



Mackay Sugar
Member of Nordzucker Group

Mackay Sugar

ANNUAL REPORT | 2019/20

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About Mackay Sugar

ABOUT MACKAY SUGAR

Mackay Sugar is Australia's second largest sugar milling company, with over 140 years' experience. We have three operating milling sites in Mackay – Farleigh, Marian and Racecourse. Our main office is located at Racecourse mill, Mackay.

Mackay Sugar was formed as a co-operative in 1988, when five formerly independent milling co-operatives (Marian, Racecourse, Cattle Creek, North Eton and Farleigh mills) merged and acquired Pleystowe mill from CSR Limited. As part of the strategy for greater efficiency, the North Eton, Cattle Creek and Pleystowe mills were closed in 1988, 1990 and 2009 respectively and their operations integrated into the remaining mills.

With an appetite to maximise our business opportunities, shareholders voted in favour of converting Mackay Sugar Limited to an unlisted public company in July 2008. As at 29 February 2020, we had 822 growers (2019:977) supplying cane to our mills and 1321 (2019:1074) shareholders holding shares.

Our revenue base includes raw and refined sugar, molasses and electricity (made from the sugar by-product – bagasse). From the sugar manufacturing process, we also produce mill mud and ash, which is distributed to our growers and applied to their cane paddocks as a beneficial soil conditioner.

We hold a 25 per cent interest in the Sugar Australia Joint Venture (SAJV), comprising Sugar Australia and New Zealand Sugar Company. Wilmar Sugar holds the

remaining 75 per cent stake in these refining businesses. Products from the three refineries, located at Mackay's Racecourse mill, Yarraville in Victoria and Auckland in New Zealand, are marketed by Sugar Australia Pty Limited and New Zealand Sugar Company.

In July 2019 Mackay Sugar shareholders approved the proposal for Nordzucker AG to acquire a 70% controlling interest in the share capital of Mackay Sugar. Nordzucker AG is one of the leading sugar manufacturers in Europe and is headquartered in Braunschweig, Germany. Fundamental to this transaction was the divestment of Mossman mill which took place on 5 July 2019.

As at 29 February 2020, we employed 593 people in a variety of roles across our operations. This includes planning, procurement, information technology, human resources, accounting, administrative, trade, technical and processing roles. Approximately 200 additional people will be employed on a seasonal basis to assist permanent staff with our crushing season (May to November) operations. During the 2019 crushing season our total workforce was approximately 800 (excluding Mossman mill).



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Chairman's Report

CHAIRMAN'S REPORT

In the last annual report, I welcomed Mackay Sugar as part of the Nordzucker group. We all looked forward to the future as we embarked upon the task of turning around the business, clearly with a strong focus on factory performance through the maintenance and capital investment plans. However, COVID-19 has thrown issues at both Mackay Sugar locally and the Nordzucker Group internationally, as we deal with a situation none of us has faced before.

From the outset, the Nordzucker investment included a plan to undertake some much needed refurbishment work and replacement of key operating assets within the business. Over a five year period, the aim is to restore the assets to reach an acceptable availability target within the factories, by concentrating on reliability, rate and recovery. Throughout this report you will see initial results of the work which is being done to deliver the first steps in this plan.

The COVID-19 impacts and restrictions have posed some operational challenges as we seek to have the factories ready for the 2020 crushing season. It has been an intense period with many contractors on our sites to help us to deliver the maintenance and capital plan for the 2020 season. With the distancing, hygiene and health issues being addressed on a daily basis across the sites, it has been a significant exercise to work together with our employees, staff, suppliers and contractors to ensure that everyone is able to work in a safe and healthy manner. Where possible we have arranged for staff to work from home to reduce the potential points of contact within the business.

I would also like to reinforce to our grower suppliers, harvesting contractors and other supply chain participants that they also need to check that their businesses are able to deal with the COVID-19 issues. A chain is only as good as its weakest link, so we all need to make sure we will be ready to deal with the challenges we will likely face as we progress through the crushing season. We all should ensure that we have thought through what options we may be able to adopt to deal with day to day issues, as a 'Plan B', in the event we are adversely impacted by COVID-19 issues.

There have been some challenges which we have overcome very successfully. For example, whilst many of us have been socially isolating at home, we have been able to ensure and continue responsibility of the Board of Directors by holding a number of board meetings via online conferences. The technology has allowed the international distance to be addressed and things to run relatively smoothly, even when we had directors and management dial in, sometimes from nine different locations both locally, interstate and overseas.

Under the guidance of ASIC, we are also reassessing how we hold the annual general meeting this year, given the likely continued restrictions on large physical gatherings and the limitations on holding shareholders meetings electronically in the Mackay District.

We hope that in the not too distant future we will again be able to travel to Mackay and hold 'in person' meetings of the board, with management and with our grower suppliers.

Following the Nordzucker investment, there have been a number of changes which have been introduced to the business, some of which are quite visible and others which are happening behind the scenes.

There are now five Nordzucker Group employees who have relocated to Australia to help in the big tasks ahead to revitalise the business. Each of these staff members has moved to Mackay with their families and have been warmly welcomed into both Mackay Sugar and the wider community. By all reports they are making a positive contribution to the business and are looking forward to the challenges which lie ahead.

Jannik Olejas moved across as the General Manager in September 2019, and has gained invaluable experience and guidance under Mark Day during a transition period. As was the agreed plan, Jannik has now replaced Mark as the CEO effective from 21 April 2020. Jannik is a highly experienced general manager with a long history and a successful track record within Nordzucker. He has been a part of Nordzucker's top management for many years. Due to his agricultural and sales expertise he has a deep understanding of the sugar industry. I am fully convinced that Jannik will lead the organisation and the business into a successful future. I am looking forward to a continued close and trusting cooperation with Jannik and the Mackay Sugar team.

Mark Day stepped down from the CEO role but will continue as a board member. Mark, as previous Chairman/CEO, along with the Mackay Sugar board and management at the time, steered the company through a very challenging period for the business, the growers and the shareholders. This finally culminated in the investment by Nordzucker. We have been very pleased to have someone with Mark's extensive sugar industry background working to bring Nordzucker and Mackay Sugar together. I personally thank him for his outstanding accomplishments and decisive contributions, as an executive, to Mackay Sugar's success story. I look forward to Mark continuing to service the business as an executive manager until December 2020 and as a board member.

Following the formation of the new Mackay Sugar board, the directors have had the opportunity to work together with Directors Australia to consider the future strategic

direction for the company and to seek alignment on the cultural differences between the Australian and German corporate systems. This has provided excellent insight as to how the board can learn from both systems as we further integrate.

A selection process was initiated for the Grower Director positions who were required to retire by rotation under the constitution. Due to the change of financial year for the company and the initially proposed June AGM date, the director nomination process had been brought forward. This year Paul Manning and George Williams were up for rotation and have been reappointed unopposed. In order to have the director rotation back in line so that one of the Grower Directors is up for reappointment each year, Paul Manning has been appointed for a period of two years and George Williams has been appointed for a period of three years.

We will continue to offer an education program for aspiring grower directors, so that they can understand the role and expectation of directors, with a view to having a succession pathway for Grower Directors in future.

Finally, despite all unprecedented circumstances and challenging tasks around COVID-19, which we still will need to deal with, I am confident and look forward to the season ahead. I wish everyone the best for a safe and productive 2020 crushing season.

Michael Gerloff
Chairman

CEO's Review

CEO'S REVIEW

Since the completion of the Nordzucker recapitalisation in July 2019, the new direction for the Company has been taking shape. With the injection of funds, there has been a significant focus on commencing the program to restore the performance of the mills. The new board is functioning as a cohesive unit, although COVID-19 has meant that the directors' physical presence has been limited over recent months. In addition, the Nordzucker expatriate staff have now been relocated to Mackay.

Change of Year End and Reporting

As you work through this annual report you will see that there are a number of changes. Firstly, the accounts have now been changed to a February year end to be consistent with the Nordzucker parent company accounts for all of its international subsidiaries. For that reason, the accounts are showing the performance for a 9 month period from 1 June 2019 to 29 February 2020. Going forward the accounts will be for the period 1 March to 28 February each year.

Second, and again consistent with the Nordzucker worldwide approach, and as agreed at the 2019 AGM, we have changed auditors to Ernst and Young. It is good practice to change auditors periodically and this has resulted in a very thorough analysis of the accounts and reporting requirements following the changeover. There are also some accounting standards which have changed during the year and some accounting policies have been reviewed and updated in light of the Nordzucker acquisition. These have been reflected in the accounts as presented in this annual report and there are comments where appropriate in the detailed notes to those accounts to explain the changes.

Finally, as the unsecured notes and the Corporate bonds have now been repaid, Mackay Sugar is no longer a disclosing entity for the purposes of the Corporations Act, so the reporting requirements have changed. The level of detail required to be included in the full statutory accounts has been reduced and as a result we will no longer be preparing concise accounts. Therefore, starting from this year, a full copy of the statutory accounts will now be included in the annual report, which reflects what is lodged with ASIC.

Year Ending February 2020 and 2019 Season

In 2019 season, Mackay's three mills crushed 4,926,208 tonnes cane producing 691,874 tonnes sugar.

Overall the Company produced revenues of \$265 million (excluding Mossman mill) which after costs resulted in a profit of \$24.1 million (operating profit of \$1.1 million after excluding extraordinary items). Net operating cash flow was a deficit of \$88.7 million with capital investments of \$18.3 million. Net debt at 29 February 2020 was \$211.3 million.

In the Mackay region, growing conditions for the 2019 crop were significantly better with around 1500mm of rain producing 73 tonnes of cane per hectare verses the 2018 crop which only had 850mm of rainfall delivering 67.3 tonnes of cane per hectare. With the reasonably dry crush season in 2019, we did again crush all of the cane that growers wanted to send to the mill.

Sugar prices for MSL averaged \$414/t IPS sugar versus \$418/tonne IPS sugar in 2018 season.

I would like to again recognise the efforts of the workforce and staff who continue to perform the best they can to keep the mills operating in difficult conditions. They should be commended for their commitment and dedication through the season. We did have a very difficult season at Marian as a result of an accumulated maintenance backlog from many years. For the 2020 season, all mills and rail operations and especially Marian, have had a significant increase in maintenance and capital, as part of our five year plan following the injection of funds from Nordzucker and our banks.



Farleigh mill – Boiler No. 4 feedwater pump upgrade



Marian mill – Weighing and feeding recoupler upgrade stage 1

Sugar Markets

We are pleased that growers can now choose their marketer for all or part of their economic interest in the value of the sugar produced. Being able to forward price part of their crop and manage their risk themselves is unique to Australian growers. It provides an opportunity for both millers and growers to manage their risk in what has proven to be a volatile market, and this upcoming year is definitely going to be another. QCS will continue to develop its services for grower economic interest (GEI) that was allocated to QCS.

With Coronavirus impacting the world, no one can forecast consumption and production levels and we will have to see how the various exporters fare through this totally unpredictable environment. Exchange rates are extremely volatile along with sugar and oil prices. Governments and businesses are doing their best to just survive and get through this period. One positive for us is that we are not as much a “hand to mouth” business, with longer yearly crops and outlooks. This is very different for airlines and tourism which see a much faster impact on their businesses in this environment. This difference means the sugar industry generally is able to offer better security for its employees.

An overview of market conditions is set out under Marketing on page 33.

Capital Investments

Consistent with the rationale that resulted in the Nordzucker acquisition of its 70% interest in the Company in July 2019, the first year of the five year capital and maintenance plan is underway. If you have driven past the

three factories since Christmas, you will have seen there are a significant number of contractors on site helping us with the equipment install and upgrades. Management has for many years been very aware that the mill performance is sub-standard, being constrained by funding, and the current work will start to address these shortcomings. However, it is still a long road ahead and we shouldn't expect too much in the first year. But we are comfortable that the first round of big ticket items has been appropriately targeted to provide some initial improvement in performance and clearly contribute to the mid-term plan.

Across the three mills a total of \$70 million is being spent on maintenance and capital for the 2020 season. The aim of this was to again focus on items that had impacted reliability in the 2019 season or will give us reliability improvements in the 2020 crushing season, as well as addressing some of the more significant renewals which had been deferred for many years.

Farleigh mill – Boiler No.3 and No.4 Upgrade

Investment rationalisation:

- Focus on boiler availability and HP steam utilisation improvements

Scope:

- Replace tubes in convection bank and superheater
- Replace steam turbine feedwater pump with new electric driven feedwater pump.
- Install variable voltage / variable frequency drive
- Upgrade pipework and associated valves

Marian mill – Weighing and Feeding Recoupler Upgrade Stage 1

Investment rationalisation:

- Improve safety at bin uncoupling / recoupling station.

Scope:

- Undertake hazardous operations analysis of existing system to determine gap between best practice and current system.
- Install perimeter fencing – full isolation between people and operating equipment.
- Upgrade hospital line to improve bin movement.
- Install wheel pusher to improve the management of bin movements.

Marian mill – Replace No. 8 and No. 9 Pan Condensers

Investment rationalisation:

- Improve reliability and through-put of No. 8 and No. 9 Pans.
- Design to incorporate latest technology for water saving and extend operational life (corrosion resistant material).
- Ensure the new pan condensers meet current pressure vessel code requirements.

Scope:

- Design of condensers.
- Fabrication of new condensers.
- Installation of new condensers and associated pipework.

Racecourse mill – Outside Liquor Tank Replacement

Investment rationalisation:

- Structural integrity of liquor storage tank.

Scope:

- Remove existing tank.
- Fabricate and install new tank.
- Replace associated pipework.

Safety and the Environment

As part of management's and the workforce's focus, we want everyone to be able to participate in the industry in an environment which is safe. The COVID-19 issues have required additional focus on distancing and hygiene measures to ensure that our employees and contractors can operate in a safe and healthy environment. This has

been at times a significant distraction from routine work and has added time and costs to our everyday activities. We still expect to have the work completed and the mills ready as planned for the 2020 crushing season to commence in June. However, the safety and health of our people is more important than any operational or financial performance parameters.

Board and Senior Staff

MSL is now on the new path, with Nordzucker, of restoring the business and focussing on milling performance. The restructuring processes have now been largely dealt with and we can concentrate on the real value to be added through the Nordzucker investment. We have seen signs that growers are becoming more confident that their crops can be crushed in the future, and we need to be in a position to maximise the returns once the raw sugar prices rise. Nordzucker have to date provided good input into the business at a number of levels and we have had the opportunity to share our learnings between our businesses. This will continue to be important for our future and Nordzucker's investment into MSL. We have seen in our dealings that our goals are aligned on delivering on the improvement plan and to increase the crop; both critical aspects of our core business and the industry in the region.

As the Chairman indicated, I have now stepped down as CEO and Jannik has been appointed effective from 21 April 2020. I wish him all the best in the role. He also has a long "sugar" career and will bring new insights to the business.

I have been privileged to work with the board, management team, our dedicated workforce and all the growers and shareholders through this challenging period. I believe we have delivered the best outcome we could from a very tenuous situation that built up over almost a decade. Time will tell. I will remain working with Jannik and the management team through the 2020 season.

Thank you for your support and comments through the last 2 years. I enjoyed the 40 shed meetings we had through the recapitalisation process and it was very pleasing for all of us to see 94% of the shareholders support the transaction. I wish you, the shareholders, the best for the future.

There is no reason why this region cannot continue for a long time as a competitive sugar industry in this domestic and global market, for the generations to come.

Mark Day

Executive Director (Former CEO)

WELCOME

As you will know I have recently been appointed the new CEO of Mackay Sugar. It is with pleasure and optimism that I have accepted this position, and I am looking forward to working with you, and all other stakeholders to the sugar industry in the Mackay region, in the period to come. We all need to work together in order to make the most of the potential that our industry presents.

Mackay Sugar has a long history of operating within the region and is well set for sugar production. I see an opportunity where we can work together to unlock the full potential of the district assets, both in the Mackay Sugar mills and in the agricultural sector with its growers and contractors. I have already seen a dedication and a willingness to learn and change across both sectors and I believe this provides a strong foundation for future success.

I have relocated to Australia with my wife and children and I am increasingly becoming used to the Mackay lifestyle. I look forward to meeting you over the months ahead.

Jannik Olejas
CEO (Former General Manager)



Performance Summary

PERFORMANCE SUMMARY

For the year ended 29 February 2020
Five-year summary (operational, financial and people statistics)

	29 Feb 2020*	31 May 2019	31 May 2018	31 May 2017	31 May 2016
Production					
Tonnes cane milled	5,101,001	5,781,859	6,151,356	6,862,864	6,191,429
Tonnes sugar produced (IPS)	712,017	807,960	795,756	856,127	863,434
Tonnes of molasses	167,608	211,739	218,022	239,716	211,922
MSL total average sugar price	\$414.03	\$418.35	\$469.82	\$487.48	\$409.92
Financial (\$'000)					
Operating revenue	272,543	405,098	450,894	498,833	432,904
Gross profit	147,102	183,647	198,045	217,847	200,652
Net interest expense	8,710	15,143	12,945	13,014	14,921
Net profit after tax	24,120	(190,192)	(20,427)	(33,414)	(26,063)
Net operating cash flow	(88,665)	(61)	19,996	43,644	(10,914)
Total Assets	420,771	315,043	490,232	522,409	553,531
Total liabilities	346,086	315,043	285,243	306,130	331,188
Net assets/Total equity	74,685	0	204,989	216,279	222,343
Capital expenditure	18,262	13,872	12,281	22,760	28,577
People					
Total employees	593	904	859	908	927

*Includes Mossman mill for part year only.

Year in Review

FINANCIAL SNAPSHOT

The Group achieved a profit for the 9 month period ended 29 February 2020 of \$24.120 million and an increase in net assets of \$74.685 million. Significant changes in the financial structure of the Group occurred during the period as a result of the recapitalisation with Nordzucker AG and changes in the financial accounts of the Group are explained below.

Consolidated financial accounts

The financial accounts presented in this report are the consolidated financial accounts of the Mackay Sugar Limited Group. Mackay Sugar has a wholly owned active subsidiary – Queensland Commodity Services Pty Ltd (QCS) which is included in the financial statements presented by Mackay Sugar. The discussion on the financial statements set out below is in relation to the Group.

Significant changes during the year which affected the financial accounts:

Recapitalisation

The Company was recapitalised on 31 July 2019 with Nordzucker AG obtaining a 70% shareholding in the Company through a \$60 million equity investment. Refer to note 24 of the financial statements for a summary of the capital structure of the Company following the recapitalisation. As part of the recapitalisation process, the Company obtained a shareholder loan facility with Nordzucker AG, repaid its unsecured notes schemes and updated its financing facilities with banks.



The additional funding obtained was used to redeem the Mackay Sugar Corporate notes and selected term unsecured notes; repay a portion of the existing seasonal bank debt; repay 50% of the deferred cane payments and cover current and future capital expenditure programs.

Further details of the Company's full loan facilities are explained in note 28 of the financial statements.

Status of the Company under the Corporations Act and Accounting standards

The recapitalisation process and subsequent closure of the unsecured notes schemes has resulted in the Company no longer being a 'disclosing entity' under the Corporations Act 2001 and no longer being 'publicly accountable' under the relevant accounting standards. This has various financial and regulatory reporting implications for the Company. In relation to the financial statements presented in this report, the Company is eligible for and has elected to apply the reduced disclosure requirements of 'AASB 1053: Application of Tiers of Australian Accounting Standards'. This ensures full compliance with the recognition and measurement requirements of the accounting standards but provides relief from some of the disclosure requirements. As a result, the Company has elected to present the full financial report in accordance with these changes rather than the concise financial report that has been presented in previous years' annual reports.

Sale of Mossman mill

As a precursor to the recapitalisation outlined previously, the Company sold its Mossman milling operations on 5 July 2019. The sale arrangements and relevant disclosures are included in note 35 of the financial statements. In accordance with 'AASB 5: Non-current assets held for sale and Discontinued operations', the financial results of the Mossman milling operations to the date of sale have been separated out of the Group's other operations and shown separately in the profit and loss figures included in the financial statements.

The amounts included in the financial statements for the 9 month period ended 29 February 2020 will only include the Mossman operations for the period 1 June 2019 to 5 July 2019 (34 day period). The comparative amounts in the financial statements include the Mossman operations for the 12 month period ending 31 May 2019. As a result, many figures included in these financial statements will not be comparable.

Change in financial year end date (February)

Following recapitalisation, the Company determined to change its financial year end date from 31 May to 28/29 February to align with the Nordzucker AG financial year. As a result, the financial statements presented in this report cover the 9 month period 1 June 2019 to 29 February 2020. The comparative amounts presented in the financial statements cover the 12 month period 1 June 2018 to 31 May 2019. As the current period is 3 months shorter than the comparative period and the fact that the 29th February is mid maintenance season while the 31st May is the end of the season, the majority of the amounts in the financial statements for the current period will not be comparable to the amounts presented for the previous period.

Changes in Accounting Standards – AASB 16: Leases

The Group was required to implement a significant new accounting standard (AASB 16: Leases) for the period ended 29 February 2020. This standard resulted in some changes to the way lease expenditure is calculated and recognised in the financial statements during the current period. Some leases have been required to be recognised in the statement of financial position as a liability with the asset associated with the lease being recognised as a 'Right-of-use' asset. The changes in the financial accounts as a result of these changes are detailed in note 1(cc) of the financial statements.

New sugar marketing arrangements

The Group has been required to implement new legislative sugar marketing arrangements for the first time during the current reporting period (i.e. 2019 season). These arrangements allow sugar cane suppliers to elect to have their grower economic interest (GEI) in the sugar produced from their cane to be marketed and priced by a third party. The accounting implications under these arrangements require the third party marketed GEI portion of the sugar produced by MSL to continue to be recorded as sugar revenue even where the third party marketer receives the sugar proceeds and makes the cane payments. The result is that these new arrangements have not changed the amounts reported in the financial statements in relation to sugar sales and cane payments. These arrangements have significantly changed the administration processes associated with sugar revenues and cane payments.

Statement of profit or loss

An analysis of the profit of \$24.120 million reported in the statement of profit or loss for the 9 month period ended 29 February 2020 is as follows:

Profit or Loss item	Amount \$000	Amount \$000
Profit from ordinary operations (Includes Mossman operations to date of sale)		1,095
Loss on sale of Mossman milling operations		(975)
Gain on debt forgiveness of Corporate Bonds		25,000
Loss on Cogen 38MW circuit breaker failure		
Revenue losses and additional costs incurred	(3,481)	
Less: Insurance recoveries	2,481	(1,000)
Total consolidated profit for period		24,120

Major movements in the profit or loss items for the period not explained above are as follows:

Revenue

Apart from the Mossman milling operations, the Group's operations remained unchanged from the previous period. Revenues are primarily a function of the Group's sugar, molasses and electricity production and the associated pricing obtained for the sale of these products and services.

Sugar

Total sugar production for the 2019 season was 712,017 tonnes IPS (Mackay 691,874; Mossman 20,143). This was down by 95,943 tonnes IPS compared to the previous season's production of 807,960 tonnes IPS (Mackay 653,738; Mossman 154,222). The reduction in tonnages resulting from the sale of Mossman mill was partially offset by an improvement in the Mackay region's sugar production. Sugar pricing was similar to the previous year with an average price of \$414.03 per tonne recorded in the financial accounts for the 2019 season. This compared to an average sugar price of \$418.35 per tonne recorded in the 2019 financial accounts for the 2018 season.

Impact of sugar sales versus sugar stock

The new financial year end date of 29 February 2020 is approximately three-quarters of the way through the Group's standard operating season. At this time there is usually considerable quantities of sugar and molasses held in stock which would be sold during the period March to May. As at 29 February 2020 an amount of 151,185 tonnes of sugar and 27,304 tonnes of molasses was held in stock. An amount of approximately \$9.3 million relating to additional sugar income (being the difference between the estimated sale amount and stock value) for the sugar held in stock has not been included in the profit or loss in the current period. This additional sugar income will be recognised in the next financial period.

Molasses

Total molasses production for the 2019 season was 167,608 tonnes (Mackay 161,844; Mossman 5,764). This was down by 44,131 tonnes compared to the previous season's production of 211,739 tonnes (Mackay 176,403; Mossman 35,336). An increase in molasses pricing was achieved during the period compared to the 2018 season.

Electricity

Electricity revenue of \$16.273 million for the 9 month period was down by \$5.382 million compared to the previous year's revenue of \$21.655 million. Approximately \$3 million of this decrease was attributable to reduced electricity generation between June and August 2019 mainly due to the Racecourse cogeneration switchboard failure, which is subject to a business interruption insurance claim.

Expenditure

Maintenance costs were proportionally less in most areas due to the 9 month reporting period however crush season maintenance costs at Marian mill increased due to breakdowns and poor factory performance. Operating expenses reduced compared to the previous season mostly due to reduced cogeneration costs, being a reduction in coal usage and the purchase of LGCs in the previous season. The sale of Mossman mill has also resulted in reduced costs this year when compared to last year.

