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Frankland River Olive Company Limited  
ABN 29 089 521 997

Annual report  
30 June 2011

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# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

The directors present their report for the financial year ended 30 June 2011 and the auditor's report thereon.

### Directors

The directors of the Company at any time during or since the end of the financial year are:

Craig Leslie Readhead  
(Non-Executive Chairman)  
*B.Juris, LL.B, AICD*

Craig Readhead was appointed as a non-executive Director on 13 September 1999 and as Chairman on 31 March 2009. He brings over twenty years of corporate law experience to oversee capital raising and compliance matters. Craig is a partner in the law firm Allion Legal (formerly Pullinger Readhead and Lucas). Craig has also been a director of the following listed companies in the past 3 year period; Galaxy Resources Ltd, Heron Resources Ltd, Mount Gibson Iron Ltd, and India Resources Ltd.

David Ian Carr  
(Managing Director)  
*B.Com*

David Carr was appointed Managing Director on 14 July 2003. He was previously in the position of Project Manager and has been responsible for the planning and management of the Frankland River Olive Project from its inception. David has not held any directorships in other listed companies during the last 3 years.

Ivo Paul Letari  
(Non-Executive Director)

Paul Letari was appointed as a non-executive Director on 31 March 2009. Paul's main business interests are investments in agricultural and industrial property. Paul's early working life began in retail grocery shops in Perth and he has over 45 years business experience. Paul has not held any directorships in other listed companies during the last 3 years.

### Company Secretary

David Ian Carr  
*B.Com*

David Carr was appointed Company Secretary on 13 June 2008. David also holds the position of Managing Director of the Group.

### Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Number of meetings attended	Number of meetings eligible to attend
CL Readhead	5	5
DI Carr	5	5
IP Letari	5	5

### Committee Membership

The Group did not have any committees in place during the financial year. Refer to the Corporate Governance Statement for further details.

# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

### Directors' interests

The relevant interest of each director in the shares of the Company and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares fully paid
CL Readhead	2,292,488
DI Carr	5,091,555
I P Letari	127,486,749

### Share options

The Company does not have any options on issue.

### Corporate Structure

Frankland River Olive Company Ltd is a company limited by shares that is incorporated and domiciled in Australia.

### Principal Activities

The principal activities during the year of the entities within the consolidated entity were:

- Operating fully irrigated olives groves; and
- Production, marketing and sale of olive products.

### Dividends

No dividends were paid or declared during the current year or the previous year. The Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2011.

### Review and results of operations

#### Corporate

During the 2011 financial year, there were no changes in the corporate structure of the Company. On the 22<sup>nd</sup> of December 2011, the Company's second largest shareholder Toscana announced a takeover offer at \$0.012, this was completed on the 5<sup>th</sup> of July 2011 and Toscana now hold 69.63% of the issued capital of the Company. During the year the Company borrowed, net of repayments, \$815,154 from its major shareholders. The Company intends now to complete a rights issue at \$0.012 as announced during June this year. The Company continues to review its corporate strategies with the view to further reduce its debt as it moves to profitability.

#### Operations

##### 2011 Harvest

The harvest is mostly completed with some small areas to be harvested using the Company's shaker harvester. The 2011 production so far is 589,000 litres, up from last year's production of 545,000 litres and the Company's largest extra virgin olive oil harvest. The 2011 year has been one of the best years for rainfall since the Company's inception, and it is anticipated that the increased water availability will assist in the Company reaching its maximum olive production.

#### Marketing & Distribution

The year saw the further expansion of the marketing and distribution of the Company's Jingilli brand of Extra Virgin Olive Oil (EVOO), with Jingilli now being one of the top 3 selling brands of Australian EVOO. During the year the Company continued to market and sell EVOO on behalf other Australian EVOO producers.

# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

### Review and results of operations (*continued*)

#### New Products

During the year the Company added to its range, a new Fruity and Mild Jingilli 2 litre cask of EVOO which has been ranged into Coles Australian stores as well as the 250ml Jingilli bottle. Also a 500ml bottle of the Bellup Grove was ranged into Franklins stores in New South Wales.

#### Financial

Revenues were affected by a strong Australian dollar making imports cheaper and exports less competitive. The aggressive price cutting from the two major retail chains has placed greater pressure on all suppliers to those chains.

#### Interest Expenses

Interest Costs were up 16.5% during the year reflecting the increase in the Toscana WA Pty Ltd "Toscana" loan which will be converted to equity under a rights issue. Lease commitments during the year were reduced from \$542,862 to \$482,486.

#### Tax Benefit

For the financial year ended 30 June 2011, the company recognised an income tax benefit of \$312,964.

#### Significant changes in the state of affairs

Other than that noted above there have been no significant changes in the state of affairs of the Company.

#### Significant events after the balance date

On the 14<sup>th</sup> of July 2011, the Company paid \$28,102, the final amount owed to Chemco Pty Ltd. On the 3rd of September 2011, the Company borrowed \$100,000 from Toscana to be repaid from its rights issue.

#### Likely developments and expected results

The Directors foresee that the 2012 financial year will be a period of ongoing development of the Company's core activities, during which:

- the established olive groves will continue to grow and develop;
- there will be increased bulk Extra Virgin Olive Oil "EVOO" trading on behalf of other Australian EVOO producers;
- there will be further development of the Jingilli brand in both domestic and export markets; and
- yields will continue to increase as the trees move closer to maturity.

#### Environmental regulations and performance

The operations of the Group are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Group. The Group has continued to maintain and improve the surrounding environment of the olive grove. During the year there was continued planting of native trees and additional erosion control constructed. The Group has been allocated by the Waters and Rivers Commission, two licenses to take water. The Group continues to meet its reporting obligations under these licenses and there have been no known significant breaches of the terms and conditions of the licences.

# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

### Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for Directors and executives of Frankland River Olive Company Limited.

#### Remuneration Policy

The Company's remuneration policy aims to attract and maintain talented and motivated Directors and employees so as to encourage enhanced performance of the Group. The objective of the structure of the remuneration of Directors and Executives is to reinforce the short and long term goals of the Group, and to provide a common interest between management and shareholders.

The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the Managing Director and other key management personnel.

#### Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive Director remuneration is separate and distinct.

At the date of this report, there were no unissued ordinary shares under option.

#### Non-Executive Director Remuneration

##### *Objective*

The Board sets non-executive Director remuneration at a level to attract and maintain talented and motivated Directors so as to encourage enhanced performance of the Group.

##### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The shareholders ratified at the 2006 Annual General Meeting the Company paying non-executive Directors' fees up to a maximum of \$200,000 per annum. The current policy is to pay the Chairman \$50,000 per annum and the other non-executive Directors \$35,000 per annum. Mr Paul Letari elected not to receive his non-executive Director salary.

#### Executive and Executive Director Remuneration

##### *Objective*

The Group aims to attract and maintain talented and motivated executives so as to encourage enhanced performance of the Group.

##### *Structure*

Key Management Personnel are remunerated by way of a salary, commensurate with their required level of services. The Board sets Key Management Personnel remuneration structures. Remuneration consists of fixed remuneration and variable short term incentives.

# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

### Remuneration Report (Audited) (continued)

#### Fixed remuneration

##### Objective

Fixed remuneration is reviewed periodically by the Board, in order to assess the individual performance of Key Management Personnel and the relevant comparison remuneration in the market.

##### Structure

Key Management Personnel are remunerated by way of a salary.

#### Variable short term incentive remuneration

##### Objective

Variable short term incentive remuneration is reviewed periodically by the Board, in order to assess the individual performance of Key Management Personnel, as to whether they have exceeded expectations or met specific set targets.

##### Structure

Variable short term incentive remuneration is by way of cash bonus.

#### Employment Details of Members of Key Management Personnel

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance based.

	Position held as at 30 June 2011 and any change during the year	Contract details (duration & termination)	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
			Non-salary cash-based incentives %	Shares %	Options \$	Fixed Salary/ Fees %	Total %
<b>Key Management Personnel</b>							
C Readhead	Chairman (Non-executive) from 31 March 2009. Previously non-executive Director.	No fixed term or notice required to terminate.	-	-	-	100	100
D Carr	Managing Director/Company Secretary	Contract commenced on 1 July 2005 terminates on 31 December 2011. 2 months notice required to terminate. On termination by the Company, the Company will pay Mr Carr 1 month's salary for each year of service to a maximum of 9 months salary.	-	-	-	100	100
P Letari	Director (Non-executive) Commenced 31 March 2009	No fixed term or notice required to terminate.	-	-	-	100	100

# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

### Remuneration Report (Audited) (continued)

#### Remuneration Details for the Year Ended 30 June 2011

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Company:

	Short Term		Post Employment Benefits	Share Based Payments	Termination Benefits	Total
	Salary/ Fees	Other benefits	Superannuation benefits	Shares or Options		
	\$	\$	\$	\$	\$	\$
<i>Directors</i>						
<b>Mr Craig Readhead – 2011</b>	<b>*50,000</b>	-	-	-	-	<b>50,000</b>
Mr Craig Readhead – 2010	50,000	-	-	-	-	50,000
<b>Mr David Carr – 2011</b>	<b>**152,692</b>	<b>25,000</b>	<b>13,742</b>	-	-	<b>191,434</b>
Mr David Carr – 2010	228,462	25,000	20,562	-	-	274,024
<b>Mr Paul Letari – 2011</b>	<b>***-</b>	-	-	-	-	-
Mr Paul Letari – 2010	35,000	-	-	-	-	35,000
<b>Total compensation – 2011</b>	<b>202,692</b>	<b>25,000</b>	<b>13,742</b>	-	-	<b>241,434</b>
Total compensation – 2010	313,462	25,000	20,562	-	-	359,024

\* A total of \$114,582 (excl. GST) remains payable as at 30 June 2011 (2010: \$64,582).

