 5 years  | -                   | -             |
|   | 1,212               | 1,314         |
| Finance leases include:   |                     |               |
| TPV and VFFS line to 19/5/17  |                     |               |
| BP SSM5001 Satake Sorter to 28/02/18  |                     |               |
| Seed Scanmaster Colour Sorter to 28/02/18   |                     |               |
| Packing GS11761 Sorter to 28/02/18  |                     |               |
| Loma X-ray to 27/8/19   |                     |               |
| Huetronic Upgrade to 2/3/20   |                     |               |
| Pikasen Sorter to 19/9/20   |                     |               |
| Phoenix Processing Facility to 16/8/21  |                     |               |
| <i>Finance lease – non-cancellable</i>  |                     |               |
| Payable:  |                     |               |
| Within one year   | 693                 | 203           |
| Later than one year but not later than 5 years  | 1,903               | 366           |
| Later than 5 years  | -                   | -             |
| Total future minimum lease payments   | 2,596               | 569           |
| Total future finance charges  | (294)               | (57)          |
| Lease liabilities   | 2,302               | 512           |
| Lease liabilities are represented in the financial statements as follows:                         |                     |               |
| Current (note 17)   | 574                 | 174           |
| Non-current (note 17)   | 1,728               | 338           |
|   | 2,302               | 512           |

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

**25. Related parties**

**Key management personnel compensation**

The individual key management personnel compensation is included in the Directors' Report in Section 5.

|                              | <b>Consolidated</b> |                |
|------------------------------|---------------------|----------------|
|                              | <b>2017</b>         | <b>2016</b>    |
|                              | <b>\$'000</b>       | <b>\$'000</b>  |
| Short-term employee benefits | 549,480             | 561,925        |
| Post-employment benefits     | 46,830              | 43,348         |
| Termination benefits         | -                   | -              |
|                              | <b>596,310</b>      | <b>605,273</b> |

**26. Subsequent events**

In June, 2017 the Group has negotiated borrowing facilities with NAB to ensure that sufficient cash is available to meet the debt obligations of the Group as and when they fall due. These finance facilities with NAB include:

- (a) \$16.5 million NAB Business Markets Facility – Flexible Loan Rate;
- (b) \$14.5 million Multi Option Facility covering an Overdraft Facility, Letter of Credit and Market Rate Facility;
- (c) \$35,000 Business Card Facility;
- (d) \$0.8 million Master Asset Finance Agreement;
- (e) \$2.2 million Trade Finance Facility and;
- (f) Foreign Exchange and/or Hedge Contracts.

No other event has occurred after reporting date that has significantly or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the period subsequent to 31 March 2017.

**27. Auditors' remuneration**

|   | <b>Consolidated</b> |               |
|---|---------------------|---------------|
|   | <b>2017</b>         | <b>2016</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> |
| <b>Audit services</b>   |                     |               |
| Amounts paid / payable to BDO Audit Pty Ltd for audit and review of the financial statements for the entity or any entity in the group relating to the year ending 31 March 2017 (including half year). | 124,000             | 120,000       |
| <b>Taxation services</b>  |                     |               |
| Amounts paid / payable to BDO for non-audit taxation services performed for the entity or any entity in the group relating to the year ending 31 March 2017.  | 20,000              | 19,437        |

**28. Controlled entities in the Group**

The consolidated financial statements at 31 March 2017 include the Company and the following controlled entities. The financial years of all controlled entities are the same as the parent entity (non operating).

| <b>Name of controlled entity</b> | <b>Place of incorporation</b> | <b>Ownership interest</b> |             |
|----------------------------------|-------------------------------|---------------------------|-------------|
|                                  |                               | <b>2017</b>               | <b>2016</b> |
|                                  |                               | %                         | %           |
| PMB Australia Pty Ltd            | Australia                     | 100                       | 100         |

**NOTES TO THE FINANCIAL STATEMENTS**  
Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

**29. Parent Company information**

The following information relates to the parent entity, Peanut Company of Australia Limited. The information presented has been prepared using the accounting policies that are consistent with those presented in Note 1.

|  | <b>Parent</b>  |               |
|--|----------------|---------------|
|  | <b>2017</b>    | <b>2016</b>   |
|  | <b>\$'000</b>  | <b>\$'000</b> |
| Current assets                                 | 14,487         | 18,812        |
| Non-current assets                             | 38,092         | 35,171        |
| <b>Total assets</b>                            | <u>52,579</u>  | <u>53,983</u> |
| Current liabilities                            | 29,534         | 14,381        |
| Non-current liabilities                        | 2,505          | 17,620        |
| <b>Total liabilities</b>                       | <u>32,039</u>  | <u>32,001</u> |
| <b>Net assets</b>                              | <u>20,540</u>  | <u>21,982</u> |
| Contributed equity                             | 23,555         | 23,555        |
| Retained earnings                              | (14,788)       | (9,853)       |
| Revaluation surplus                            | 11,773         | 8,280         |
| <b>Total equity</b>                            | <u>20,540</u>  | <u>21,982</u> |
| Profit/loss for the year                       | (4,935)        | 1,210         |
| Other comprehensive income/(loss) for the year | 3,493          | (376)         |
| Total comprehensive income for the year        | <u>(1,442)</u> | <u>834</u>    |