Depreciation expense has reduced significantly due to the \$164.404 million impairment of property, plant and equipment assets on 31 May 2019. This has reduced the asset base on which the depreciation expense in the current period is calculated.

Finance costs have reduced significantly due to the Nordzucker \$60 million equity issue and initial drawdown of the shareholder loan, which allowed the Corporate Bonds to be repaid resulting in interest no longer being incurred on this debt after repayment in August 2019. In addition, the STL subscription liability (refer note 21 (b) of the financial statements) has reduced by \$0.796 million which is required to be adjusted through interest expense. The general reduction in interest rates has also contributed to the reduction in finance costs.

Statement of financial position

Total equity increased on the previous year to \$74.685 million as at 29 February 2020. This was due to the Nordzucker AG equity issue of \$60 million offset by share issue costs of \$1.586 million, the profit for the year of \$24.120 million and a decrease in reserves of \$7.849 million. The reserve movements reflect a reduction in the hedge reserve of \$8.468 million, a decrease in the financial asset revaluation reserve of \$0.101 million, and an increase in the foreign currency translation reserve of \$0.720 million.

The hedge reserve of \$(3.593) million reflects the mark-to-market deficit in the value of the Group's hedging positions as at the period-end date and includes the sugar pricing, foreign exchange contracts, and interest

rate hedging contracts. The reduction was mainly due to a rally in the sugar price in January/February 2020 which increased the negative mark-to-market position of the Group's sugar pricing derivatives as at 29 February 2020. The net hedging position has become favourable subsequent to 29 February 2020 due to a movement in the ICE No.11 Raw Sugar Futures prices and exchange rates.

Net debt increased by \$16.506 million to \$211.336 million as at 29 February 2020. The increase is primarily due to seasonal financing being required at this time of the year due to significant amounts of sugar being held in stock and an increase in receivables. The net debt is comprised of bank term debt loans of \$100 million, bank capex loans of \$7.839 million, seasonal financing loans of \$64.929 million, Nordzucker AG shareholder loan of \$28.861 million, lease liabilities of \$0.888 million and the STL subscription liability of \$27.627 million, offset by cash of \$18.808 million.

Receivables increased by \$38.966 million to \$55.054 million; payables increased by \$26.718 million to \$72.285 million; and inventories increased by \$66.165 million to \$78.962 million. These increases all reflect the seasonal timing of the Group's position at 29 February compared to 31 May in relation to sugar and molasses receivables/stock and cane payments.

The Group's current ratio, measured as current assets to current liabilities, is 103.3% compared to last year of 23.3%. This has significantly improved on the previous year due to the recapitalisation and restructure of bank facilities which has moved a significant portion of the Group's borrowings from current to non-current liabilities. The Group's gearing ratio, net debt to net debt and equity, is 73.9% compared to 100% for the 2019 financial year. This ratio highlights the level of external debt compared to shareholder's equity. The Group's debt to equity ratio as at 29 February 2020 is 4.63.

Statement of cash flows

The net cash flow from operating activities resulted in a cash deficit of \$88.665 million for the period. This reflects the seasonal timing of the Group's position as at 29 February with significant funds still to be obtained for the sugar and molasses held in stock. Capital expenditure increased by \$4.390 million on last year to \$18.262 million. The majority of the capital expenditure related to stay-in-business capital and is part of the investment strategy to restore milling performance. An amount of \$7.769 million was returned by the Sugar Australia investment in excess of their profits in cash during the period.

Movements from financing activities were a combination of the following:

- proceeds on the issue of shares to Nordzucker AG of \$60 million;
- Nordzucker AG shareholder loan borrowings of \$28.226 million;
- share issue and borrowing costs of \$2.779 million;
- banks borrowings of \$7.839 million for capital expenditure;
- increase in bank seasonal funding of \$3 million;
- inventory financing of \$31.929 million;
- repayment of the Mackay Sugar Corporate notes for \$25 million;
- proceeds from other interest bearing liabilities of \$1.127 million; and
- a decrease in selected-term unsecured notes and interest bearing deposits of \$3.331 million.

As a result of the above cash movements, cash on hand increased by \$1.884 million to \$18.808 million.

The year ahead

With the recapitalisation process finalised and banking facilities renewed, the Group is focused on improving milling performance to ensure that the next season's crop is crushed efficiently, improving on reliability, rate and recovery. The Company is also focused on ensuring that its business operations and financial security will be impacted as minimally as possible from the effects of the Coronavirus pandemic.

Racecourse mill bagasse bin upgrade



Operations

MILLING

Farleigh mill

In the 2019 crushing season, Farleigh mill processed 1.609 million tonnes of cane over a 25.8 week period. This was approximately 170,000 tonnes over the original plan as it assisted in equalising the finishing dates of the mills across the region. The crushing rate was 450 tonnes per hour which was slightly better than the previous year and was in line with expectations. This performance is still down from the historical levels mainly due to two factors. Firstly, the evaporation capacity was reduced prior to the 2018 season and plans to address this issue have been incorporated into the future works in the improvement program, however it will remain a limit for the 2020 season. The other main impediment related to steam capacity and, in particular, Boiler 3. A refurbishment of this boiler and other key works on Boiler 4 was a feature of the first year of the improvement program at Farleigh and it is expected that will reduce this impediment for the 2020 crushing season.

There was a pleasing improvement in the mill availability at 87.1% for the season compared to the previous year of 79.8%. This reflected good outcomes from targeting the available maintenance and capital funds to the areas that incurred significant lost time over the last few years and also to address the key issues that were identified in the critical plant inspections. The inspections however also confirmed the need to continue with the improvement program to restore the factory reliability to the targeted level.

The process efficiency was also reasonable and was similar to the 2018 season. A more detailed assessment however determined that substantial improvement opportunities are possible and a number of these have also been included in the improvement program.

Overall Farleigh produced 223,327 tonnes of IPS sugar.

Marian mill

Marian mill crushed 1.939 million tonnes of cane in a 26.1 week season at a crushing rate of 645 tonnes per hour. It produced 267,409 tonnes IPS sugar for the season.

The crush rate saw an improvement of 15 TPH over the 2018 season to 645 tonne per hour, however factory availability in 2019 retracted 10.7% from 2018 results to 73.2%. Multiple failures in the crushing station and bagasse system played a major role in reversing the previous year's stepped improvements in availability at Marian factory.

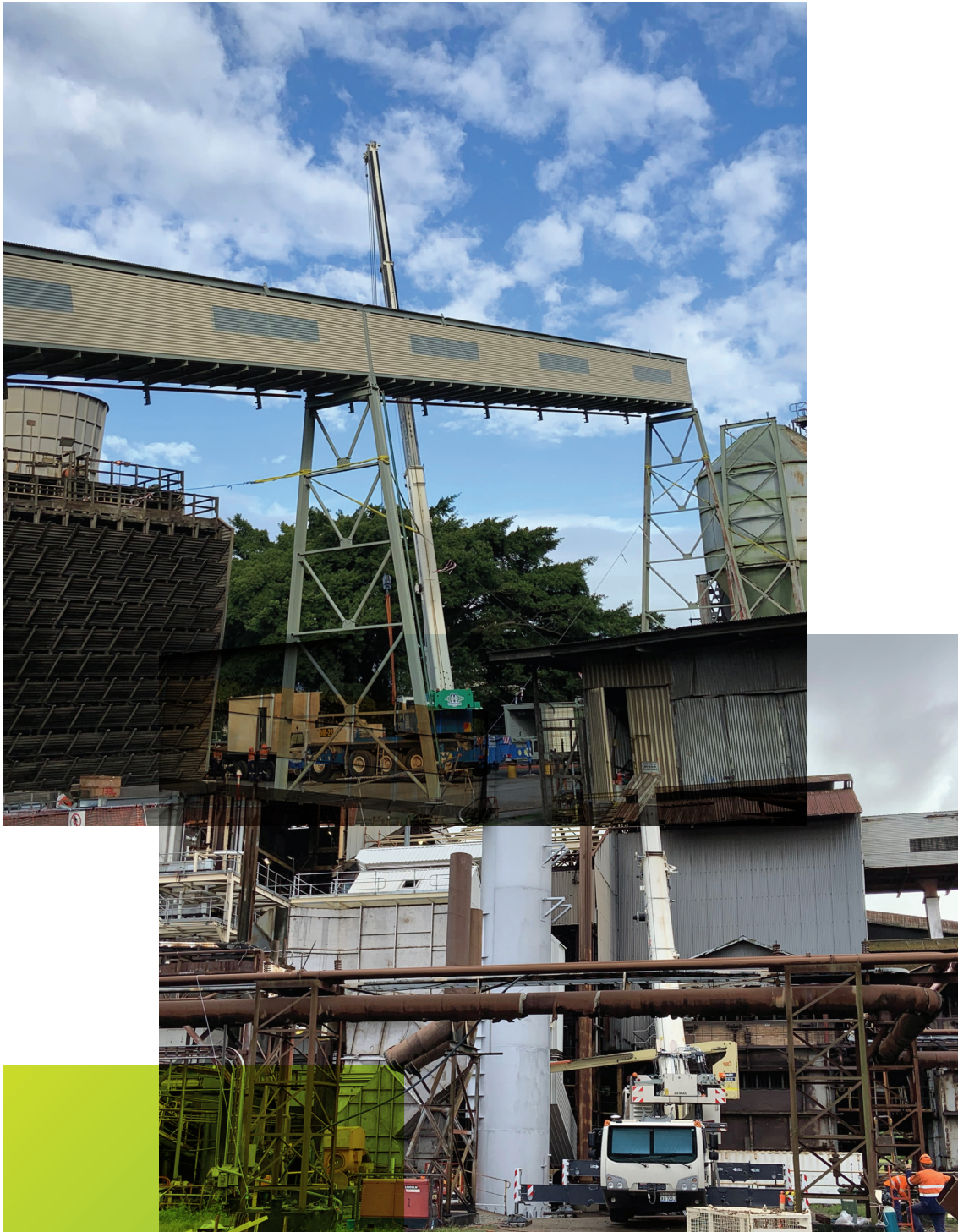
Some of these issues were resolved during the 2019 crush however the major maintenance and capital refurbishment program at Marian has been modified to ensure the major issues of the 2019 crush are being mitigated or removed.

The maintenance program in the crushing station is the most extensive that the site has seen in the last 10 years or more with a significant program in the intercarriers and turbines also being undertaken. During the 2019 season steam supply/capacity was also an ongoing issue with both boilers. This should now be vastly improved with new fans and improved ducting for Boiler 1 and economiser tube, fan and ducting work undertaken on Boiler 3.

A relatively dry season in 2019 helped with the ability to process mud in the factory and enabled a large improvement in mud losses over previous years with a result 39% better than budget. However, failures of plant in the area marred the improvements gained. Significant capital has been spent on the mud filters for the 2020 season to reinforce the gains and also to ensure better availability of this critical plant to continue crushing in wetter seasons.

The evaporator station was severely compromised during the 2019 season with numerous tube failures which lead to more lost time. A very significant program has been undertaken to mitigate the risk for the 2020 season with further work built into the refurbishment program at a later stage which should permanently address the issue. Further significant work has been undertaken in the pan stage to reduce rate and availability issues within the factory.

Marian mill – mud ash conveyor replacement



Farleigh mill – No. 3 boiler refurbishment

Overall, the 2019 season was an extremely difficult year with both workplace health and environmental issues also presenting some challenges. The effluent line to the mill ponds ruptured during the steam trials which, whilst not causing damage, Marian site was fined for the incident. The other particularly low point of the season was where an employee was injured around the bin tippler area. Thankfully, the employee has been able to make a full recovery. Work is being undertaken to identify the best way to mitigate this risk for the future across all mills.

Racecourse mill

Racecourse mill processed a total of 1.378 million tonnes of cane for the 2019 crushing season and achieved a nominal crushing rate of 422 tonnes per hour in a period of 24.7 weeks. Crushing rate was 9 tonnes per hour higher than the 2018 season performance of 412 tonnes per hour. Racecourse mill produced 201,138 tonnes of IPS sugar for the season.

Cane quality and purity throughout the season was above average and the drier season assisted in achieving improved factory recoveries.

Overall recovery for the 2019 season was higher than the 2018 season. Mud, molasses and waste water losses improved as a result of targeted maintenance in these areas during the 2018/19 shutdown period.

Factory availability of 82.9% for the 2019 season was around 0.9% lower than the 2018 season.

Major stoppages for the season included repairs to superheater tubes in Boiler 4, failure of the 38MW main circuit breaker as a result of water ingress into the switchboard, failures of the cooling fan gearboxes on the 38MW tower and repairs to the shredder feed rollers.

Maintenance and capital programs during the 2019/20 shutdown period are focussing on the refurbishment of the Bagasse Bin centre structure, replacement of the factory Injection Water Main and Shredder Feed Rollers. This program will assist in improving reliability for the 2020 crush.

The replacement and commissioning of No. 6 Process Cooling Tower in the early stages of the 2020 crush will deliver improved rate and recoveries for Racecourse factory.

Cogeneration

During June and July 2019, the Racecourse Cogeneration Plant suffered three successive major plant failures which resulted in significant impacts on Racecourse mill crushing and refinery operations between June and October. For Racecourse mill, the impacts included 74 hours of mill downtime and 60 days of turbine downtime, reducing the Cogen generator availability to 74% for the year ending February 2020. Generation and power export was reduced by 31.4 GWh and 25.6 GWh respectively. All failures have been or are in the process of rectification, with measures to eliminate or manage future re-occurrences.

The return to good operation of Boiler 3 after 2019's major overhauls to the air heater, replacement of the economiser, ducting replacement and disconnection of Boiler 2 was a positive and welcome highlight. Boiler 3 was returned to its full capacity, however it will still require more work to regain full reliability.

As a combined result of the Boiler 3 overhauls and 38 MW turbine downtime, bagasse export increased and coal consumption decreased significantly. This increased the LGC make and reduced fuel costs below budget in an otherwise tough year.

Boiler operators' training and development continues with adequate numbers in place now to replace upcoming retirements at Racecourse. Recruitment from external sources has bolstered group wide numbers to handle retirements at other sites.

A contract for export power and LGC sales to Ergon for all three Mackay mills was renewed in 2019 with a market based contract. The Queensland power market place in August to November 2019 was volatile with periods of both high and low power prices. Since November 2019, whilst market volatility has reduced, average power prices have fallen approximately 13% in a period where historically prices have risen.

CANE SUPPLY

The crushing season commenced at Farleigh on 4 June 2019 followed by Marian on 6 June 2019 and Racecourse on 13 June 2019. Overall, the season progressed well with minimal wet weather interruptions.

The lead up to the crushing season saw above average rainfall for April and May combined figures, with a total of 276mm recorded compared to the 10-year average recorded at Pleystowe for the same period of 197mm. This caused minor wet weather interruptions to crushing for the first quarter of the season. As the season progressed beyond August the region began to experience drier than normal conditions. The average 10-year rainfall is 299mm from June to November, but only 142mm was measured for the 2019 season over the same period, with only 68mm falling between August and November inclusive.

The crop held on very well considering the low, in season, rainfall figures but did fall in estimate towards the end of the crushing. This translated to a reduction in the Mackay crop estimate and a total of 4.93 million tonnes of cane being crushed across the three mills. The 2019 crushing season finished on 5 December 2019 at Marian mill with Farleigh and Racecourse mills crushing out on 2 and 3 December 2019 respectively.

Whilst the COVID-19 issues have added some additional work requirements to maintain a healthy workforce, the crushing season preparations are progressing largely unhindered by any particular weather events. We expect the rail infrastructure team to complete the normal planned maintenance of track, bridges and sidings, with a large amount of re-railing work being carried out prior to the commencement of 2020 crushing operations.

In relation to Health, Safety and Environment, it was a big achievement by the Rollingstock department to celebrate six years Lost Time Injury free. This is another great achievement for the department and all members of the team are congratulated for their continuing contribution and effort in achieving this result. Rail Infrastructure and Transport departments also achieved 12 months lost time injury free.

Cane transport operations continue to face the challenge of delivering on service level targets with a continuation of lean operating strategies in place to reduce costs and improve efficiencies. The alignment between our harvest and crushing operations is not ideal with the large majority of harvesting carried out over a 12-hour period, concentrated between 6 a.m. and 4 p.m., and factories crushing over 24 hours. The differential is taken up in the transport system through buffer storage of cane in bins and double handling of bins between empty/full cycles.

Rolling stock performance for the 2019 season was good with locomotive availability greater than 90% and improved derailment performance. There was substantial realignment work associated with the Mackay Ring Road project which will continue into the 2020 season.

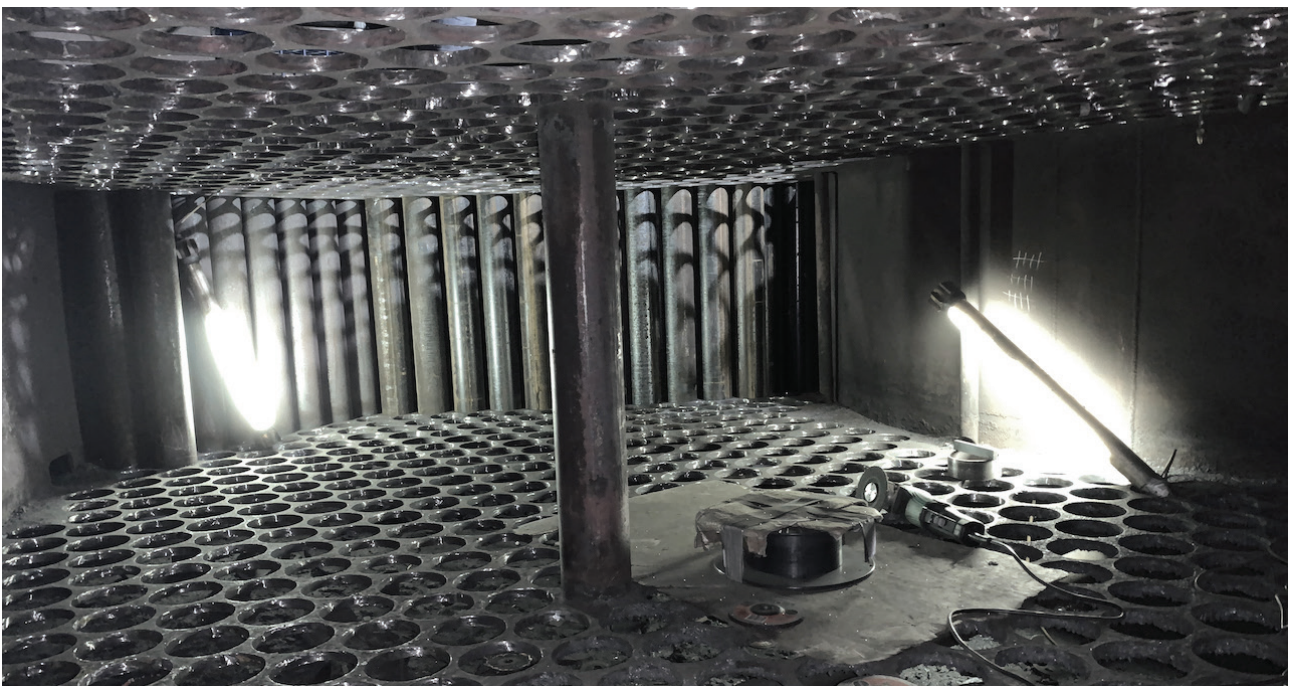
Harvest management is never an easy task, endeavouring to manage the equity for 160 harvest groups across the region. The 2019 crushing season provided its own set of challenges. A concerted effort is always made to align harvest groups prior to the end of the season. At the commencement of the last week of crushing operations 90.6% of all groups were within the targeted equity position of 3% of the mill.

Another initiative for the harvest management operation was to maintain the minimum tonnage required to be supplied per harvester per day. This was set out in the amendments to the Cane Supply and Processing Agreement and was set at a minimum of 100 tonnes for two years. This requirement will increase to 150 tonnes per day for the 2020 crushing season.

In the lead up to the 2020 crush season and following the recapitalisation of MSL, there has been a new focus set on working towards realising the region's potential for cane and sugar production in full. It is our ambition to engage with growers and other stakeholders supporting the development of farms and growing towards a sustainable supply of cane – considering all impacts of the surrounding environment, be it of natural or regulatory character. By this we plan to make the most of everyone's efforts to the benefit of all. As one part of our agri strategy we are proposing to enhance direct communication with growers by using several tools to communicate and strengthen the direct exchange between growers and Mackay Sugar.

Mackay Crop Performance

The 2019 season resulted in a total of 4.93M tonnes (2018 season: 4.67M tonnes) of cane crushed from a harvested area of 67,589 ha (2018 season: 69,435 ha) in the Mackay region. This is an average of 72.9 tonnes/ha, due to some good rain during the crush delivering a better result than 2018 season, which averaged 67.3 tonnes/ha. The average sugar content or CCS was 14.02% while 2018 was 14.33 units of PRS. This leads to an average sugar yield in 2019 of 10.22 tonnes/ha compared to 9.62 tonnes/ha in 2018.



Vacuum Pan Internals

HEALTH AND SAFETY

	As at 29/02/2020
LTIFR	10.10
TRIFR	51.33
AIFR	157.35
Rolling Average YTD	0.78

Work Health and Safety is a core value for Mackay Sugar and is managed in accordance with the statutory provisions of the Work Health and Safety Act 2011 (the Act). Our safety management system supports this with a range of work health and safety, and return to work policies and initiatives. The Health and Safety team provide guidance and support to the business units in implementing the requirements under the Act and Regulations.

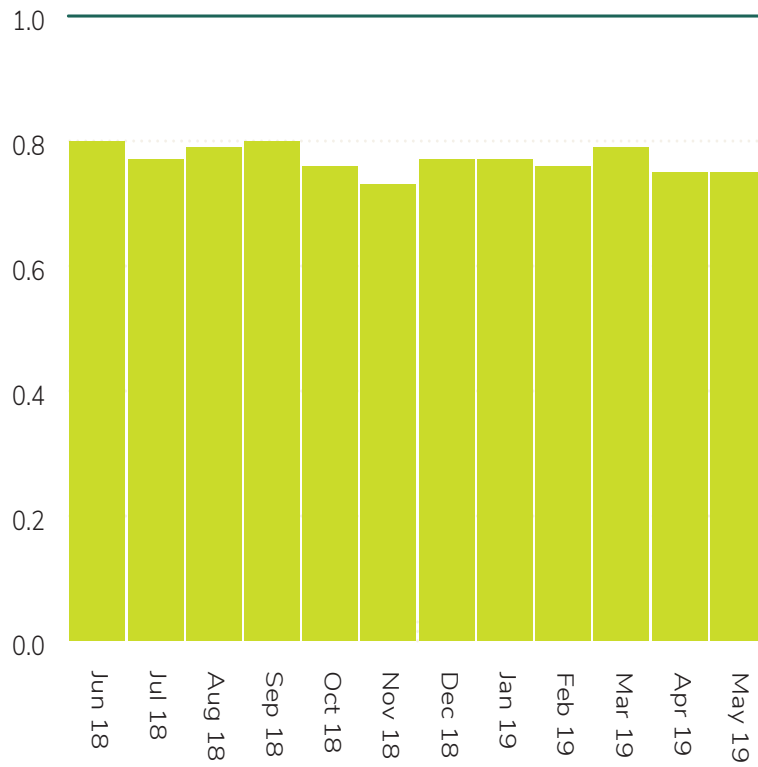
Our safety performance has improved over the year however we know we must ensure safety is the forefront of what we do. Overall, we managed Lost Time Injuries with prompt injury management and working closely with our medical providers to have employees back to work. We have completed the year with an LTIFR of 10.10 (YEM2019: 6.16). Our TRIFR performance decreased compared to last year ending February at 51.33 (YEM2019: 54.68).

