

PEANUT COMPANY OF AUSTRALIA LIMITED

ABN 34 057 251 091

**CONSOLIDATED
INTERIM FINANCIAL REPORT**

HALF-YEAR ENDED 30 SEPTEMBER 2016

Table of Contents

	Page
Corporate Directory	1
Directors' Report	2
Lead Auditor's Independence Declaration	3
Consolidated statement of profit or loss and other comprehensive income	4
Consolidated statement of financial position	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated interim financial statements	8
Directors' Declaration	13
Independent Review Report	14

CORPORATE DIRECTORY

Peanut Company of Australia Limited and its Controlled Entities

ABN 34 057 251 091

Directors

Ian Langdon (Chairman)
Niven Hancock
Brett Heading

Chief Executive Officer

John Howard

Company Secretary

Don Mackenzie

Auditors

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

Share Registry

Link Market Services Limited
Level 15, 324 Queen Street
Brisbane Qld 4000

Tel: 1300 554 474 (Call Centre)

Web: www.linkmarketservices.com.au

DIRECTORS' REPORT

Peanut Company of Australia Limited and Controlled Entities
30 September 2016

The directors present their report together with the consolidated interim financial report of Peanut Company of Australia Limited ("PCA" or "the Company") for the six months ended 30 September 2016 and the auditor's review report thereon.

Directors

The directors of the Company at any time during the interim period, or since 30 September 2016 to the date of this report, are:

Name	Period of directorship
Ian Langdon	Director appointed 31 March 2005
Niven Hancock	Director appointed 24 August 1992
Brett Heading	Director appointed 30 November 2012

Principal Activities

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

Review of operations

PCA's financial performance for the six months to 30 September 2016 was a loss of (\$1,117,000) after tax compared to the prior period which was a half year profit of \$1,683,000, that included a loss from operations of (\$360,000) and profit from revaluation of warrants \$2,043,000.

The results were highlighted by very favourable and encouraging sales of both our traditional ingredient products but also our newly launched Picky Picky branded Snack and Oil products. However, despite this, our costs have been impacted by a range of elements including:

- A decrease in the size of the Australian peanut crop for 2015/2016 season to just over 14,000mt of farmers stock driven by a reduction in the area planted due to the rotation to other crops and the late break to the season, especially in North Queensland.
- An increase in the Cost of Goods Sold driven by the reduced intake and the recent increase in international pricing impacted the cost of imports due to a very poor Argentinean harvest.
- Additional costs incurred in the establishment of our new snacking process line that began commissioning in June 2016.

PCA's focus continues to be targeted towards the key drivers of our business, being the increase in the size of our Australian grown peanut crop and the improvement in our sales mix including the move to the production and marketing of Australian peanuts through our own Consumer Ready brand, Picky Picky (Snacks and Oil).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs to 30 September 2016.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the six months ended 30 September 2016.

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Director's Reports) 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.

Signed in Brisbane in accordance with a resolution of the directors on 13 December 2016.



Ian Langdon
Chairman

LEAD AUDITOR'S INDEPENDENCE DECLARATION

Peanut Company of Australia Limited and Controlled Entities



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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

As lead auditor for the review of Peanut Company of Australia Limited for the half-year ended 30 September 2016, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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'.

T J KENDALL
Director

BDO Audit Pty Ltd

Brisbane, 13 December 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Peanut Company of Australia Limited and Controlled Entities

For the six months ended 30 September 2016

	Note	30 Sept 2016 \$'000	30 Sept 2015 \$'000
Revenue		26,356	28,740
Cost of sales		(23,794)	(25,554)
Gross profit		<u>2,562</u>	<u>3,186</u>
Other income	11	239	2,371
Finance income		1	62
Distribution expenses		(960)	(1,142)
Marketing expenses		(1,134)	(758)
Administrative expenses		(1,415)	(1,404)
Research and development		(12)	(29)
Finance costs		(877)	(757)
Profit (loss) before tax		(1,596)	1,529
Income tax (expense) benefit		479	154
Profit (loss) for the period		<u>(1,117)</u>	<u>1,683</u>
Other comprehensive income for the period, net of income tax			
Amounts that will not be reclassified to profit or loss			
Change in fair value of land and buildings, net of tax		-	-
Amounts that may be reclassified to profit or loss			
Change in fair value of cash flow hedge, net of tax		110	57
Total comprehensive income for the period, net of tax		<u>(1,007)</u>	<u>1,740</u>
Profit (loss) attributable to:			
Owners of the Company		(1,117)	1,683
Total comprehensive income attributable to:			
Owners of the Company		(1,007)	1,740
Earnings per share for profit for the year			
Basic earning per share		(\$0.12)	\$0.19
Diluted earnings per share		(\$0.09)	\$0.14

