Frankland River Olive Company Limited

ABN 29 089 521 997

Financial Report

for the half-year ended 31 December 2010

CORPORATE INFORMATION

FRANKLAND RIVER OLIVE COMPANY LIMITED
ABN 29 089 521 997

Directors
C L Readhead - Chairman
P I Letari – Non Executive Director
D I Carr – Managing Director

Company Secretary

D I Carr

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Phone : (08) 9494 2044
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Solicitors
Allion Legal

Bankers
National Australia Bank Limited

Auditors
Stantons International

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Advanced Share Registry Services Ltd
150 Stirling Highway
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Frankland River Olive Company Limited shares are listed on the Australian Securities Exchange.
Code: FLR

Internet Address
www.froc.com.au

DIRECTORS' REPORT

This half-year report covers the consolidated entity comprising Frankland River Olive Company Limited and its subsidiaries (the Group).

DIRECTORS

The names of the directors of the company in office during the half-year and until the date of this report are:

Paul Ivo Letari (Non-executive Director)
David Ian Carr (Managing Director)
Craig Leslie Readhead (Chairman)

Directors were in office for the entire period unless otherwise specified.

REVIEW AND RESULTS OF OPERATIONS

Corporate

On the 22 of December 2010 the Company announced that it had entered into an agreement with Toscana (WA) Pty Limited ("**Toscana**"), a company associated with Mr Paul Letari, a director of the Company. Under the agreement Toscana will make a bid for all of the Company's ordinary shares that it does not already own ("**Offer**"), at an offer price of $0.012 per share. The Company and Toscana varied the loan agreement between the Company and Toscana dated 24 November 2010, so that Toscana lent the Company a total of $200,000 in December and January. Upon acceptance of its takeover offer by at least 28.91% of the Company's shareholders, provide the Company with the balance of the loan funds of $800,000. These funds will be used to payout the loan from Jingie Pty Ltd and for working capital purposes.

The Company will as soon as practicable in the New Year after the Offer has closed undertake a rights issue to raise approximately $2.75m. The issue will be partially underwritten (on normal terms and conditions) by Toscana to $2,102,512, with the funds raised to be applied, amongst other things, to repay loans to Toscana totalling $2,102,512.

Operations

The Company's harvest was completed during the second week of August with a total production of approximately 540,000 litres. During November pruning of 30% of the Parmelia grove was completed.

The Company's continued efforts to reduce costs are now fulfilling its commitment to bring the Company to profitable operations. The half year saw the continued implementation of these strategies.

Marketing

Packaged domestic sales of Jingilli for the half year were 12% above that of last years for the months July to December.

During the December half, Woolworths doubled the distribution of the Company's two litre Jingilli Devine Cask and in January commenced core ranging of a new Jingilli line, a two litre Mild'n'Fruity Cask. It is expected with the new product line that there will be a significant increase in domestic sales. All the Company's retail product lines are now competitively priced reducing the need for promotional activity, and resulting in a doubling the baseline sales and a lift in the gross profit.

With the retail chains gaining momentum the Company is now adding to its focus, key accounts, to increase business in this market.

The Company continues to support the awareness campaign implemented by the Australian Olive Association. It is expected that the new Australian and New Zealand food standards for labelling of Extra Virgin Olive Oil will make the playing field more level which will assist the sales of Jingilli.

During the half the company sold approximately 150,000 litres of its Extra Virgin Olive Oil production in bulk to domestic and international customers. The unfavourable currency exchange rate of the Australian dollar as compared to the euro reduced the attractiveness of the Company's historical market of Europe. The high Australian dollar compared to the Euro also makes packaged export sales more difficult as European suppliers continue to be able to provide more competitive pricing.

Financial

The consolidated entity has incurred a net loss after tax for the half-year ended 31 December 2010 of $89,086 (December 2009:$1,218,060). The current half year net loss included depreciation expenses of $260,706 (December 2009: $304,515). As at 31 December 2010, the consolidated entity had net assets of $21,102,731 (June 2010: $21,191,817). The consolidated net cash outflow from operating activities was ($673,803) (December 2009: $232,428). During the period trade and other payables was reduced by $621,759.

During the half year the Company paid out a shareholder loan of $125,000 and borrowed $600,000 from Toscana under the funding arrangements described above and $100,000 from Chemco Pty Ltd.