Across the entire business, we have been focussed on reminding our employees and contractors that Safety must come first in everything we do. We will continue to strive to make sure our people prioritise safety in their day-to-day activities. We have made a concerted effort to focus on:

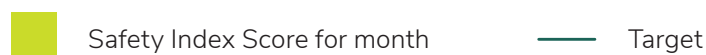
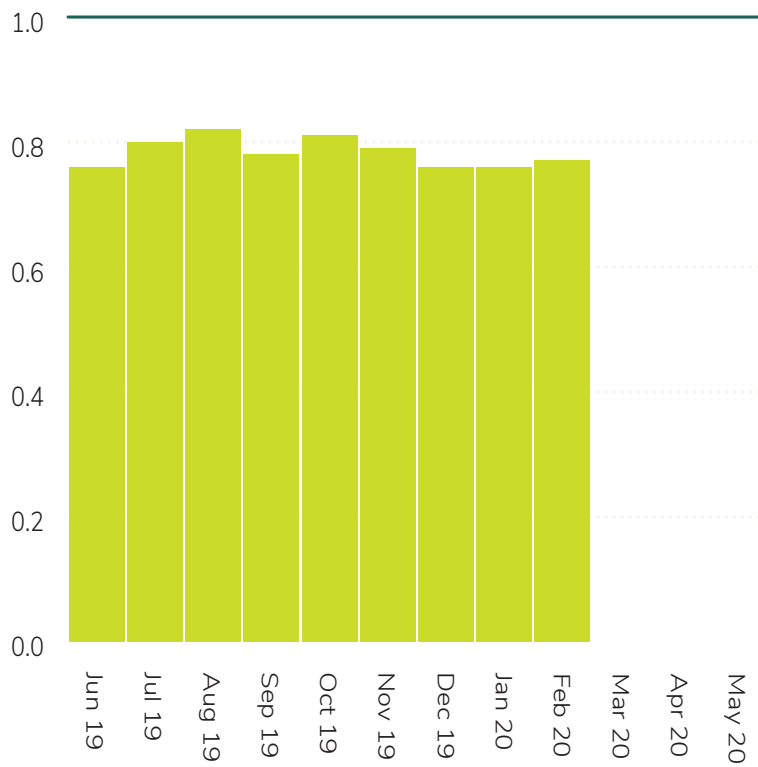
- reinforcement that safety comes before production;
- engaging our employees to work through our safety improvement program; and
- allowing further quality time to be spent engaging with our workforce.

The Safety Index is a weighted index measurement focussed on lead indications designed to measure the effectiveness of key proactive elements of the Safety and Health Management System. The index is designed to promote a culture of ownership and accountability for safety and comprises three key elements: Information and Communication; Implementation and Monitoring; and Improvement. Elements are measured against attendance at Toolbox Talks, Job Observations, Scheduled Training, HSE Committee meetings, Incident records and Reporting timeframes. In recent years, we have consistently exceeded the Safety Index target of 1.00, however we have revised the weightings of the index and have applied a stronger emphasis on lagging indicators to encourage us to work harder to reduce the severity of incidents. We finished the year with an average safety index of 0.78 (YEM19: 0.80).

YEM 2019 Safety Index



YEF 2020 Safety Index

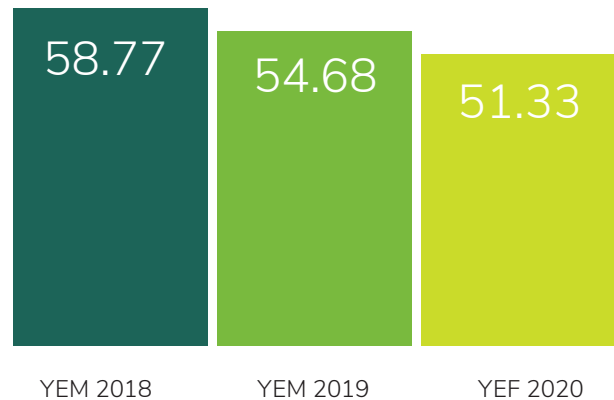


Our health and wellbeing process has continued throughout the year with strong engagement from our workforce. We continue to identify opportunities to enhance our health and wellbeing at work and initiatives included influenza vaccinations offered onsite to staff, health alerts, Workplace Quit Smoking Program, Melanoma Awareness and Employee Wellbeing Medicals.

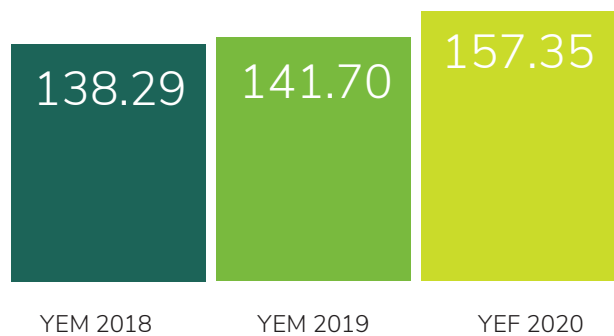
Mackay Sugar Limited was provided with a Complaint and Summons by Workplace Health and Safety Queensland in May 2016 relating to an alleged breach of the Work Health and Safety Act 2011 (Qld). The complaint related to an incident which occurred 25 September 2014 whilst an employee was operating the tip at Mossman mill when his right foot became trapped between the edge of the cradle of the tip and the cane bin exit area of the tip as the cradle of the tip returned to its resting position after tipping a full cane bin. The worker sustained an extensive injury to his right foot, which was later amputated below the knee. Mackay Sugar attended the hearing at Mossman Magistrates Court in October 2019 and, as a result, was ordered to pay a penalty of \$75,000. No conviction was recorded.

Our management team has continued to work with Work Health and Safety Advisors on the safety improvement program, called IPaM, aimed at injury prevention and safety outcomes. A total of 35 actions were recommended with 27 completed. We will continue to work through the action plan with frequent update meetings held with WHS Advisors.

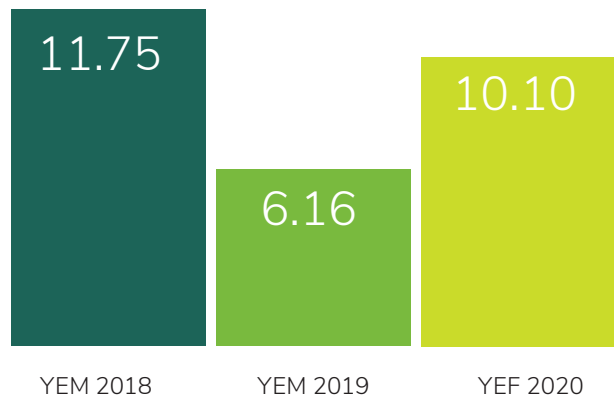
Mackay Sugar Limited Total Recordable Injuries Frequency Rate (TRIFR)



Mackay Sugar Limited All Injuries Frequency Rate (AIFR)



Mackay Sugar Limited Lost Time Injury Frequency Rate (LTIFR)



OUR EMPLOYEES

Mackay Sugar

We have a strong workforce that is employed in a variety of management, technical, trade, operator and administrative roles across a range of business units, who are required to be skilled, engaged and motivated to work safely to achieve business success. The structure of our organisation includes: Cane Supply and Logistics, Cane Productivity, Milling Operations, Projects, Asset Care and Services, Corporate and Business Services.

As at 29 February 2020, 593 employees were employed, working across our main locations (Farleigh, Marian and Racecourse mills and Pleystowe site). Planning for the Crushing Season recruitment of 2020 is well underway, with advertising commencing at the end of February. The majority of seasonal roles will be filled at and shortly after the end of May and we anticipate that it will bring the total of employees to approx. 800 for the 2020 crushing season. At the peak of the 2019 crushing season, excluding Mossman mill, 782 people were employed, 280 of whom filled seasonal roles.

Our salaried workforce comprises 146 salaried personnel in a variety of management, supervisory, engineering, planning, procurement, information technology, human resources, accounting and administrative roles, and 313 permanent wages personnel in a variety of trade, technical and processing roles. Workforce planning and organisational changes continue to focus on delivering a workforce with the capabilities and capacity to deliver the required business outcomes.

Nordzucker – five families have relocated to Mackay from Germany, Denmark and Finland over the past 6 months, with the first official assignment commencing on 1 September 2019.

22 apprentices were employed as at 29 February 2020 in Mackay, with 12 joining the business as at 28 January 2020.

Valuing Diversity and Inclusion

We provide employment opportunities for a diverse range of people, relying on the criteria of 'best person for the job'. Successful compliance with the completion and submission of the Workplace Gender Equality Report attests to our compliance in that aspect of employment law. We are continuing to build data collection capabilities in accordance with current and future legislative requirements in preparation for continued compliance.

For the 12 month reporting period ending February 2020, females accounted for approximately 16% of our entire workforce. Female employee numbers typically increase during our crushing season with our Cane Transport operations group maintaining a substantially higher proportion of females on a consistent basis during our crushing seasons.

Apprentice Awards

Our annual Mackay Apprentice Awards were held in December 2019, formally recognising the achievements of our apprentices. Our 2019 Apprentice award recipients were:

- Apprentice of the Year (Frank Marchetti Award), Eli Cappello
- Best Fitting & Turning Apprentice, James Feenaghty
- Best Electrical Apprentice, Kieran Reitano
- Best Boilermaking Apprentice, Brady Smith

Training and developing our future workforce

Mackay Sugar continues to offer apprenticeships in Mackay. Currently Mackay Sugar has 22 apprentices in total. Apprenticeships remain offered in four trades: electrical, instrumentation, boilermaking and fitting. A diesel fitter apprentice for the Cane Supply area was also selected as part of this year's intake. Additionally, this year we intend to engage a further 6 non-traditional apprentices from our production ranks, with these individuals continuing their production responsibilities during the crushing season and undertaking their apprenticeships during the subsequent maintenance season.



Tertiary Study Assistance Program

Our employees are encouraged to participate in tertiary education in nationally recognised courses to enhance their self-development and qualifications that benefit both the employee and our business. We provide selected employees, aligned to our succession planning goals and operational requirements, with financial assistance to undertake study so that tertiary education is more accessible to our workforce. We currently have 11 employees completing tertiary education via this program.

Work experience

Additionally, in the period ending February 2020, Mackay Sugar hosted 19 work experience students from secondary schools. As part of adding greater emphasis to encouraging students to think of Mackay Sugar for a career, the work experience program is promoted by key employees so that schools understand the full range of work experience options available.

Fostering Industrial Harmony

We actively work with the three industrial trade unions that are party to our Industrial Agreement and represent employees. These unions include:

- i the Australian Workers' Union, Queensland Branch – the 'AWU';

- ii the Automotive, Metals, Engineering Kindred Industries Industrial Union of Employees, Queensland – the 'AMWU'; and
- iii The Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing & Allied Services Union of Australia, Electrical, Energy and Services Division – "the ETU".

We are committed to identifying potential disputes and to working co-operatively to resolve them as soon as practicable. This approach ensures that the focus for our employees and the unions remains the conduct of safe, satisfying, and productive work. This is executed through:

- Consultative groups;
- Training and reclassification committees;
- Payroll query resolution processes;
- Dispute avoidance procedures;
- Regular employee information sessions; and
- Enterprise Agreement education sessions for Managers and Supervisors.

During the year, the Mossman Enterprise Agreement became a transferable document binding the new employer, Far Northern Milling.

The Mackay Sugar Mills Agreement was negotiated during the period November 2018 to March 2019 and approved by the Fair Work Commission in May 2019. This Agreement remains current until the nominal expiry date of 28 February 2022.



WE PROVIDE
EMPLOYMENT
OPPORTUNITIES
FOR A DIVERSE
RANGE OF PEOPLE,
RELYING ON THE
CRITERIA OF
'BEST PERSON
FOR THE JOB'.

ENVIRONMENT

	As at 29/02/2020
Enviro Index	0.74
Target	0.80
Rolling Average YTD	0.86

Our environment

Mackay Sugar has a strong focus on environmental protection and sustainability, and ensuring that its operations do not adversely impact the environment. Mackay Sugar's activities are governed by legislative obligations and community expectations. We utilise our Environmental Management System (EMS) to ensure compliance and to encourage continuous improvement leading to better environmental performance. Through the application of environmental programs and legislative tools, we continue to develop the standards of our operations as we strive to reduce our footprint and minimise our impact on the environment and community.

Racecourse mill

An Environmental Protection Order (EPO) was issued by the Department of Environment and Science (DES) to manage odour at the effluent ponds and at nearby sensitive receptors, during crushing and non-crushing operations. Work as identified under the EPO will take place over the coming years.

Environmental Index

We have continued to use the Environmental Index to measure and understand the effectiveness of the Mackay Sugar Environmental Management System and overall environmental performance of the business. The target score is 0.80, we ended the YEF20 year above this target at 0.86 (YEM19: 0.89). We continue to put an emphasis on environmental reporting and hazard identification to reduce the likelihood of an environmental incident.

Environmental Authority

Mackay Sugar together with DES have agreed on a new Corporate amalgamated licence for Farleigh, Marian, Pleystowe and Racecourse sites. The revised licence has modern conditions allowing DES to better regulate our activities and gives Mackay Sugar the opportunity to manage our environmental exposures effectively in line with current operational practices.

Environmental Management System

Our EMS continues to improve and develop. Monthly compliance inspections are conducted at each site to measure compliance against our Environmental Authorities and our EMS, and the standards across all sites demonstrate progressive growth and improvement. DES continue to proactively assess the compliance of Mackay Sugar operations through regular site inspections and it remains our strong focus to maintain a solid collaborative relationship with the department across all areas of the business.

Environmental management remains a focus for improvement, including reduction in water usage and identifying efficiency opportunities, operating within our Environmental Authorities and maintaining our Environmental Management System to ISO 14001.

MARKETING

Outcomes for Year Ended 29 February 2020

- As at 29 February 2020, the weighted average sugar price for the Mackay region was A\$414.03 per IPS tonne. This is a weighted average price of all pricing completed by growers and QCS and represents the combined decisions of these parties during the 2019 season and for forward pricing in previous seasons.
- This number represents the result of all pricing, including long term banded pricing (completed by both miller and grower) and the current values of the in-season pool and the shared pool. The in-season pool included the mark-to-market valuation of any unsold sugar as at the balance date.
- Sold the contracted tonnes to Sugar Australia. Sales to Sugar Australia were refined at Racecourse refinery.
- Sold raw sugar directly to export customers. Under grower choice, QCS was able to market directly to sugar refiners in Asia, the first time in the history of Mackay Sugar that it has been able to do so.
- Transferred the required tonnes of raw sugar to QSL as GEI-nominated sugar under grower choice.

Sugar Markets

Sugar prices over the past nine months ranged from a high of 15.90 US\$/lb to a low of 10.68 US\$/lb, finishing at 14.46 US\$/lb on 29 February 2020.

Sugar price action up until 29 February 2020 has reflected a market transitioning from surplus to deficit, with the market climbing to a high of 15.90 US\$/lb on 12 February 2020. The deficit increased in early 2020, with the reduction of the Thailand crop from 135 million tonnes of cane to 75 million tonnes of cane within the space of two months. Once this reduction materialised, the market's attention shifted to Brazil and whether it would produce more sugar than ethanol in 2020.

With the rally in sugar prices in January and February 2020, a large number of growers in the Mackay region took the opportunity to undertake substantial amounts of forward pricing for the 2020 season.

Looking ahead, we expect the price of sugar to remain volatile during the year, with a fall in global demand as a result of COVID-19 coupled with lower crude oil prices, initially as the result of a trade war and then from lower global demand.

The Indian Government continues to subsidise production in India, and the Australian sugar industry and other large sugar-producing nations continue to raise this issue with the World Trade Organisation.

As in previous seasons, Mackay Sugar sold 100 percent of its raw sugar for the 2019 season to QCS under the Commodity Marketing Agreement. QCS in turn sold raw sugar domestically to the Sugar Australia Joint Venture (Sugar Australia), and for the first time in its history, Mackay Sugar (through QCS) sold directly to export customers. The 2019 season was the first season where 'grower choice' was available to growers in Mackay.

Over half of the sugar sourced in the Mackay region was sold to Sugar Australia, while QCS exported 22 percent. The balance of sugar produced in the Mackay region was transferred to QSL as its share of GEI sugar under grower choice.

QCS Performance

Having completed its sixth financial year of operations, QCS again posted pricing outcomes in line with targets. QCS continued to manage its pricing books in line with Board-approved policies.

The 2019 season was dominated by the implementation of grower choice in the Mackay region. QCS, which is Mackay Sugar's wholly owned sugar marketing company, received overwhelming support from growers in the Mackay region. QCS has the largest proportion of sugar marketed by any sugar milling company in Australia where grower choice has been implemented.

Our Company

BOARD OF DIRECTORS



MICHAEL GERLOFF

University Degree – Economics and Business Administration

Chairman and Controlling Member Director

Michael is Head of Business Unit Cane Sugar Nordzucker Group and Head of Business Development Nordzucker Group. Michael has a degree in economics and business administration and a banking background.

Over the last ten years Michael has been responsible for a significant number of sugar projects for Nordzucker Group on a global scale in Europe, Africa, South America and Asia. He has over 20 years' business experience in various industries, including over 15 years in positions as Managing Director and General Manager. Michael has worked primarily in agriculture, FMCG, consumer electronics, retail and banking.

Michael has special experience in mergers and acquisitions, restructuring and optimisation.

Appointed in August 2019.



SVEN BUHRMANN

Dipl. Ing. (Food Process Technology)

Controlling Member Director

Sven has been working for Nordzucker since 1995 in various positions including Head of Sugar Factory in Uelzen. He currently holds the position as Head of Investment and Maintenance and Major Projects Nordzucker Group and Head of Lean Optimisation Nordzucker Group.

He has a degree in food processing technology with a focus on sugar and cereals from the Technical University of Berlin. He has experience in the cane industry in Costa Rica (working campaign), Brazil and as a consultant for an engineering consulting company (cane and beet sugar industry worldwide).

Sven served an apprenticeship as a confectioner. He is a member of the International Society of Sugar Cane Technologists.

Appointed in August 2019.



FRANK KNAELMANN

Dipl. Ing. Agr.

Controlling Member Director

Frank has been working for Nordzucker since 2002 in various positions in the agricultural department and currently leads the department Agri Analysis and Sourcing Models. Frank has acquired State recognition as an agricultural management consultant and was employed as a management consultant.

He has a degree in Agricultural Science from the Georg-August University in Göttingen, Germany. Frank is a certified farmer and runs a farm in Northern Germany.

Appointed in August 2019.



MARK DAY

BAppSC (Mathematics)
Controlling Member Director

Mark was appointed to the Board in May 2017 and was elected Chairman in November 2017. Mark was also appointed as Chief Executive Officer from January 2018 until 21 April 2020.

Mark completed three and a half years in Brazil as Operations Director for eight sugar cane factories owned by Bunge Brazil, crushing 20 million tonnes of cane producing sugar, ethanol and electricity. Bunge is one of Brazil's largest cane processors.

Prior to that Mark had an extensive career with CSR/Wilmar in sugar, managing CSR's cane sugar businesses as Executive General Manager for six years and two years in Indonesia with Wilmar. At CSR he commenced as a shift supervisor in the Mackay region in 1980 and worked throughout several regions in the Queensland sugar industry with CSR.

He has served as a Director on the Board of STL, the Bureau of Sugar Experiment Stations, Sugar Research Institute and Australian Molasses Trading and was also a Director and Chairman of Australian Sugar Milling Council for a period. He has a degree in Applied Mathematics and has attended Executive programs at Wharton Business School.



MAURICE MAUGHAN

FCA FTIA JP (C.dec)
Controlling Member Director

Maurice became a Non-Grower Director of Mackay Sugar in June 2012. Prior to this he was a Director of Mossman Sugar Company Limited since 2007. In 2006, after 31 years, he retired from the international accounting firm KPMG as a partner. Maurice was responsible for providing advice to a number of companies including those in the Queensland sugar industry. He has extensive business experience as a result of his time with KPMG and remains actively involved as a Director or advisor to several companies. Maurice is a Director of Queensland Commodity Services and was appointed Chairman of the LMA Interim Board for the Bundaberg Irrigation Scheme in June 2013.



PAUL MANNING

BEng (Mech), Dip Ag. GAICD
Deputy Chairman – Grower Director

Paul is a third generation cane farmer and was elected to the Board as a Grower Director in October 2014. Paul returned to cane farming in 2010 after working as a professional engineer for over 20 years, predominantly in the West Australian Iron Ore mining industry. During this period he worked in a variety of maintenance, major project management and engineering management roles for BHP Billiton Iron Ore and in a project role for Sinclair Knight Merz. Paul is a Graduate of the Australian Institute of Company Directors.



LEE BLACKBURN

GAICD

Grower Director

Lee was appointed as a Grower Director in October 2014. He has been a grower for more than 20 years and has been managing the family farm and harvesting business since 2002. Lee is the Chairman of the Eton Irrigation Scheme Pty Ltd, a Director of Sugar Research Australia Limited, Queensland Commodity Services and Mackay Area Productivity Services. He is a former Director of Mackay Canegrowers Limited and a former member of the Canegrowers Mackay Area Committee. Lee is a Graduate of the Australian Institute of Company Directors.



GEORGE WILLIAMS

Grower Director

George was appointed as a Grower Director in August 2019. He was appointed the Operating Partner at Racecourse Projects in 2013 after operating the family farm at Dawlish. George has extensive experience in developing large scale farm land and introducing technology adoption in the key areas of maintenance, farming and health, safety and environment. He also has experience in managing significant capital expenditure budgets.

MANAGEMENT



JANNIK OLEJAS

Degree in Sales and Marketing
General Manager

Jannik was appointed CEO on 21 April 2020, having previously been General Manager since 1 September 2019.

Jannik has been employed by Danisco Sugar A/S since 1992. Following the merger of Nordzucker AG and Danisco A/S in 2009, he has held various positions initially within Sales and Marketing and subsequently in Agriculture. He has worked internationally with clients, suppliers and stakeholders across Europe and has until recently held the senior management position of Head of Agri Sourcing which reports directly to the CEO and CAO.

For a number of years he has also been appointed as a board member of Sucros Oy, Finland and Nordic Sugar SIA, Latvia.

Jannik holds a degree in Sales and Marketing from Copenhagen Business School and has undertaken various general management training courses at International Business Schools.



DAVID SAID

BBus FCPA
Chief Financial Officer

David was appointed as Chief Financial Officer on 16 January 2017 having previously held the position of Manager, Business Services. He is responsible for Business Services, Supply and Procurement.

David and his team perform the financial operations for the group ensuring statutory and contractual obligations are met. They provide the necessary financial reporting to internal and external stakeholders as well as dealing with financial institutions to manage daily transactions and borrowings, ensuring all compliance requirements are satisfied.

David has over 25 years' experience with Mackay Sugar, commencing as a Graduate Accountant at Corporate Office in 1990. He moved to Pleystowe mill in 1993 to perform various accounting roles before transferring to the Business Service Centre at Farleigh mill in 2001 as Senior Accountant. and then Manager, Business Services.

David is a Director of Pioneer Valley Water Co-operative Limited.



PETER GILL

BEC LLB GDipTax FCPA
Company Secretary and Legal Counsel

Peter was appointed Company Secretary and Legal Counsel in December 2019 having previously been General Manager Commercial and Legal from 16 January 2017, and the Chief Financial Officer since 31 May 2013.

Peter is a solicitor and is a Fellow of CPA Australia. He was previously employed by McCullough Robertson Solicitors. During his time at McCullough Robertson and when employed by Mackay Sugar and Mackay Sugar Cooperative, Peter has been closely involved with Mackay Sugar's commercial and legal matters and in particular the establishment of the sugar refining joint ventures, financing arrangements, Cane Supply and Processing Agreements and the Racecourse Cogeneration Project.



CARISSA MANSFIELD

B. Bus, MBA, Grad. Dip OH&S

Group Manager, Human Resources,
Health, Safety and Environment

Carissa was appointed Manager Human Resources, Health, Safety and Environment in 2016 having previously held the position of Manager, Health, Safety and Environment from 2014 – 2016.

Carissa provides strategic leadership and the delivery of the HR and HSE strategic plan across all business units. She manages the Human Resources function including People and Culture, Training, Learning and Development, Workforce Planning/Recruitment and Employment/Industrial Relations, as well as all facets of Health, Safety and Environment across all operations including logistics, rail, cogeneration and manufacturing.

Carissa has over 15 years' experience in the health and safety environment and has held positions with Cordukes Pty Limited, CH4 Gas Limited, Peabody Energy and BHP Billiton Mitsubishi Alliance. She is Chair of the ASMC Environmental Committee and a member of the ASMC People and Safety Committee. Carissa is also a member of the Resource Industry Network Safety Committee and the Rural Safety Working Group.



JOACHIM RUEGER

Engineer studies at Technical University of Berlin, Food technology, Dipl.-Ing. (Master of sc.)

Chief Operating Officer

Joachim has, and his wife Britta is in the process of, relocating to Mackay from Germany. Joachim commenced as Chief Operating Officer effective 1 November 2019.

Joachim has been employed by Nordzucker since 1993 and during that time has worked as Site Manager in four separate factories, those being Schladen, Schleswig, Uelzen and Clauen.

Some of Joachim's responsibilities have been for production in Nordzucker Eastern Europe, including Serbia, Hungary, Poland and Slovakia. Responsibilities have also been in Safety and Health, Environment and Quality Management.

Corporate Governance

CORPORATE GOVERNANCE

The Board of Mackay Sugar Limited maintains high standards of corporate governance as part of their commitment to maximise shareholder value through promoting effective strategic planning, risk management, transparency and corporate responsibility. The Board fosters a culture that values ethical behaviour, integrity and respect. Adherence by the Company and its people to the highest standard of corporate governance is critical in order to achieve its vision.

Functions of the Board

The Board is responsible for oversight of the management of the Company and providing strategic direction. The Board believes that operating in accordance with high standards of corporate governance is a key element in the drive to improve the Company's performance. The Board has adopted a Charter and policies and has established a number of committees to discharge its duties.