\*\* A total of \$24,747 remains payable as at 30 June 2011 (2010: \$44,199).

\*\*\* A total of \$43,750 (excl. GST) remains payable as at 30 June 2011 (2010: \$43,750).

#### Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance based as part of their remuneration package.

#### Cash Bonuses, Performance Related Bonuses and Share Based Payments

No members of key management personnel received or were granted cash bonuses, performance related bonuses or share based payments during the financial year (2010: nil).

#### Options and Rights Granted

There were no options or rights granted to key management personnel during the financial year (2010: nil).

#### Indemnification and insurance of directors

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the Directors and Officers of Frankland River Olive Company Ltd against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of Sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

Under the terms of the policy the amount paid is confidential.



# Frankland River Olive Company Limited

## Auditors' Independence Declaration

For the year ended 30 June 2011

### Auditor's independence declaration

The Lead auditor's independence declaration is set out on page 9 and forms part of the directors' report for the financial year ended 30 June 2011.

### Non-audit services

Stantons International does not provide non-audit services to the Company.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



DI Carr

Director

Perth, 30<sup>th</sup> September 2011

30 September 2011

Board of Directors  
Frankland River Olive Company Ltd  
Unit 1/58 Discovery Drive  
Bibra Lake, Western Australia 6160

Dear Directors

**RE: FRANKLAND RIVER OLIVE COMPANY LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Frankland River Olive Company Limited.

As Audit Director for the audit of the financial statements of Frankland River Olive Company Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**



**John Van Dieren**  
**Director**

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# Frankland River Olive Company Limited

## Corporate Governance Statement

The Board of Directors has responsibility for the overall corporate governance of the Company and for protecting the rights and interests of the stakeholders in the Company. The Directors and management are committed to conducting the Company's business ethically and in accordance with high standards of corporate governance. This statement sets out the principle features of the Company's corporate governance regime and compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

For further information on the corporate governance policies adopted by Frankland River Olive Company Limited, refer to our website: [www.froc.com.au](http://www.froc.com.au)

### Board of Directors

#### Roles and Functions of the Board and Senior Management

(ASX Corporate Governance Principles and Recommendations 1.1, 1.3, 2.3)

The roles of Chairman and Managing Director are not exercised by the same individual.

The Managing Director's responsibilities include the overall operational, business management and financial performance of the Company, while also managing the Company in accordance with the strategy, plans and policies approved by the Board to achieve agreed goals.

The Board has adopted a charter that sets out the functions and responsibilities of the Board within the governance structure of the Company. The conduct of the Board is also governed by the Constitution of the Company. The primary responsibilities of the Board are:

- input into and final approval of management's development of corporate strategy and performance objectives;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- the review and adoption of annual budgets for the financial performance of the Company and monitoring of the results;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- oversight of the Company, including reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- approving and monitoring financial and other reporting;
- monitoring and influencing the culture, reputation and ethical standards of the Company;
- monitoring the Board composition, Director selection and Board processes and performance;
- approving key executive appointments and ensuring executive succession planning; and
- reviewing and approving executive remuneration.

Senior executives reporting to the Managing Director have their roles and responsibilities defined in position descriptions.

The Company's Board Charter is available on its website.

#### Board Composition and Size

(ASX Corporate Governance Principles and Recommendations: 2.1, 2.2, 2.3, 2.6)

During the financial year ended 30 June 2011, the Company's Board comprised of the following Directors:

Name	Position	First Appointed
Craig Readhead	Independent Non-Executive Chairman since 31 March 2009, Independent Non-Executive Director since 1999	1999
David Carr	Managing Director	2003
Paul Letari	Non-Executive Director	2009

# Frankland River Olive Company Limited

## Corporate Governance Statement

The composition of the Board is set based on the following factors:

- the Company's constitution provides for the number of Directors to be not less than three and not more than five as determined by the Directors from time to time.
- the Chairman of the Board should be an independent non-executive Director.
- the Board should comprise a majority of independent non-executive Directors.
- the Board should comprise Directors with a broad range of expertise and knowledge.

Information on the skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their term of office are detailed in the Directors' Report.

The Board meets at least on a quarterly basis. All available information in connection with items to be discussed at a meeting of the Board is provided to each Director before the meeting. Details of the number of Board meetings and the attendance of Directors are detailed in the Directors' Report. Directors are expected to adequately prepare for meetings and attend and participate at Board meetings.

The Company has induction procedures designed to allow new Board appointees to participate fully and actively in Board decision-making at the earliest opportunity. The induction program enables Directors to gain an understanding of:

- the Company's financial, strategic, operational and risk management position;
- their rights, duties and responsibilities; and
- the role of the Board committees (where applicable).

During the financial the Company did not comply with *Recommendation 2.1: A majority of the Board should be independent directors*, for the reasons set out below.

Mr Letari, who was appointed as a non-executive Director on 31 March 2009 is not considered independent as he is a substantial shareholder of the Company.

The Directors are satisfied that the structure of the Board is appropriate for the size of the Company, the nature of its operations and its current financial standing. The structure and composition of the Board is subject to ongoing review.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors' Report.

### **Independence of Directors**

(ASX Corporate Governance Principles and Recommendations: 2.1, 2.6)

As mentioned above, the Company does not have a majority of independent Directors.

An independent Director is a non-executive Director (i.e. is not a member of management) who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a professional adviser for which Frankland River Olive Company is a material client or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company other than as a Director of the Company.
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

# Frankland River Olive Company Limited

## Corporate Governance Statement

In determining whether a Director is independent the Board considers its non-executive Directors' previous and current relationships with the Company's customers, suppliers, consultants and professional advisers and whether any of those relationships could reasonably be perceived to materially interfere with or compromise their independent judgment.

### Access to Information

(ASX Corporate Governance Principles and Recommendations: 2.6)

The Board is provided with the information it needs to efficiently discharge its responsibilities.

Directors are encouraged to have direct communications with management and other employees within the Company to facilitate the carrying out of their duties.

The Board or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior approval from the Chairman. A copy of any such advice received is made available to all members of the Board.

### Remuneration and Performance

#### Board Remuneration and Performance Review

(ASX Corporate Governance Principles and Recommendations: 2.5, 2.6, 8.2, 8.3)

Non-executive Directors are remunerated by way of fees (in the form of cash and statutory superannuation contributions). Non-executive Directors do not receive bonus payments, termination or retirement benefits (other than statutory superannuation contributions).

The maximum aggregate remuneration approved by shareholders for non-executive Directors is \$200,000 per annum. The Board sets the individual non-executive Directors' fees within the limit approved by shareholders. The current policy is to pay the Chairman \$50,000 per annum and the other non-executive Directors \$35,000 per annum each. Mr Paul Letari elected not to receive his non-executive Director salary for the 2011 financial year.

The Board has a process to review and evaluate the performance of the Board. The process involves consideration of all of the Board's key areas of responsibility.

There was no formal performance review of the Board during the financial year due to a substantial change in the composition of the Board, including a change in Chairman of the Board, the resignation of the previous Chairman and the appointment of a new non-executive Director.

#### Executive Remuneration and Performance

(ASX Corporate Governance Principles and Recommendations: 1.2, 1.3, 8.2)

Frankland River Olive Company has remuneration policies that attract and maintain talented and motivated key management personnel so as to encourage enhanced performance of the Company. The objective of the structure of the remuneration of key management personnel is to reinforce the short and long term goals of the Company, and to provide a common interest between key management personnel and shareholders.

Key management personnel remuneration consists of fixed remuneration and variable short term remuneration. Fixed remuneration is reviewed periodically by the Board in order to assess the individual performance of key management personnel and the relevant comparison remuneration in the market. Variable short term incentive remuneration is reviewed periodically by the Board in order to assess the individual performance of key management personnel, as to whether they have expectations or met specific set targets.

Individual performance is assessed in an annual performance review and is reviewed based on comprehensive performance matrix which includes evaluation of technical development and competencies, project management and team skills and personal attributes.

# Frankland River Olive Company Limited

## Corporate Governance Statement

A performance evaluation of key management personnel took place in the financial year in accordance with the process as disclosed above.

