Interim Financial Report

Barossa Infrastructure Limited

ABN 80 084 108 958

31 December 2019

Contents

Directors' report

The directors of Barossa Infrastructure Limited (the "Company") present their report together with the financial statements for the six months ended 31 December 2019 and the review report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

Non-executive	Period of directorship
Robert Ian Chapman	Since 4 June 2012
Grant Walker Burge	Since 14 September 1998
Samuel Paul Dahlitz	Since 29 April 2019
Geoffrey Maxwell Davis	Since 3 August 1999
Gayle Robin Grieger	Since 2 February 2004
John Leslie Kerr	Since 2 May 2017
Timothy James McCarthy	Since 28 February 2017
Victor John Patrick	Since 28 April 2008

Review of operations

The net loss for the half year ended 31 December 2019 after providing for income tax is $1,072,781 (2018 profit $780,299).

Sales Revenue of $5,338,783 for the 6 months is up by $338,439 on the same period last year as a result warmer than average temperatures and well below average rainfall. Consequently, greater volumes were delivered in the current 6 months, plus a large decrease in unused water charges for the water year ending 30 September 2019 compared to 30 September 2018.

Whilst 100% allocations of River Murray Water Rights was welcomed, the ongoing dry and high temperatures caused a huge spike in the cost of leasing River Murray Water Rights. The expense for the 6 months was $2,571,323, up $1,597,891 on the prior year and explaining the loss incurred for the 6 months.

Directors' report (continued)

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 15 and forms part of the directors' report for the six months ended 31 December 2019.

Signed in accordance with a resolution of the directors:

R I Chapman
Director

G M Davis
Director

Dated at Adelaide this 3rd day of March 2020

Condensed statement of financial position

As at 31 December 2019

	Note	31 Dec 2019 $	30 June 2019* $
ASSETS			
Current assets			
Cash and cash equivalents		728,717	4,273,688
Trade and other receivables		942,066	2,344,225
Other assets		4,887,019	2,777,738
Total current assets		**6,557,802**	**9,395,651**
Non-current assets			
Other assets		3,514,698	3,604,389
Property, plant and equipment	*8*	20,428,433	21,201,758
Intangible assets	*9*	15,779,589	15,985,391
Right of use assets		55,086	-
Total non-current assets		**39,777,806**	**40,791,538**
TOTAL ASSETS		**46,335,608**	**50,187,189**
LIABILITIES			
Current liabilities			
Trade and other payables		1,187,081	828,927
Employee benefits		34,447	161,320
Loans & borrowings		1,858,000	1,858,000
Lease liabilities		38,414	-
Contract liabilities		3,474,968	3,462,992
Total current liabilities		**6,592,910**	**6,311,239**
Non-current liabilities			
Lease liabilities		17,324	-
Loans & borrowings		7,284,050	8,642,000
Contract liabilities		12,747,473	14,467,318
Total non-current liabilities		**20,048,847**	**23,109,318**
TOTAL LIABILITIES		**26,641,757**	**29,420,557**
NET ASSETS		**19,693,851**	**20,766,632**
Equity			
Share capital		15,395,637	15,395,637
Retained earnings		4,298,214	5,370,995
TOTAL EQUITY		**19,693,851**	**20,766,632**

*The Company has applied AASB 16 from 1 July 2019. Under the transition method chosen, comparative information is not restated. See Note 4.

The condensed notes on pages 9 to 13 are an integral part of these condensed interim financial statements.

Condensed statement of profit and loss and other comprehensive income

For the six months ended 31 December 2019

	Note	31 Dec 2019 $	31 Dec 2018* $
Sale of water		5,338,783	5,000,344
Cost of sales		(7,343,758)	(5,200,431)
Gross loss		**(2,004,975)**	**(200,087)**
Infrastructure levies revenue		1,737,484	1,727,144
Other income		1,000	6
Administrative expenses		(640,409)	(615,000)
Results from operating activities		**(906,900)**	**912,063**
Finance income		4,403	29,705
Finance costs		(170,284)	(161,469)
Net finance costs		**(165,881)**	**(131,764)**
Profit/(loss) before income tax		**(1,072,781)**	**780,299**
Income tax expense	7	-	-
Profit/(loss) after tax		**(1,072,781)**	**780,299**
Total comprehensive profit/(loss) for the period		**(1,072,781)**	**780,299**

*The Company has applied AASB 16 from 1 July 2019. Under the transition method chosen, comparative information is not restated. See Note 4.

The condensed notes on pages 9 to 13 are an integral part of these condensed interim financial statements.