The Board Charter documents its membership, operating procedures and the allocation of responsibilities between the Board and management. It directs and monitors the business and affairs of Mackay Sugar Limited on behalf of shareholders and is responsible for the Company's Corporate Governance.

In addition to matters required by law to be approved by the Board, the following powers are reserved for the Board for decision:

Board/Executive Personnel

- Composition of the Board including the appointment and retirement or removal of Directors.
- Board succession planning to ensure an appropriate mix of skills, experience and diversity.
- Appoint and remove the CEO or equivalent.
- Where appropriate, ratify the appointment and the removal of senior executives.
- Approve and review succession planning for the CEO and senior executives.
- Approve the overall remuneration policy including incentive plans upon the recommendation of the Remuneration and Nominations Committee.

Corporate strategy and reporting

- Delegate responsibility for the day to day operation and management of the Company to the Chief Executive Officer and senior management.
- Approve and monitor the progress of major capital expenditure, capital management, and acquisitions and sales.
- Approve and monitor annual and half year reports, statements as to future financial performance or changes to the policy or strategy of the Company.
- Input into and grant final approval of corporate strategy and performance objectives developed by management.
- Monitor industry developments relevant to the Company and its business.

Risk and Compliance

- Review, ratify and monitor systems of risk management and internal control, codes of conduct and legal compliance.
- Review the overall corporate governance of the Company including its strategic direction and goals for management, and monitoring the achievement of these goals.
- Oversight of Committees.

Stakeholder Communications

- Disclose information in accordance with the Corporations Act to ensure shareholders and other stakeholders are informed of relevant matters affecting the Company.

Board Composition

The Board is currently comprised of eight Directors, with

- five Controlling Member Directors, including the Chairman; and
- three Grower Directors.

The Board must comprise no less than six Directors and a maximum of eight Directors. The Board must be constituted by three Grower Directors and a minimum of three and maximum of five Controlling Member Directors.

The Directors currently holding office at the date of this report are set out on pages 35 – 37 of this Annual Report.

Board Appointment and Retirement

The appointment and election of Grower Directors will be in accordance with Rule 21.3 of the Constitution. A Grower Director may not hold office without reappointment beyond the third Annual General Meeting following their appointment. Any Grower Director who has held office for a total of nine years from the date of adoption of the constitution, including non-consecutive terms, must resign effective at the conclusion of the next Annual General Meeting and may not be reappointed.

A Controlling Member Director is not required to hold any shares in the Company to qualify for appointment. A Controlling Member Director can act in the interests of the Controlling Member, provided they meet their duties to the Company.

Board Meetings

Board meetings are held at regular intervals, and must occur not less than six times in any year. The Board seeks to visit all of the Company's sites at various times throughout the year and this includes a presentation by management to aid Directors' understanding of the business.

Details of Board and Committee meetings held and attendances at those meetings are set out in the Directors' Report on page 48 to 50.

Director Training

Directors are provided with information about the Company before accepting the appointment and they complete an induction program after their appointment, in each case appropriate for them to discharge their responsibilities in office. Meetings with the Chief Executive Officer and senior executives, information on the strategic plan and key corporate, overview of the business and related entities and Board policies are included in the induction process.

Directors are given access to continuing education in relation to the Company, extending to its business, the industry in which it operates, and other information required by them to discharge the responsibilities of their office.

Board Evaluation and Performance Review

A Board evaluation and performance review is to be conducted by an external consultant every three years. The scope of the evaluation is to determine the level at which the Board is performing, identify the areas in which the Board may improve and provide an opportunity to have a facilitated discussion about enhancing governance practices. The performance review may also provide for improved leadership, greater clarity of roles and responsibilities, improved teamwork, increased accountability, better decision making and more efficient Board operations.

The performance of all other Directors is to be reviewed and assessed every two years by the Chairman, and the performance of the Chairman is to be reviewed and assessed every two years by the other Directors.

An external assessment of the Board's policies and procedures, and its effectiveness generally, must be conducted by independent professional consultants at intervals of three years.

Independent Advice

Directors may seek independent legal or other professional advice at the Company's expense on matters arising during the course of his or her duties with the prior approval of the Chairman.

ADHERENCE BY
THE COMPANY
& ITS PEOPLE TO
THE HIGHEST
STANDARD OF
CORPORATE
GOVERNANCE IS
CRITICAL IN ORDER
TO ACHIEVE
ITS VISION.

Corporate Governance Charter

All Directors and Executives are required at all times to act in accordance with the Company's Corporate Governance Charter, which prescribes standards of behaviour to be maintained in relation to:

- Obligation to comply with the Charter and the law
- General duties of Directors
- Independent decision making and soundness of decisions
- Confidentiality of Board matters and other information
- Improper use of information
- Personal interests and conflicts
- Conduct of Directors
- Board performance

Trading in Securities

The Board has a code of conduct for transactions in securities that applies to Directors of the Company. This code of conduct sets out the legal duties relating to transactions in securities.

As a basic principle the code states that Directors should not buy or sell securities in the Company when they are in possession of price sensitive information which is not available to the market. Permission may be given for trading outside of the specified timeframes if the approving person is satisfied that the transaction would not be contrary to law, for speculative gain, to take advantage of insider knowledge, or seen by the public, press or other shareholders as unfair.

Dealing with Conflicts of Interest

The Board has conflict of interest guidelines within the Charter which apply if there is a conflict between the personal interests of a Director and the duties the Director owes to the Company. Directors have a duty to avoid any conflict between the best interests of the Company and his or her own personal interests or the interests of any third party.

Every Director must be aware of both actual and potential conflicts of interest. The law requires that a Director with a conflict of interest should refrain from voting, or entering into any discussion, at, or even being present during relevant Board discussions. A Director who has any material personal interest in a matter must not be present at a meeting while the matter is being considered and must not vote on the matter. A personal interest may be either direct or indirect and either pecuniary or otherwise.

Papers relevant to any matter on which there is a known conflict of interest, or in relation to which there is a material personal interest, will not be provided to any Director concerned.

Board Committees

Each Committee has a Charter detailing its role, duties and membership requirements. The Committee Charters are to be reviewed annually and updated as required. Each Committee's Charter may be viewed on the Company's website at www.mkysugar.com.au.

All Directors have a standing invitation to attend committee meetings. Minutes of the committees are provided to all Directors in the Board papers for the next meeting of the Board and proceedings of each meeting are reported by the Chair of the committee at the subsequent Board meeting. Details of the membership, composition and responsibilities of each committee are detailed below.

Audit and Finance Committee

The role of the Audit and Finance Committee is to assist the Board to manage the business, financial and strategic risks, to verify the integrity of the Company's statutory and financial reporting, monitor the effectiveness of external and internal audit, the appropriateness of the internal controls and compliance, the appropriateness of financial risk systems and compliance, the application of corporate governance principals and the tax affairs of the Company, and to provide corporate governance oversight to the Finance Department's functions.

Key activities undertaken by the Audit and Finance Committee include:

- to oversee the Company's business, financial and strategic risk management program;
- review operating and capital budgets of the Company prior to submission to the Board for approval to ensure that the expenditure proposed is justified, sufficient to support sustainable safety, environment and energy efficiency initiatives, and maintenance and capital projects, and all within the Company's ability to fund these;
- monitor the overall financial position of the Company in particular the ongoing cash and net debt position;
- monitor the risk of exposure to lending rates and interest rate hedging policies and requirements;
- monitor the pricing projections of Queensland Commodity Services and the impact on the Company's financial reports from the activities of any subsidiaries;



- monitor compliance with loan facility agreements, Board policies and mandates;
- make recommendations to the Board on the appointment, reappointment or replacement of the external auditor;
- monitor the effectiveness and independence of the external auditor;
- review and approve the Company's accounting policies and practices and monitor compliance with accounting standards that relate to the preparation of the accounts;
- review and recommend for approval by the Board the half yearly and annual reports and Directors' Report, and all other related reports which are required by any law, accounting standard or other regulatory body;
- oversee the effectiveness of the Company's internal controls;
- review and approve the Company's business continuity plans, with specific reference to IT and other essential business systems;
- assist the Board in the identification and oversight of financial risk;
- monitor and review the effectiveness of the financial risk and internal control systems implemented by management;
- consider the processes applied by management to comply with the Board approved policies for liquidity risk, funding risk, credit risk and interest rate risk;
- ensure management has appropriate controls in place for any transactions that may carry more than the usual degree of financial risk; and
- ensure that the processes for disclosure and regular reporting of significant financial risk is implemented.

Remuneration and Nominations Committee

The role of the Remuneration and Nominations Committee is to ensure that the Company has fair and responsible remuneration policies and practices to attract and retain Directors, Executives and staff who will create value to shareholders, and to review Board composition, performance and succession planning.

Key responsibilities include;

- review the ongoing appropriateness and relevance of the Company's remuneration policy with reference to market comparisons;
- approve any major changes in employee benefits structures throughout the Company including superannuation, insurance, indemnities and other benefits;
- approve the design of any performance related pay schemes operated by Mackay Sugar Limited and approve the total annual payments made under such schemes;
- determine Key Performance Indicators for the CEO before the start of the Company's financial year, against which his/her performance will be assessed;
- determine the total individual remuneration package (including bonuses and incentive payments) and termination arrangements of the company's CEO and recommend to the Board for approval any changes prior to implementation;
- review the Board structure, size and composition and make any recommendations to the Board with regard to any changes deemed necessary;
- provide, via the Company Secretary, a tri-annual performance evaluation of the members of the Board;
- evaluate the balance of skills, knowledge and experience of the Board and, in the light of this

evaluation, prepare a description of the role and capabilities required by the Board;

- recommend to the Board the appointment of the Chief Executive Officer;
- consider succession issues relating to the Chairman, Directors, the Chief Executive Officer, Chief Financial Officer and Company Secretary; and
- propose to the Board the framework and quantum of remuneration for the Chairman of the Board, Deputy Chairman, Grower and Controlling Member Directors that provides appropriate, responsible and fair reward for their individual contributions to the success of Mackay Sugar Limited.

Health, Safety and Environment Committee

The role of the Health, Safety and Environment Committee is to assist the Board in fulfilling its governance and oversight responsibilities for Occupational Health and Safety and Environmental Management.

Key responsibilities of the Committee are to have oversight and review of:

- the Company's compliance with approved Health and Safety and Environmental policies and legislation and the impact of changes in Workplace Health and Safety legislation;
- the adequacy of the Occupational Health and Safety and Environmental Management systems in complying with statutory and regulatory obligations;
- the effectiveness of the Company's Occupational Health and Safety systems in working towards the Company's safety and environmental objectives; and
- key health, safety and environmental incidents and mitigation strategies that may have strategic business and reputational implications for the Company.



Directors' Report

DIRECTORS' REPORT

For the 9 Month Period Ended 29 February 2020

The Directors present their report, together with the consolidated financial statements, on the Group comprising of Mackay Sugar Limited (referred to hereafter as the 'Company' or 'parent entity') and its subsidiaries for the 9 month period ended 29 February 2020, and the auditor's report thereon.

Board of Directors

The Directors who were in office from 1 June 2019 to the date of this report are as follows:

M (Michael) Gerloff,
Chairman

M R (Mark) Day,
Executive director

P A (Paul) Manning,
Deputy Chairman

A R (Tony) Bartolo

L M (Lee) Blackburn

L G (Lawrence) Bugeja

S U (Sven) Buhrmann

A S (Andrew) Cappello

R M (Richard) Findlay

F J (Frank) Knaelmann

M C (Maurie) Maughan

G (George) Williams

The profiles of the above Directors can be found on pages 35–37. A record of Board Meeting attendance during the year under review is set out on page 50.

Changes to the Board

M Gerloff

Michael Gerloff was appointed to the Board on 31 July 2019 and promoted to Chairman on 21 August 2019.

S U Buhrmann

Sven Buhrmann was appointed to the Board on 31 July 2019.

F J Knaelmann

Frank Knaelmann was appointed to the Board on 31 July 2019.

G Williams

George Williams was appointed to the Board on 21 August 2019.

The following directors retired from the Board on 21 August 2019:

- A R Bartolo
- L G Bugeja
- A S Cappello
- R M Findlay

Change in Chief Executive Officer

Jannik Olejas was appointed CEO of the Company on 21 April 2020 by the Board of Directors and replaces Mark Day. Jannik had previously been in the position of General Manager since 1 September 2019. Mark Day continues to be a Director on the Board of the Company.

Company Secretary

Donna M Rasmussen

Donna M Rasmussen – Company Secretary (Retired 1 December 2019)

Company Secretary since 1 August 2006, Donna has worked for Mackay Sugar Limited and its predecessor co-operatives for more than 35 years in senior administrative positions.

Peter J Gill

Peter J Gill – Company Secretary and Legal Counsel (Appointed 2 December 2019)

Company Secretary since 2 December 2019, Peter has worked for Mackay Sugar Limited in various management positions since August 2012.

Directors meetings

The number of Directors meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial period were:

Meetings of Directors

	Directors Meetings	Committee Meetings of Directors Number of Meetings Attended/Held		
		Audit and Finance	Remuneration and Nomination	Health, Safety and Environment
M Gerloff	6 of 6	2 of 2		
M R Day	10 of 10	6 of 7		4 of 4
P A Manning	10 of 10	7 of 7		1 of 1
A R Bartolo	4 of 5			1 of 1
L M Blackburn	10 of 10	2 of 2		
L G Bugeja	4 of 5			1 of 1
S Buhrmann	6 of 6	1 of 1		4 of 4
A S Cappello	5 of 5			
R M Findlay	5 of 5			
F Knaelmann	6 of 6	1 of 1		
M C Maughan	10 of 10	7 of 7		
G Williams	6 of 6	2 of 2		4 of 4

Principal activities

Principal activities of the Group are:

- a** to acquire, transport and process sugar cane to produce raw sugar products and by-products and to transport, store, market, price and distribute those products and by-products;
- b** to manufacture, transport, store, market and distribute refined sugar, syrups, raw sugar for human consumption and similar products and by-products; and
- c** to produce, market and distribute electricity and other value-added commodities through the use of products and by-products arising from the activities in (a) and/or (b) above.

There was no significant change in the nature of the Group's principal activities during the financial period.

Review of operations

Information on the operational performance of the Group for the period ending 29 February 2020 is discussed in the Operations section (pages 20 to 33) of this report.

Operating results

Operating results for the period ending 29 February 2020 are set out in the Year in Review (pages 14 to 19) and the Financials section (pages 55 to 131) of this report.

Health, Safety and Environment

The Company has comprehensive Health, Safety and Environment Policies and is committed to continuous improvement in this area.

The Company is subject to a range of environmental legislation in Australia. Information on the Company's compliance with environmental legislation is contained in the Environment section (pages 32) of this report.

Equal employment opportunities

The Company's employment policies are continually reviewed to ensure compliance with governing legislation in the area of equal employment opportunity. The Company is compliant with the requirements of the Equal Opportunity for Women in the Workplace Agency (EOWA).

Information on the Company's compliance with equal employment opportunity legislation is detailed in the Employees section (pages 29 to 31) of this report.

Dividends paid or recommended

No dividends were paid or declared for payment during the financial period.

Remuneration report

As the Company is not a listed company and is not classified as a 'disclosing entity' under the Corporations Act 2001, a remuneration report is not required to be disclosed. Accordingly, a remuneration report has not been presented in the Directors' report. Under the accounting standards, the Company is required to disclose summarised remuneration information in relation to the Directors and certain executives in the notes to the accounts. This information is included in note 6 of the financial statements associated with this report.

Options

No options over issued shares or interests in the Company were granted during the financial period or since the end of the financial period and there were no options outstanding at the date of this report.

Significant changes in state of affairs

Recapitalisation

The recapitalisation process was successfully completed during the period with Nordzucker AG obtaining a 70% controlling interest in the Company from 31 July 2019. Nordzucker AG management have been embedded within the Company's organisational structure and management and operational processes are, where appropriate, being updated in accordance with Nordzucker practices. Full details of the change in the capital structure of the Company and the updated financing facilities following the recapitalisation process are presented in note 24 and note 28 of the financial statements associated with this report. Further explanations of the changes in the financial accounts and the major financial impacts resulting from the recapitalisation is included in the 'Financial Snapshot' section of the annual report.

Sale of Mossman Mill

The sale of the Mossman milling operations to Far Northern Milling Pty Ltd occurred on 5 July 2019. The sale transaction included all assets and specified liabilities associated with the Mossman milling business. Further details of the financial impacts of the sale process during the period is included in note 35 of the financial statements associated with this report.

Change in legal status of the Company

The settlement of the Company's \$50 million unsecured notes (bonds) and the closure of the Company's legacy unsecured notes and interest-bearing-deposit schemes during the period, has resulted in the Company no longer being classified as a 'disclosing entity' under the Corporations Act 2001. This has reduced some of the financial and regulatory reporting obligations of the Company. Further details of the financial reporting changes resulting from this are explained in note 1 of the financial statements associated with this report.

Application of new sugar marketing legislation

New sugar marketing arrangements have been implemented for the first time during the reporting period (2019 season) as a result of the new sugar marketing legislation. This legislation allows sugar cane suppliers

to elect to have their 'grower economic interest' (GEI) portion of the sugar produced from their cane to be marketed and priced by a third party. The appropriate measures and systems were implemented during the period to allow those growers who elected to have their GEI portion marketed through a third party to continue to receive their cane payments appropriately. The Company's sugar marketing and sugar revenue processes were also updated accordingly with Queensland Commodity Services Pty Ltd continuing to market and conduct the pricing for the 'miller economic interest' (MEI) portion and the GEI portion for the growers who did not choose an alternative marketer.

There were no other significant changes in the state of affairs of the Company, other than those advised in other sections of this report, or in the accounts or in the notes thereto.

Events after the reporting period end date

Impact of Coronavirus

At the time of this report, the Company is not expecting COVID-19 (Coronavirus) to adversely affect its business operations. As the Company is in the business of manufacture, agribusiness and inputs to food manufacture, the Company has been determined to be an essential business and it expects to be able to continue to operate its business for the 2020 crushing season. The Company does not expect to be affected by the current or future government regulations in relation to its business operations. Measures have been taken by the Company to secure its critical supplies and staffing to ensure that operations will be able to be maintained into the future. Revenue sources and distribution channels are not expected to be significantly diminished due to the Coronavirus and the Company's financing arrangements are expected to be able to absorb potential short-term deficits.

Whilst the Company cannot fully predict the potential impact of the Coronavirus and how it may ultimately affect its workforce and its operations, the impact of COVID-19 is not expected to have a significant effect on the financial performance or financial position of the Company in the next financial year.

In the opinion of Directors, no other matter or circumstance has arisen in the interval between the end of the financial year and the date of this report, which significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

Derivative financial positions

Since the end of the financial year, movements in the ICE No.11 Raw Sugar Futures prices and exchange rates have resulted in variances to the "mark-to-market" values reported in the financial statements.

As the Group has entered into sugar futures and options contracts, foreign exchange contracts, foreign currency options, and commodity swap transactions, unrealised gains or losses on these derivatives fluctuate over time in line with changes to futures prices and foreign exchange rates.

As at 29 February 2020, the financial accounts reported a net unrealised loss on sugar pricing derivatives of \$6.6 million. However, as at 12 May 2020, in anticipation of the Board meeting to approve these accounts, this amount would be calculated to be an unrealised gain of \$35.2 million, based on the quoted rates of the day for derivatives that are still outstanding and realised prices for derivatives that have been settled subsequent to year end. The change is mainly due to a reduction in the sugar futures prices, offset in part by movements in foreign exchange rates.

The opening position of \$6.6 million is made up of \$3.3 million Miller economic interest (MEI) and \$3.3 million Grower economic interest (GEI). The \$35.2 million is made up of MEI of \$17.7 million and GEI of \$17.5 million. The movement in the MEI affects the derivative hedging asset/liability and hedge reserve whereas the GEI affects the derivative hedging asset/liability and grower payables/receivables in the balance sheet.

The nature of a hedging relationship means that the above movement in mark-to-market values is realised when the raw sugar sales related to these transactions are completed.

Going concern

Following the recapitalisation with Nordzucker AG and the renewal of bank financing facilities for a five year term, the Company has significant funding capacity as detailed in note 28 of the financial statements associated with this report. Total unutilised financing facilities of \$113.128 million are available as at 29 February 2020. This will be primarily used to fund capital upgrades within the milling operations which are expected to increase the profitability of the Company, allowing for the repayment of debt and a reduction in its reliance on external funding in the future.

Future developments

The Board continues to explore opportunities and projects to advance the Company's core business through improvements in milling rate, recovery and reliability. Likely developments in the operations of the Company and the expected results in future financial years have not been included in this report as until any such development becomes a firm commercial proposal, untimely and early disclosure of such information is likely to result in unreasonable prejudice to the Company.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

Indemnification of Officers

The Company has paid premiums to insure Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting for the Company, other than conduct involving a wilful breach of duty in relation to the Company.

Rounding of amounts

The Company has applied the relief available to it under Australian Securities and Investments Commission (ASIC) Instrument 2016/191 and accordingly, amounts in this report and associated financial statements have been rounded to the nearest thousand dollars where appropriate.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 54.

This report of the Directors is signed in accordance with a resolution of the Board of Directors.



M Gerloff
Director
(Chairman)



P A Manning
Director
(Deputy Chairman)

Dated 28 May 2020

AUDITOR'S INDEPENDENCE DECLARATION

For the 9 Month Period Ended 29 February 2020

Auditor's Independence Declaration to the Directors of Mackay Sugar Limited



As lead auditor for the audit of Mackay Sugar Limited for the period ended 29 February 2020, I declare to the best of my knowledge and belief, there have been:

- a** No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b** No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mackay Sugar Limited and the entities it controlled during the financial year.

A handwritten signature in black ink, appearing to read 'R Burrows'.

Ernst & Young
Rebecca Burrows
(Partner)

Dated 28 May 2020
At 111 Eagle Street, Brisbane Qld 4000

Financials

CONSOLIDATED FINANCIAL STATEMENTS

9 Month period ended 29 February 2020

Directors' Declaration For the period ended 29 February 2020

In the opinion of the Directors of Mackay Sugar Limited:

- 1 The consolidated financial statements and notes as set out on pages 57 to 131 are in accordance with the Corporations Act 2001 and:
 - a Comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b Give a true and fair view of the Group's financial position as at 29 February 2020 and of its performance for the financial period ended on that date; and
- 2 There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 3 At the date of this declaration, there are reasonable grounds to believe that the Company and the Group entities identified in note 32 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Instrument 2016/785.

This declaration is made in accordance with a resolution of the Board of Directors.