Termination payments, if any, for key management personnel are to be agreed in advance, including detailed provisions in case of early termination, except for removal for misconduct. Consideration is given to the consequences of an appointment not working out, and to the costs and other impacts of early termination.

### Board Committees

(ASX Corporate Governance Principles and Recommendations: 2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 8.1, 8.3)

At the beginning of the financial year the Board disbanded its combined audit and compliance, remuneration and nomination committee. The decision was made based on the size and composition of the Board (an Independent Non-Executive Chairman, a Non-Executive Director and a Managing Director), and the operations of the Company, which were not sufficient to warrant the retention of the combined committee to assist the Board in fulfilling its duties as the composition of the combined committee would not meet the requirements of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. However, in the future, should the size and composition of the Board and the nature of the operations of the Company warrant it, the Board will give consideration to the re-establishment of the combined committee.

Accordingly, during the financial year the Company did not comply with *Recommendation 2.4: The Board should establish a nomination committee, Recommendation 4.1: The Board should establish an Audit Committee, Recommendation 4.2: Structure the audit committee so that it consists of only non-executive directors, consists of a majority of independent directors, is chaired by an independent director who is not chairperson of the Board and has at least three members, Recommendation 4.3: The audit committee should have a formal charter and Recommendation 8.1: The Board should establish a remuneration committee*, for the reasons set out above.

However, matters typically dealt with by the abovementioned combined committee and the functions of that combined committee are dealt with by the full Board.

The Board meets with the external auditor at least twice a year to review the adequacy of the existing external audit arrangements, with particular emphasis on scope, quality and independence of the audit. The external auditor is required to report to the Board on its findings in relation to annual audits and half-yearly audit reviews as part of the process of the review and sign-off by the Board. The auditor will be rotated as is statutorily required.

### Code of Ethics and Conduct

(ASX Corporate Governance Principles and Recommendations: 3.1, 3.3)

The Board supports the Code of Conduct issued by the Australian Institute of Company Directors. Specifically, the Company requires the following:

- a Director must act honestly, in good faith and in the best interests of the Company as a whole;
- a Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office;
- a Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole;
- a Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the Company;
- a Director must not make improper use of information acquired as a Director;
- a Director must not take improper advantage of the position of Director;
- a Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company;
- a Director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board of Directors;
- confidential information received by a Director in the course of the exercise of directorial duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or the person from whom the information is provided, or is required by law;
- a Director should not engage in conduct likely to bring discredit upon the Company;
- a Director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with the principles of this Code;

# Frankland River Olive Company Limited

## Corporate Governance Statement

- a Director must report any unlawful/unethical behaviour to the Board or, if appropriate, to relevant authorities. Should unethical/unlawful behaviour on the part of an employee be reported to a Director, then the matter must be raised with the Chairman and the Board and objectively investigated; and
- a Director must at all times support the fair dealing by the Company's employees with its customers, suppliers, competitors and fellow employees.

In addition, the Company has a Corporate Code of Conduct, which addresses matters relevant to the Company's compliance with its legal obligations to stakeholders and enables employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and requires recording and investigation of such alerts. The Company has policies and procedures for ensuring compliance with its Corporate Code of Conduct and for dealing with complaints, including:

- clear commitment by Board and management to the Code of Conduct;
- responsibilities to shareholders and the financial community generally. This includes commitment to delivering shareholder value and covers the Company's approach to accounting policies, practices and disclosure;
- responsibilities to clients, customers and consumers. This includes reference to standards of product quality or service, commitments to fair value, and safety of goods produced;
- employment practices. This includes reference to occupational health and safety; employment opportunity practices; special entitlements above the statutory minimum; employee security trading policies; training and further education support; policies on giving and acceptance of business courtesies; prohibitions on the offering and acceptance of bribes, inducements and commissions and on the misuse of Company assets and resources; handling of conflicts of interest; and policy and practice on drug and alcohol usage and on outside employment;
- obligations relative to fair trading and dealing;
- responsibilities to the community. This might include environmental protection policies, support for community activities, donation or sponsorship policies;
- responsibilities to the individual. This might include the Company's privacy policy, the use of privileged or confidential information, how conflicts of interest are addressed;
- how the Company complies with legislation affecting its operations. For Company operations outside of Australia, particularly in developing countries, the code of conduct should state whether those operations comply with Australian or local legal requirements regarding employment practices, responsibilities to the community and responsibilities to the individual, particularly if the host country adopts lower standards than those prescribed by Australian law or international protocols; and
- how the Company monitors and ensures compliance with its code.

The Company's Code of Conduct and Corporate Code of Conduct are available on its web site.

### **Securities Dealing Policy**

(ASX Corporate Governance Principles and Recommendations: 3.2, 3.3, 8.3)

The Company has established a policy concerning trading in its securities by Directors, senior executives and employees. Under the policy, Directors, senior executives and employees are subject to the Corporations Act 2001 restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so), if they are in possession of inside information. Inside information is that information which is not generally available, and which if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Company.

In addition to the above, the following guidelines are to be observed by Directors, senior executives and employees:

- securities may be purchased or sold during the two week period immediately following the release of the Company's half-yearly and final results ("results announcements");
- securities may not be purchased or sold during the two week period preceding any results announcements;
- securities may not be purchased or sold preceding any material ASX announcement by the Company if the Director, senior executive or employee is aware that it is likely that such an announcement will be made; and
- securities may not be purchased or sold for the purpose of short term speculation.

Securities may be purchased or sold at other times subject to observing the additional disclosure requirements set out below.

Directors must notify the Chairman of their intention to deal in the securities of the Company:

# Frankland River Olive Company Limited

## Corporate Governance Statement

- the Chairman must notify the Board of his intention to deal in the Company's securities;
- senior executives and employees must notify the Company Secretary of their intention to deal in the Company's securities; and
- Directors, senior executives and employees are required to notify the Company Secretary once the proposed trading has occurred.

The Company's Securities Dealing Policy is available on its web site.

### Continuous Disclosure

(ASX Corporate Governance Principles and Recommendations: 5.1, 5.2)

The Company Secretary is the nominated ASX Communication Officer and is responsible for ensuring that the Company complies with its continuous disclosure requirements. The Managing Director is responsible for overseeing and coordinating the disclosure of information to the stock exchange, analysts, brokers, shareholders, the media and the public. The Company's compliance with its continuous disclosure obligations is reviewed at each meeting of the Board of Directors.

The Company's Continuous Disclosure Policy is available on its web site.

### Communications with Shareholders

(ASX Corporate Governance Principles and Recommendations: 6.1, 6.2)

The Board's policy is that shareholders are informed of all major developments that impact on the Company. There is a detailed continuous disclosure policy in place, which is intended to maintain market integrity and market efficiency. The policies and procedures include the following:

- the Company has a policy of disclosing to the market all significant events;
- the Directors have the primary responsibility to ensure that the Company complies with continuous disclosure; the Managing Director has an executive responsibility to keep the Board informed on matters that may require disclosure. The Board has the primary responsibility on deciding what information will be disclosed and review the Company's continuous disclosure obligations at each Board meeting;
- only the Directors or the Company Secretary are authorised to speak to the media about the Company and its activities;
- the Company seeks to avoid the emergence of a false market in the Company's securities by ensuring timely continuous disclosure of all significant events and limiting the parties authorised to speak to the media on behalf of the Company;
- the Company seeks to avoid premature disclosure of confidential corporate information. All employees sign a confidentiality agreement on joining Frankland River Olive Company. Only a limited number of personnel are involved in sensitive negotiations and discussions and all staff are advised that no discussion is allowed outside the Company; and
- all external communications such as analyst briefings are undertaken by a Director. No analyst briefing is given unless the presentation is first released to the ASX.

Information is communicated to shareholders through:

- the annual financial report;
- disclosures to the stock exchange;
- notices and explanatory memoranda of annual general meetings; and
- letters from the Chairman to specifically inform shareholders of key matters of interest.

All Company announcements are subject to appropriate vetting and authorisation to ensure that Company announcements:

- are made in a timely manner;
- are factual;
- do not omit material information; and
- are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

All publicly available information regarding the Company is available upon request to the Managing Director.

The Company will use its website to complement the official release of material information to the market. This enables broader access to Company information by investors and stakeholders. For example:



# Frankland River Olive Company Limited

## Corporate Governance Statement

- all announcements made to the market, and related information (e.g. information provided to analysts or media during briefings), are placed on the website after they have been released to ASX;
- the full text of all notices of meeting and explanatory material are placed on the website.
- all announcements and annual financial reports for the last three years are available on the website; and
- the Company encourages shareholders to provide their email addresses and the Company uses these addresses to circulate information released to the market.

The Company periodically dispatches an update letter to shareholders. These letters are released to the market prior to being posted to shareholders.

The Company's Communications Policy is available on its web site.