EVENTS SUBSEQUENT TO BALANCE DATE

Since balance date Toscana (WA) Pty Ltd, an entity associated with Mr Letari, one of the Company's directors, has provided a further $100,000 loan under the terms described above. As part of the takeover bid from Toscana announced in December the bidders and target statement were sent to shareholders during February.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 16 which forms part of this report.

Signed in accordance with a resolution of the directors.

David Carr
Managing Director
Perth, 28th February 2011

CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
HALF YEAR ENDED 31 DECEMBER 2010

	Notes	2010 $	2009 $
Revenue	3	2,062,003	2,442,253
Cost of sales		(1,191,028)	(2,404,456)
Gross Profit/(Loss)		870,975	37,797
Other income	4	61,632	133,355
Distribution and logistics cost		(228,035)	(291,172)
Marketing and promotion costs		(190,688)	(208,823)
Corporate and administrative expenses		(274,618)	(485,744)
Finance costs	5	(344,042)	(222,796)
Other expenses	6	980	(6,222)
Depreciation		(260,706)	(304,515)
(Loss) before income tax expense		**(364,502)**	**(1,348,120)**
Income tax benefit/(expense)	7	275,416	130,060
Net (Loss) attributable to the members of the parent		**(89,086)**	**(1,218,060)**
Other comprehensive income		-	-
Income tax on other comprehensive income		-	-
Total other comprehensive income		-	-
Total comprehensive loss attributable to the members of the parent		**(89,086)**	**(1,218,060)**
Basic and diluted loss per share		**(0.05)**	**(0.66)**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Dec 2010	June 2010
Assets		**$**	**$**
Cash and cash equivalents	8	20,049	11,548
Trade and other receivables		605,179	572,554
Inventories	9	1,134,682	886,363
Prepayments		89,068	69,063
Total current assets		1,848,978	1,539,528
Other Assets		23,265	23,265
Property, plant and equipment		10,788,813	11,057,397
Olive trees	10	15,824,692	15,824,692
Deferred tax assets		1,023,291	1,015,292
Total non-current assets		27,660,061	27,920,646
Total assets		**29,509,039**	**29,460,074**
Liabilities			
Trade and other payables		1,006,879	1,628,638
Loans and borrowings	12	6,913,554	6,365,781
Provisions		58,577	63,200
Total current liabilities		7,979,010	8,057,619
Loans and borrowings	12	388,429	162,157
Provisions		38,869	48,481
Total non-current liabilities		427,298	210,638
Total liabilities		**8,406,308**	**8,268,257**
Net assets		**21,102,731**	**21,191,817**
Equity			
Issued capital	11	41,153,435	41,153,435
Accumulated losses		(20,050,704)	(19,961,618)
Total equity attributable to equity holders of the Company		**21,102,731**	**21,191,817**

The above statement of financial posiotion should be read in conjunction with the accompanying notes

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

HALF YEAR ENDED 31 DECEMBER 2010

Consolidated	**Issued capital $**	**Accumulated losses $**	**Total equity $**
At 1 July 2009	41,153,435	(18,129,369)	23,024,066
Total comprehensive income for the period:			
Net loss for the period	-	(1,218,060)	(1,218,060)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	(1,218,060)	(1,218,060)
Transaction with owners recorded directly into equity:			
Contributions by owners			
Total contributions by owners			
At 31 December 2009	41,153,435	(19,347,429)	21,806,006

Consolidated	**Issued capital $**	**Accumulated losses $**	**$**
At 1 July 2010	41,153,435	(19,961,618)	21,191,817
Total comprehensive income for the period:			
Net loss for the period	-	(89,086)	(89,086)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	(89,086)	(89,086)
Transaction with owners recorded directly into equity:			
Contributions by and distributions to owners		-	
Total contributions by/ distributions to owners		-	
At 31 December 2010	41,153,435	(20,050,705)	21,102,731

The above statement of changes in equity should be read in conjunction with the accompanying notes

