



Mackay Sugar Limited

Consolidated Financial Statements

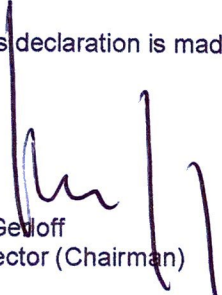
9 Month period ended 29 February 2020

**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 2 to 76 are in accordance with the Corporations Act 2001 and:
 - a. Comply with Australian Accounting Standards – Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the Corporations Act 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)

Dated: 28 May 2020



PA Manning
Director (Deputy Chairman)

**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 Reserve) of associated company		102	273
Share of OCI (Hedge Reserve) 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

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**Consolidated statement of financial position
as at 29 February 2020**

Continued from previous page

	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/(loss)		(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
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated Group							
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**

		Consolidated Group	
	Note	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

Notes to the consolidated financial statements for the period ended 29 February 2020

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 at 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 of 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(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 weighted 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.

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:

<u>Class of fixed asset</u>	<u>Depreciation rate</u>
Buildings (incl 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(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)

(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 (FVOCI)

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 until the asset is disposed of. 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(f) Financial instruments (continued)****(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.

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(f) Financial instruments (continued)

(vi) 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 (eg 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.

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(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.

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 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(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.

(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:

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(p) Fair value of assets and liabilities (continued)

Valuation techniques

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.

Level 1	Level 2	Level 3
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 (eg Australian Securities Exchange) where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.	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: <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. 	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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(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 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

Revenue from contracts with customers (continued)

(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 fixed 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.

Revenue from insurance claims

Insurance or compensation claims from third parties for impairment or losses of property, plant and equipment are recognised in profit or loss when the compensation becomes receivable. Where an expected insurance recovery 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(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 losses.

Provision 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(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:

- (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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(aa) Critical accounting judgements, estimates and assumptions (continued)**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 of 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.

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(aa) Critical accounting judgements, estimates and assumptions (continued)

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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(cc) Impact of adoption of AASB 16 Leases (continued)****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;
- 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(cc) Impact of adoption of AASB 16 Leases (continued)****Significant accounting policy – Leases (continued)****(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 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)**(cc) Impact of adoption of AASB 16 Leases (continued)****Significant accounting policy – Leases (continued)****(ii) Accounting for leases as a lessee (continued)****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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)

(cc) Impact of adoption of AASB 16 Leases (continued)

(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, with practical expedients applied. 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.

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.

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 1: Statement of significant accounting policies (continued)
(cc) Impact of adoption of AASB 16 Leases (continued)
(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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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 and estimates 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 and estimates, 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 estimate for plant and equipment

The Company determined to change its depreciation estimate 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 change 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 of the change in estimate in future reporting periods has not been disclosed because the estimation of these amounts is impracticable.

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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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:

	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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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:

	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 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.

**Notes to the consolidated financial statements
for the period ended 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 – (gain)/loss		(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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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	-	-

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 5: Taxes (continued)

(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:

	Feb 2020 \$'000	May 2019 \$'000
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.....	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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 5: Taxes (continued)

(e) Recognised Deferred Tax Asset and Deferred Tax Liabilities:

Deferred tax asset:

Deferred tax assets are temporary differences attributable to the following:

	Feb 2020 \$'000	May 2019 \$'000
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	-	-
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**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 7: Dividends:

There were no dividends paid or declared during the period.

Note 8: Cash and cash equivalents

Cash at bank and on hand

Feb 2020 \$'000	May 2019 \$'000
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18 808	16 924
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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
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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
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**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 11: Investments accounted for using the equity method

	Feb 2020 \$'000	May 2019 \$'000
(a) Associated companies12	39 997	36 265
(b) Interests in joint ventures13	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	May 2019
				%	%	\$'000	\$'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

(a) Movements during the period in equity accounted investments in the associated companies:

	Feb 2020 \$'000	May 2019 \$'000
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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.