Condensed statement of changes in equity

For the six months ended 31 December 2019

	Attributable to owners of the Company		
	Share Capital	Retained earnings	Total equity
	$	$	$
Balance at 1 July 2018	15,395,637	4,540,143	19,935,780
Total comprehensive income for the period			
Profit for the period		780,299	780,299
Transactions with owners of the Company, recognised directly in equity	-	-	-
Balance at 31 December 2018*	**15,395,637**	**5,320,442**	**20,716,079**
For the six months ended 31 December 2019			
Balance at 1 July 2019*	15,395,637	5,370,995	20,766,632
Total comprehensive income for the period			
Loss for the period		(1,072,781)	(1,072,781)
Transactions with owners of the Company, recognised directly in equity	-	-	-
Balance at 31 December 2019	**15,395,637**	**4,298,214**	**19,693,851**

*The Company has applied AASB 16 from 1 July 2019. Under the transition method chosen, comparative information is not restated. See Note 4.

The condensed notes on pages 9 to 13 are an integral part of these condensed interim financial statements.

Condensed statement of cash flows

For the six months ended 31 December 2019

	Note	31 Dec 2019 $	31 Dec 2018* $
Cash flows from operating activities			
Cash receipts from customers		5,916,881	5,430,522
Cash paid to suppliers and employees		(7,924,312)	(6,389,542)
Cash (used)/generated in operations		(2,007,431)	(959,020)
Interest received		5,978	28,826
Interest paid		(180,124)	(135,759)
Net cash (used)/from in operating activities		**(2,181,577)**	**(1,065,953)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		181	-
Acquisition of property, plant and equipment	8	(5,625)	(1,548,802)
Acquisition of intangibles	9	-	(6,225,840)
Net cash used in investing activities		**(5,444)**	**(7,774,642)**
Cash flows from financing activities			
Proceeds from borrowings		500,050	8,000,000
Repayment of borrowings		(1,858,000)	-
Net cash from financing activities		**(1,357,950)**	**8,000,000**
Net decrease in cash and cash equivalents		**(3,544,971)**	**(840,595)**
Cash and cash equivalents at 1 July		4,273,688	2,602,217
Cash and cash equivalents at 31 December		**728,717**	**1,761,622**

*The Company has applied AASB 16 from 1 July 2019. Under the transition method chosen, comparative information is not restated. See Note 4.

The condensed notes on pages 9 to 13 are an integral part of these condensed interim financial statements.

Notes to the condensed interim financial statements

1. Reporting entity

Barossa Infrastructure Limited (the "Company") is a company domiciled in Australia. The annual financial report of the Company as at and for the year ended 30 June 2019 is available upon request from the Company's registered office at C/- Level 6, 81 Flinders Street Adelaide SA 5000 or at http://barossainfrastructure.com.au.

2. Basis of preparation

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

They do not include all of the information required for a complete set of AASB financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements as at and for the year ended 30 June 2019.

This is the first set of the Company's financial statements where AASB 16 has been applied. Changes to significant accounting policies are described in Note 4.

These interim financial statements were approved by the Board of Directors on the 3rd March 2020.

Going concern basis of preparation

The Interim Financial Report has been prepared on the going concern basis which contemplates that the Company will continue to realise its assets and extinguish its liabilities in the ordinary course of business.

The Company has net assets of $19,693,851 as at 31 December 2019, however has incurred a loss after tax of $1,072,781 for the half year ended 31 December 2019 and its current liabilities exceed its current assets by $35,108 as at half year end. Included in current liabilities is $3,474,968 of contract liabilities relating to revenue deferred in accordance with AASB 15 which will be recognised over the next 12 months and which does not require repayment.

Whilst Directors forecast the Company to incur a loss for the year ended 30 June 2020, mainly attributed to the significant increase in the cost of securing temporary River Murray Water Entitlements (notwithstanding an expected record delivery of water for the calendar year), Directors expect that the Company will have sufficient working capital available to continue as a going concern for at least the next 12 months.

The Company, pursuant to its banking agreement with Bendigo Bank, is required to satisfy certain financial covenants measured on an annual basis. Directors have determined that the Company may fail to satisfy its interest cover ratio as at 30 June 2020, due principally to the impact of the revised revenue recognition principles arising under AASB 15, together with the effects of the increased cost of securing temporary River Murray Water Entitlements noted above. The Company is in advanced discussions with Bendigo Bank to amend the metric for measuring the interest cover ratio such that the Company will likely satisfy this covenant for the period ended 30 June 2020, with Bendigo Bank having provided the Directors with written confirmation of its intention to amend this covenant prior to 30 June 2020. Accordingly, Directors anticipate the continuing compliance with its banking agreement.

3. Use of judgements and estimates

In preparing these interim financial statements, Management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2019.

Notes to the condensed interim financial statements (continued)

4. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended 30 June 2019 (the policy for recognising and measuring income taxes in the interim period is described in Note 7).

The Company has initially adopted AASB 16 *Leases* from 1 July 2019. A number of other new standards are effective from 1 July 2019, but they do not impact on the Company's financial statements.

The Company applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under AASB 17and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under AASB 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in AASB 16.