### **Recognise and Manage Risk**

(ASX Corporate Governance Principles and Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board is committed to the identification and quantification of risk. Directors receive regular reports on areas where significant business risk or exposure concentrations may exist and on the management of those risks. The Board committee structures form an important part of the risk management process.

The key categories of risks considered by the Company include:

- financial;
- general risks;
- customers and competitors;
- security and privacy;
- asset protection (including intellectual property);
- disaster;
- staff;
- regulatory; and
- future acquisitions.

#### *How Frankland River Olive Company Manages this Risk*

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and to report to it on whether business risks are being managed effectively. The Board has received reports from management in relation to the effectiveness of the Company's management of its material business risks.

### **Financial Risk**

#### *Overview of Risk*

The future success of Frankland River Olive Company will depend on the utilisation of its assets to generate profits and cash flow. The key risk factors include:

- adequacy of financial systems, including the minimisation of the risk of fraud;
- sufficiency of working capital; and
- contracting risks.

#### *How Frankland River Olive Company Manages this Risk*

Quarterly management reports provided to the Board include cash flow and other financial information. All monetary transactions require two signatures.

Any contract or proposal that is material to the Company's operations are discussed and approved by the Board prior to signing.

# Frankland River Olive Company Limited

## Corporate Governance Statement

### Future Acquisitions

#### *Overview of Risk*

Frankland River Olive Company has a strategy to review any suitable acquisitions which compliment the Company's strategies. In undertaking any acquisition, Frankland River Olive Company will expose itself to financial and operational risks typically encountered in such transactions.

#### *How Frankland River Olive Company Manages this Risk*

If Frankland River Olive Company undertakes an acquisition, key elements of the process would include:

- a business case would be considered by the Board;
- a rigorous due diligence process would be undertaken; and
- appropriate external legal, technical and accounting advice would be sought.

### Managing Director to Write to Board

The integrity of the Company's financial reporting depends on the existence of a sound system of risk oversight and management and internal control.

When the full year accounts are presented to the Board, as part of the financial reporting process the Managing Director will state to the Board in writing that:

- a statement that, in accordance with best practice, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control achieved by implementing the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

In addition, financial statement due diligence questionnaires are completed and submitted to the Board.

The Company does not have a Chief Financial Officer at this point in time.

Frankland River Olive Company Limited  
 Consolidated Statement of Comprehensive Income  
 For the year ended 30 June 2011

	Notes	2011 \$	2010 \$
Revenue	5	4,009,970	4,603,809
Cost of sales		(2,968,459)	(4,460,211)
<b>Gross Profit/(Loss)</b>		<b>1,041,511</b>	<b>143,598</b>
Other income	6	56,403	250,726
Distribution and logistics cost		(466,393)	(580,210)
Marketing and promotion costs		(380,597)	(299,056)
Corporate and administrative expenses		(513,700)	(915,174)
Finance costs	7	(795,938)	(546,987)
Other expenses	8	(49,636)	(4,937)
Impairment of Land	8(i)	(452,400)	-
<b>(Loss) before income tax expense</b>		<b>(1,560,750)</b>	<b>(1,952,040)</b>
Income tax benefit/(expense)	10	312,494	119,791
<b>Net (Loss) attributable to the members of the parent</b>		<b>(1,248,256)</b>	<b>(1,832,249)</b>
<b>Other comprehensive income</b>		-	-
Income tax on other comprehensive income		-	-
<b>Total other comprehensive income</b>		-	-
<b>Total comprehensive loss attributable to the members of the parent</b>		<b>(1,248,256)</b>	<b>(1,832,249)</b>
<b>Basic and diluted loss per share</b>	20	<b>(0.68)</b>	<b>(1.00)</b>

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

Frankland River Olive Company Limited  
Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	2011 \$	2010 \$
<b>Assets</b>			
Cash and cash equivalents	11	-	11,548
Trade and other receivables	12	314,766	572,454
Inventories	13	1,497,614	886,363
Prepayments		49,349	69,063
<b>Total current assets</b>		<b>1,861,729</b>	<b>1,539,428</b>
<b>Other Assets</b>			
Property, plant and equipment	14	10,057,412	11,057,397
Olive trees	15	15,824,692	15,824,692
Deferred tax assets	10	1,060,369	1,015,292
<b>Total non-current assets</b>		<b>26,965,738</b>	<b>27,920,646</b>
<b>Total assets</b>		<b>28,827,467</b>	<b>29,460,074</b>
<b>Liabilities</b>			
Bank Overdraft	11	17,604	-
Trade and other payables	16	1,226,618	1,628,638
Loans and borrowings	18	7,263,869	6,365,781
Provisions	17	59,319	63,200
<b>Total current liabilities</b>		<b>8,567,410</b>	<b>8,057,619</b>
Loans and borrowings	18	269,904	162,157
Provisions	17	46,592	48,481
<b>Total non-current liabilities</b>		<b>316,496</b>	<b>210,638</b>
<b>Total liabilities</b>		<b>8,883,906</b>	<b>8,268,257</b>
<b>Net assets</b>		<b>19,943,561</b>	<b>21,191,817</b>
<b>Equity</b>			
Issued capital	19	41,153,435	41,153,435
Accumulated losses		(21,209,874)	(19,961,618)
<b>Total equity attributable to equity holders of the Company</b>		<b>19,943,561</b>	<b>21,191,817</b>

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

Frankland River Olive Company Limited  
 Consolidated Statement of Changes in Equity  
 For the year ended 30 June 2011

	Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2009	41,153,435	(18,129,369)	23,024,066
<b>Total comprehensive income:</b>			
Loss for the year	-	(1,832,249)	(1,832,249)
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	(1,832,249)	(1,832,249)
<b>Transactions with owners recorded directly into equity:</b>			
Issue of share capital	-	-	-
Cost of issue	-	-	-
<b>Total transactions with owners</b>	-	-	-
<b>Balance at 30 June 2010</b>	<b>41,153,435</b>	<b>(19,961,618)</b>	<b>21,191,817</b>
Balance at 1 July 2010	41,153,435	(19,961,618)	21,191,817
<b>Total comprehensive income:</b>			
Loss for the year	-	(1,248,256)	(1,248,256)
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	(1,248,256)	(1,248,256)
<b>Transactions with owners recorded directly into equity:</b>			
Issue of share capital	-	-	-
Cost of issue	-	-	-
<b>Total transactions with owners</b>	-	-	-
<b>Balance at 30 June 2011</b>	<b>41,153,435</b>	<b>(21,209,874)</b>	<b>19,943,561</b>

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

# Frankland River Olive Company Limited

## Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Notes	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		4,218,154	4,814,333
Cash paid to suppliers and employees		(4,796,076)	(4,902,566)
Grants received		26,101	87,419
Interest received		162	29
Finance costs paid		(515,504)	(414,927)
R&D rebate received		267,417	261,156
<b>Net cash used in operating activities</b>	11	<b>(799,746)</b>	<b>(154,556)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		43,682	15,414
Payments for property, plant and equipment		(6,924)	(71,277)
<b>Net cash used in investing activities</b>		<b>36,758</b>	<b>(55,863)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,061,786	1,330,000
Repayment of borrowings		(1,327,950)	(1,084,488)
<b>Net cash from financing activities</b>		<b>733,836</b>	<b>245,512</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		(29,152)	35,093
Cash and cash equivalents at beginning of year		11,548	(23,545)
Cash and cash equivalents at end of year	11	<b>(17,604)</b>	<b>11,548</b>
<b>Reconciliation of cash and cash equivalents</b>			
Cash balance comprises:			
Cash at bank and on hand		-	11,548
Bank overdraft		(17,604)	-
		<b>(17,604)</b>	<b>11,548</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 1. Reporting entity

Frankland River Olive Company Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in the growing, harvesting, processing and sale of extra virgin olive oil and olives.

### 2. Basis of preparation

#### (a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 30<sup>th</sup> September 2011.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for olive trees which have been measured at fair value.

#### *Going Concern Assumption*

As at 30 June 2011 the following matters are pertinent when considering the ability of the Company and the consolidated entity to continue as going concerns:

- The consolidated entity made a loss from continuing operations of \$1,248,256 and \$1,832,249 for the year ended 30 June 2011 and 30 June 2010 respectively.
- The consolidated entity has a working capital deficiency of \$6,705,681 and \$6,518,191 as at 30 June 2011 and 30 June 2010 respectively; and
- As at 30 June 2011, the consolidated entity has inventories that it expects and sells as packaged product which should generate sufficient funds to meet the Company's forecast working capital requirements up to the 2012 olive harvest which will commence in the first week of April.

Notwithstanding the matters referred to above, the Directors have prepared the financial statements on a going concern basis. The Directors are continuing to investigate various options in relation to the reduction of working capital requirements or capital injection methods, including the realisation of certain Company assets and/or an equity issue to further add to working capital or reduce debt. Any additional capital will be used by the Company to repay debt, fund working capital requirements and provide funding for the continual promotion of the Jingilli brand.