**Notes to the consolidated financial statements
for the period ended 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	May 2019
				%	%	\$'000	\$'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

(i) Carrying amount of investment in joint venture entity

	Feb 2020 \$'000	May 2019 \$'000
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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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
<p>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.</p>			
(b) Investments in equity instruments:			
<p>Unlisted investments in equity instruments, not held for trading, recognised at fair value through other comprehensive income:</p>			
- 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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 15: Property, plant and equipment

	Note	Feb 2020 \$'000	May 2019 \$'000
(a) Summary of property, plant and equipment			
Land and buildings:			
Land		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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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. This was based on the Nordzucker AG recapitalisation transaction which occurred on 31 July 2019. As at 29 February 2020 this transaction is still considered to be the most 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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
Note 15: Property, plant and equipment (continued)
Feb 2020

(d) Movement in carrying amounts during the period	Land	Buildings	Plant and machinery	Railways and rolling stock	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
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

(f) Movement in carrying amounts during the period	Land	Buildings	Plant and machinery	Railways and rolling stock	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 16: Investment properties

	Note	Feb 2020 \$'000	May 2019 \$'000
(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

	Note	Feb 2020 \$'000	May 2019 \$'000
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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 18: Trade and other payables

	Note	Feb 2020 \$'000	May 2019 \$'000
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	45 567

Note 19: Interest bearing liabilities

		Feb 2020 \$'000	May 2019 \$'000
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 19: Interest bearing liabilities(continued)

	Note	Feb 2020 \$'000	May 2019 \$'000
(a) 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
(b) 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 \$40,000,000 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 date from 31 May to 28/29 February.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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		
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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)	-
Gain on debt forgiveness (Repayment discount)	(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	
5 April 2020.....	7.75%	-
		50 000

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 20: Other liabilities

		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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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 the repayment is to occur in two equal instalments in August 2019 and by 31 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).

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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	1 717

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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 maximum 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

	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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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

Lease Liabilities
Maturity analysis – contractual undiscounted cash flows

	Feb 2020 \$'000
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 23: Leases (continued)

(a) As a Lessee (continued)

	Feb 2020 \$'000
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

(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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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 transaction 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)	-
Closing balance at the end of the period	-	212 880 065

**Notes to the consolidated financial statements
 for the period ended 29 February 2020**

Note 24: Issued capital (continued)
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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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

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.

Total contingent liabilities

	Feb 2020 \$'000	May 2019 \$'000
	229	257
	229	257

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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 renewed 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.

(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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 28: Cash flow information (continued)

(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 - NAB

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 inventory 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 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 funding for general purposes and capital expenditure. 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 5 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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.

(a) Statement of profit or loss and other comprehensive income

	Feb 2020 \$'000	May 2019 \$'000
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/(losses)	(9 227)	(33 480)
Total equity	78 008	(4 420)

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 31: Parent entity information (continued)

(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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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	May 2019
	\$'000	\$'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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 33: Related party transactions (continued)
(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.

(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	-

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 33: Related party transactions (continued)

(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

(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).

Notes to the consolidated financial statements for the period ended 29 February 2020

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), equity 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 and collar 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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 34: Financial risk management (continued)

(a) Financial risk management policies (continued)

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.

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 34: Financial risk management (continued)

(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.

(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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

Note 34: Financial risk management (continued)

(c) Financial instruments

(i) Derivative financial instruments

Sugar futures

QCS enters into futures contracts for the Group on the InterContinental Exchange (ICE). The Group's risk management policy permits hedging of both grower economic interest (GEI) sugar and miller economic interest (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.

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.

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.

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
Note 34: Financial risk management (continued)
(c) Financial instruments
(i) Derivative financial instruments
Interest rate swaps

Interest rate swap and collar contracts are entered into by the Group to exchange variable 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
		Assets ('000)	Liabilities ('000)	
Cash Flow Hedges				
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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)	-
Foreign Exchange Risk - Forward currency contracts (hedging forecast sales)	(355)	(355)	(355)	-
Interest Rate Risk - Interest Rate Swaps (hedging forecast variable interest payments)	(335)	(335)	(335)	-

	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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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

**Notes to the consolidated financial statements
for the period ended 29 February 2020**
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)

**Notes to the consolidated financial statements
for the period ended 29 February 2020**

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