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

HALF YEAR ENDED 31 DECEMBER 2010

	Notes	2010	2009
		$	$
Cash flows from operating activities			
Cash receipts from customers		2,296,694	2,736,239
Cash paid to suppliers and employees		(2,775,774)	(2,645,225)
Grants received		39,425	87,419
Interest received		114	15
Finance costs paid		(243,442)	(207,176)
R&D rebate received		-	261,156
Other Income		9,180	-
Net cash used in operating activities		(673,803)	232,428
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		11,864	9,050
Payments for property, plant and equipment		(3,009)	(46,990)
Net cash used in investing activities		8,855	(37,940)
Cash flows from financing activities			
Proceeds from share issue			-
Proceeds from borrowings		1,100,000	775,000
		-	
Repayment of borrowings		(426,554)	(953,863)
Net cash from financing activities		673,446	(178,863)
Net increase/(decrease) in cash and cash equivalents		8,501	15,625
Cash and cash equivalents at beginning of year		11,548	(23,545)
Cash and cash equivalents at end of year	8	**20,049**	**(7,920)**

Reconciliation of cash and cash equivalents

Cash balance comprises:		
Cash at bank and on hand	20,049	96
Bank overdraft	-	(8,016)
	20,049	**(7,920)**

The above cashflow should be read in conjunction with the accompanying notes

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

HALF YEAR ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

Frankland River Olive Company Limited (the Company) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated half year report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries, together referred to as the "Group".
The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at Unit 1/ 58 Discovery Drive, Bibra Lake, Western Australia or at www.froc.com.au .

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with requirements of the Corporations *Act* 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting, Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Frankland River Olive Co and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

Certain comparative amounts have been reclassified to conform with the current periods presentation.

Accounting Standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of income statement with statement of comprehensive income, items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- the adoption of the single statement approach to the presentation of the statement of comprehensive income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third statement of financial position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in

accounting policy or material reclassification of items.

Operating Segments

From 1 July 2010, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position.

Business Combinations and Consolidation Procedures

Revised AASB 3 is applicable prospectively from 1 July 2010. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to affect the Group, include the following:

- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation. Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit or loss unless the change relates to circumstances which existed at acquisition date.

- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.

- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.

- If the Group holds less than 100% of the equity interests in an acquiree and the business combination results in goodwill being recognised, the Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group elects which method to adopt for each acquisition.

- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

(b) Going Concern

The consolidated entity has incurred a net loss after tax for the half-year ended 31 December 2010 of $89,086 (December 2009:$ 1,218,060). The consolidated entity experienced net cash outflows from operating activities of $673,803 (December 2009: ($232,428)). As at 31 December 2010, the consolidated entity had net assets of $21,102,731 (June 2010: $21,191,817).

The directors have prepared the financial statements of the consolidated entity on a going concern basis. The Company continues to reduce its operating expense and increase its revenue. The Company continues to review its strategies to bring the Company more quickly to profitability. As previously considered this may include a sale of an olive grove, to payout the Company’s remaining debts so that further focus can be put into its sale and marketing activities. In addition, the Company may require further loans from the Company’s major shareholder and Directors whilst these strategies are implemented.

3. REVENUE

	2010	2009
	$	$
Revenue from sale of olive products	2,061,133	2,426,328
Revenue from trading and contracting services	870	15,925
	2,062,003	2,442,253

4. OTHER INCOME

	2010	2009
	$	$
Interest income	114	16
Grants received	39,425	55,586
Income from debt forgiven	12,913	-
Other	9,180	77,753
	61,632	133,355

5. FINANCE COSTS

	2010	2009
	$	$
Interest expense		
Bills of exchange	121,918	92,745
Finance lease	28,658	42,651
Related party loans	100,600	-
Other interest	62,435	36,354
	313,611	171,750
Bank charges and facility fees	23,455	33,409
Net foreign exchange loss	6,976	17,637
	344,042	222,796

6. OTHER EXPENSES

	2010	2009
	$	$
Impairment of plant and equipment and losses on disposal	(980)	6,222
	(980)	6,222

7. INCOME TAX

The major components of income tax benefit for the half-year ended 31 December 2010 and 31 December 2009 are:

Consolidated Income Statement	**31 December 2010**	31 December 2009
	$	$
Current income tax		
Current period income tax charge	**-**	-
Research and development rebate received or receivable	**267,417**	261,156
Deferred income tax		
Relating to origination and (reversal) of temporary differences	**7,999**	(131,096)
Income tax benefit reported in the income statement	**275,416**	130,060

The Group has $13,825,372 of deferred tax assets relating to carried forward tax losses which have not been brought to account as the utilisation of these assets is not yet probable.