In the Directors opinion, at the date of signing the financial report there are reasonable grounds to believe that the Company and the consolidated entity will continue as a going concern. Should the Directors not achieve the matters set out above, there is significant uncertainty whether the Company and the consolidated entity will be able to continue as a going concern. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, which might be necessary should the Company or consolidated entity not be able to continue as a going concern.

As explained in note 18, management has been in a process of continuous negotiations with a bank since the Group breached its bank covenants in the third quarter of 2009 resulting in the waiver of the breach of covenant being issued in September 2009. The Company is currently in discussions with external parties with the view of raising funds to provide working capital and pay down further bank and shareholder debt.

# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 2. Basis of preparation (continued)

#### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

#### (d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties as well as critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 15 – olive trees
- note 10 – utilisation of tax losses
- note 17 – provisions and contingencies

#### (e) New Accounting Standards and Interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 July 2010.

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136, and 139)*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 and 139)*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19.*

The adoption of these standards did not have any impact in the current period or any prior period and is unlikely to affect future periods.

#### (f) New Accounting Standards and Interpretations that are not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Company accounting for financial assets as it does not have any available for sale assets other than equity investments. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Company has decided not to early adopt AASB 9.



# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 2. Basis of preparation (continued)

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Frankland River Olive Company Ltd is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in notes 2(e).

Certain comparative amounts have been reclassified to conform with the current year's presentation.

#### (a) Basis of consolidation

##### (i) Business combinations

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

##### *Measuring goodwill*

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

##### *Share-based payment awards*

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

*Contingent liabilities*

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

*Non-controlling interest*

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

*Transaction costs*

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(ii) Accounting for acquisitions of non-controlling interests

The Group has adopted AASB 3 *Business Combinations* (2008) and AASB 127 *Consolidated and Separate Financial Statements* (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 July 2009. Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

(iii) Subsidiaries

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

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Both the functional and presentation currency of Frankland River Olive Company Limited and its subsidiaries is Australian dollars.

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

#### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (d) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when there is objective evidence of impairment and the collection of the full amount is no longer probable. Bad debts are written off when identified.

#### (e) Trade and other payables

Liabilities for trade payables and other amounts are carried at amortised cost and represents liabilities for goods and services received, whether or not billed to the Company. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

#### (f) Interest bearing liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

#### (g) Inventories

Inventories, other than agricultural produce (olives) harvested from biological assets (olive trees), are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### (h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

Buildings – over 40 years

Plant and equipment – over 3 to 15 years

Land is not depreciated as it is deemed to have an indefinite life. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

3. Significant accounting policies (continued)

(h) Property, plant and equipment (continued)

*Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

(i) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(j) Olive trees

Olive trees are measured at their fair market value less estimated point-of-sale costs at each reporting date. The fair value has been determined by reference to current independent valuations. The Company engages industry leading valuation firms to value its olive groves on a regular basis. The market value of the olive trees has been valued in accordance with accepted valuation methodologies based on comparable market values of recent sales and probable future returns from the olive trees.

Net increments or decrements in the fair value less estimated point-of-sale costs of olive trees are recognised as revenues or expenses in the net profit or loss, determined as:

(i) the difference between the total fair value less estimated point-of-sale costs of the trees recognised at the beginning of the financial year and the total fair value less estimated point-of-sale costs of the trees recognised as at the reporting date; less

(ii) costs incurred during the financial year to acquire and plant trees.

Costs incurred in maintaining or enhancing trees are recognised as expenses when incurred. Therefore, these costs are not included in the determination of the net increment in the fair value less estimated point-of-sale costs. The fair value less estimated point-of-sale costs of olives picked during the period recognized as revenue is determined as:

(i) fair value less estimated point-of-sale costs of olives immediately after picking; less

(ii) costs of picking.

# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### (k) Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired assets unless the assets is carried at revalued amount (on which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systemic basis over its remaining useful life.

### (n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

#### (i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### (o) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities for wages and salaries, including non-monetary benefits, annual leave and other benefits expected to be settled within twelve months of the reporting date are measured at the amounts expected to be paid when the liability is settled. All other employee benefits are measured at the present value of the estimated future payments to be made in respect of services provided by employees up to the reporting date. In determining the present value of future payments, the market yield as at the reporting date on national government bonds which have terms to maturity approximating the terms of the related liability are used.

# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

#### (p) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (q) Share based payment transactions

The Group may provide benefits to employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of any equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer based on the discounted cash flow model. The valuation methodology used by the valuer is to assess the value of the various assets of the Company together with an assessment of the Company based on an estimate of maintainable EBIT.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Frankland River Olive Company Limited ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### (r) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

##### *Rendering of services*

Revenue from services is recognised when the services are rendered and can be measured reliably.

##### *Lease income*

Income from lease of property, plant and equipment is recognised on a straight line basis over the period of the lease.

##### *Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

#### (s) Borrowing costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. The Group did not capitalise any borrowing costs in the current year.

#### (p) Government grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with.

#### (s) Income tax

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

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

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

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

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

#### (t) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

#### (v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for shares held by the Company's sponsored employee share plan trust. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for shares held by the Company's sponsored employee share plan trust, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

#### (w) Segment reporting

##### Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors as the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

#### (x) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

#### (y) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

- AASB 9 *Financial Instrument* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. The Group has not yet determined the potential effect of the standard.



# Frankland River Olive Company Limited

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

#### (y) New standards and interpretations not yet adopted (continued)

- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

### 4. Financial risk management and financial instruments

#### Overview

The Group's principal financial instruments comprise lease liabilities, related party loans, bills of exchange and bank overdraft. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as cash and cash equivalent, trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and their management of capital. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

#### Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. In managing the risk, the Directors endeavour to reduce the impact of short term fluctuations on the Group's earnings. Over the long term, however, permanent changes in foreign exchange, commodity and interest rates will have an impact on Group's earnings with the extent of this impact dependent on the level of cash resources held by the Group.

#### Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances. However, there are no significant concentrations of credit risk within the Group. The Group principally trades with recognised, creditworthy third parties and the receivable balances are monitored on an ongoing basis to minimise the risk.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

4. Financial risk management and financial instruments (continued)

**Exposure to credit risk**

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

	Note	Carrying amount	
		2011	2010
		\$	\$
Cash and cash equivalents	11	(17,604)	11,548
Trade and other receivables	12	314,766	572,454
		<u>297,162</u>	<u>584,002</u>

**Impairment losses**

The aging of the Group's trade and other receivables at the reporting date was:

	Gross	Impaired	Net	Past due but not impaired
	2011	2011	2011	2011
	\$	\$	\$	\$
<b>Trade debtors</b>				
Not past due	257,681	-	257,681	-
Past due up to 3 months	15,730	(705)	15,025	15,025
Past due 3 to 6 months	-	-	-	-
Past due over 6 months	21,399	(5,976)	15,423	15,423
	<u>294,810</u>	<u>(6,681)</u>	<u>288,129</u>	<u>30,448</u>
<b>Other receivables</b>				
Not past due	26,637	-	26,637	-
	<u>321,447</u>	<u>(6,681)</u>	<u>314,766</u>	<u>30,448</u>

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

4. Financial risk management and financial instruments (continued)

Credit risk (continued)

	Gross	Impaired	Net	Past due but not impaired
	2010	2010	2010	2010
	\$	\$	\$	\$
<b>Trade debtors</b>				
Not past due	205,973	-	205,973	-
Past due up to 3 months	325,989	(3,395)	322,594	322,594
Past due 3 to 6 months	31,658	-	31,658	31,658
Past due over 6 months	11,724	-	11,724	11,724
	575,344	(3,395)	571,949	365,976
<b>Other receivables</b>				
Not past due	505	-	505	-
Total	575,849	(3,395)	572,454	365,976

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	Note	2011	2010
		\$	\$
Balance at 1 July		3,395	125,491
Allowance for impairment recognised during the year	8	49,636	(80,883)
Receivables written off as uncollectible		(46,350)	(41,213)
Balance at 30 June		6,681	3,395

The impaired receivables mainly relate to debts owing to the Group that may not be recovered. The past due but not impaired receivables relate to a few independent customers for whom there is no history of default and collection is expected. Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bill facilities and finance leases.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

4. Financial risk management and financial instruments (continued)

Liquidity risk (continued)

At balance date, the following financing facilities had been negotiated and were available:

	2011 \$	2010 \$
Total facilities		
– bank bills of exchange	4,000,000	4,000,000
– business credit cards	50,000	50,000
Facilities used at balance date		
– bank bills of exchange	4,000,000	4,000,000
– business credit cards	49,735	50,432
Facilities unused at balance		
– bank bills of exchange	-	-
– business credit cards	265	(432)

The following are the contractual maturities of financial liabilities:

30 June 2011	Notes	Carrying amount \$	1 year or less \$	1 - 5 years \$	More than 5 years \$
<b>Financial liabilities</b>					
Bank Overdraft	11	17,604	17,604	-	-
Trade and other payables	16	1,226,618	1,226,618	-	-
Bills of exchange	18	4,000,000	4,000,000	-	-
Finance lease liabilities	18	482,486	212,582	269,904	-
Loans from related parties	18	3,051,287	3,051,287	-	-
		<u>8,777,995</u>	<u>8,508,091</u>	<u>269,904</u>	<u>-</u>
<b>30 June 2010</b>					
<b>Financial liabilities</b>					
Trade and other payables	16	1,628,638	1,628,638	-	-
Bills of exchange	18	4,000,000	4,000,000	-	-
Finance lease liabilities	18	542,862	380,705	162,157	-
Loans from related parties	18	1,985,076	1,985,076	-	-
		<u>8,156,576</u>	<u>7,994,419</u>	<u>162,157</u>	<u>-</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates and will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

4. Financial risk management and financial instruments (continued)

Market risk (continued)

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the Australian dollar. The currency giving rise to this risk is primarily Euro. The Group does not seek to hedge this exposure at this stage of its development.