**Capital commitments**

Peanut Company of Australia Limited has contractual commitments, which are included in the group's capital commitments as detailed in Note 24 for property, plant and equipment for \$31,000 (2016: \$645,000).



## DIRECTORS' DECLARATION

Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

In the opinion of the Directors of Peanut Company of Australia Limited (the Company):

- (a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 March 2017 and its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Ian Langdon  
Chairman  
27 June 2017

## INDEPENDENT AUDITOR'S REPORT

To the members of Peanut Company of Australia Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Peanut Company of Australia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 March 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of Peanut Company of Australia Limited, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 March 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Other information

The directors are responsible for the other information. The other information comprises the Chairman's foreword, Chief Executive Officer's report and Directors report obtained at the date of this auditor's report, but does not include the financial report and our auditor's report thereon.



Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located in appendix 1. This description forms part of our auditor's report.

**BDO Audit Pty Ltd**

BDO

**T J Kendall**

Director

Brisbane, 27 June 2017

## Appendix 1 - Additional information on the Auditor's responsibilities for the audit of the Financial Report

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## ADDITIONAL INFORMATION

Peanut Company of Australia Limited and Controlled Entities  
For the year ended 31 March 2017

### Shareholder information

#### Twenty largest shareholders as at 19 June 2017

| Name   | No. of ordinary shares held | Percentage of capital held |
|--|-----------------------------|----------------------------|
| Equity Management Unit Holdings Pty Ltd                          | 1,817,276                   | 20.00                      |
| Wellington Capital Limited <Wellington Investment Fund A/C>      | 1,411,039                   | 15.53                      |
| Technology Farmers Pty Ltd                                       | 1,323,960                   | 14.57                      |
| Ross Burney & Skye Burney <Grantully A/C>                        | 360,000                     | 3.96                       |
| Brixia Investments Pty Ltd                                       | 233,919                     | 2.57                       |
| Robert Bruce Hansen  | 190,692                     | 2.10                       |
| Sabio Pronostico No.2 Pty Ltd                                    | 142,104                     | 1.56                       |
| Jalco Pty Ltd <Rex Williams Super Fund A/C>                      | 116,959                     | 1.29                       |
| Howe Farming Enterprises Pty Ltd                                 | 109,602                     | 1.21                       |
| GCL, EJ & LJ Masasso <JBL 2007 Super Fund A/C>                   | 104,082                     | 1.15                       |
| Anthony John Trimarchi   | 98,354                      | 1.08                       |
| Ian Alan Langdon & Cherelyn Gay Langdon <Langdon Super Fund A/C> | 73,561                      | 0.81                       |
| Domenic Ferraro and Lynette Mary Ferraro                         | 72,208                      | 0.79                       |
| Pompey E Pezzelato & Tanya M Pezzelato                           | 62,995                      | 0.69                       |
| Kerry Patrick Prior  | 61,940                      | 0.68                       |
| Ian Wayne Hunsley & Susanne Maria Hunsley                        | 55,808                      | 0.61                       |
| Robert Bruce Hansen & Julie Hansen <R & J Hansen Unit Account>   | 47,031                      | 0.52                       |
| Robert Bruce Hansen  | 45,736                      | 0.50                       |
| Candowie Farming Company   | 44,174                      | 0.49                       |
| Weller Brothers  | 43,052                      | 0.47                       |
|  | <hr/>                       |                            |
|  | 6,414,492                   | 70.59                      |
|  | <hr/>                       |                            |
| Total shares   | 9,086,382                   |                            |

#### Substantial shareholders

|   | No. of ordinary shares held | Percentage of capital held |
|---|-----------------------------|----------------------------|
| Equity Management Unit Holdings Pty Ltd                     | 1,817,276                   | 19.99                      |
| Wellington Capital Limited <Wellington Investment Fund A/C> | 1,411,039                   | 15.53                      |
| Technology Farmers Pty Ltd                                  | 1,323,960                   | 14.57                      |
|   | <hr/>                       |                            |
| Total shares  | 4,552,275                   | 50.43                      |

#### Warrants

Equity Management Unit Holdings Pty Ltd has a right to subscribe to 3,028,795 shares.