8. CASH AND CASH EQUIVALENTS

For the purposes of the cashflow statement, cash includes cash on hand and at bank net of outstanding bank overdrafts. Cash at the end of the half year as shown in the cashflow statement is reconciled to the balance sheet as follows:

	Dec 2010	**Jun 2010**
	$	**$**
Cash on hand	56	88
Cash at bank	19,993	11,460
Cash and cash equivalents	20,049	11,548
Cash and cash equivalents in the statement of cash flows	20,049	11,548

9. INVENTORIES

	Dec 2010	**Jun 2010**
	$	**$**
Finished goods	1,087,220	685,244
Packaging materials	46,151	48,624
Goods in transit	1,311	152,495
	1,134,682	886,363

(a) Finished goods comprise extra virgin olive oil in both packaged and bulk forms.

10. OLIVE TREES

	Dec 2010 $	June 2010 $
Olive trees at fair value		
Fair value at the beginning of the year	15,824,692	15,824,692
Net increment/(decrement) in fair value	-	-
Fair value at the end of the year	15,824,692	15,824,692

Management has reviewed the carrying value of the olive trees as at 31 December 2010 but not tested for impairment due to the lack of impairment indicators. The value which is based on the bank valuation done in September 2008, has been carried forward from 30 June 2010 and will be tested for impairment as at 30 June 2011.

11. SHAREHOLDERS' EQUITY

(a) Issued capital

	Number of shares	Value $
Opening balance – as at 1 July 2010	183,082,645	41,153,435
Movement during the period	-	-
Closing balance – as at 31 December 2010	183,082,645	41,123,435

(b) Dividends paid or proposed

No dividends have been paid or proposed for the current period or the corresponding period in the previous year.

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12. LOANS AND BORROWINGS

The following loans and borrowings (current and non-current) were issued and repaid during the six months ended 31 December 2009 and 31 December 2010.

	Interest rate	Carrying Amount	Year of maturity
Balance at 1 July 2009		6,181,855	
New issues			
Loan from third party	10.0%	1,330,000	2010
Interest accrued on loans from third parties	-	113,767	2010
Insurance premium funding	3.67%	123,002	2010
Repayments			
Bank overdraft	17.83%	(16,079)	2009
Bank bill facility		(750,000)	2009
Insurance premium funding	2.83%	(107,679)	2009
Finance lease liabilities	7.81%	(337,005)	2009
Related Party Loans		(9,923)	
Balance at 30 June 2010		6,527,938	

	Interest rate	Carrying Amount	Year of maturity
Balance at 1 July 2010		**6,527,938**	
New issues			
Loan from third party	**10.00%**	**700,000**	
Interest accrued on loans from Third party		**100,600**	
Finance Lease liabilities		**400,000**	
Insurance premium funding		**94,335**	
Repayments			
Insurance premium funding		**(35,432)**	**2011**
Finance lease liabilities		**(344,859)**	**2010-2014**
Loan from third party		**(140,599)**	
Balance at 31 December 2010		**7,301,983**	

Included in current interest bearing liabilities is $4,000,000 bank bill facility with an expiry date of 31 December 2011. Covenants imposed by the bank require a minimum interest cover of 2.5 times and the financial results of the Company not to deviate adversely by greater than 10% from the forecast provided to the bank on 30 January 2009. The Company was in breach of its banking convenants at 31 December 2010 and therefore the bank bill facility has been treated as current.

13. SEASONALITY OF OPERATIONS

The Group is subject to seasonality of olive production operations with harvest occuring during the second half of the financial year. This does not have a material impact on costs.

14. CONTINGENT LIABILITIES

The contingent liabilities of the entity have not changed from those disclosed in the 2010 Annual Report.

15. SUBSEQUENT EVENTS

Since balance date Toscana (WA) Pty Ltd, an entity associated with Mr Letari, one of the Company's directors, has provided a further $100,000 loan under the terms described in the directors report. As part of the takeover bid from Toscana announced in December 2010, the bidders and target statement were sent to shareholders during February 2011.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Frankland River Olive Company Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity set out on pages 4 to 15 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and the performance for the half-year ended on that date of the consoldiated entity; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

David Carr
Managing Director
Perth, 28th February 2011