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Peanut Company of Australia Limited and Controlled Entities

As at 30 September 2016

		30 Sept 2016 \$'000	31 Mar 2016 \$'000
Current Assets			
Cash and cash equivalents		515	192
Trade and other receivables		4,384	5,157
Inventories		14,960	11,804
Prepayments		363	1,073
Assets held for sale		-	586
Total current assets		<u>20,222</u>	<u>18,812</u>
Non-current Assets			
Property, plant and equipment	12	26,431	25,436
Intangible assets		7,781	7,633
Deferred tax assets		2,530	2,052
Other receivables		196	50
Total non-current assets		<u>36,938</u>	<u>35,171</u>
Total assets		<u>57,160</u>	<u>53,983</u>
Current Liabilities			
Trade and other payables		6,300	3,804
Financial liabilities	13	8,628	8,588
Provisions		1,740	1,630
Derivatives		249	359
Total current liabilities		<u>16,917</u>	<u>14,381</u>
Non-current Liabilities			
Financial liabilities	13	18,493	16,828
Derivatives	14	550	550
Provisions		225	242
Total non-current liabilities		<u>19,268</u>	<u>17,620</u>
Total liabilities		<u>36,185</u>	<u>32,001</u>
Net assets		<u>20,975</u>	<u>21,982</u>
Equity			
Issued capital		23,555	23,555
Reserves		8,390	8,280
Retained earnings (losses)		(10,970)	(9,853)
Total equity attributed to equity holders of the Company		<u>20,975</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 six months ended 30 September 2016

	Issued capital \$'000	Asset revaluation reserve \$'000	Hedge reserve \$'000	Retained earnings (losses) \$'000	Total \$'000
Balance at 1 April 2015	23,555	8,639	17	(11,063)	21,148
Comprehensive income					
Profit for the period	-	-	-	1,683	1,683
Other comprehensive income for the period net of tax					
Change in fair value of hedge	-	-	57	-	57
Net change in fair value of land and buildings	-	-	-	-	-
Total comprehensive income for the period	-	-	57	1,683	1,740
Transactions with owners, recorded directly in equity					
Shares and warrants issued	-	-	-	-	-
Balance at 30 September 2015	23,555	8,639	74	(9,380)	22,888
Comprehensive income					
Loss for the period	-	-	-	(473)	(473)
Other comprehensive income for the period net of tax					
Change in fair value of hedge	-	-	(433)	-	(433)
Total comprehensive income for the period	-	-	(433)	(473)	(906)
Transactions with owners, recorded directly in equity					
Shares based payment expense	-	-	-	-	-
Balance at 31 March 2016	23,555	8,639	(359)	(9,853)	21,982
Comprehensive income					
Profit for the period	-	-	-	(1,117)	(1,117)
Other comprehensive income for the period net of tax					
Change in fair value of hedge	-	-	110	-	110
Net change in fair value of land and buildings	-	-	-	-	-
Total comprehensive income for the period	-	-	110	(1,117)	(1,007)
Transactions with owners, recorded directly in equity					
Shares and warrants issued	-	-	-	-	-
Balance at 30 September 2016	23,555	8,639	(249)	(10,970)	(20,975)

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 six months ended 30 September 2016