The Group's exposure to foreign currency risk at the reporting date was insignificant (2010: nil).

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations. The terms and conditions have been discussed in Note 18 (c).

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2011 \$	2010 \$
<b>Fixed rate instruments</b>		
Finance lease liabilities	482,486	542,862
Related party loans	3,051,287	1,985,076
	<u>3,533,773</u>	<u>2,527,938</u>
<b>Variable rate instruments</b>		
Bills of exchange	4,000,000	4,000,000
Bank overdraft	(17,604)	-
Trade and other payables - credit cards	49,735	50,432
	<u>4,032,131</u>	<u>4,050,432</u>

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
<b>30 June 2011</b>				
Variable rate instruments	(40,673)	40,673	(40,673)	40,673
	<u>(40,673)</u>	<u>40,673</u>	<u>(40,673)</u>	<u>40,673</u>
<b>30 June 2010</b>				
Variable rate instruments	(40,504)	(40,504)	(40,504)	(40,504)
	<u>(40,504)</u>	<u>(40,504)</u>	<u>(40,504)</u>	<u>(40,504)</u>

Fair values

Fair values versus carrying amounts

The carrying amounts of all financial instruments approximate their fair values.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

5. Revenue from ordinary activities

	2011 \$	2010 \$
Revenue from sale of olive products	3,994,236	4,550,625
Revenue from trading and contracting services	15,734	53,184
	4,009,970	4,603,809

6. Other income

	2011 \$	2010 \$
Interest income	162	29
Grants received	26,101	87,419
Income from debt forgiven	12,913	31,224
Reversal of impairment of third party receivables	-	80,883
Impairment of plant and equipment and gain on disposal	8,660	-
Other	8,567	51,171
	56,403	250,726

7. Finance costs

	2011 \$	2010 \$
Interest expense		
Bills of exchange	261,787	198,013
Finance lease	45,276	62,172
Related party loans	231,058	113,766
Other interest	116,896	7,185
	655,017	381,136
Bank charges and facility fees	132,486	147,557
Net foreign exchange loss	8,435	18,294
	795,938	546,987

8. Other expenses

	2011 \$	2010 \$
<i>Impairment of plant and equipment and losses on disposal</i>	-	4,937
Impairment of third party receivables	49,636	-
	49,636	4,937

8 (i). Impairment of land

	2011 \$	2010 \$
Impairment of land based on updated land valuation undertaken in May 2011 for inclusion in supplementary target statement in relation to the Toscana takeover.	452,400	-
	452,400	-

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

9. Personnel expenses

	2011 \$	2010 \$
Wages and salaries	1,182,081	1,497,780
Superannuation contributions	98,708	121,836
Movement in leave entitlements	(5,770)	21,903
Other associated personnel expenses	9,395	96,077
	1,284,414	1,737,596

10. Income tax

The major components of income tax expense are:

	2011 \$	2010 \$
<i>Current income tax</i>		
Research and development rebate received	267,417	261,156
<i>Deferred income tax</i>		
Origination and reversal of temporary differences	45,077	(141,365)
	312,494	119,791

A reconciliation between tax expense and the product of accounting (loss) before income tax multiplied by the Group's applicable income tax rate is as follows:

	2011 \$	2010 \$
Accounting loss before income tax	(1,560,750)	(1,952,040)
At the Group's income tax rate of 30% (2010: 30%)	(468,225)	(585,612)
Tax effect of non-deductible expenses:		
Entertainment expenses	573	1,241
Impairment of land	135,720	-
Income tax benefit from research and development tax rebate	(267,417)	(261,156)
Current year tax losses for which no deferred tax was recognised	286,855	725,736
	(312,494)	(119,791)

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

10. Income tax (continued)

**Recognised deferred tax assets and liabilities**

The recognised deferred tax assets and liabilities are attributable to the following:

	2011 \$	2010 \$
<b>Deferred tax assets</b>		
Provision for doubtful debts	2,004	1,019
Revaluation decrement of olive trees	1,267,256	1,267,256
Plant and equipment	104,444	69,169
Employee benefits and accruals	79,002	83,598
Carried forward tax losses	59,325	56,131
Gross deferred tax asset	1,512,031	1,477,173
<b>Deferred tax liabilities</b>		
Prepayments	(14,575)	(20,719)
Land and buildings	(437,087)	(441,162)
Gross deferred tax liabilities	(451,662)	(461,881)
<b>Net deferred tax asset</b>	1,060,369	1,015,292

Deferred tax asset in relation to carried forward tax losses of \$59,325 relates to carried forward tax losses of Gingin Land Company Ltd of \$197,751. The deferred tax asset has been recognised due to the fact that the entity has sufficient taxable temporary differences against which the unused tax losses can be utilised.

The Company has \$15,329,170 of tax assets losses relating to carried forward tax losses which have not been brought to account as the utilisation of these assets is not yet probable.

**Tax consolidation**

For the purposes of income taxation, the Company and its 100% owned subsidiary have not formed a tax consolidation group

11. Cash and cash equivalents

	2011 \$	2010 \$
Cash on hand	-	88
Cash at bank	-	11,460
<b>Cash and cash equivalents</b>	-	11,548
Bank overdrafts	(17,604)	-
<b>Cash and cash equivalents in the statement of cash flows</b>	(17,604)	11,548

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 4.



Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

11. Cash and cash equivalents (continued)

(a) Reconciliation of cash flows from operating activities

	2011 \$	2010 \$
Net loss for the year	(1,248,256)	(1,832,249)
Adjustments for:		
Depreciation	519,484	605,120
Loss on sale of property, plant and equipment (Gain)	(8,660)	4,937
Impairment/(Reversal of impairment) of third party receivables	49,636	(80,883)
Impairment of land	452,400	-
Interest on related party loan capitalised to the loan balance	231,058	113,766
Gain on debt forgiveness	(12,913)	(31,224)
Foreign exchange loss/(profit)	8,435	18,294
Income tax expense - reversal of temporary differences	(45,077)	141,365
Changes in assets and liabilities:		
Decrease/(Increase) in trade and other receivables	202,903	210,523
Decrease/(Increase) in prepayments	19,714	8,694
Decrease/(Increase) in inventories	(611,251)	696,036
(Decrease)/Increase in trade and other payables	(348,163)	(30,838)
Increase/(Decrease) in provisions for employee benefits	(9,056)	21,903
<b>Net cash used in operating activities</b>	<b>(799,746)</b>	<b>(154,556)</b>

(b) Non-cash financing and investing activities

There were no non-cash financing or investing activities entered into during the current financial year (2010: Nil).

12. Trade and other receivables

	2011 \$	2010 \$
Trade debtors	294,810	575,344
Allowance for impairment	(6,681)	(3,395)
Other receivables *	26,637	505
	<b>314,766</b>	<b>572,454</b>

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 4.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

13. Inventories

	2011 \$	2010 \$
Finished goods	1,316,985	685,244
Packaging materials	67,781	48,624
Goods in transit	112,848	152,495
	1,497,614	886,363

- (a) During the year ended 30 June 2011 inventories recognised as cost of sales amounted to \$1,780,419 (2010: \$3,155,109).
- (b) Finished goods comprise extra virgin olive oil in both packaged and bulk forms.
- (c) Goods in transit comprise extra virgin olive oil in bulk forms in transit to potential customer not yet invoiced.