B. As a lessee

As a lessee, the Company leases assets associated with its business premises and storage facility. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under AASB 16, the Company recognises the right-of-use assets and lease liabilities for these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

i. Leases classified as operating leases under AASB 117

Previously, the Company classified property leases as operating leases under AASB 117. On transition, for theses leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 July 2019 (see Note 4(C)). Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application (the Company has applied this approach to its property leases;) or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Notes to the condensed interim financial statements (continued)

The Company used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 17, In particular, the Company:

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

ii. Leases classified as finance leases under AASB 117

The Company did not have any finance leases under AASB 117.

C. Impact on financial statements

.On transition to AASB 16, the Company recognised right of use assets and lease liabilities in the balance sheet as follows:

	1 July 2019
Right of use assets	74,274
Lease Liabilities	(77,561)
Interest	3,287

5. Financial risk management

The Company's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2019.

6. Seasonality of operations

In a normal irrigation season the majority of the water taken by customers occurs in the second half of the financial year. Sales for the first 6 months was $5,338,783, up 7% on the same period last year. This followed increases of 32% in 2018 and 98% in 2017 after the wet 2016 year. The increases are partly explained by the increase in the capacity of the scheme to 11GL and to the continued dry and warm winters and spring in 2018 and 2019. An additional 300ML of water over contracted volumes for the Water Transport Agreement was made available by SA Water to meet customer requirements. A total of 5,841ML was supplied in the 6 months, constituting some 53% of the customer contracted volumes.

7. Income tax expense

The Company recognised an income tax expense of $0 for the period ended 31 December 2019 (six months ended 31 December 2018: income tax expense $0). The Company does not expect to pay tax for the year ended 30 June 2020 due to an expected annual loss for tax purposes resulting from the write off of expenditure associated with the scheme expansion.

8. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2019, the Company did not acquire any assets (six months ended 31 December 2018: $29,401) and spent $5,625 associated with the scheme expansion and customer dashboard development (six months ended 31 December 2018: $1,519,401). Assets of $41,104 were sold or scrapped during the six months ended 31 December 2019, (six months ended 31 December 2018: $0) and resulted in a loss of $24,689 (six months ended 31 December 2018: $0).

Notes to the condensed interim financial statements (continued)

9. Intangible assets

During the six months ended 31 December 2019, the Company did not acquire any intangible assets (six months ended 31 December 2018: $6,225,840). No intangible assets were scrapped during the six months ended 31 December 2019, (six months ended 31 December 2018: $0). The Company elects to carry River Murray Water Rights at cost.

The Company performed impairment testing of intangibles during the six months ended 31 December 2019. As a result of this testing, the carrying amount of intangible assets was determined to be lower than its recoverable amount and therefore no impairment loss was recognised.

10. Loans and borrowing

The following loans and borrowings (non-current and current) were issued and repaid during the six months ended 31 December 2019:

	Currency	Interest rate nominal	Face value $	Carrying amount $	Year of maturity
Balance at 1 July 2019				10,500,000	
New issues					
Secured bank loan	AUD	3.54%	500,050	500,050	
Loan Repayment			(1,858,000)	(1,858,000)	
Balance at 31 December 2019				9,142,050	2027

11. Financial instruments

Carrying amount versus fair values

The fair value of all financial assets and liabilities approximate their carrying amount.

Notes to the condensed interim financial statements (continued)

12. Related parties

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and termination benefits. Key management personnel received total compensation of $333,170, including termination benefits paid to Paul Shanks on his retirement, for the six months ended 31 December 2019 (six months ended 31 December 2018: $216,126).

Other related party transactions

	Transaction value for the six months ended		Balance outstanding	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**30 June 2019**
	$	**$**	**$**	**$**
Expenses				
Geoff Davis & Associates – administrative services	81,245	87,225	7,716	12,974
Capital Strategies Pty Ltd – corporate advisory services	26,241	10,100	789	-
	107,486	106,948	8,505	12,974

All outstanding balances with these related parties are to be settled in cash within one month of the end of the reporting period. None of the balances are secured.

13. Commitments

The Scheme expansion is substantially complete and most of the system is operating. There are no major commitments, although there is minor expenditure still being incurred for the total completion of the project.

14. Subsequent events

There were no subsequent events to report.

Directors' declaration

In the opinion of the directors of Barossa Infrastructure Limited ('the Company'):

1. the condensed financial statements and notes set out on pages 9 to 13, are in accordance with the *Corporations Act 2001* including:
   (i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the six month period ended on that date; and
   (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001;
2. 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:

R I Chapman
Director

G M Davis
Director

Dated at Adelaide this 3rd day of March 2020

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Barossa Infrastructure Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Barossa Infrastructure Limited for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

3 March 2020

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Independent Auditor's Review Report

To the shareholders of Barossa Infrastructure Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Barossa Infrastructure Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Barossa Infrastructure Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed statement of financial position as at 31 December 2019;
- Condensed statement of profit or loss and other comprehensive income, Condensed statement of changes in equity and Condensed statement of cash flows for the Half-year ended on that date
- Notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Interim Period*** is the 6 months ended on 31 December 2019.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim 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 Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Barossa Infrastructure Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period 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.

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

KPMG

KPMG

Paul Cenko
Partner

Adelaide

3 March 2020