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Full year 2022/23 Financial Results and Operating Review

ANNOUNCEMENT **31 AUGUST 2023**

Australian Agricultural Projects Limited (**Company**) (ASX: **AAP**) is please to present its report for the year ended 30 June 2023.

Trading result

The Company recorded a profit after income tax of $534,653 for the year ended 30 June 2023 (2022: loss of $246,592), a result consistent with management's expectations. The key components of this trading result include:

- The 2023 harvest, which was completed in June 2023, yielded a total of 727,400 litres which compares with 564,500 litres in the previous year. This was a pleasing result given the poor growing conditions experienced during the season. It was a "on" year in the biennial cycle of the orchard and the harvest result is similar to the previous "on" year in 2021 which was 752,900 litres. This harvest resulted in total revenue from lease and management fees derived from the projects the Company manages of $3,351,899 (2022: $2,632,591).
- Orchard operating costs totaled $1,913,839 down from $2,036,872 in 2022. The principal factors influencing these costs were:
  - Heavy rains resulting in flooding at the orchard during spring 2022 which restricted the level of orchard operations early in the season;
  - The volume water used and cost per megalitre was low; and
  - A focus on the refurbishment of harvest equipment with the objective of improving its reliability, efficiency and longevity.
- Funding costs of $452,124 (2022: $596,636) reflect the benefit from the refinance of the core debt facilities at the end of the previous financial year.
- Depreciation expense of $639,862 (2022: $577,677) includes the depreciation of the olive trees that amounted to $434,842 (2022: $373,729).

In addition to the trading result summarised above, the Company also recorded an upward revaluation of the olive trees of $1,101,007 (2022: $1,283,954). This valuation is based upon the anticipated discounted net cash flows expected to be generated from the lease of the orchard assets to the projects the Company manages and is supported by an independent valuation the Directors obtained last year. This result reflects the increased maturity of the replanted portions of the orchard and the increase in the market value of quality horticultural assets which has occurred over recent years.

Cash flows

The Company's net cashflows from operations this year amounted to a surplus of $42,523 (2022: surplus of $892,890). This reduction in net cashflows is a direct reflection of the 2022 harvest being lower than the 2021 harvest as the proceeds of the sale of the oil produced is received in the year subsequent to harvest. Accordingly, with the proceeds of the increased 2023 harvest being received in the 2024 financial year, the Company has budgeted an increased operating cash surplus in the next year.

Balance sheet

The Company's balance sheet improved over the year principally as a consequence of the operating profit and increased valuation of the orchard assets. Net assets increased 16.5% to $9,596,961 (2022: $9.5% to $8,236,553). This trend of increasing net assets is expected to continue as a result of:

- Ongoing operating profits driven by the increasing maturity of the replanted portions of the orchard;
- Continued increases in the value of orchard assets; and
- The likely capital injection from the exercise of options due to expire in December 2023.

It is a corporate objective over the coming years to improve the resilience of the balance sheet post the replanting programme. As a consequence, it is planned that both the amount of the core debt facility with the Company's bank as well as the loans from shareholders will be reduced. It is anticipated that these reductions will be funded from the expected proceeds from the exercise of options in December 2023 as well as ongoing operating surpluses.

The olive orchards

Operations

Orchard operations during the 2023 financial year were largely shaped by the climatic conditions during the year. Heavy rains resulting in severe flooding at the orchard in October and November 2022 had a number of impacts on orchard operations and oil yield:

- The requirement for irrigation was significantly reduced and the cost of water during the second half of the year was at historical lows reflecting the excess supply in the market; and
- Orchard operations in the early part of the year were severely impacted because of poor orchard access. The orchard team made good this deficit later in the season as the orchard became more trafficable.

The flooding also impacted the health of a portion the orchard. Approximately 5,500 of the trees that had been planted in March 2022 (approximately 10%) have died and are in the process of being replanted. The expectation is that this exercise will be completed in Spring 2023. In addition to the young trees, approximately 40 hectares of mature trees have been impacted by flood waters. A low number of tree deaths have been identified along with an increase in the number of stressed trees. This response is similar to that following the 2010 Victorian floods. The 2010 experience leads to the expectation that the impacted areas of the orchard will largely return to full health over a couple of years. Orchard management will monitor the condition of these areas of the orchard.

Other than the flood impacted areas, the orchard is in good health and the newly replanted portions of the orchard are growing as expected.