M Gerloff
Director
(Chairman)



P A Manning
Director
(Deputy Chairman)

Dated 28 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the period ended 29 February 2020

	Note	Consolidated Group	
		9 months Feb 2020 \$'000	12 months May 2019 \$'000
Revenue from operating activities			
Revenue		265 479	338 680
Finance revenue		131	325
Total revenue	2(a)	265 610	339 005
Changes in inventories of finished goods		67 638	(191)
Cost of sales		(190 049)	(182 172)
Gross profit		143 199	156 642
Revenue from non-operating activities		30	1
Maintenance expenses		(36 327)	(48 026)
Operating expenses		(55 634)	(61 730)
Administration expenses		(32 779)	(40 389)
Distribution and marketing expenses		(8 533)	(8 095)
Depreciation	15(d), 16(b), 23(a)	(6 527)	(14 558)
Finance costs	4(a)	(8 841)	(15 468)
Other expenses	4(b)	(1 277)	(2 193)
Gain on debt forgiveness	19(d)	25 000	–
Loss on impairment of property, plant and equipment	15(c)	–	(163 952)
Share of profits of associate and joint venture	12(a), 13(a)	7 532	13 355
Profit/(loss) before income tax from continuing operations		25 843	(184 413)
Income tax expense	5	–	–
Profit/(loss) for the period from continuing operations		25 843	(184 413)
Discontinued operations:			
Loss for the period from discontinued operation, net of tax		(748)	(5 779)
Loss on disposal of discontinued operation	35	(975)	–
Total loss for the period from discontinued operation, net of tax		(1 723)	(5 779)
Profit/(loss) for the period		24 120	(190 192)
Profit attributable to:			
Owners of the Company		16 884	(190 192)
Non-controlling interests		7 236	–
Profit/(loss) for the period		24 120	(190 192)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 29 February 2020

	Note	Consolidated Group	
		9 months Feb 2020 \$'000	12 months May 2019 \$'000
Profit/(loss) for the period		24 120	(190 192)
Other comprehensive income or loss			
Items that will not be reclassified subsequently to profit or loss:			
Nil			
Items that may be reclassified subsequently to profit or loss:			
Gain / (loss) on equity instruments designated at FVOCI		(101)	1 674
Fair value movements on cash flow hedges		(7 945)	(15 531)
Exchange differences on translation of foreign associated company		720	812
Share of OCI (Hedge Revenue) of associated company		102	273
Share of OCI (Hedge Revenue) of the joint venture		(625)	(2 025)
		(7 849)	(14 797)
Income tax expense relating to components of other comprehensive income/(loss)	5	–	–
Other comprehensive income/(loss) for the period, net of tax		(7 849)	(14 797)
Total comprehensive income/(loss) for the period		16 271	(204 989)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		11 390	(204 989)
Non-controlling interests		4 881	–
Total comprehensive income/(loss) for the period		16 271	(204 989)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 29 February 2020

	Note	Consolidated Group	
		Feb 2020 \$'000	May 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	18 808	16 924
Trade and other receivables	9	55 004	15 495
Other financial assets	14	–	9 650
Inventories	10	78 962	12 797
Other assets	17	3 959	1 419
Total current assets		156 733	56 285
Non-current assets			
Trade and other receivables	9	50	593
Other financial assets	14	31 825	32 694
Investments accounted for using the equity method	11	80 601	85 382
Property, plant and equipment	15	148 296	137 698
Right-of-use assets	23(a)	888	–
Investment properties	16	2 378	2 391
Total non-current assets		264 038	258 758
Total assets		420 771	315 043
Liabilities			
Current liabilities			
Trade and other payables	18	72 285	45 567
Interest bearing liabilities	19	65 008	182 939
Other liabilities	20	999	1 235
Other financial liabilities	21	2 692	1 084
Employee benefits	22	10 752	11 017
Total current liabilities		151 736	241 842
Non-current liabilities			
Interest bearing liabilities	19	135 638	251
Other liabilities	20	24 019	41 165
Other financial liabilities	21	32 440	29 056
Employee benefits	22	2 253	2 729
Total non-current liabilities		194 350	73 201
Total liabilities		346 086	315 043
Net assets		74 685	0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 29 February 2020

Continued	Note	Consolidated Group	
		Feb 2020 \$'000	May 2019 \$'000
Equity			
Issued capital	24	74 912	16 498
Reserves		9 204	17 053
Retained profit/(loss)		(9 431)	(33 551)
Total equity		74 685	0
Equity attributable to:			
Owners of the Company (Nordzucker AG)			
Issued capital		52 438	–
Reserves		6 443	–
Retained profit		(6 602)	–
Total equity attributable to owners of the Company		52 279	–
Non-controlling interests			
Issued capital		22 474	16 498
Reserves		2 761	17 053
Retained profit/(loss)		(2 829)	(33 551)
Total equity attributable to non-controlling interests		22 406	0
Total equity		74 685	0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 29 February 2020

	Note	Ordinary share capital	Retained profit/ (loss)	Financial assets revaluation reserve	Foreign currency translation reserve	Cash flow Hedge reserve	Total
Consolidated Group		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 June 2018		16 498	156 641	6 992	2 700	22 158	204 989
Dividends	7	–	–	–	–	–	–
Transactions with owners in their capacity as owners		–	–	–	–	–	–
Profit/(loss) attributable to the shareholders of the Company		–	(190 192)	–	–	–	(190 192)
Other comprehensive income/(loss):							
Remeasurement of financial assets		–	–	1 674	–	–	1 674
Adjustments from translation of foreign associated company		–	–	–	812	–	812
Cash flow hedges: losses allocated to equity		–	–	–	–	(15 531)	(15 531)
Share of associated company's hedging reserve movements		–	–	–	–	273	273
Share of joint venture's hedging reserve movements		–	–	–	–	(2 025)	(2 025)
Total comprehensive income for the period		–	(190 192)	1 674	812	(17 283)	(204 989)
Balance at 31 May 2019		16 498	(33 551)	8 666	3 512	4 875	0
Dividends	7	–	–	–	–	–	–
Transactions with owners in their capacity as owners	24	58 414	–	–	–	–	58 414
Profit/(loss) attributable to the shareholders of the Company		–	24 120	–	–	–	24 120
Other comprehensive income/(loss):							
Remeasurement of financial assets		–	–	(101)	–	–	(101)
Adjustments from translation of foreign associated company		–	–	–	720	–	720
Cash flow hedges: losses allocated to equity		–	–	–	–	(7 945)	(7 945)
Share of associated company's hedging reserve movements		–	–	–	–	102	102
Share of joint venture's hedging reserve movements		–	–	–	–	(625)	(625)
Total comprehensive income for the period		–	24 120	(101)	720	(8 468)	16 271
Balance at 29 Feb 2020		74 912	(9 431)	8 565	4 232	(3 593)	74 685
Total attributable to: Owners of the Company		52 438	(6 602)	5 996	2 962	(2 515)	52 279
Total attributable to: Non-controlling interests		22 474	(2 829)	2 569	1 270	(1 078)	22 406

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended 29 February 2020

	Note	Consolidated Group	
		9 months Feb 2020 \$'000	12 months May 2019 \$'000
Cash flow from operating activities			
Receipts from sugar sales and other sales		261 226	432 085
Payments to cane suppliers		(216 609)	(244 017)
Payments to other suppliers and employees		(135 024)	(205 240)
Distributions received from associated entities		4 742	13 236
Other revenue		6 114	17 952
Finance costs		(9 114)	(14 077)
Net cash provided by operating activities		(88 665)	(61)
Cash flow from investing activities			
Payments for purchases of property, plant and equipment		(18 262)	(13 872)
Distributions received/(Contributions made) to associated entities		7 769	(1 440)
Proceeds on sale of property, plant and equipment		31	1
Net cash used in investing activities		(10 462)	(15 311)
Cash flow from financing activities			
Proceeds from issue of shares		60 000	-
Proceeds from shareholder loans		28 226	-
Proceeds from interest bearing activities		143 084	188 259
Repayment of interest bearing activities		(124 834)	(163 259)
Share issue equity costs		(2 779)	-
Lease liability payments		(103)	(1 160)
Decrease in growers' loans		748	441
Decrease in interest bearing deposits		(98)	(144)
Decrease in selected-term unsecured notes		(3 233)	(6 634)
Net cash provided by (used in) financing activities		101 011	17 503
Net increase/(decrease) in cash and cash equivalents		1 884	2 131
Cash and cash equivalents at the beginning of the period	8	16 924	14 793
Cash and cash equivalents at the end of the period	8	18 808	16 924



NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report covers the economic entity of Mackay Sugar Limited and its controlled entities (referred to as the 'Group'). The economic entity is an unlisted public Company, limited by shares, incorporated and domiciled in Australia. The ultimate parent of Mackay Sugar Limited is Nordzucker AG which owns 70% of the equity of the Company.

Significant changes in state of affairs of the Company during the period affecting the financial report

The Company was recapitalised on 31 July 2019 with Nordzucker AG acquiring a 70% shareholding in the Company through a \$60 million equity investment. In August 2019, the Company repaid its unsecured notes (bonds) as part of the recapitalisation arrangement (refer note 19(d)). In December 2019, the Company terminated its unsecured notes scheme (refer note 19(c)) and repaid the funds owing under this scheme. These changes meant that the Company is no longer a 'disclosing entity' under the provisions of the Corporations Act 2001 and is no longer 'publicly accountable' under the applicable accounting standards. Accordingly, the Company has elected to apply the reduced disclosure requirements of 'AASB 1053: Application of Tiers of Australian Accounting Standards' in the presentation of this financial report.

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards – Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board. The Group is a for-profit, private sector entity which is not publicly accountable. Therefore, the consolidated financial statements for the

group are general purpose financial statements prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements (AASB – RDRs).

The financial report has been prepared on a historical cost basis except for the measurement of fair value of selected non-current assets, financial assets and financial liabilities.

Change in the financial period end date

The Company changed its financial period end date from 31 May to 28/29 February to align with the financial period end date of its parent Company – Nordzucker AG. These financial statements cover the period 1 June 2019 to 29 February 2020 (9 month period). The comparative period in these financial statements cover the period 1 June 2018 to 31 May 2019 (12 month period). In addition, the seasonal nature of the operations or the business result in differences in various accruals / adjustments at 29 February compared to 31 May. Therefore the amounts presented in these financial statements are not entirely comparable.

Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates future profit expectations and cash flow projections. It also assumes the continuing support from financiers and the continuity of normal business activities.

Note 1: Statement of significant accounting policies (continued)

Accounting policies

(a) Principles of Consolidation

The parent of the Group is Mackay Sugar Limited. Entities (including structured entities) over which the parent directly or indirectly exercises control are called "subsidiaries". The consolidated financial statements incorporate the assets, liabilities and results of all subsidiaries. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 30.

The assets, liabilities and results of subsidiaries are fully consolidated into the financial statements of the Group from the date that control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group companies are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

(b) Income tax

The Group has implemented the tax consolidation legislation. As a consequence, the entities that make up the Group are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The income tax expense/(income) for the period comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

The company has a nil deferred tax expense charged to profit or loss as a result of movements in deferred tax assets and liabilities being exactly offset by the recognition of unused prior period tax losses as required to achieve a nil deferred tax effect on profit or loss.

Deferred tax assets and liabilities have been offset in the accounts for presentation purposes and the excess of deferred tax assets over deferred tax liabilities has not been recognised as an asset due to management

uncertainty on whether it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets and liabilities are offset where; (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Inventories

Finished goods inventory (raw sugar, molasses and large-scale generation certificates (LGCs)) is measured at the lower of cost and net realisable value. The cost of finished goods includes the cost of cane purchases, direct materials, direct labour and fixed and variable production overheads, but excluding administration overheads. As these costs are not separately identifiable as to raw sugar, molasses and LGCs, the costs are allocated based on the net realisable value for the by-products molasses and LGCs, with the balance being allocated to the raw sugar inventory.

Consumable stores, spares and chemicals are valued on the average cost method and no overheads are included. These inventories are reviewed for impairment periodically to ensure they are not recorded in excess of recoverable amount.

(d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value, as indicated, less, where applicable, any accumulated depreciation and impairment losses.

Note 1: Statement of significant accounting policies (continued)

Property, Plant and equipment

The carrying amount of milling plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on a fair value basis using an appropriate valuation technique. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The cost of fixed assets constructed within the Group's entities includes the cost of materials and direct labour. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit and loss in the financial period in which they are incurred.

Depreciation

The depreciable amount for all asset categories excluding freehold land, are depreciated on a straight line basis over the assets estimated useful lives to the Group, commencing from the time the asset is held ready for use. The depreciation rates used for these classes of assets are:

Class of fixed asset	Depreciation rate
Buildings (including investment properties)	1 – 10%
Plant and Equipment	1 – 33%
Railway and Rolling stock	1 – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit and loss. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Investment properties

Investment property, comprising freehold land and residential buildings is held for various purposes and generates long term rental yields. Investment property is measured on the cost basis less depreciation and impairment losses. All residential property is recognised as investment property, unless the property is strategic to the operations of the milling business.

(f) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis, i.e. when the Group commits to purchase or sell the asset or liability. Financial assets and liabilities are derecognised when the right to receive or pay cash flows has expired or been transferred.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The group classifies its financial assets and liabilities as either at amortised cost or fair value.

The classification of financial assets depends on the basis of both:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset

Based on above criteria, financial assets are classified and subsequently measured at amortised cost (AC), fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL), (except for financial assets that are irrevocably designated to be measured at fair value through profit or loss on initial recognition)

Note 1: Statement of significant accounting policies (continued)

(i) Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets or liabilities at FVTPL are non hedging derivatives or financial assets or liabilities designated as at FVTPL.

(ii) Financial assets and liabilities at amortised cost

A financial asset or liability is classified at amortised cost if it is acquired by the Group where the objective is to collect or pay contractual cash flows on specified dates for payments of principal and interest.

For financial liabilities, amortised cost is the default classification category (with certain exceptions where FVTPL classification is allowed).

Financial assets and financial liabilities at amortised cost include trade and other receivables, trade payables and loans.

(iii) Financial assets at fair value through other comprehensive income (FVTOCI)

The Group's investments in certain equity securities that are not held for trading are designated as FVOCI. The investments are initially measured at fair value net of transaction costs. Subsequent to initial recognition, these equity investments are measured at fair value with any change recorded through the financial asset revaluation reserve. Reclassification of amounts recognised in other comprehensive income and accumulated in equity to profit or loss is not permitted at any time. Such investments are not subject to impairment requirements. This treatment has been selected for Group's investments in unlisted entities – Sugar Terminals Limited and Racecourse Projects Pty Limited that are deemed to be strategic equity investments and not held for trading.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(v) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, commodity price risk and foreign exchange rate risk, including interest rate swaps sugar price swaps, sugar futures and options, foreign exchange forward contracts and options. Further details of derivative financial instruments are disclosed in note 34(c).

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedge.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note 34 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Note 1: Statement of significant accounting policies (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(vii) Impairment

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

Where an indicator of impairment exists or where annual impairment testing for an asset is required, the group makes an estimate of the recoverable amount (i.e. greater of an asset's fair value less costs to sell, or value in use). An Impairment loss is recognised for the amount by which the carrying amount of an asset exceeds the recoverable amount.

(g) Leases

Refer note 1(cc) (i) – (iii) for the accounting policies in relation to leases that were in operation during the current and previous accounting periods.

(h) Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that any assets have been impaired. If such an indication exists, an impairment test is carried out on an asset by comparing the recoverable amount of the asset, being either the asset's fair value less the estimated cost to sell or value-in-use, which is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in the profit and loss statement, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: *Property Plant and Equipment*).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Investments in associates

Associates are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the associate company. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

The carrying amount of the investment includes goodwill relating to the associate. Any discount on acquisition, whereby the Group's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

Note 1: Statement of significant accounting policies (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

(j) Interests in joint arrangements

A "joint arrangement" is an arrangement in which the Group shares control jointly with one or more other parties by way of a contractual agreement and unanimous consent is required from all parties to the agreement with respect to decisions about the relevant activities of the arrangement.

A joint arrangement that is structured through a separately identifiable entity and provides the Group and the other parties to the arrangement with rights to the net assets of the entity is classified as a "joint venture" by the Group. The Group's interests in joint ventures are accounted for using the equity method of accounting and classified as "investments accounted for using the equity method" in the Group's statement of financial position. In accordance with the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter for any post-acquisition changes in the Group's share of net assets of the joint venture, including operating profits or losses, other comprehensive income and other changes in the joint venture's equity. Distributions received from a joint venture are deducted from the carrying amount of the investment.

The Group's share of the profit or loss of a joint venture is presented in the Group's statement of profit or loss as "share of profits of associate and joint venture". When the Group's share of losses in a joint venture equals the carrying amount of its interest in the joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise any further losses in respect of the joint venture unless it has incurred obligations or made payments on behalf of the joint venture. The accounting policies of joint ventures are changed where necessary to

ensure consistency with the accounting policies adopted by the Group.

Where a joint arrangement has contractual agreements whereby the parties to the arrangement have direct interests in each asset and direct exposure to each liability of the arrangement, such an arrangement is classified by the Group as a "joint operation", irrespective of whether the arrangement is structured through a separate vehicle. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the Group's financial statements. The Group recognises gains and losses resulting from sales it makes to a joint operation only to the extent of the other parties' interests in the joint operation. When such sales provide evidence of impairment or reduction in net realisable value, that loss is recognised immediately. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party. However, when such purchases provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the Group recognises its share of those losses.

(k) Intangibles other than goodwill**Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the finite useful life of the project.

(l) Foreign currency transactions and balances**Functional and presentation currency**

The financial statements are presented in Australian dollars which is the Group's functional and presentation currency.

Note 1: Statement of significant accounting policies (continued)

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(m) Employee benefits**Short-term employee benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave, long service leave, travel leave, some allowances and preserved sick leave entitlements are recognised as employee benefits in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' annual leave and long service leave not expected to be settled wholly within

12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on Australian corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current employee benefits in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current employee benefits.

Contributions made by the Group's entities to employee superannuation funds are charged as expenses when incurred. The Group does not currently have any defined benefit superannuation schemes which would require an asset or liability to be recognised for the difference between the employer-established defined benefit superannuation plans accrued benefits and the net value of the plans assets.

(n) Provisions

Provisions are recognised when the Group's entities have a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Note 1: Statement of significant accounting policies (continued)

(p) Fair value of assets and liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs). Where no market information is available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Valuation techniques

The Group selects and uses one or more valuation techniques to measure the fair values of a particular asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered "observable", whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered "unobservable".

Fair value hierarchy

The Group adopts a "fair value hierarchy" to categorise the fair value measurements derived from the valuation techniques into three levels (as described below). The purpose of this classification is to indicate the relative subjectivity of the fair values derived. This classification is made by prioritising the inputs used in each valuation technique on the basis of the extent to which such inputs are observable.

Note 1: Statement of significant accounting policies (continued)

Level 1	Level 2	Level 3
<p>Level 1 fair values are considered to be the best indication (and therefore the most reliable evidence) of fair value. Inputs used to measure Level 1 fair values are unadjusted quoted prices for identical assets/liabilities in active markets (e.g. Australian Securities Exchange) where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.</p>	<p>Inputs used to measure Level 2 fair values are inputs (other than quoted prices included in Level 1) that are observable either directly or indirectly. Level 2 inputs include:</p> <ul style="list-style-type: none"> • quoted prices for similar assets/liabilities in active markets; • quoted prices for similar or identical assets/liabilities in non-active markets; • foreign exchange rates; • market interest rates; • yield curves observable at commonly quoted intervals; • implied volatilities; and • credit spreads. 	<p>Level 3 fair values use unobservable inputs specific to the particular asset or liability because observable inputs are not available for such asset or liability.</p>

(q) Revenue and other income

Revenue from contracts with customers

(i) Sale of goods – Raw Sugar and Molasses products

The Group manufactures and sells raw sugar and molasses products to various customers. Revenue is recognised when control of the product has transferred to the customer. Control passes when the product is delivered to the customer's refinery, their designated storage facility, or a shipping vessel or transport vehicle organised by the customer. Control only transfers when it has been assessed that the customer has full discretion to whom they sell and at what price and there are no unfulfilled obligations that could affect the customer's acceptance of the product. In certain cases, the Group enters into swap arrangements with other suppliers in relation to products. Under a swap arrangement, performance obligations are satisfied when products are delivered to the third party that is subject to the swap arrangement.

The contracts generally specify for a minimum and/or maximum nominated quantity to be supplied over the contract period. Consideration is received on the basis of a price per tonne of product delivered during the relevant delivery period. Where control has not yet transferred to the customer, the products are accounted for as finished goods inventory while they are held in storage by the Company. A product specifications warranty is provided

specifying that the product will meet certain minimum quality parameters. Rather than return products, when the product is not fit for the purposes a commercial arrangement is negotiated (e.g. refund). No provision for returns is recognised, with any price adjustments being reflected against revenue. Inventory is not recorded for products that are delivered within a few hours of production. As part of the refinery process, sugar syrups are returned from the customer, and utilised by the Company in future production and deducted from the tonnes invoiced each week.

The pricing mechanism for delivery of raw sugar and molasses contains variable consideration. A settlement mechanism exists where amounts are invoiced to customers as the raw sugar and molasses are delivered, but adjustments are reflected over the contract period based on actual production quantities and variable prices which are based on fluctuating world sugar/molasses prices and exchange rates. In some cases, penalties or premiums can be applied based on the quality of the product supplied. In certain swap arrangements, an administration fee is charged to customers to arrange delivery of product to third party customers. As the contracts progress over the contract period, the variable consideration is reduced as quantities and prices are finalised. The outstanding variable consideration is assessed in detail at balance dates to ensure there is no significant over statement of the variable consideration recognised. The allocation of transaction price to performance obligations is based on the specific pricing

Note 1: Statement of significant accounting policies (continued)

mechanism for the product which is specified in the contract, subject to the variable consideration adjustment attributed to the delivered product.

For some customers, progress payments are received as the product is supplied. Revenue is accrued at balance dates up to the final estimated sale amount expected to be received using a detailed model which assesses and updates all components of variable consideration which make up the contract molasses and sugar prices. Where product has been delivered and only the finalisation of pricing remains before full consideration is received, the variable consideration is accrued as a receivable.

(ii) Sale of goods – Electricity/Power

The Group produces and sells various types of power such as electricity and steam to customers. Revenue is recognised when control of the electricity has transferred to the customer. Control passes as soon as the electricity is generated as it is unable to be stored and is immediately consumed by the customer when it is delivered into the customer's electricity grid or manufacturing facilities on a continuous basis over the contract periods. The electricity supplied is therefore not returnable or refundable once delivered.

Consideration is received on the basis of a price per unit of electricity delivered during the relevant delivery period. Accordingly, the performance obligations in the contracts are accounted for as a number of series of distinct goods transferred over time based on the customer, the product and the location of connection. A contract asset will exist during the month for the quantity of electricity (MWH) that has been supplied but not yet invoiced. A contract receivable will exist at the end of each month for the quantity of electricity (MWH) that has been invoiced up until payment is received during the following month.

(iii) Sale of goods – Large-scale generation certificates (LGC's)

As part of its electricity generation, the Group creates and sells LGC's to customers. The LGCs are 'Large-scale generation certificates' created under the 'Renewable Energy (Electricity) Act 2000' for generating eligible renewable energy. Revenue is recognised when control of the LGC's has transferred to the customer. Control passes when the LGC certificates are registered and transferred to the customer. The LGCs are created on a continuous basis over the contract periods, but are registered and transferred to the customer in batches. Accordingly, revenue is recognised only at the point in time in which the registration and transfer process takes place. The registration and transfer process takes place a number of months after the

LGCs are created. The LGCs transferred are not returnable or refundable once delivered. The LGCs created but not yet transferred to the customer at balance dates are accounted for as finished goods inventory.

The price charged is based on the terms specified in the power purchase agreement. Where an agreement is referenced to market price, the variable consideration is resolved on delivery of the LGC. Revenue for the outstanding LGCs that have been transferred to the customer is recognised immediately. A contract asset will exist during period that LGCs have been transferred to the customer but not yet invoiced.

(iv) Rendering of Services

The Group provides various services associated with its operations to customers such as transport, storage and handling services and support services to customer's manufacturing facilities. These services include the supply of steam, electricity, potable water, process water, removing process refinery low value syrups, storage of spare parts and materials, and supply of ad hoc maintenance services. Revenue from providing services is recognised in the accounting period in which the services are rendered. For these contracts, the transaction prices are allocated to each separate performance obligation based on their stand-alone selling prices.

Service delivery quantities and timing are determined by the customer who simultaneously receives, consumes, and obtains benefits of the service immediately upon delivery. The contract includes a condition on the Company that to the best of its knowledge, information and belief, each of the services are fit for the purpose for which they are intended to be used and are provided in accordance with the agreement between the parties.

Customers are generally invoiced weekly or monthly for the services provided during those periods. The transaction prices for the each of the separate performance obligations are clearly set out in the contract and are updated and agreed with the customer when required. Depending on the service provided, the services provided are measured using either: (i) The cumulative units of services provided to the customer to date; or (ii) The time period to date over which the service has been provided to the customer. Revenue that is outstanding at balance dates is accrued as a receivable, with amounts typically due during the following month. A contract asset will exist during the month for the services that have been provided but not yet invoiced.

Note 1: Statement of significant accounting policies (continued)

(v) Revenue from insurance claims

Insurance or compensation claims from third parties for impairment or losses of property and equipment are recognised in profit or loss when the compensation becomes receivable. Where an expected insurance recover has not yet been received at balance date, a receivable for this revenue is recognised only when the insurance claim has been agreed with the relevant insurer and the reimbursement is virtually certain. Otherwise, the expected insurance claim is recognised as a contingent asset.

(r) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit loss.

Provisions for expected credit losses of all receivables at balance date is assessed on an individual basis as the Group has a small number of receivables with varying credit risks. All outstanding amounts are individually assessed taking into account the past history and current circumstances of the debtor. An impairment of trade receivables is recognised when it is determined that non-recovery of the amounts outstanding is more probable than recovery.

(s) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs that relate to the initial recognition of a financial asset or financial liability are classified as

transaction costs and are included in the fair value of the asset or liability. These transaction costs are amortised in the income statement over the life of the asset or liability. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(u) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(v) Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the foreign currency translation reserve. Gains and losses on certain financial instruments are included in reserves for available-for-sale financial assets and cash-flow hedges respectively.

Retained earnings include all current and prior period retained profits.

All transactions with owners of the Company are recorded separately within equity.

(w) Government grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(x) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

Note 1: Statement of significant accounting policies (continued)

- (i) represents a separate major line of business or geographic area of operations;
- (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- (iii) is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(y) Comparative figures

Where required by Accounting Standards or changes in disclosure format, comparative figures have been adjusted to conform to changes in presentation for the current financial reporting period.

(z) Rounding amounts

The Company has applied the relief available to it under ASIC Instrument 2016/191 and accordingly, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars, unless otherwise indicated.

(aa) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, which management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Revenue from contracts with customers

Critical judgements in determining the timing of satisfaction of performance obligations has been applied to all revenue contracts and in particular the transactions for products that have not been delivered to the customer at the period end in determining whether control has passed to the customer.