14. Property, plant and equipment

	Freehold land \$	Buildings \$	Plant & equipment \$	Plant & equipment under lease \$	Total \$
<b>30 June 2011</b>					
At cost	5,340,041	3,171,503	6,091,566	347,557	14,950,667
Accumulated depreciation	-	(932,349)	(3,723,646)	(237,260)	(4,893,255)
	5,340,041	2,239,154	2,367,920	110,297	10,057,412
<b>30 June 2010</b>					
At cost	5,792,441	3,171,503	4,371,056	2,136,379	15,471,379
Accumulated depreciation	-	(815,072)	(2,199,602)	(1,399,308)	(4,413,982)
	5,792,441	2,356,431	2,171,454	737,071	11,057,397

**Movements in carrying amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial year were as follows:

	Freehold land \$	Buildings \$	Plant & equipment \$	Plant & equipment under lease \$	Total \$
Balance at 1 July 2009	5,792,441	2,475,566	2,262,485	1,081,099	11,611,591
Additions	-	12,241	59,035	-	71,276
Disposals	-	(5,079)	(8,717)	(6,554)	(20,350)
Transfer to/from leased assets	-	-	136,057	(136,057)	-
Depreciation expense	-	(126,297)	(277,406)	(201,417)	(605,120)
	5,792,441	2,356,431	2,171,454	737,071	11,057,397
Additions	-	-	6,924	-	6,924
Disposals	-	-	(11,455)	(29,007)	(40,462)
Transfer to/from leased assets	-	-	566,305	(561,414)	4,891
Impairment expense	(452,400)	-	-	-	(452,400)
Depreciation expense	-	(117,277)	(365,308)	(36,353)	(518,938)
	5,340,041	2,239,154	2,367,920	110,297	10,057,412
Balance as at 30 June 2011	5,340,041	2,239,154	2,367,920	110,297	10,057,412

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

15. Olive trees

	2011 \$	2010 \$
<b>Olive trees at fair value</b>		
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

**Nature of assets**

The Group owns 783 hectares of land in Frankland and 1,360 hectares of land in Mogumber, both in Western Australia of which 735 hectares have been planted with olive trees.

The fair value of olive trees and the associated land and buildings has been determined by reference to independent valuations of both olive groves conducted in July and August 2008, the lowest point of the 2008 global financial crisis. The Group engaged an industry leading valuation firm to value both of the Group's olive groves. The market value of the olive trees had been valued in accordance with accepted valuation methodologies based on comparable market values of recent sales and probable future returns from the olive trees. The Directors believe that the valuations conducted in the previous financial year are still reasonable as at 30 June 2011 given the increased yield at harvest, continued maturation of groves and general improvement in the economy since 2008.

16. Trade and other payables

	2011 \$	2010 \$
Trade payables due to related parties	235,836	136,576
Other trade payables and accruals	990,782	1,492,062
	1,226,618	1,628,638

Trade creditors are non-interest bearing and are normally settled between 30 and 60 day terms.

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 4.

17. Provisions

	2011 \$	2010 \$
Employee benefits - short-term	59,319	63,200
Employee benefits - long-term	46,592	48,481
	105,911	111,681

**Long term employee benefits**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the net present value of future cash-flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in note 3.

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Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

18. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and liquidity risk, see note 4.

	2011 \$	2010 \$
<b>Current</b>		
Secured liabilities		
Finance lease liability	212,582	380,705
Related party loans	3,051,287	1,985,076
Bank bill facility	4,000,000	4,000,000
	<u>7,263,869</u>	<u>6,365,781</u>
<b>Non-current</b>		
Secured liabilities		
Finance lease liability	269,904	162,157
	<u>269,904</u>	<u>162,157</u>
	<u>7,533,773</u>	<u>6,527,938</u>

(a) Secured liabilities

Total current and non-current secured liabilities:

	2011 \$	2010 \$
Bank bill facility	4,000,000	4,000,000
Finance lease liability	482,486	542,862
	<u>4,482,486</u>	<u>4,542,862</u>

(b) Assets pledged as security

The carrying values of non-current assets pledged as security are:

	Notes	2011 \$	2010 \$
Freehold land	14	5,340,041	5,792,441
Buildings	14	2,239,154	2,356,431
Olive trees	15	15,824,692	15,824,692
Plant and equipment	14	2,478,217	2,908,526
		<u>25,882,104</u>	<u>26,882,090</u>

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Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

18. Loans and borrowings (continued)

(c) Terms and conditions of loans

Terms and conditions of the outstanding loans are as follows:

	Interest rate	Year of maturity	2011 \$	2010 \$
Bank bill facility	BIR* + 2.9%	2012	4,000,000	4,000,000
Finance lease liability	7.2-11%	2011- 2014	482,486	542,862
Related party loans	10%	2012	3,051,287	1,985,076
			<u>7,533,773</u>	<u>6,527,938</u>

\*BIR – Base Indicator Rate (30 June 2011: 6.25% p.a.; 30 June 2010: 5.82% p.a.)

(d) Collateral provided and breach of covenants

The bank bill facility is secured by fixed and floating charge over the whole of assets of the consolidated entity, registered mortgages over freehold land held by the consolidated entity and an interlocking guarantee of \$4.0 million given by and in favour of the consolidated entity.

Covenants imposed by the bank require a minimum interest time 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 1 July 2009. The company was in breach of the covenants at 30 June 2011, although it has received a letter of non waiver from the bank dated 9 September 2010 for the time being. In accordance with the new ASIC requirements if an entity is in breach of its bank covenants its bank debt of \$4,000,000 must be treated as current.

(e) Related party loans

Related party loans comprise the following balances:

	Chemco Pty Ltd <sup>1</sup> \$	Toscana (WA) Pty Ltd <sup>2</sup> \$	Tiang San Ng <sup>3</sup> \$	Total \$
Balance at 1 July 2010	512,757	1,336,757	135,562	1,985,076
Funds advanced	100,000	1,530,000	-	1,630,000
Accrued interest	42,517	183,506	5,034	231,057
Capital Raising	-	-	20,000	20,000
Repayments <sup>4</sup>	(627,261)	(26,989)	(160,596)	(814,846)
Balance at 30 June 2011	<u>28,013</u>	<u>3,023,274</u>	<u>-</u>	<u>3,051,587</u>

	Chemco Pty Ltd <sup>1</sup> \$	Toscana (WA) Pty Ltd <sup>2</sup> \$	Tiang San Ng <sup>3</sup> \$	Total \$
Balance at 1 July 2009	20,821	530,411	-	551,232
Funds advanced	470,000	735,000	125,000	1,330,000
Accrued interest	21,936	81,269	10,562	113,767
Repayments <sup>4</sup>	-	(9,923)	-	(9,923)
Balance at 30 June 2010	<u>512,757</u>	<u>1,336,757</u>	<u>135,562</u>	<u>1,985,076</u>

- 1) Chemco Pty Ltd was a major shareholder of the Company.
- 2) Toscana (WA) Pty Ltd is a major shareholder of the Company as well as an entity associated with Ivo Paul Letari, the non-executive director of the Company.
- 3) Tiang San Ng is a shareholder of the Company.
- 4) The current year repayment of the Toscana (WA) Pty Ltd loan represents trade receivables from Toscana (WA) Pty Ltd offset against the outstanding loan balance.

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

19. Capital and reserves

(a) Share capital

	2011	2010
	\$	\$
Ordinary shares fully paid	41,153,435	41,153,435

(b) Movement in shares on issue

	2011		2010	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	183,082,645	41,153,435	183,082,645	41,153,435
End of the financial year	183,082,645	41,153,435	183,082,645	41,153,435

(c) Share options

There were no unissued ordinary shares in respect of which options were outstanding as at 30 June 2011 (2010: Nil).

(d) Terms and conditions of share capital

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

20. Earnings per share

The calculation of basic loss per share was based on the following:

	2011	2010
Net loss attributable to the members of the parent (\$)	(1,248,256)	(1,832,249)
Weighted average number of shares	183,082,645	183,082,645

21. Share based payment plans

An employee share scheme has been established where Frankland River Olive Company Ltd may, at the discretion of the Board, grant options over the ordinary shares of the Company to its employees. The options, issued for nil consideration with an exercise price of at least \$0.20, are granted at the Board's discretion taking into account appropriate matters including employment record and performance, length of service and seniority. The expiry date of the options will be determined by the Board prior to their offer. The options cannot be transferred and will not be listed on the Australian Securities Exchange.

There have been no options issued during the year ended 30 June 2011 (2010: nil).

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

22. Related party disclosures

(a) Key management personnel compensation

The key management personnel comprised:

	2011 \$	2010 \$
Short-term employee benefits	227,692	338,462
Post-employment benefits	13,742	20,562
	241,434	359,024

*Individual directors and executives compensation disclosures*

Information regarding individual directors and executives compensation including amounts outstanding as at 30 June 2011 and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

No director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

(b) Key Management Personnel options and rights over equity instruments

There were no options or rights over ordinary shares held by Key Management Personnel at the beginning, during or at the end of the financial year (2010: nil).