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

The short term focus of orchard management is now centred on two objectives:

- the training of the newly planted trees so as to maximise their yielding potential while still being able to be harvested mechanically by available technology; and
- improving the capacity of orchard processes with the view of reducing operating risk.

Harvest

The annual harvest was completed in late June yielding 727,400 litres (2022: 564,500 litres). This harvest result is in line with management's expectations and should be considered in the following context:

- 2023 was an "on year" in the natural biennial cycle of olive oil yield;
- A better comparative production year is 2021 in which 752,900 litres were produced as it was the previous on year; and
- Poor climatic conditions contributed to the 2023 harvest (727,400 litres) being similar to the 2021 harvest (752,900 litres) despite the expectation of increased yield following the successful replanting strategy.

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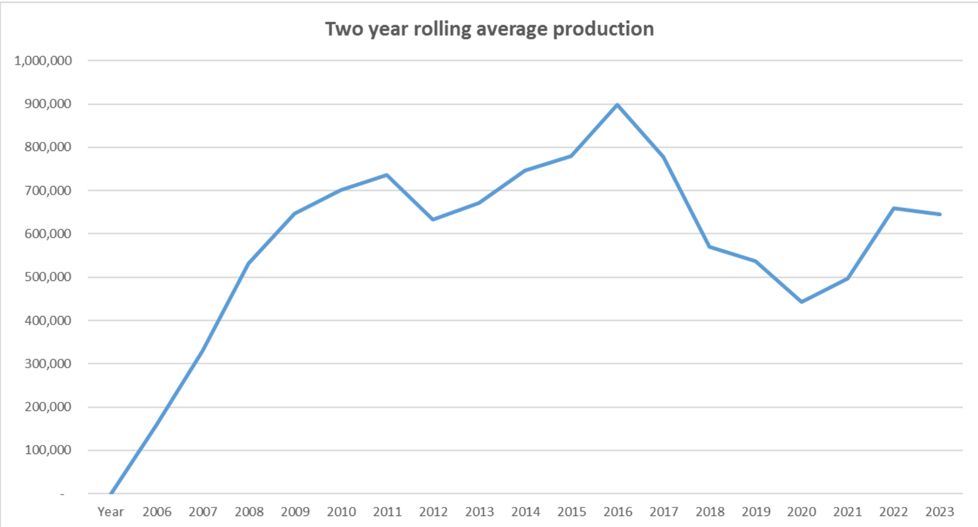
The total harvest is summarised as follows:

Project	Planted	Size	2023 Harvest (Litres)
VOOP I	2002	285 hectares	408,100
VOOP II	2003	118 hectares	152,500
Peppercorn	2006	108 hectares	166,800
		Total	**727,400**

The harvest result reflects an "on" year in the orchard which will likely be followed by an "off" year. Accordingly, management considers performance of the orchard on a two-year rolling average of oil produced as a better performance measurement to accommodate the volatility associated with the biennial productive nature of olive trees. The following graph summarises the total harvests from the orchards on a two-year rolling average basis since the first harvest in 2006. The impact of the deterioration of the barnea trees which initiated the replanting programme is apparent from 2017 onwards and the uptick in the trend continued this year and is expected to continue as the newly replanted areas continue to mature.



The unfavourable climatic conditions over the year also impacted the final oil production. The flowering period in November was late and elongated which, combined with the unusually cooler summer and autumn, resulted in a shorter growing season. These conditions resulted in a historically low oil content in the fruit despite the total fruit volumes meeting management's expectations. The impact of this reduction in oil content is evident in the graph by the levelling off of the two year rolling average in the last year. Orchard managements expectation is that the recent trend of increasing yield will return with more favourable growing conditions.

Testing of the oil to date has confirmed that the majority of this season's oil produced is of a high extra virgin quality and will be supplied to Cobram Estate Limited (Cobram), under existing offtake arrangements (see below), in support of the Cobram Estate and Redisland retail brands of extra virgin olive oil. The remaining portion of final production was adversely impacted by hail towards the end of harvest. As a consequence, this portion was reclassified as virgin olive oil grade, the second highest grade of olive oil.