Key sources of uncertainty – variable consideration: Some the group's revenue contracts have significant variable consideration outstanding at balance dates. A significant amount of estimated revenue is therefore required to be recognised for these contracts. Under the variable consideration constraint, management are required to constrain variable consideration recognition to an amount that would not result in a significant reversal of revenue in subsequent accounting periods. As the variable consideration is subject to factors outside of the group's control, such as fluctuating global world sugar and molasses prices and exchange rates, significant judgement is required in assessing the amount of variable consideration to be recognised.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent inventory usage, the ageing of inventories and other factors that affect inventory obsolescence.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes various teams that have overall responsibility for overseeing all significant fair value measurements.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of the accounting standards, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group's Audit and Finance Committee.

Note 1: Statement of significant accounting policies (continued)

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unrecognised tax losses only if the entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

(bb) New and revised accounting requirements applicable to the current annual reporting period

The Group has adopted all new and amended standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to the entity which became mandatorily applicable from 1 June 2019 in this financial report.

Due to the adoption of AASB 16: Leases in the current reporting period, the Group had to change its accounting policies and make adjustments to the opening balances in these financial statements. The impact of the adoption of AASB 16 and the new accounting policies associated

with the change in accounting treatment for leases are disclosed in note 1(cc) of this report. The other new or amended standards did not have a material impact on the Group's accounting policies or on the amounts recognised in the Group's financial statements.

(cc) Impact of adoption of AASB 16 Leases

The Group has applied AASB 16: Leases using the modified retrospective approach and therefore the comparative information for the period ended 31 May 2019 has not been restated and continues to be reported in accordance with AASB 117: Leases and AASB Interpretation 4: Determining whether an Arrangement contains a Lease. The details of accounting policies under AASB 117 and Interpretation 4 are disclosed separately if they are different from those under AASB 16.

This note explains the impact of the adoption of AASB 16: Leases on the Group's financial statements for the financial period as follows:

Changes in accounting policy:

- (i) Determination of a lease arrangement
- (ii) Accounting for leases as a lessee
- (iii) Accounting for leases as a lessor

Application of AASB 16:

- (iv) Transition
- (v) Impacts on the financial statements

Significant accounting policy – Leases**(i) Determination of a lease arrangement****Policy applicable from 1 June 2019:**

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

Note 1: Statement of significant accounting policies (continued)

- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 June 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single component.

Policy applicable before 1 June 2019:

For contracts entered into before 1 June 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - The Purchaser has the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - The purchaser has the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(ii) Accounting for leases as a lessee**Policy applicable from 1 June 2019:**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently amortised using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date of the lease;
- Amounts expected to be payable under a residual guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Subsequent to initial measurement, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount

Note 1: Statement of significant accounting policies (continued)

expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

In the statement of financial position, the Group presents right-of-use assets that meet the definition of an investment property in 'investment property'. All other leased assets are presented as 'right-of-use assets'. Lease liabilities are presented in 'interest bearing liabilities' with the current portion being made up of the amount of the liability expected to be repaid within 12 months following the end of the period.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. These assets include machinery, IT equipment, demountable buildings and office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 June 2019:

In the comparative period, as a lessee, the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent payments.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset type.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(iii) Accounting for leases as a lessor**Policy applicable from 1 June 2019:**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Group applies AASB 15 to allocate the consideration in the contract.

For operating leases, the Group recognises the lease payments received as income on a straight-line basis over the lease term as part of revenue from operating activities.

Policy applicable before 1 June 2019:

The accounting policies applicable to the Group as a lessor in the comparative period were not different from those stated above under AASB 16.

(iv) Application of AASB 16: Leases – Transition

The Group applied AASB 16: Leases with a date of initial application of 1 June 2019. As a result, the Group has changed its accounting policy for lease contracts as explained previously in this note.

The Group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 June 2019. The details of the transition process and changes in the financial statements are disclosed below.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 June 2019.

Note 1: Statement of significant accounting policies (continued)

Leasing arrangements as a Lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for leases (i.e. the leases are recognised on-balance) subject to the allowable exemptions.

The Group elected to apply recognition exemptions to short-term leases and low-value leases in relation to various types of machinery, IT equipment, demountable buildings and office equipment. For leases of other assets, which were previously classified as operating leases under AASB 117, the Group recognised right-of-use assets and lease liabilities.

Leases classified as operating leases under AASB 117

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 June 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of the lease term remaining after the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Leases previously classified as finance leases

At transition, the Group did not have any leases that were classified as finance leases under AASB 117.

Note 1: Statement of significant accounting policies (continued)

Leasing arrangements as a Lessor

The Group is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor. The Group accounted for its leases in accordance with AASB 16 from the date of initial application. The Group did not have any sub-leases or sale-and-leaseback arrangements.

(v) Impacts on financial statements

On transition to AASB 16 on 1 June 2019, the Group recognised the following additional right-of-use assets and lease liabilities. There was no adjustment to retained earnings required on transition.

Classification in Statement of Financial Position	\$	\$
Right-of-use Asset – Cost	958 273	
Right-of-use Asset – Written down value		958 273
Lease liability – Current	75 031	
Lease liability – Non-current	883 242	
Total lease liability		958 273

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 June 2019. The weighted-average rate applied is 4.84%.

A reconciliation of the operating lease commitments and finance lease liabilities recognised under AASB 117 compared to the lease liabilities recognised under AASB 16 as at the date of initial application is as follows:

	1 June 2019 \$
Operating lease commitments at 31 May 2019 as disclosed in the Group's consolidated financial statements	161,451
Discounted using the incremental borrowing rate at 1 June 2019	144,991
Finance lease liabilities recognised as at 31 May 2019	–
– Recognition exemption for:	
Low-value leases	(144,991)
– Lease liabilities recognised under AASB16 not recognised as lease commitments under AASB 117 – made up of;	958,273
– land railway corridor lease	842,832
– office premises lease	(115,441)
Lease liabilities recognised at 1 June 2019	958,273

Note 1: Statement of significant accounting policies (continued)

(dd) Changes in accounting policies and estimates

Following the recapitalisation of the Company on 31 July 2019, accounting policies, estimates and procedures were reviewed and aligned with the majority shareholder where applicable and reasonable. The following changes in accounting policies had a material effect on the amounts presented in these financial statements.

Retrospective changes to the comparative amounts presented in this report have been made where practical. In addition to the comparative changes set out below in relation to changes in accounting policies, certain comparative amounts in the statement of profit or loss have been re-presented as a result of a business operation being discontinued during the current reporting period (refer note 35).

Apart from the changes set out below and the changes explained above in note 1(cc) in relation to leases, the Group has consistently applied the accounting policies and estimates stated previously in this report to all periods presented in these consolidated financial statements.

(i) Change in depreciation method for plant and equipment

The Company determined to change its depreciation method for property, plant and equipment on 1 August 2019. Up until 31 July 2019, the depreciation for the Company's milling plant and equipment were depreciated using the units of production depreciation method. This method was applied on the basis of the actual tonnes of cane crushed during a season compared to a base tonnage capacity of the Company's mills for a standard season. From 1 August 2019, the Company has changed to the 'straight line method' of depreciation for these assets.

The change in depreciation estimate was made due to the fact the straight line method is considered to result in a more accurate reflection of the pattern in which the assets will be utilised. The change in the carrying amounts of assets has been adjusted through the income statement through a change in depreciation expense. The impact of the exchange in accounting estimate was \$0.8 million to the 29 February 2020 financial statements. The change in estimate has been applied prospectively and no adjustments to opening retained earnings or prior periods have been made. The amount of the effect or the change in estimate in future reporting periods has not been disclosed because the estimation of those amounts is impracticable.

The financial report was authorised for issue on 14 May 2020 by the board of directors.

NOTE 2: REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Revenue

The Group has recognised the following amounts relating to revenue in the statement of profit or loss:

	Note	Feb 2020 \$'000	May 2019 \$'000
Revenue from contracts with customers:			
Raw sugar sales		227 289	312 329
Electricity sales		16 273	21 655
Molasses sales and services		19 647	24 681
Sundry sales		156	343
Transport, storage and handling services		1 020	1 758
Refinery services		324	511
Total revenue from contracts with customers		264 709	361 277
Revenue from other sources:			
Finance revenue		131	325
Lease and rental income		443	587
Sugar pricing gains / (losses)		2 888	35 816
Dividend income		1 146	2 258
Government subsidy income		738	845
Insurance revenue		2 481	4 060
Other miscellaneous income		138	255
Total revenue from other sources		7 965	44 146
Total revenue		272 674	405 423
Less: Revenue from discontinued operations		(7 064)	(66 418)
Total revenue from continuing operations		265 610	339 005

Note 2: Revenue from contracts with customers (continued)

(b) Contract receivables, assets and liabilities

The Group has recognised the following revenue-related contract receivables, assets and liabilities:

	Note	Feb 2020 \$'000	May 2019 \$'000
Opening balances as at the beginning of the period:			
Contract receivables		11 652	11 998
Closing balances as at the end of the period:			
Contract receivables		43 290	11 652

(c) Costs incurred in relation to revenue contracts

The Group has not incurred any costs in relation to revenue contracts that have been required to be capitalised as an asset. Accordingly, there has not been any amortisation or impairment losses of contract revenue costs recognised as an asset during the period.

Note: Further disclosures required by AASB15 are included in 'Note 1(q) Revenue from contracts with customers'.

NOTE 3: GOVERNMENT SUBSIDIES

	Note	Feb 2020 \$'000	May 2019 \$'000
Government subsidies			
Government subsidies received or receivable:			
Government subsidies received in relation to capital projects		1 972	3 643
Government subsidies received allocated directly to income		23	83
		1 995	3 726
Government subsidies received included in income:			
Government subsidies received allocated directly to income		23	83
Deferred government subsidies allocated to income		715	762
		738	845

Various government grants have been received for capital related projects. There are no unfulfilled conditions or contingencies relating to existing grants as at 29 February 2020.

NOTE 4: PROFIT/(LOSS) BEFORE INCOME TAX

	Note	Feb 2020 \$'000	May 2019 \$'000
Profit/(loss) is arrived at after charging:			
(a) Finance costs			
Interest and charges on bank loans		4 316	5 901
Interest and charges on non-bank loans		2 243	1 607
Lease expense on lease liabilities		32	88
Interest hedging expenses/(income) – other corporations		217	(45)
Interest on short-term deposits – other persons		–	2
Interest on selected-term unsecured notes – related parties		4	17
Interest on selected-term unsecured notes – other persons		47	280
Interest on fixed-rate medium-term unsecured notes		795	3 875
Interest on shareholder loan		635	–
STL share subscription finance costs		349	3 208
Amortisation of loan establishment fees		203	535
		8 841	15 468
(b) Other expenses			
Net loss on disposal of property, plant and equipment		1 220	2 061
Capital working expenses		57	132
		1 277	2 193
(c) Other items included in profit/(loss) before income tax			
Ineffective cash flow hedges – loss/(gain)		(54)	(225)
Foreign currency translation differences – loss/(gain)		(99)	67
Write-off / (Reversal of write-off) of obsolete stock		(18)	35
Write-off of receivables		–	24
Doubtful debts expense		110	(24)
Loss on impairment of property, plant and equipment		–	164 404
Loss on impairment of investment property		–	656

NOTE 5: TAXES

	Feb 2020 \$'000	May 2019 \$'000
(a) The components of tax expense comprise		
Current tax	(12 852)	(10 857)
Increase/(Recoupment) of prior period unrecognised tax losses	12 852	10 857
Income tax expense	–	–
(b) Numerical reconciliation of income tax expense and income tax at the statutory rate		
Profit/(loss) before tax from continuing operations	24 120	(190 192)
Tax expense / (benefit) at the statutory tax rate of 30% (2019: 30%)	7 236	(57 058)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	4	4
Increase/ (decrease) in previously unrecognised prior period tax losses	(7 240)	57 054
Income tax expense	–	–
The applicable weighted average tax rates	0%	0%
(c) Income tax recognised in other comprehensive income		
Income tax effect of:		
Cash flow hedges:		
Gains/(losses) taken to comprehensive income	(2 384)	(4 659)
Revaluation of financial assets	(30)	502
Exchange fluctuations on translation of foreign associated company	216	244
	(2 198)	(3 913)
Previously unrecognised prior period tax losses used to reduce tax expense	2 198	3 913
Income tax expense relating to components of other comprehensive income	–	–

Note 5: Taxes (continued)

	Feb 2020 \$'000	May 2019 \$'000
(d) Unrecognised Tax Losses and Deferred Tax Assets		
The Group has accumulated tax losses for income tax purposes that are currently able to be carried forward to future periods. The gross accumulated tax losses that have not been recognised in the consolidated statement of financial position as a deferred tax asset are as follows:		
Gross accumulated tax losses at beginning of the period	168 143	131 953
Less: Over-provision in prior periods	(3 850)	–
Add: Tax losses incurred during the period	46 139	36 190
Less: Tax losses utilised during the period	(25 000)	–
Available gross accumulated tax losses for income tax purposes at end of the period	185 432	168 143
Less: Gross tax losses recognised as a deferred tax asset to offset deferred tax liability	–	–
Remaining unused gross tax losses for which no deferred tax asset has been recognised	185 432	168 143
The benefits of these tax losses will only be obtained if:		
(i) The Group derives future assessable income of a nature and of an amount sufficient to enable the benefits of the tax losses to be realised; and		
(ii) The Group continues to comply with the legal conditions for deductibility of company tax losses; and		
(iii) No future changes in tax legislation adversely affect the Group in realising the benefit of the losses.		
Taking into account the above factors as at 29 February 2020, management is not able to reliably assess the probability that these tax losses will be utilised against future taxable profits.		
The deferred tax asset for these tax losses and also other temporary taxable differences have only been recognised to the extent of offsetting existing current tax and deferred tax liabilities.		
The tax affected amounts (at 30%) of tax losses and other deferred tax balances of the company as set out in note 5(e) are as follows:		
Deferred tax asset for unused tax losses not utilised	55 630	50 443
Deferred tax asset for other temporary differences	53 862	68 539
Total deferred tax asset for temporary differences	109 492	118 982
Deferred tax asset required to offset deferred tax liability	(8 622)	(8 537)
Remaining deferred tax asset (at 30%) not yet recognised	100 870	110 445

These unrecognised tax losses and deductible temporary differences do not expire under current tax legislation.

Note 5: Taxes (continued)

	Feb 2020 \$'000	May 2019 \$'000
(e) Recognised Deferred Tax Asset and Deferred Tax Liabilities:		
Deferred tax asset:		
Deferred tax assets are temporary differences attributable to the following:		
Employee benefits	3 901	4 124
Property, plant and equipment	26 911	36 357
Provision for obsolescence	–	60
Investments	10 916	9 313
Land and investment property	–	1 528
Accrued expenses	178	225
Revenue received in advance	7 506	12 640
Tax loss carry-forwards	55 630	50 443
Cash flow hedges and financial assets	4 450	4 292
	109 492	118 982
Less deferred tax assets not yet recognised (refer 5(d) above)	(100 870)	(110 445)
	8 622	8 537
Movements in recognised deferred tax assets:		
Opening balance	8 537	27 052
Charged to profit or loss or other comprehensive income to offset deferred tax liability movement	85	(18 515)
Closing balance	8 622	8 537
Deferred tax liability:		
Deferred tax liability comprises temporary differences attributable to:		
Inventories	799	915
Accrued revenue	–	23
Investment property	555	–
Investments	7 268	6 148
Cash flow hedges	–	1 451
	8 622	8 537
Movements in deferred tax liability:		
Opening balance	8 537	27 052
Charged to profit or loss or other comprehensive income	85	(18 515)
Closing balance	8 622	8 537
Net deferred tax asset / liability after offset at end of period	–	–

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Compensation of key management personnel

The aggregate compensation for key management personnel during the financial period was as follows:

	Feb 2020 \$'000	May 2019 \$'000
Total benefits and payments	2 916	3 562

(b) Key management personnel shareholdings

The number of shares in Mackay Sugar held by key management personnel or their related parties during the financial period was as follows:

	Balance at beginning of the period Investment Shares	Changes during the year Purchase / Sales	Adjustment on conversion to Ordinary Shares	Balance at end of the period Ordinary Shares
Ordinary shares	1 596 325	–	7	1 596 332

(c) Other key management personnel transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with key management personnel, refer to note 33: Related party transactions.

There have been no loans provided to key management personnel and therefore no transactions or balances exist in relation to loans to key management personnel during the financial period.

NOTE 7: DIVIDENDS
 NOTE 8: CASH AND CASH EQUIVALENTS
 NOTE 9: TRADE AND OTHER RECEIVABLES
 NOTE 10: INVENTORIES

	Feb 2020 \$'000	May 2019 \$'000
NOTE 7: DIVIDENDS		
There were no dividends		
NOTE 8: CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	18 808	16 924
NOTE 9: TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	46 364	11 938
Other receivables	8 107	2 709
Growers' loans	643	848
Less: provision for expected credit losses	(110)	–
	55 004	15 495
Non-Current		
Growers' loans	50	593
NOTE 10: INVENTORIES		
Finished goods	67 784	171
Spares and consumables	11 328	12 826
Less: provision for impairment of spares and consumables	(150)	(200)
	78 962	12 797

NOTE 11: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Feb 2020 \$'000	May 2019 \$'000
(a) Associated companies	12	39 997	36 265
(b) Interests in joint ventures	13	40 604	49 117
Total investments accounted for using the equity method	19(b)	80 601	85 382

NOTE 12: ASSOCIATED COMPANIES

An interest is held in the following associated companies:

Name	Principal activities	Country of incorporation	Shares	Ownership interest		Carrying amount of investment	
				Feb 2020 %	May 2019 %	Feb 2020 \$'000	May 2019 \$'000
Unlisted:							
New Zealand Sugar Company Pty Ltd (NZSC)	Sugar refining	New Zealand	Ordinary	25	25	36 287	32 863
Oriana Shipping Co Pte Ltd	Shipping Transportation services	Singapore	Ordinary	25	25	3 710	3 402
M&M Molasses Pty Ltd	Molasses services	Australia	Ordinary	–	40	–	–
						39 997	36 265

	Feb 2020 \$'000	May 2019 \$'000
(a) Movements during the period in equity accounted investments in the associated companies:		
Balance at the beginning of the period	36 265	35 029
Share of associate's profit after income tax	2 910	4 981
Share of associate's reserve movements arising during the period	104	281
Dividend revenue	–	(4 830)
Foreign currency translation adjustment	718	804
Balance at the end of the period	39 997	36 265

Note 12: Associated companies (continued)

(b) New Zealand Sugar Company Pty Ltd

Mackay Sugar has determined that it has significant influence over the company as it has a 25% ownership interest in the entity and 25% control of the voting rights in the company subject to some protective veto rights. Mackay Sugar has applied the equity method in accounting for its share in the associated company.

The equity-accounted financial information included in the Company's accounts for this associated company includes all financial information up to 31 December 2019 (the period end date of the associated company). These financial accounts have not been adjusted for any transactions of the associated company for January and February 2020 unless they have been determined to be material to the Company's equity-accounted share of the net transactions of the associated company.

The associated company is a private company and is not listed on any exchange and no quoted market price is available for the investment.

There were no contingent liabilities relating to its interest in the associated company as at 29 February 2020.

(c) Oriana Shipping Co. Pte Ltd

Mackay Sugar has determined that it has significant influence over the company as it has a 25% ownership interest in the entity and 25% control of the voting rights in the company subject to some protective veto rights. Mackay Sugar has applied the equity method in accounting for its share in the associated company.

The equity-accounted financial information included in the Company's accounts for this associated company includes all financial information up to 31 December 2019 (the period end date of the associated company). These financial accounts have not been adjusted for any transactions of the associated company for January and February 2020 unless they have been determined to be material to the Company's equity-accounted share of the net transactions of the associated company.

The associated company is a private company and is not listed on any exchange and no quoted market price is available for the investment.

There were no contingent liabilities relating to its interest in the associated company as at 29 February 2020.

NOTE 13: JOINT VENTURES

(a) Interest in joint venture (JV) entities

Name	Principal activities	Country of incorporation	Shares	Ownership interest		Carrying amount of investment	
				Feb 2020 %	May 2019 %	Feb 2020 \$'000	May 2019 \$'000
Sugar Australia Pty Ltd	Management entity	Australia	Ordinary	25	25	–	–
Sugar Australia JV	Sugar refining	Australia	*	25	25	40 604	49 117

* Interest in unincorporated entity.

	Feb 2020 \$'000	May 2019 \$'000
(i) Carrying amount of investment in joint venture entity		
Balance at the beginning of the period	49 117	46 286
Share of joint venture's profit after income tax	4 622	8 373
Share of joint venture's reserve movements arising during the period	(625)	(2 025)
Net cash distributions paid/(received) during the period	(12 510)	(3 517)
Balance at the end of the period	40 604	49 117

(ii) Sugar Australia Joint Venture

Mackay Sugar has determined that it has significant influence over the joint venture as it has a 25% ownership interest in the joint venture and 25% control of the voting rights in the joint venture subject to some protective veto rights. The Company's interest in the unincorporated joint

venture entity is accounted for in the financial statements using the equity method of accounting.

The joint venture entity is a private entity and is not listed on any exchange and no quoted market price is available for the investment.

NOTE 14: OTHER FINANCIAL ASSETS

	Note	Feb 2020 \$'000	May 2019 \$'000
Current assets			
Derivative financial assets	14(a)	–	9 650
		–	9 650
Non-current assets			
Derivative financial assets	14(a)	–	767
Investments in equity instruments	14(b)	31 825	31 927
		31 825	32 694
(a) Derivative financial assets comprise of the following cash flow hedges:			
Sugar price swaps		–	10 047
Sugar futures contracts		–	370
		–	10 417
Gains and losses arising from changes in the fair value of interest rate swaps, forward exchange contracts, foreign exchange options, sugar futures contracts, sugar options and sugar price swaps designated as hedges are initially recognised directly in equity and are separately included as a hedge reserve in the Statement of Changes in Equity. At settlement date, amounts included in the hedge reserve are transferred from the hedge reserve to income or expense. The Statement of Changes in Equity includes transfers to and from the hedge reserve. Derivative financial assets are measured at fair value based on mark-to-market valuations at balance date.			
(b) Investments in equity instruments:			
Unlisted investments in equity instruments, not held for trading, recognised at fair value through other comprehensive income:			
– shares in other corporations	14(c)	31 825	31 927
(c) Shares in other corporations:			
Sugar Terminals Limited shares		29 404	29 506
Racecourse Projects Pty Ltd shares		2 421	2 421
		31 825	31 927

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

(a) Summary of property, plant and equipment

	Note	Feb 2020 \$'000	May 2019 \$'000
Land and buildings			
Land			
– Directors' valuation		1 587	1 587
Total land		1 587	1 587
Buildings		20 801	20 661
Accumulated depreciation		(6 712)	(6 241)
Total buildings		14 089	14 420
Plant and equipment			
Plant and machinery		152 396	148 907
Accumulated depreciation		(61 226)	(57 235)
Total plant and machinery		91 170	91 672
Railways and rolling stock		39 765	38 041
Accumulated depreciation		(14 179)	(13 237)
Total railways and rolling stock		25 586	24 804
	15(d)	132 432	132 483
Capital work-in-progress		15 864	5 215
Total property, plant and equipment		148 296	137 698

Note 15: Property, plant and equipment (continued)

(b) Valuation methodology and assumptions

Property, plant and equipment are measured under the 'Revaluation model' in accordance with 'AASB 116: Property, Plant and Equipment'. The Group has determined that it has two 'units of valuation' for revaluation purposes as follows:

- Mackay raw sugar milling
- Mossman raw sugar milling

The Mossman raw sugar milling unit was sold during the period (refer note 35).

The fair value of all property, plant and equipment classes is assessed during each financial period and revaluation adjustments are made when any changes in fair value or

impairment have been considered to be material. The last revaluation adjustment which resulted in an impairment of the Mackay and Mossman raw sugar milling assets was made on 31 May 2019. As at 29 February 2020 this transaction is still considered to be the next appropriate valuation of the Group. As a result, no impairment or revaluation has been undertaken as at 29 February 2020 as the carrying amount of the assets have been assessed as being not materially different to fair value.