	Note	30 Sept 2016 \$'000	30 Sept 2015 \$'000
Cash flows from operating activities			
Receipts from customers		28,893	33,409
Payments to suppliers and employees		(27,920)	(37,089)
Interest received		1	10
Interest paid		(863)	(689)
Net cash (outflow) from operating activities		<u>111</u>	<u>(4,359)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,011)	(237)
Acquisition of intangible assets		(482)	(541)
Net cash (outflow) from investing activities		<u>(1,493)</u>	<u>(778)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,734	5,600
Payment of borrowings		(4,098)	(150)
Proceeds from finance lease		2,198	-
Payment of finance lease		(129)	(71)
Dividends paid	8	-	-
Net cash inflow from financing activities		<u>1,705</u>	<u>5,379</u>
Net increase/(decrease) in cash and cash equivalents		323	242
Cash and cash equivalents at the beginning of the half-year		192	175
Cash and cash equivalents at 30 September		<u>515</u>	<u>417</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 six months ended 30 September 2016

1. Reporting entity

Peanut Company of Australia Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 30 September 2016 comprise of the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group as at and for the year ended 31 March 2016 are available upon request from the Company's registered office at 133 Haly Street Kingaroy QLD or the Company's website www.pca.com.au.

2. Statement of compliance

These general purpose consolidated financial statements for the half-year reporting period have been prepared in accordance with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 31 March 2016 and any public announcements made by Peanut Company of Australia Limited during the half-year reporting period.

These consolidated interim financial statements were approved by the Board of Directors on 13 December 2016.

3. Significant accounting policies

The accounting policies and methods of computation applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 March 2016.

4. Judgements, estimates and assumptions

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 March 2016.

5. Going concern

The financial statements have been prepared on a going concern basis which assumes the Group will continue its operations and be able to meet its obligations as and when they become due and payable.

PCA's financial performance for the six months to 30 September 2016 was a loss of \$1,117,000 after tax compared to the corresponding period last year which was a half year profit of \$1,683,000 and includes loss from operations of \$360,000 and profit from revaluation of warrants \$2,043,000.

The results were highlighted by very favourable and encouraging sales of both our traditional ingredient products but also our newly launched Picky Picky branded Snack and Oil products. However, despite this, our costs have been impacted by a range of elements including:

- A decrease in the size of the Australian peanut crop for 2015/2016 season to just over 14,000mt of farmers stock driven by a reduction in the area planted due to the rotation to other crops and the late break to the season, especially in North Queensland.
- An increase in the Cost of Goods Sold driven by the reduced intake and the recent increase in international pricing impacted the cost of imports due to a very poor Argentinean harvest.
- Additional costs incurred in the establishment of our new snacking process line that began commissioning in June 2016.

NOTES TO THE FINANCIAL STATEMENTS

Peanut Company of Australia Limited and Controlled Entities

For the six months ended 30 September 2016

5. Going concern (cont.)

At 30 September 2016, the Group has an excess of current assets over current liabilities of \$3.305 million (31 March 2016: excess of current assets over current liabilities of \$4.431 million). The Group's total assets exceed total liabilities by \$20.975 million at 30 September 2016 (31 March 2016: \$21.982 million).

The Directors believe the Company will be able to continue as a going concern and meet its liabilities as and when they fall due with current profit or loss and cash flow projections for the next 12 months supporting the Directors' views.

6. Contributed equity

		Number	\$'000
Number of shares on issue at 1 April 2015		9,086,382	19,254
Number of warrants on issue at 1 April 2015	Note 1	3,028,795	4,301
Shares issued 30 September 2015		-	-
Warrants issued 30 September 2015		-	-
Number of shares and warrants on issue at 30 September 2015		<u>12,115,117</u>	<u>23,555</u>
Number of shares on issue at 1 April 2016		9,086,382	19,254
Number of warrants on issue at 1 April 2016	Note 1	3,028,795	4,301
Shares issued 30 September 2016		-	-
Warrants issued 30 September 2016		-	-
Number of shares and warrants on issue at 30 September 2016		<u>12,115,117</u>	<u>23,555</u>

Note 1 These warrants were issued as part of the debt forgiveness transaction entered into during the September 2013. They entitle the holder to convert 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 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 with further details in notes 15.

7. Related parties

Non-executive Directors

Ian Langdon
Niven Hancock
Brett Heading

Chief Executive Officer

John Howard – Chief Executive Officer

Company Secretary

Donald Mackenzie

8. Dividends paid and proposed

No dividends have been paid or proposed for the half-year ending 30 September 2016.