Orchard management's outlook for the 2024 harvest is that it should be no lower than the previous "off" year which was the 2022 harvest, however, this will be largely dependent upon the performance of those portions of the orchard that have to recover from the flood conditions. The Company is proceeding with an initial budget production for 2024 in the region of 590,000 to 640,000 litres and this will be refined by the orchard team later this year after flowering and fruit set in November. As always, the 2024 result will depend on general climatic and growing conditions during the season. The Company will continue to report each significant event such as flowering and fruit set as well as indicators of oil accumulation through its quarterly reports.

Price

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

The Company continues to benefit from the continued upward pressure on shelf prices, initially from increased domestic demand following the COVID pandemic and now from the historically high international bulk prices that impact imported competition. These high bulk prices are being driven by a shortage of oil in the European growing regions and with the continuation of unfavourable growing conditions there, it is unlikely this shortage will be resolved in the short term. The Company will continue to monitor this situation as part of its wider review of the industry.

Largely due to a global shortage of olive oil, the Company was able to sell the virgin oil it produced with little difficulty. The final price achieved for these bulk sales meant that there was not a significant variation in the average price the Company will receive over the 2023/24 from that originally budgeted.

Operating costs

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

Material business risks

The Group has set out below potential risks that may have a material impact on the Group's future financial performance and operations.

The Group makes every effort to identify materials risks and where possible, take the appropriate action to manage and mitigate these effectively. This section does not attempt to provide an exhaustive list of risks faced by the Group or by investors in the Group, nor are they in order of significance. Actual events may be different to those described.

The Group's management of material risks and the systems has in place to manage these risks include the following:

Agricultural risks

This category includes those risks that are inherent to most agricultural businesses and cannot be avoided regardless of management's action and includes adverse growing conditions, damaging events such as fire and flood and market conditions which influence demand, supply and price of the oil we produce.

The Company continues to implement appropriate policies and procedures that have the objective of mitigating the impact of these events where possible. These include insurance where appropriate, orchard design and maintenance as well as long term secure marketing arrangements.

Financial risks

This risk is categorised as an economic risk and is managed through detailed budgeting and forecasting supported by monthly reporting systems.

Financial risk including cashflow management, inventory management and the maturity of core debt facilities are monitored with a view of identifying financial issues as soon as practical so that appropriate mitigating action can be taken in a timely manner.

Cyber risk

This risk is categorised as a business risk and is managed by undertaking regular risk assessments of the exposure to disruption events and the impact of an event on the ability of the Company to operate.

The Company has a focus on prevention and also continues to operate recovery measures as well as raising employee awareness to ensure the integrity of its digital environment.

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Regulatory risk

The Company maintains an Australian Financial Services Licence (ASFL) as part of the operation of the two managed investment schemes it operates. There is a business risk that any change to the conditions of the ASFL or the regulatory environment surrounding managed investment schemes may impact the fundamental structure of the projects the business manages.

This risk is mitigated by the Company maintaining a high compliance culture and continually monitoring the regulatory environment it operates in.

People risk

Future financial and operational performance of the Company is dependent on the performance and retention of key personnel. The unplanned or unexpected loss of key personnel, or the inability to attract and retain experienced individuals to the business may adversely affect the Company's future financial performance. This risk is mitigated by continually monitoring market rates and conditions for compensating its personnel and adopting appropriate human resource management and compensation policies to support its people resource.

MIS Project restructure

The Company is conscious that the first term of the two managed investment schemes the Company operates ends on 30 June 2025. Each of the projects have a lease option to continue for a further 25 years.

The Company is considering proposals to restructure the projects given that this rollover date of 30 June 2025 may create an opportunity for a reset where practical. The proposals the Company is considering have the objectives of:

- providing a mechanism through which the project investors can best access the benefit in the lease option;
- reducing the compliance costs associated with operating the managed investment schemes and maintaining an Australian Financial Services Licence; and
- simplifying the overall operations of the business.

The Company is conscious of the responsibilities it has to the individual participants in the projects and that any change to the existing arrangements is an involved and complex exercise. However, the Company has identified that if a restructure of the projects is possible, then the best time to effect any change is in the lead up to the exercise of the lease extension option noted above.

Looking forward

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

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

Appreciation

As always, the Company continues to rely on a small team which manages the orchard and produces cost effective results. The team worked long and hard together during the year to deal with the challenges that nature posed to us. The Directors take this opportunity to record their appreciation for their ongoing efforts as well as the continuing support of our shareholders.

This announcement was authorised for release by the Board of Directors of the Company.

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