(c) Impairment of property, plant and equipment

A reconciliation of the revaluation and impairment amounts of property, plant and equipment during the financial period is as follows:

	Feb 2020 \$'000	May 2019 \$'000
Carrying amount of property, plant and equipment at period end prior to revaluation and impairment	148 296	302 102
Losses recognised in profit or loss:		
• Impairment of Mackay raw sugar milling property, plant and equipment	–	(163 952)
• Impairment of Mossman raw sugar milling property, plant and equipment	–	(452)
Losses recognised in other comprehensive income:		
• Nil		
Closing balance of property, plant and equipment at period end	148 296	137 698

Note 15: Property, plant and equipment (continued)

Feb 2020

	Land	Buildings	Plant and machinery	Railways and rolling stock	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
(d) Movement in carrying amounts during the period					
Carrying amount at the beginning of the period	1 587	14 420	91 672	24 804	132 483
Additions	–	142	5 446	2 086	7 674
Disposals	–	(1)	(1 115)	(165)	(1 281)
Depreciation	–	(472)	(4 833)	(1 139)	(6 444)
Impairment write-down	–	–	–	–	–
Carrying amount at the end of the period	1 587	14 089	91 170	25 586	132 432
(e) Carrying amount of capital work-in-progress					
Property, plant and equipment					15 864
					148 296

May 2019

	Land	Buildings	Plant and machinery	Railways and rolling stock	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
(f) Movement in carrying amounts during the period					
Carrying amount at the beginning of the period	3 555	30 172	209 829	57 372	300 928
Additions	–	2 850	8 724	947	12 521
Disposals	–	(3)	(1 932)	(126)	(2 061)
Depreciation	–	(1 197)	(10 957)	(2 407)	(14 561)
Impairment write-down	(1 968)	(17 402)	(113 992)	(30 982)	(164 344)
Carrying amount at the end of the period	1 587	14 420	91 672	24 804	132 483
(g) Carrying amount capital work-in-progress					
Property, plant and equipment (includes impairment of \$60k)					5 215
					137 698

NOTE 16: INVESTMENT PROPERTIES

NOTE 17: OTHER ASSETS

	Note	Feb 2020 \$'000	May 2019 \$'000
NOTE 16: INVESTMENT PROPERTIES			
(a) Investment properties			
Cost		2 714	3 485
Impairment		–	(656)
Accumulated depreciation		(336)	(438)
Total investment properties	19(b)	2 378	2 391
(b) Movements in carrying amounts during the period			
Carrying amount at the beginning of the period		2 391	3 074
Depreciation		(13)	(27)
Impairment of investment property		–	(656)
Carrying amount at the end of the period		2 378	2 391
(c) The cost value model is applied to all investment properties.			
NOTE 17: OTHER ASSETS			
Current			
Deferred sugar pricing losses		1 786	–
Prepayments		2 173	1 026
Deferred recapitalisation costs		–	393
		3 959	1 419

Deferred sugar pricing losses relate to the net cash paid on the mark-to-market of unrealised sugar options contracts. Outstanding sugar options contracts are marked-to-market on a daily basis with the net movement being cash settled with the relevant broker.

NOTE 18: TRADE AND OTHER PAYABLES

NOTE 19: INTEREST BEARING LIABILITIES

	Note	Feb 2020 \$'000	May 2019 \$'000
NOTE 18: TRADE AND OTHER PAYABLES			
Current – unsecured liabilities			
Suppliers' cane payment		28 078	19 456
Trade payables		22 340	14 898
Deferred cane payment		9 228	–
Sundry payables and accrued expenses		12 639	11 213
		72 285	45 467
NOTE 19: INTEREST BEARING LIABILITIES			
Current			
Unsecured liabilities			
Interest bearing deposits		–	98
Selected-term unsecured notes	19(c)	–	2 982
Fixed-rate medium-term unsecured notes (bonds)	19(d)	–	49 964
Lease liabilities	23(a)	80	–
Secured liabilities			
Bank loans	19(a)	33 000	129 895
Other loans	28(b)	31 928	–
		65 008	182 939
Non-current			
Unsecured liabilities			
Selected-term unsecured notes	19(c)	–	251
Fixed-rate medium-term unsecured notes (bonds)	19(d)	–	–
Lease liabilities	23(a)	808	–
Secured liabilities			
Bank loans	19(a)	107 370	–
Other loans	28(c)	27 460	–
		135 638	251
		200 646	183 190

Note 19: Interest bearing liabilities (continued)

	Note	Feb 2020 \$'000	May 2019 \$'000
Total current and non-current secured liabilities			
Rabo Bank Australia Limited (Rabo)		70 419	65 000
Less: Unamortised transaction costs on initial recognition		(234)	(51)
		70 185	64 949
National Australia Bank Limited (NAB)		70 419	65 000
Less: Unamortised transaction costs on initial recognition		(234)	(54)
		70 185	64 946
		140 370	129 895
The carrying amounts of assets pledged as security are:			
First registered mortgage			
Inventories	10	78 962	12 797
Other financial assets	14(c)	31 825	31 927
Property, plant and equipment	15(a)	148 296	137 698
Investment properties	16(a)	2 378	2 391
		261 461	184 813
Second ranking mortgage			
Investments accounted for using the equity method	11	80 601	85 382
		342 062	270 195

Collateral provided

The Rabo and NAB loans are secured by a first ranking registered security interest over the Company's, QCS's and MCT's assets, a first ranking real property mortgage over the Company's mill sites and a second ranking security interest over the Company's interest in the Sugar Australia refining joint venture.

Rabo and NAB loans

On 22 May 2020 the Rabo and NAB loans were revised through a facility amendment. The seasonal working capital facility limit increased from \$40,000,00 to \$100,000,000. The termination date for this facility was extended to 31 May 2021. In addition the margin call facility termination date was extended to 31 May 2021. The facility amendment updated the financial undertakings that are required to be met and the reporting date of the financial undertakings to reflect the change in financial period end from 31 May to 28/29 February.

Note 19: Interest bearing liabilities (continued)

(c) Selected-term unsecured notes

The selected-term unsecured notes scheme was terminated by the Company and the amounts owing on the notes were repaid on 18 December 2019. The Company is no longer offering securities under a prospectus.

The unsecured notes were offered under a prospectus lodged with the Australian Securities and Investments Commission (ASIC). The unsecured notes were held by shareholders, employees and depositors of the former interest bearing deposit scheme which was in operation when the entity was a co-operative. The former interest bearing deposit scheme was suspended on 18th July 2008 and the Company no longer accepted deposits after that date.

The unsecured notes were not guaranteed by any party or secured over any assets of the Company.

	Note	Feb 2020 \$'000	May 2019 \$'000
Opening balance at the beginning of the period		3 233	9 868
Issuances		126	1 466
Interest paid	4(a)	51	297
Repayments		(3 410)	(8 398)
Closing balance at the end of the period		–	3 233

Maturity dates	Average interest rates	Feb 2020 \$'000	May 2019 \$'000
Within 7 Days	2.50%	–	1 445
Less than 6 months	4.25%	–	555
6 months to 12 months	5.00%	–	982
12 months to 24 months	5.25%	–	55
4 periods to 5 periods	6.00%	–	196

Note 19: Interest bearing liabilities (continued)

(d) Fixed-rate medium-term unsecured notes (bonds)

On 5 April 2013, the Company issued Notes with an aggregate face value of \$50 million due 5 April 2018. The notes were issued under a Subscription Agreement with FIIG Securities Limited and an Information Memorandum and Pricing Supplement to eligible investors under section 708(8) of the Corporations Act. The notes were not listed or quoted on any stock or securities exchange, but were able to be traded on the Austraclear clearing and settlement system between eligible investors.

The notes were rolled-over on 5 April 2018 and extended for a further two year period to 5 April 2020. The fixed interest rate was 7.75% for the extended period. Interest on the rolled-over notes was payable quarterly in arrears on 5 July, 5 October, 5 January and 5 April during the extended period.

A resolution was passed in May 2019 approving the repayment terms for the notes following the Nordzucker recapitalisation transaction and the notes were repaid in full in August 2019. A repayment discount of \$25 million was agreed with the noteholders as part of this arrangement.

		Feb 2020 \$'000	May 2019 \$'000
Opening balance at the beginning of the period		50 000	50 000
Issuances		–	–
Repayments		(25 000)	–
Repayment discount (Debt forgiveness)		(25 000)	–
Closing balance at the end of the period		–	50 000
Less: Unamortised transaction costs on initial recognition		–	(36)
		–	49 964
Interest paid on notes during the period		1 390	3 875
Interest owing on notes at the end of the period		–	595
Maturity dates	Average interest rates	Feb 2020 \$'000	May 2019 \$'000
5 April 2020	7.75%	–	50 000

NOTE 20: OTHER LIABILITIES

	Notes	Feb 2020 \$'000	May 2019 \$'000
Current			
Deferred sugar pricing gains	20(a)	83	266
Deferred grant income	20(b)	916	969
		999	1 235
Non-current			
Deferred grant income	20(b)	24 019	22 709
Deferred cane payment	20(c)	–	18 456
		24 019	41 165

(a) Deferred sugar pricing gains

Deferred sugar pricing gains relate to the net cash received on the mark-to-market of unrealised sugar futures and options contracts. Outstanding sugar futures and options contracts are marked-to-market on a daily basis with the net movement being cash settled with the relevant broker.

(b) Deferred grant income

Deferred grant income relates to government grants received or receivable in relation to capital expenditure projects. The grant proceeds are initially recognised as deferred income and subsequently allocated to income or expense on a systematic basis over the useful life of the asset.

	Feb 2020 \$'000	May 2019 \$'000
Government Grants:		
Total grant funding received or receivable	30 913	28 941
Amount recognised in income or expense	(5 978)	(5 263)
Amount deferred in other liabilities	24 935	23 678

Note 20: Other liabilities (continued)

(c) Deferred cane payment

	Feb 2020 \$'000	May 2019 \$'000
2017 season – 4,747,102.16 tonnes	–	9 494
2018 season – 4,480,684.93 tonnes	–	8 962
	–	18 456

In 2017, the Company implemented a \$2 per tonne grower contribution in the form of a deferred cane payment, commencing in the 2017 season, for cane supplied at the three Mackay mills. The contribution applied to all cane supplied by sugar cane suppliers whose bargaining agents reached an agreement with the Company. An agreement was reached with the bargaining agents for the significant majority of sugar cane suppliers of the Company. The contribution applied for a two year period for the 2017 and 2018 seasons.

The recapitalisation of the Company on 31 July 2019 established a trigger event which required repayment of the funds to the sugar cane suppliers. As part of the recapitalisation it was approved for the repayment to occur in two equal instalments in August 2019 and July 2020. Accordingly, an amount of \$9,227,787 is outstanding at 29 February 2020. As this amount is now a fixed and determinable creditor, the liability has been included in 'Trade and other payables' (Refer note 18).

NOTE 21: OTHER FINANCIAL LIABILITIES

		Feb 2020 \$'000	May 2019 \$'000
Current			
Derivative financial liabilities	21(a)	2 692	1 084
Non-current			
Derivative financial liabilities	21(a)	4 813	633
Other financial liabilities at fair value through profit or loss	21(b)	27 627	28 423
		32 440	29 056
(a) Derivative financial liabilities comprise of cash flow hedges:			
Foreign exchange contracts		1 047	477
Foreign exchange options		501	494
Interest rate swaps and collars		913	579
Sugar futures		581	–
Sugar options		54	167
Sugar price swaps		4 409	–
		7 505	1717

Gains and losses arising from changes in the fair value of foreign exchange contracts, foreign exchange options, interest rate swaps, sugar futures contracts, sugar price swaps and sugar options designated as hedges are initially recognised directly in equity and are separately included as a hedge reserve in the Statement of Changes

in Equity. At the settlement date, amounts included in the hedge reserve are transferred from the hedge reserve to income or expense. The Statement of Changes in Equity includes transfers to and from the hedge reserve. Derivative financial liabilities are measured at fair value based on mark-to-market valuations at balance date.

Note 21: Other financial liabilities (continued)

(b) Other financial liabilities at fair value through profit or loss

STL share subscription liability (designated on initial recognition as a financial liability at fair value through profit or loss) \$27,626,624

Subscription and option agreement:

On 10 September 2015, the Group received \$26,500,000 through a 'Subscription and option agreement' in relation to the Sugar Terminals Limited (STL) shares held by the Group (refer note 14(c)). As part of the arrangement, Mackay Sugar has declared that it holds the STL shares on trust, whereby the trust beneficiaries obtain a financial interest in the shares (right to receive dividends); however Mackay Sugar maintains the legal ownership and voting rights of the shares. The term of the agreement is for 8.6 years to 30 April 2024 and at the completion of the agreement the financial interest in the shares is able to be repurchased by Mackay Sugar. The Group has determined that the funds received under the agreement does not constitute a sale of the STL shares as Mackay Sugar has retained the legal title to the shares and substantially all the risks and rewards of ownership of the shares. Accordingly, the funds have been accounted for as a financial liability and the Group has elected to designate the measurement of the liability at fair value through profit or loss.

Collateral:

Mackay Sugar is required to hold the STL shares (as disclosed in note 14(c)), currently fair valued at \$29,404,043, in trust during the full term of the agreement. Dividends received on the STL shares (including any franking credits) are required to be passed on in full to the trust beneficiaries.



NOTE 22: EMPLOYEE BENEFITS

NOTE 23: LEASES

NOTE 22: EMPLOYEE BENEFITS

	Feb 2020 \$'000	May 2019 \$'000
Current	10 752	11 017
Non-current	2 253	2 729
	13 005	13 746
Opening balance at the beginning of the period	13 746	13 299
Additional provisions raised	4 929	9 737
Amount used	(5 670)	(9 290)
Closing balance at the end of the period	13 005	13 746

A provision has been recognised for employee entitlements relating to annual leave, long service leave, travel leave, allowances and preserved sick leave. The measurement and recognition criteria for employee benefits have been included in note 1(m) employee benefits.

NOTE 23: LEASES

(a) As a Lessee

The Group leases many assets including land, buildings, machinery, IT equipment and office equipment.

Information about leases for which the Group is a lessee is presented below.

Right-Of-Use Assets

Leased assets that do not meet the definition of investment property:

	Land \$'000	Buildings \$'000	Total \$'000
Balance as at: 1/06/2019	843	115	958
Depreciation charge for the period	(29)	(41)	(70)
Balance as at: 29/02/2020	814	74	888

Note 23: Leases (continued)

Lease Liabilities

	Feb 2020 \$'000
Maturity analysis – contractual undiscounted cash flows	
Less than one year	119
One to five years.	260
More than five years.	961
Total undiscounted lease liabilities as at 29/02/2020.	1 340
Lease liabilities included in the statement of financial position as at 29/02/2020	888
Current	80
Non-current	808
Amounts recognised in profit or loss in relation to leases	
Interest expense on lease liabilities	32
Expenses relating to short-term leases	221
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	155
Amounts recognised in the statement of cash flows	
Payments for short-term and low-value asset leases	376
Lease liability payments	103
Total cash outflow for leases	479

Note 23: Leases (continued)

(b) As a Lessor

The Group leases out land and building assets (both commercial and residential).

Lease income from lease contracts in which the Group acts as a lessor is as follows:

	Feb 2020 \$'000
Operating Leases	
The majority of lease income obtained by the Group is derived from investment property assets. Some land included within the milling property assets is leased under commercial arrangements.	
Lease income	465
Maturity analysis of operating lease payments	
The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:	
Less than one year	273
One to two years	53
Two to three years	53
Three to four years	53
Four to five years	53
More than five years	599
Total undiscounted operating lease payments	1 084

NOTE 24: ISSUED CAPITAL

	Feb 2020 \$'000	May 2019 \$'000
Fully paid investment shares – Nil (May 2019: 212,879,330)	–	16 498
Fully paid voting shares – Nil (May 2019: 735)	–	–
Fully paid ordinary shares – 212,880,065 (May 2019: Nil)	16 498	–
Fully paid converting preference shares – 496,720,152 (May 2019: Nil)	58 414	–
	74 912	16 498

(a) Converting preference shares

The Company was recapitalised on 31 July 2019 with Nordzucker AG obtaining a 70% shareholding in the Company through a \$60 million equity investment as follows:

	No of shares	No of shares
Opening balance at the beginning of the period	–	–
Shares issued during the period (31 July 2019)	496 720 152	–
Closing balance at the end of the period	496 720 152	–

Each Converting Preference Share has the same rights as attach to each Ordinary Share. In addition the Converting Preference Shares have the right to receive a preferred dividend of \$33,333,333.33 in aggregate prior to the payment of dividends on the Ordinary Shares. The Converting Preference Shares automatically convert to an equal number of Ordinary Shares upon the payment of the total of the preferred dividend. There are no restrictions on the transfer of shares by the Controlling Shareholder.

An amount of \$1,585,788 for transactions costs associated with these shares were deducted from equity during the period.

(b) Investment and voting shares

As part of the Nordzucker recapitalisation on 31 July 2019, Investment shares and Voting shares were fully converted to Ordinary shares as follows:

	No of shares	No of shares
Opening balance at the beginning of the period:		
Investment shares	212 879 330	212 879 330
Voting shares	735	735
	212 880 065	212 880 065
Converted to Ordinary shares on 31 July 2019	(212 880 065)	–

Note 24: Issued capital (continued)

Closing balance at the end of the period	–	212 880 065
(c) Ordinary Shares:	No of shares	No of shares
Opening balance at the beginning of the period	–	–
Shares issued during the period (refer above)	212 880 065	–
Closing balance at the end of the period	212 880 065	–

Subject to the rights of the Converting Shares, Ordinary Shares participate in dividends as determined from time to time by the Directors and, in a winding up or reduction of capital, participate equally in the distribution of surplus assets of the Company. Ordinary Shares are able to be traded between Mackay Sugar Limited Growers (as defined in the constitution) and Nordzucker

AG (the Controlling Shareholder). Ordinary Shares cannot be traded to other parties unless they have first complied with the pre-emption provision whereby the Ordinary Shares must first be offered to the Controlling Shareholder. The shares are tradeable on a restricted market and are not listed on any stock exchange.

NOTE 25: RESERVES

	Feb 2020 \$'000	May 2019 \$'000
(a) Cash flow hedging reserve		
Balance at beginning of period	4 875	22 158
Gain/(loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:		
Sugar price swaps	(3 030)	621
Forward exchange contracts	(355)	(344)
Sugar futures	(300)	184
Interest rate swaps	(335)	(1 093)
Share of Sugar Australia hedge reserve	(625)	(2 025)
Share of New Zealand Sugar Co hedge reserve	102	273
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss:		
Sugar price swaps	(4 085)	(15 010)
Diesel fuel price swaps	–	(63)
Forward exchange contracts	344	806
Sugar futures	(184)	(632)
Balance at end of period	(3 593)	4 875

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Cumulative gains/(losses) arising on changes in fair value of hedging instruments reclassified from equity into profit or loss during the period are included in the following line items:

	Feb 2020 \$'000	May 2019 \$'000
Revenue	3 925	14 836
Operating expenses	–	63
	3 925	14 899

NOTE 26: CAPITAL COMMITMENTS NOTE 27: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

NOTE 26: CAPITAL COMMITMENTS

(a) Capital expenditure

(i) Capital expenditure commitments contracted for but not provided for in the accounts:

	Feb 2020 \$'000	May 2019 \$'000
Plant and equipment purchases	12 943	943
	12 943	943

The amounts are payable within one year.

(ii) Company's share of capital expenditure commitments of Joint Ventures contracted for but not provided for in the accounts:

Sugar Australia Joint Venture (25% share)		
Plant and equipment purchases	277	201

The amounts are payable within one year.

NOTE 27: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities	Feb 2020 \$'000	May 2019 \$'000
Estimates of the potential financial effect of contingent liabilities that may become payable:		
(i) Share of Joint Venture contingent liabilities:		
Sugar Australia Joint Venture (25% share):		
The joint venture has a contingent liability in the form of bank guarantees.	229	257
Total contingent liabilities	229	257

NOTE 28: CASH FLOW INFORMATION

(a) Credit standby arrangements and unused credit facilities with banks

Standby arrangements with banks to provide funds and support facilities:

	Feb 2020 \$'000	May 2019 \$'000
Credit facility	226 828	175 175
Amount utilised	144 839	134 833
Unused credit facility	81 989	40 342

The facilities are held with Rabo Australia Bank (Rabo) and National Australia Bank (NAB) in a joint lending arrangement. The facilities were restructured during the period as part of the recapitalisation of the Company and extended for a further five year period to 1 August 2024.

The finance facilities provided by Rabo and NAB as at 29 February 2020 are summarised as follows:

	Total facilities \$'000	RABO facility \$'000	NAB facility \$'000
Term debt facility	100 000	50 000	50 000
Seasonal working capital facility	40 000	20 000	20 000
Capex facility	43 800	21 900	21 900
Margin call facility (USD\$25,000,000)	38 028	19 014	19 014
Letter of credit facility	5 000	–	5 000
Total of facilities available	226 828	110 914	115 914

(i) Term debt facility – Rabo

This is a \$50,000,000 variable interest rate term debt facility. This facility was fully utilised as at 29 February 2020.

(ii) Seasonal working capital facility – Rabo

This is a \$20,000,000 variable interest rate seasonal working capital facility for the purpose of covering short term cash flow requirements. At 29 February 2020, \$16,500,000 had been utilised under this facility.

(iii) Margin call facility – Rabo

This is a USD\$12,500,000 (AUD\$19,014,299) variable interest rate margin call facility for the purpose of covering margin calls required due to the Group's sugar pricing activities. At 29 February 2020, no amounts had been utilised under this facility.

Note 28: Cash flow information (continued)

(iv) Capital expenditure facility – Rabo

This is a \$21,900,000 variable interest rate facility for the purpose of capital expenditure as at 29 February 2020, \$3,919,500 had been utilised under this facility.

(v) Term debt facility – NAB

This is a \$50,000,000 variable interest rate term debt facility. This facility was fully utilised as at 29 February 2020.

(vi) Seasonal working capital facility – NAB

This is a \$20,000,000 variable interest rate seasonal working capital facility for the purpose of covering short term cash flow requirements. At 29 February 2020, \$16,500,000 had been utilised under this facility.

(vii) Capital expenditure facility – NAB

This is a \$21,900,000 variable interest rate facility for the purpose of capital expenditure. As at 29 February 2020, \$3,919,500 had been utilised under this facility.

(viii) Margin call facility – NAB

This is a USD\$12,500,000 (AUD\$19,014,299) variable interest rate margin call facility for the purpose of covering margin calls required due to the Group's sugar pricing activities. At 29 February 2020, no amounts had been utilised under this facility.

(ix) Letter of credit facility

This is a \$5,000,000 variable interest rate line of credit facility for the purpose of covering any bank guarantees or letters of credit required by the Group. This facility was not fully utilised as at 29 February 2020. An amount of \$1,000,000 was unutilised as at 29 February 2020.

The security arrangements for credit facilities are:

The Rabo and NAB loans are secured by a first ranking registered security interest over all of the Group's assets, a first ranking real property mortgage over the Company's mill sites and a second ranking security interest over the Company's interest in the refining joint venture.

(b) Credit standby arrangements and unused credit facilities with other institutions**Wilmar – Short term financing facility:**

A financing facility in the form of a 'Raw Sugar Purchase and Sale Agreement' was established during the period to provide short term financing to fund cane payments to the Company's sugar cane suppliers. The financing available was based on 85% of the value of the sugar stock supplied by the Company as collateral. The total amount borrowed through this facility during the financial period ended 29 February 2020 was \$70,514,493. As at 29 February 2020 an amount of \$31,928,681 was owing.

(c) Shareholder Loan – Long term financing facility

A financing facility in the form of a shareholder loan was established 31 July 2019 to provide capex funding. The total value of the facility is \$60,000,000. At 29 February 2020 an amount of \$28,226,000 plus capitalised interest of \$634,852 totalling \$28,860,852 was utilised and an amount of \$31,139,148 was unutilised. The duration of the loan is five years or until paid back. Interest on the loan is on commercial terms. Unamortised transaction costs on initial recognition of the loan of \$1,400,780 has been applied against the loan balance as at 29 February 2020.

NOTE 29: EVENTS AFTER THE END OF THE REPORTING PERIOD

NOTE 30: INTEREST IN SUBSIDIARIES

NOTE 29: EVENTS AFTER THE END OF THE REPORTING PERIOD

Impact of Coronavirus

The impact of COVID-19 (Coronavirus) on the financial performance and financial position of the Company in the next financial year has been considered in detail. As the Company is in the business of manufacture, agribusiness and inputs to food manufacture, the Company has been determined to be an essential business and it expects to be able to continue to operate its business for the 2020 crushing season. The Company does not expect to be affected by the current or future government regulations in relation to its business operations. Measures have been taken by the Company to secure its critical supplies and staffing to ensure that operations will be able to be maintained into the future. At the time of this report, revenue sources and distribution channels are not expected to be significantly diminished due to the Coronavirus and the Company's financing arrangements are expected to be able to absorb potential short-term deficits.

The conclusion is that, at the time of this report, whilst the Company cannot fully predict the potential impact of the Coronavirus and how it may ultimately affect its workforce and its operations, the impact of COVID-19 is not expected to have a significant effect on the financial performance or financial position of the Company in the next financial year.

Derivative financial positions

Since the end of the financial year, movements in the ICE No.11 Raw Sugar Futures prices and exchange rates have resulted in variances to the "mark-to-market" values reported in the financial statements.