9. Seasonality of operations

The majority of the Group's inventory is received during the first half of the financial year due to the harvesting lifecycle of peanuts and the Group's revenues are evenly spread throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

Peanut Company of Australia Limited and Controlled Entities

For the six months ended 30 September 2016

10. Events subsequent to the end of the reporting period

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 30 September 2016.

	Consolidated	
	Sept 2016	Sept 2015
	\$'000	\$'000
11. Other income		
GRDC funding	202	186
Revaluation of warranty derivative	-	2,043
Insurance income	3	17
PBR sub licence income	(10)	-
Sundry income	44	81
Claims on imports	-	44
	<u>239</u>	<u>2,371</u>

12. Valuation of land and buildings

At each reporting period, the Directors determine the fair value of the land and buildings with reference to current observable market data and analyse the movement in the value of the assets. The Directors use external valuers from time to time to assist in forming an opinion on the fair value.

Formal valuations were performed as at 30 September 2014 by accredited valuers. Fair value of the properties was determined by using market comparable method whereby valuations performed are based on active market prices, adjusted for difference in the nature, location or condition of the specific property. As at the reporting date the Directors have assessed that there has been no material change in fair value since the last valuation.

13. Financial liabilities

	Consolidated	
	Sept 2016	Mar 2016
	\$'000	\$'000
Current		
<i>Secured</i>		
Bank loans	8,050	8,414
Lease liabilities	578	174
Total current interest bearing liabilities	<u>8,628</u>	<u>8,588</u>
Non-Current		
<i>Secured</i>		
Bank loans	16,490	16,490
Lease liabilities	2,003	338
Total non-current interest bearing liabilities	<u>18,493</u>	<u>16,828</u>

NOTES TO THE FINANCIAL STATEMENTS

Peanut Company of Australia Limited and Controlled Entities

For the six months ended 30 September 2016

14. Derivatives

	Consolidated	
	Sept 2016	Mar 2016
	\$'000	\$'000
Warrant equity kicker (1)	550	550
Total derivatives	550	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.

15. Fair value measurement

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 2016 and 30 September 2016 on a recurring basis are as follows:

31 March 2016	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Assets				
- Land and buildings	-	-	18,969	18,969
- Assets held for sale	-	-	586	586
Liabilities				
- Forward foreign currency contracts	-	(359)	-	(359)
- Warrant equity kicker	-	-	(550)	(550)
Net fair value	-	(359)	19,005	18,646

30 September 2016	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Assets				
- Land and buildings	-	-	19,319	19,319
- Assets held for sale	-	-	-	-
Liabilities				
- Forward foreign currency contracts	-	(249)	-	(249)
- Warrant equity kicker	-	-	(550)	(550)
Net fair value	-	(249)	18,769	18,520

NOTES TO THE FINANCIAL STATEMENTS

Peanut Company of Australia Limited and Controlled Entities

For the six months ended 30 September 2016

15. Fair value measurement (cont)

Warranty equity kicker

The methods and valuation techniques used for the purpose of measuring fair value for material financial 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 reducing the company's per share value to \$0.53. 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.

	30 Sep 2016 \$'000	31 Mar 2016 \$'000
Warranty equity kicker		
Opening balance	550	2,593
Gains or losses recognised in:		
- Profit or loss	-	(2,043)
Closing balance	550	550

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

The carrying amounts of the remaining financial instruments which are not measured at fair value are considered to be a reasonable approximation of their fair value.

Peanut Company of Australia Limited and its controlled entities
Directors' declaration

The directors of the company declare that:

- (1) the financial statements and notes set out on pages 4 to 12 are in accordance with the Corporations Act 2001 and:
 - (a) give a true and fair view of the Group's financial position as at 30 September 2016 and of its performance for the six month period ended on that date; and
 - (b) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (2) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in Brisbane in accordance with a resolution of the directors on 13 December 2016.



Ian Langdon
Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Peanut Company of Australia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Peanut Company of Australia Limited, which comprises the consolidated statement of financial position as at 30 September 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Peanut Company of Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Peanut Company of Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Peanut Company of Australia Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO Audit Pty Ltd

BDO

T J Kendall
Director

Brisbane, 13 December 2016