(c) Key Management Personnel shareholdings

The movement during the reporting period in the number of ordinary shares in Frankland River Olive Company Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Granted as remuneration	Received on exercise of options	Other changes	Held at 30 June 2011
Mr Craig Readhead	2,292,488	-	-	-	2,292,488
Mr David Carr	5,091,555	-	-	-	5,091,555
Mr Paul Letari	35,444,227	-	-	-	35,444,227

	Held at 1 July 2009	Granted as remuneration	Received on exercise of options	Other changes	Held at 30 June 2010
Mr Craig Readhead	2,292,488	-	-	-	2,292,488
Mr David Carr	5,091,555	-	-	-	5,091,555
Mr Paul Letari	35,444,227	-	-	-	35,444,227

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

22. Related party disclosures (continued)

(d) Key management personnel - other transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Transaction	Transactions value year ended 30 June		Balance outstanding as at 30 June*		
	2011	2010	2011	2010	
<b>Key Management Personnel and their related entities:</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
<b>Expenditure</b>					
Craig Readhead - Allion Legal	Legal fees	51,209	3,572	45,497	19,396
David Carr - Tenax Pty Ltd	Vehicle hire	25,000	25,000	-	-
Total and current liabilities			45,497	19,396	
<b>Income</b>					
David Carr - Preston Vale Ltd	Wine storage	0	2,052	5,815	5,815
David Carr - Preston Vale Ltd	Management services	0	27,500	12,527	16,773
Total and current receivables			18,342	22,588	

\* excluding GST

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

(e) Other related party transactions

Details of loans from related parties are disclosed in note 18 (e).

23. Operating segments

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 regards, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position.

The Group operates in one segment, the olive production industry. The olive operation comprises the growing, harvesting, processing and sale of extra virgin olive oil and olives. The Group operates only in Australia.



Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

24. Commitments

(a) Finance leases

	2011 \$	2010 \$
Not later than one year	250,723	404,411
Later than 1 year but not later than five years	302,689	175,466
Total minimum lease payments	553,412	579,877
Future finance charges	(70,926)	(37,015)
Lease liability	482,486	542,862
Present value of lease liability		
Current liability	212,582	380,705
Non-current liability	269,904	162,157
	482,486	542,862

(b) Operating leases

	2011 \$	2010 \$
Not later than one year	98,340	92,508
Later than 1 year but not later than five years	90,145	177,307
Total minimum lease payments	188,485	269,815

The Group has entered into commercial leases on the head office and warehouse. The leases have a remaining life of 23 months.

25. Contingent liabilities

The Group has no known contingent liabilities at the date of this report.

26. Auditors' remuneration

	2011 \$	2010 \$
Amount received or due and receivable by Stantons International for:		
- an audit or review of the financial report of the Group	38,076	38,176
- under provision prior year		3,503
	38,076	41,679

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

27. Parent Entity Disclosures

As at, and throughout the financial year ended 30 June 2011 the parent company of the Group was Frankland River Olive Company Ltd.

	2011 \$	2010 \$
<b>Result of the parent entity</b>		
Loss for the year	788,716	1,799,312
Total comprehensive loss for the year	788,716	1,799,312
<b>Financial position of the parent entity at year end</b>		
Current assets	1,861,729	1,562,692
Total assets	28,874,874	29,054,079
Current liabilities	(4,567,147)	(4,057,617)
Total liabilities	(8,898,481)	(8,288,970)
<b>Total equity of the parent entity comprising of:</b>		
Share capital	(41,153,435)	(41,153,435)
Accumulated losses	21,177,042	20,388,326
Total equity	(19,976,393)	(20,765,109)

**Parent entity contingencies**

The Company has no known contingencies at the date of this report.

**Investment in subsidiaries**

	2011 \$	2010 \$
Gingin Land Company Ltd	9,024,104	9,024,104

The above investment is carried at cost less allowance for impairment (if any).

**Subsidiary information**

Subsidiary	Country of incorporation	Ownership interest	
		2011	2010
Gingin Land Company Ltd	Australia	100%	100%

Frankland River Olive Company Limited  
Notes to the Consolidated Financial Statements

**28. Subsequent event**

On the 5<sup>th</sup> of July 2011 the Takeover offer from Toscana was completed. On the 14<sup>th</sup> of July 2011 the Company paid out the balance of the Chemco loan an amount of \$28,102, and on the 3<sup>rd</sup> of September 2011 the Company borrowed \$100,000 from Toscana to be repaid from the rights issue.

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# Frankland River Olive Company Limited

## Directors' Declaration

- 1 In the opinion of the directors of Frankland River Olive Company Ltd ('the Company'):
- (a) the consolidated financial statements and notes and the Remuneration report in the Directors' report, set out on pages 5 to 7, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the directors:

Dated at Perth this 30<sup>th</sup> day of September 2011.



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David Carr  
*Director*

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANKLAND RIVER OLIVE COMPANY LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Frankland River Olive Company Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

#### *Independence*

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

#### *Auditor's opinion*

In our opinion:

- (a) the financial report of Frankland River Olive Company Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 2 (a).

#### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 6 to 7 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

#### *Auditor's opinion*

In our opinion the remuneration report of Frankland River Olive Company Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

#### **Material Uncertainty Regarding Continuation as a Going Concern and Deferred Tax Assets**

Without qualification to our audit opinion expressed above, attention is drawn to the following matter.


At 30 June 2011, the consolidated entity had a working capital deficiency of \$6,705,681 and had incurred a loss for the year of \$1,248,256. As a result of the matters described in Note 2(b) "Going Concern Assumption" to the financial report, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they fall due and realize their assets and extinguish their liabilities in the normal course of business and at amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of the recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the company and/or the consolidated entity not continue as going concerns.

The recoverability of the net deferred tax assets of the Company and of the group is dependent on the Company and its subsidiaries returning to profitability and earning sufficient tax profits to utilise the net deferred tax assets. In the event that this does not occur, the tax assets will need to be expensed.

If the consolidated entity is not successful in commercialisation and/or raising further equity funds, the realisable value of the consolidated entity's non-current assets and deferred tax assets may be significantly less than their current carrying values.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**

*Stantons International Audit and Consulting Pty Ltd*  


**J P Van Dieren**  
Director

West Perth, Western Australia  
30 September 2011

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# Frankland River Olive Company Limited

## ASX additional information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current as at 08 August 2011

### Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number	% of Issued Capital
Toscana (WA) Pty Ltd	127,486,749	69.63%
Alba Capital Pty Ltd	4,873,638	2.66%
Leopard Asset Management	2,500,000	1.37%
David Carr	2,329,063	1.27%

### Distribution of equity securities

183,082,645 fully paid ordinary shares are held by 555 individual shareholders

All issued ordinary shares carry one vote per share and carry rights to dividends

1 - 1,000	26	11,757	0.01%
1,001 - 5,000	79	206,890	0.11%
5,001 - 10,000	61	472,963	0.26%
10,001 - 100,000	292	10,927,950	5.97%
> 100,000	90	171,463,085	93.65%
Total	548	183,082,645	100.00%



# Frankland River Olive Company Limited

ASX additional information (continued)

## Twenty largest shareholders

Rank	Name	Units	% of Units
1	TOSCANA (WA) PTY LTD	68,616,119	37.48%
2	TOSCANA (WA) PTY LTD	35,444,227	19.36%
3	TOSCANA (WA) PTY LTD	23,426,403	12.80%
4	ALBA CAPITAL PTY LTD	4,873,638	2.66%
5	LEOPARD ASSET MANAGEMENT PTY	2,500,000	1.37%
6	MR DAVID CARR	2,329,063	1.27%
7	DIVICH NOMINEES PTY LTD	2,228,612	1.22%
8	MR JOHN BRYAN BOND &	2,201,068	1.20%
9	MR STEPHEN ROBERT PRITCHARD	2,102,973	1.15%
10	LEFROY BAY PTY LTD	1,814,227	0.99%
11	SECURE ANAESTHETICS PTY LTD	1,786,676	0.98%
12	MR DAVID BOESLEY	1,658,252	0.91%
13	KSLCORP PTY LTD	1,500,000	0.82%
14	HENGOLO PTY LTD	1,472,205	0.80%
15	J TAYLOR NOMINEES PTYLTD	1,122,682	0.61%
16	MR MICHAEL JOHN BLATCH &	1,007,829	0.55%
17	PFTK NOMINEES PTY LTD	1,000,000	0.55%
18	TENAX HOLDINGS PTY LTD	948,265	0.52%
19	UBS WEALTH MANAGEMENT	904,958	0.49%
20	MR NEIL THACKER MACLACHLAN	750,000	0.41%
<b>Totals: Top 20 holders of FLR ORDINARY FULLY PAID</b>		<b>157,687,197</b>	<b>86.13</b>
<b>Total Remaining Holders Balance</b>		<b>25,395,448</b>	<b>13.87</b>
<b>Total Holders Balance</b>		<b>183,082,645</b>	<b>100</b>

# Frankland River Olive Company Limited

## Offices and officers

### Company Secretary

David Carr, Bachelor of Commerce

### Principal Registered Office

Frankland River Olive Company Ltd

Unit 1 / 58 Discovery Drive

Bibra Lake WA 6163

Ph: + 61 8 9494 2044

Fax: + 61 8 9494 2043

### Locations of Share Registry

#### Advanced Share Registry

150 Stirling Hwy Nedlands WA 6009

✉ PO BOX 1156 Nedlands WA 6909

☎ Ph: +61 8 9389 8033

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