As the Group has entered into sugar futures and options contracts, foreign exchange contracts, foreign currency options, and commodity swap transactions, unrealised gains or losses on these derivatives fluctuate over time in line with changes to futures prices and foreign exchange rates.

As at 29 February 2020, the financial accounts reported a net unrealised loss on sugar pricing derivatives of

\$6.6 million. However, as at 12 May 2020, in anticipation of the Board meeting to approve these accounts, this amount would be calculated to be an unrealised gain of \$35.2 million, based on the quoted rates of the day for derivatives that are still outstanding and realised prices for derivatives that have been settled subsequent to year end. The change is mainly due to a reduction in the sugar futures prices, offset in part by movements in foreign exchange rates.

The opening position of \$6.6 million is made up of \$3.3 million Miller economic interest (MEI) and \$3.3 million Grower economic interest (GEI). The \$35.2 million is made up of MEI of \$17.7 million and GEI of \$17.5 million. The movement in the MEI affects the derivative hedging asset/liability and hedge reserve whereas the GEI affects the derivative hedging asset/liability and grower payables/receivables in the balance sheet.

The nature of a hedging relationship means that the above movement in mark-to-market values is realised when the raw sugar sales related to these transactions are completed.

Other matters

No other matter or circumstance has arisen in the interval between the end of the financial period and the date of this report, which has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

NOTE 30: INTEREST IN SUBSIDIARIES

(a) Information about Principal Subsidiaries

Set out below are the parent Company's subsidiaries at 29 February 2020. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Company and the proportion of ownership interests held equals the voting rights held by the Company.

Name of Subsidiary

Queensland Commodity Services Pty Ltd

Mackay Commodity Trading Pty Ltd

NOTE 31: PARENT ENTITY INFORMATION

As at, and throughout, the financial period ending 29 February 2020, the parent entity of the Group was Mackay Sugar Limited. The following information has been extracted from the records of the parent and has been prepared in accordance with Australian Accounting Standards.

	Feb 2020 \$'000	May 2019 \$'000
(a) Statement of profit or loss and other comprehensive income		
Profit after income tax	24 253	(189 677)
Other comprehensive income	(239)	(422)
Total comprehensive income	24 014	(190 099)
(b) Statement of financial position		
Current assets	119 370	48 847
Total assets	383 334	277 334
Current liabilities	114 911	238 122
Total liabilities	305 326	281 754
Equity:		
Issued capital	74 912	16 498
Asset revaluation reserve	–	–
Foreign currency translation reserve	4 232	3 512
Financial asset revaluation reserve	8 565	8 666
Hedging reserve	(474)	384
Retained profits	(9 227)	(33 480)
Total equity	78 008	(4 420)

(c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity and one of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. Further details of the Deed of Cross Guarantee are disclosed in note 32.

(d) Contingent liabilities

The contingent liabilities of the parent entity are disclosed in note 27 of these accounts. There were no contingent liabilities for, or in relation to, subsidiaries.

(e) Capital commitments – Property, plant and equipment

The parent entity's contractual commitments for the acquisition of property, plant and equipment is disclosed in note 26(a) of these accounts. There were no capital commitments for, or in relation to, subsidiaries.

NOTE 32: DEED OF CROSS GUARANTEE

The following entities are party to a Deed of cross guarantee under which each company guarantees the debts of the others:

Holding Entity: Mackay Sugar Limited

Group Entity: Queensland Commodity Services Pty Ltd

By entering into the Deed, Queensland Commodity Services Pty Ltd, a wholly-owned entity of Mackay Sugar Limited has been relieved from the Corporations Act 2001 requirements for the preparation, audit and lodgement of financial reports and directors' reports under ASIC Instrument 2016/785 issued by the Australian Securities and Investments Commission (ASIC).

The effect of the Deed is that the parent company guarantees to each creditor payment in full of any debt in the event of winding up the subsidiary under certain

provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiary has also given similar guarantees in the event that the Company is wound up.

The above companies represent a 'Closed Group' for the purposes of the Class Order, as there are no other parties to the Deed of Cross Guarantee.

The consolidated financial statements comprising the Company and entities which are a party to the Deed (the 'Closed Group'), after eliminating all transactions between parties to the Deed of Cross Guarantee, for the period ended 29 February 2020 are the same amounts as presented in these financial statements.

NOTE 33: RELATED PARTY TRANSACTIONS

(a) Ultimate parent entity

The Group is controlled by the following entity:

Name	Type	Place of incorporation	Ownership interest	
			Feb 2020 %	May 2019 %
Nordzucker AG	Ultimate parent entity and controlling party	Germany	70	–

The Group has obtained financing in the form of a shareholder loan from the ultimate parent entity (refer note 28(c)). The Group has also incurred various service and administration charges from Nordzucker AG. The transactions resulting from these arrangements are summarised as follows:

	Feb 2020 \$'000	May 2019 \$'000
Loan funding received during the period	28 226	–
Interest owing on loans capitalised during the period	635	–
Balance of shareholder loans owing at the end of the period	28 861	–
Service and administration fees incurred during the period	1 152	–

All conditions under the terms of service contract with Nordzucker AG have been complied with during the financial period.

(b) Associated companies

There were no related party transactions between the Group and its associated companies during the financial period and thus no amounts owed by any entities at the end of the financial period.

Note 33: Related party transactions (continued)

(c) Joint ventures

Sugar Australia Pty Ltd and Sugar Australia JV

A refinery owned by the Sugar Australia JV is situated on the Company's Racecourse Mill site and uses Mackay Sugar's resources to operate the refinery. Expenses incurred by Mackay Sugar in relation to the refinery are reimbursed by the joint venture and services are charged on a fee for service basis. Sugar Australia Pty Limited manages the operations of the Sugar Australia JV on behalf of the members. Mackay Sugar sells raw sugar to the refinery owned by the Sugar Australia JV situated on the Racecourse Mill site.

	Feb 2020 \$'000	May 2019 \$'000
Reimbursable expenses incurred during the period	158	300
Service fees charged during the period	6 117	8 441
Reimbursable expenses and service fees owing at the end of the period	1 318	776
Raw sugar sales during the period	105 806	163 767
Raw sugar sales owing at the end of the period	4 507	–

(d) Key management personnel

(i) The following individuals and/or entities, which are either owned or significantly influenced by key management personnel, are suppliers to the Company who have supplied cane under the Cane Supply and Processing Agreement and have received payments for cane supplied. These monies have been calculated and paid under the same terms and conditions as all other cane payments:

AS Cappello; LG and JL Bugeja and LG & JL Bugeja Family Trust; AS Cappello, AP Cappello & DF Cappello; CA, LM, AM & M Blackburn; N & JJ Blackburn P/L ATF N & JJ Blackburn Family Trust; PA & KR Manning; DJ & DM Said; Parmel Farming Pty Ltd ATF Parmel Trust; GD & CJ Sandral; Tonbar Qld P/L ATF AR Bartolo Holdings Trust.

	Feb 2020 \$'000	May 2019 \$'000
Payments for the supply of cane	2 250	2 453
Payments owing for deferred cane payment	146	292

Note 33: Related party transactions (continued)

- (ii) The following entities, which are either owned or significantly influenced by key management personnel, have monies deposited with the Company under the interest bearing deposit scheme or unsecured notes scheme. These monies have been deposited under the same terms, conditions and interest rates as all other monies deposited:

AS Cappello; AS & TM Cappello; LG & JL Bugeja; CJ Mansfield.

	Feb 2020 \$'000	May 2019 \$'000
Interest received on interest bearing deposit accounts and unsecured notes	4	17
Balance of interest bearing deposit accounts and unsecured notes at the end of the period	–	133

(e) Terms and conditions of transactions with related parties

Transactions between related parties are made on an arm's length basis both at normal market prices and on normal terms and conditions no more favourable than those available to other parties unless otherwise stated.

Outstanding balances owing at the end of the financial period are unsecured, interest free and settlement occurs in cash. No guarantees have been provided for any related party receivables or payables.

For the period ended 29 February 2020, Mackay Sugar has not made any allowances for doubtful debts relating to amounts owed by related parties (2019: \$nil).

NOTE 34: FINANCIAL RISK MANAGEMENT

(a) Financial risk management policies

The Group's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and sugar price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on minimising the impact of adverse fluctuations in the financial markets and seeks to maximise the financial performance of the Company. The Group uses derivative financial instruments such as foreign exchange contracts, currency options, sugar futures and options contracts, over-the-counter (OTC) commodity swaps and interest rate swap agreements to hedge certain risk exposures. The Group uses various methods to measure the different types of risk to which it is exposed.

Treasury risk management

An Audit and Finance Committee consisting of Directors and certain senior executives of Mackay Sugar meets on a regular basis to analyse interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. Mackay Sugar's Board provides written directives for overall risk management such as sugar pricing mandates, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments.

Formal agreements and policies exist between Queensland Commodity Services (QCS) and Mackay Sugar that outline the conditions under which QCS is to manage the currency, price risk and marketing of the Group's raw sugar. The QCS Board meet regularly to analyse commodity and foreign exchange price exposure and to develop strategies to manage associated risk.

Financial risk exposures and management

Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The financial instruments which primarily expose the Group to interest rate risk are borrowings,

interest rate swaps, cash and cash equivalents. The Group's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of these exposures. The Group's general policy is to fix the rates of its interest bearing liabilities using floating-to-fixed interest rate swap contracts.

Foreign exchange risk

Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group enters into forward exchange contracts and currency options to hedge the foreign exchange risk arising from the sale of raw sugar in USD and the purchase of goods from overseas vendors.

QCS conducts all USD hedging of raw sugar sales for the Group. The terms under which QCS conducts its foreign exchange risk management is governed by the Commodity Marketing Agreement (CMA) that exists between Mackay Sugar and QCS. Refer to note 34(c)(i) for further details. The risk management objective is to reduce variability in AUD denominated cash flows arising from firm commitments and highly probable forecast USD transactions. The risk management strategy is to hedge currency exposure of USD for raw sugar sales using forward exchange contracts and currency options.

Commodity price risk

Sugar price risk

The Group is exposed to sugar price risk through the sale of raw sugar produced by milling assets. This exposure is managed by the use of fixed price sales in either USD or AUD, OTC swaps with approved financial counterparties in either USD or AUD and No. 11 sugar futures and options contracts traded on the InterContinental Exchange (ICE). These derivatives are utilised with the aim of minimising the effects of volatility in the commodity markets and to provide a stable and reliable revenue stream to the business. Refer to note 34(c)(i) for further details.

QCS conducts price risk management of the Group's domestic sugar contract and the miller's economic interest.

Note 34: Financial risk management (continued)

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers. Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of obligations that could lead to a financial loss to the Company.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Risk is also minimised by ensuring derivative counterparties and cash transactions are limited to high credit quality financial institutions.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- Preparing forward-looking cash flow forecasts and analysis in relation to its operational, investing and financing activities;
- Monitoring and ensuring an adequate amount of cash and undrawn credit facilities is available;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets and derivative financial instruments; and
- Surplus cash is only invested with major financial institutions or used to repay loans.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities as detailed in note 28. Management monitors rolling forecasts on Mackay Sugar's liquidity reserve on the basis of expected cash flow.

The Group is subject to significant liquidity risk from the market and price risks associated with raw sugar supply agreements and derivative financial instruments (sugar price swaps, sugar futures and options contracts, forward exchange contracts and currency options). The Group has various credit limits on the negative

mark-to-market positions of these agreements and derivatives. Depending on the specific contract, if these limits are exceeded the Group is subject to margin calls, sales proceeds being withheld, or loan defaults. To manage this risk, the Group reviews the mark-to-market positions regularly and either renegotiates credit limits where available, or reduces exposure/limits future exposure to ensure that the likelihood of credit limits being breached is minimal.

(b) Application of hedge accounting

The Group uses derivatives to reduce exposure to adverse fluctuations in interest rates, foreign exchange rates and certain commodity prices. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Group uses to hedge risks such as interest rate, foreign currency and commodity price movements include:

- Interest rate swaps;
- Foreign currency contracts;
- Futures contracts (commodity);
- Commodity swaps; and
- Option contracts (currency and commodity).

These derivatives are used primarily for the purposes of hedging and hedge accounting is applied to all derivatives other than FX options, Exchange Traded Options and bought USD FX swaps. The Group establishes an economic relationship between the hedged item (financial risk exposure) and the hedging instrument (derivative) to assess the hedge relationship and effectiveness. Effectiveness is assessed both at inception and periodically thereafter as required, by designating a single or combination of hedging instruments as cash flow hedges to offset the changes in the cash flows of the hedged item, due to movements in the underlying market risk. The notional amounts of the hedging instrument and the hedged item are matched, and all cash flows and dates coincide unless otherwise stated. The fluctuations in the value of the derivative financial instruments are offset by changes in the fair values or cash flows of the underlying exposures being hedged and have a 100% hedge ratio in the hedge design unless otherwise stated. Ineffectiveness may arise for various reasons which are discussed further in the information about each derivative where applicable.

Note 34: Financial risk management (continued)

(c) Financial instruments**(i) Derivative financial instruments**

Derivative financial instruments are utilised by the Group to hedge exposure to price risk and exchange rate risk that arise from sugar sales and interest rate risk associated with movements in interest rates that impact the interest bearing liabilities of the Group. All hedging transactions are undertaken with approved financial counterparties with sound financial positions. Where derivatives are marked daily on a live market, initial and variation margin obligations will apply. This is presently only relevant to ICE No.11 sugar futures and options contracts.

Sugar price swaps

The Group enters into OTC sugar price swaps with approved financial institutions to price specified amounts of its sugar production in the future at an agreed AUD price. All OTC sugar swap hedging is conducted by QCS. The Group's hedging policy allows for pricing of a portion of forecast future season's sugar production up to four periods in advance.

These sugar price swaps contain two elements, these being ICE No.11 sugar futures contracts and a foreign exchange contract to convert proceeds received into AUD. The objective in entering these sugar price swaps is to protect the Group against unfavourable sugar price and foreign currency movements for both contracted and anticipated future sales.

(c) Financial instruments**(i) Derivative financial instruments****Sugar futures**

QCS enters into futures contracts for the Group on the InterContinental Exchange (ICE) and through over the counter (OTC) products. The Group's risk management policy permits hedging of both grower economic interest sugar (GEI) and miller economic interest sugar (MEI) in accordance with the groups risk management policy. The policy sets out total volume limits to be hedged and minimum and maximum position limits permissible at any given time.

Sugar Options

QCS enters into sugar options contracts for the Group on the InterContinental Exchange (ICE) and through Over-the-Counter (OTC) products. The Group's risk management policy permits hedging of both GEI sugar

and MEI sugar in accordance with the groups risk management policy. The policy sets out total volume limits to be hedged and minimum and maximum position limits permissible at any given time.

QCS enters into sugar options contracts with the objective of obtaining a more stable and favourable price outcome for both contracted and anticipated future sugar sales. These derivative contracts are carried at fair value, which is defined as the market value quoted on the ICE.

Forward exchange contracts

The Group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. QCS executes all OTC foreign exchange contracts for the Group with approved financial counterparties. These contracts are hedging highly probable forecasted USD receipts from our customers and highly probable vendor payments in foreign currency.

The contracts are timed to mature when the receipts for USD denominated sales of raw sugar and payments to vendors are scheduled to be made.

The Group's risk management policy permits hedging of both GEI sugar and MEI sugar in accordance with the Group's risk management policy. The policy sets out total foreign currency volume limits (including both forward exchange contracts and foreign exchange options) to be hedged in individual sugar delivery periods, and minimum and maximum position limits permissible at any given time.

All forward exchange contracts are assessed for effectiveness at inception and periodically as required.

Foreign Exchange Options

The Group enters into foreign exchange options to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. QCS executes all OTC foreign exchange options for the Group with approved financial counterparties. These contracts are hedging highly probable forecasted USD receipts from our customers and highly probable vendor payments in foreign currency.

The Group's risk management policy permits hedging of both GEI sugar and MEI sugar in accordance with the Group's risk management policy. The policy sets out total foreign currency volume limits (including both forward exchange contracts and foreign exchange options) to be hedged in individual sugar delivery periods, and minimum and maximum position limits permissible at any given time.

Note 34: Financial risk management (continued)

QCS enters into foreign exchange options with the objective of a more stable and favourable price outcome for both contracted and anticipated future sugar sales. These OTC products are carried at fair value, being the mark-to-market valuation as quoted by the appropriate financial institutions.

Interest rate swaps

Interest rate swap and collar contracts are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term interest bearing liabilities from the risk of increasing interest rates. The Group has variable interest rate debt and enters into swap contracts to receive interest at variable rates and to pay interest at fixed rates.

The derivative contracts are carried at fair value, being the mark-to-market valuation as quoted by the appropriate financial institutions.

(ii) Details of hedging amounts included in financial accounts:**Period ended 29 February 2020****Hedging Instrument**

	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line item in the statement of financial position where the hedging instrument is located
Cash Flow Hedges		Assets ('000)	Liabilities ('000)	
Sugar Price Risk				
• Sugar Price swaps (hedging forecast sales)	143,932 tonnes	–	2 464	Other financial liabilities
Sugar Price Risk				
• Sugar Futures (hedging forecast sales)	30,165 tonnes	–	300	Other financial liabilities
Foreign Exchange Risk				
• Forward currency contracts (hedging forecast sales)	Sell USD \$69.768 million	–	355	Other financial liabilities
Interest Rate Risk				
• Interest Rate Swaps/collars (hedging forecast variable interest payments)	Loan Principal \$60 million	–	913	Other financial liabilities

Note 34: Financial risk management (continued)

Hedged Item and hedge reserve

	Changes in value of Hedging Instrument used for calculating hedge ineffectiveness for 29 February 2020 ('000)	Changes in value of Hedged Item used for calculating hedge ineffectiveness for 29 February 2020 ('000)	Cash Flow Hedge Reserve (Continuing Hedges) at 29 February 2020 ('000)	Cash Flow Hedge Reserve (Discontinued Hedges) at 29 February 2020 ('000)
Cash Flow Hedges	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)
Sugar Price Risk				
• Sugar Price swaps (hedging forecast sales)	(3 030)	(3 030)	(3 030)	–
Sugar Price Risk				
• Sugar Futures (hedging forecast sales)	(300)	(300)	(300)	–
• Sugar Options (hedging forecast sales)	–	–	–	–
Foreign Exchange Risk				–
• Forward currency contracts (hedging forecast sales)	(355)	(355)	(355)	
• Foreign currency options (hedging forecasts sales)	–	–	–	–
Interest Rate Risk				
• Interest Rate Swaps (hedging forecast variable interest payments)	(335)	(335)	(335)	–

Note 34: Financial risk management (continued)

	Hedge ineffectiveness recognised in profit or loss for 29 February 2020 ('000)	Line item in profit or loss (that includes hedge ineffectiveness) for 29 February 2020	Amount reclassified from the cash flow hedge reserve to profit or loss for 29 February 2020 ('000)	Line item affected in profit or loss because of the reclassification for 29 February 2020
Cash Flow Hedges	Gain/(Loss)		Gain/(Loss)	
Sugar Price Risk				
• Sugar Price swaps (hedging forecast sales)	–	N/A	4 085	Revenue
Sugar Price Risk				
• Sugar Futures (hedging forecast sales)	–	N/A	184	Revenue
Foreign Exchange Risk				
• Forward currency contracts (hedging forecast sales)	54	Revenue	(344)	Revenue
Interest Rate Risk				
• Interest Rate Swaps (hedging forecast variable interest payments)	–	N/A	–	N/A

Note 34: Financial risk management (continued)

(c) Financial instruments

(iii) Net fair values

Fair value estimation

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the statement of financial position and in the notes to the financial statements. The carrying value of cash and cash equivalents and non-interest bearing monetary financial assets and liabilities of the Group approximates their net fair value. This value is based upon market prices where a market exists or the expected future cash flow, discounted where appropriate by current interest rates for assets and liabilities with similar risk profiles. The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

The following table presents the financial instruments measured at fair value as at the end of the period:

	Note	Feb 2020 \$'000	May 2019 \$'000
Financial assets			
Financial assets at fair value through income or expense			
• Derivative instruments	14(a)	–	–
Financial assets designated as cash flow hedges			
• Derivative instruments	14(a)	–	10 417
Investments in equity instruments:			
• Unlisted investments	14(b)	31 825	31 927
Total financial assets	14	31 825	42 344
Financial liabilities			
Financial liabilities at fair value through income or expense			
• Derivative instruments	21(a)	206	70
• STL share subscription liability	21(b)	27 627	28 423
Financial liabilities designated as cash flow hedges			
• Derivative instruments	21(a)	7 299	1 647
Total financial liabilities	21	35 132	30 140

NOTE 35: DISCONTINUED OPERATION

The Company sold its Mossman milling operations to Far Northern Milling Pty Ltd on 5 July 2019. The sale occurred as a result of a condition for the recapitalisation of the Company on 31 July 2019.

The sale transaction included all assets and specified liabilities associated with the Mossman milling business. The Company transferred the employee entitlements to the purchaser on completion and has committed to meet any redundancy payments in the event that Mossman mill is closed before 31 December 2020. The non-current assets that were disposed in the transaction included the Mossman milling assets within Investment Properties and Property, plant and equipment.

The operation was not classified as held-for-sale or as a discontinued operation prior to the date of sale as the mill was continuing to operate normally at full capacity on behalf of the Group up to the date of sale.

A single amount for the profit or loss of the discontinued operation has been disclosed in the consolidated statement of profit or loss. The loss on disposal of the discontinued operation during the period was \$974,481 and is shown separately in the consolidated statement of profit or loss. The comparative consolidated statement of profit or loss has been restated to show the discontinued operation separately from continuing operations. The consolidated statement of cash flows presents all cash flows in total including both continuing and the discontinued operation. Cash flows related to the discontinued operation are disclosed below.

Subsequent to disposal, the Group has continued to purchase materials on behalf of the discontinued operation and provide a range of transitional services to the purchaser in accordance with the sale agreement. All external costs relevant to the post disposal period have been reimbursed in full by the purchaser with the reimbursements and costs being offset and excluded from the amounts presented in the financial statements of the Group.

Statement of cash flows for discontinued operation	Feb 2020 \$'000	May 2019 \$'000
Cash flow from operating activities		
Receipts from sugar sales and other sales	12 009	72 577
Payments to cane suppliers	(6 146)	(42 809)
Payments to other suppliers and employees	(5 305)	(34 205)
Other revenue	–	61
Finance costs	–	(88)
Net cash provided by (used in) operating activities	558	(4 464)
Cash flow from investing activities		
Payments for purchases of property, plant and equipment	(1)	(314)
Net cash used in investing activities	(1)	(314)
Cash flow from financing activities		
Lease liability payments	–	(1 160)
Net cash used in financing activities	–	(1 160)
Net increase/(decrease) in cash from discontinued operation	557	(5 938)

NOTE 36: ECONOMIC DEPENDENCY

NOTE 37: COMPANY DETAILS

NOTE 36: ECONOMIC DEPENDENCY

Mackay Sugar's raw sugar production is dependent on the supply of sugar cane from the Mackay region sugar cane farmers and the continuing government and community support for the Mackay region as a sugar producing region.

NOTE 37: COMPANY DETAILS

The registered office of Mackay Sugar is:

Mackay Sugar Limited

ABN 12 057 463 671

Corporate office

Peak Downs Highway
Racecourse via Mackay
Queensland 4740
Australia

The principal places of business are:

Mackay Sugar – Farleigh Mill

Armstrong Street
Farleigh via Mackay
Queensland 4741
Australia

Mackay Sugar – Marian Mill

Anzac Avenue
Marian
Queensland 4753
Australia

Mackay Sugar – Pleystowe Mill

Eungella Road
Pleystowe via Mackay
Queensland 4741
Australia

Mackay Sugar – Racecourse Mill

Peak Downs Highway
Racecourse via Mackay
Queensland 4740
Australia

Queensland Commodity Services Pty Ltd – Brisbane

Level 5, 444 Queen Street
Brisbane
Queensland 4000
Australia

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Members of Mackay Sugar Limited

Opinion

We have audited the financial report of Mackay Sugar Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 29 February 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated financial position of the Group as at 29 February 2020 and of their financial performance for the period ended on that date; and
- b complying with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Emphasis of Matter: Subsequent Events – Impact of the Coronavirus (COVID-19) Outbreak

We draw attention to Note 29 of the financial report which notes the World Health Organisation's declaration of the outbreak of COVID-19 as a global pandemic subsequent to 29 February 2020 and how this has been considered by the Directors in the preparation of the financial report. No adjustments have been made to financial statements as at 29 February 2020 for the impacts of COVID-19. Our opinion is not modified in respect of this matter.

Other matter: 31 May 2019 Audit

The financial statements of Mackay Sugar Limited for the year ended 31 May 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 21 August 2019.

Information other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rebecca Burrows

Ernst & Young
Rebecca Burrows
(Partner)

Dated 28 May 2020
At 111 Eagle Street, Brisbane Qld 4000



Mackay Sugar Limited

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