Walnuts New Zealand Co-operative Limited

ANNUAL REPORT 2018

For the year 1 April 2017 to 31 March 2018

Contents

AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2018

About us

Walnuts New Zealand Co-operative Limited is a grower-owned co-operative company whose main activities are to purchase, process, market and sell walnuts. We operate a walnut processing factory in West Melton, Canterbury. Our range of products is sold nation-wide and includes ground walnuts for food manufacturers, kernel pieces for snacking and baking, in-shell walnuts, and specialist items such as oil, flour and dukkah.

Walnuts NZ Co-operative Ltd was incorporated on 29 April 2015 and commenced business on 1 May 2015. On 23 December 2015 we registered a Product Disclosure Statement (PDS) to offer shareholding to walnut suppliers. We subsequently updated our PDS and re-opened the share offer on 23 September 2016. Shareholding is based on volume of supply, with the share standard being one share per kilogram of walnuts supplied (in the supplier's maximum year of supply). As at 31 March 2018, we have 50 shareholders holding a total of 190,233 shares (i.e. representing over 190 tonnes of potential walnut supply).

This annual report covers our third year in business, from 1 April 2017 to 31 March 2018.

Our statement of purpose

The purpose of our co-operative company is to grow the wealth and security of our NZ walnut producer-shareholders through our common goals of:

– Reliable supply of premium-value product to our consumers;

– Providing a path to market for our shareholders;

– Efficient and effective processing and cohesive marketing;

– Unity of purpose amongst our suppliers;

– Behaviour that is socially, financially and environmentally responsible.

Board of directors

Our constitution requires a board of seven directors. Directors have a 3-year term, with one-third of the board retiring in rotation each year (retiring directors can make themselves available for re-election if they wish). In general, directors must be shareholders of the company, though our constitution allows one Appointed Director who is not a shareholder. Board members were not paid for their role as directors in the first three years, though in July 2018 an honorarium for the Company Chair was approved. Current directors are:

Frank Brenmuhl (Company Chair)

Frank and Margaret have a 32-ha walnut orchard at Aylesbury. Frank is a retired dairy farmer, and farm consultant. He was a National Board Member of Federated Farmers of NZ which included the roles of National Dairy Section Chairman, Chairman of the Dairy Industry Awards Trust and National Vice President of FFNZ.

Graeme Nicholas (Meeting Chair)

Graeme and his wife Barbara own BG Growers Ltd, which owns and operates a 10-ha walnut orchard near Springston. Graeme is a social systems researcher at the Crown Research Institute, ESR. He is a member of the Royal Society of New Zealand and the Institute of Directors in New Zealand. Graeme has served on several not-for-profit boards, and plays trombone in the Ellesmere Big Band.

Heather North (Company Secretary)

Heather owns a 17-ha orchard near Lincoln with business partner Clive Marsh. Heather is a research scientist specialising in satellite remote sensing, working as a self-employed contractor. She is a member of the Institute of Directors. In addition to her duties as a director, Heather also fulfils the roles of Company Secretary and Share Registrar for Walnuts NZ Co-op, for which she receives a monthly fee.

Andrew Horsbrugh

Andrew and his wife Jo own and operate Tunlaw Farm Limited, a 45-ha walnut orchard in West Melton. Andrew is the Director-Agri Products and Services at Farmlands Co-operative and a member of the Institute of Directors NZ. He is a shareholder/director of Donaghys Limited. Andrew and Jo are also the NZ agent for AMB Rousset walnut harvesting and processing equipment.

Nelson Hubber

Nelson and his wife Wilma own a property at West Melton with about 4.5 ha of walnuts and a small commercial cherry block. Nelson is retired and was a Southland farmer, company director, economic development officer and business owner. He has a lifelong involvement in innovative projects that have included a patented hovercraft system, electronic devices, meat and protein processing, digital printing and in-house website and software development.

Basil Meyer

Basil is farming in partnership with Trudi 1000 walnut trees on their property near Charing Cross, Darfield. Both are originally from Switzerland and settled in New Zealand in 1987. Through the Sharemilking route they purchased their dairy farm on the West Coast in 1993, which they sold in 2013 to concentrate on their walnut orchard. From 2000 to 2010 Basil was a Director of Westland Co-operative Dairy Company. Basil and Trudi are the NZ contact for Feucht Obsttechnik, the German manufacturer of walnut harvesting equipment. Basil currently works part time at Fonterra in Darfield.

Colin Prebble

Colin and his wife Karen have an 18-year-old orchard they developed from scratch. Colin is a Chartered Accountant with experience on various boards and committees. He is also a partner in some Christchurch-based hospitality businesses.

Report from the Chair and General Manager

In the last three-and-a-half years significant milestones have been achieved. The co-operative has been closely focused on the tactical implementation of a three-year strategic plan.

This plan was developed and agreed by the Directors and General Manager; the overriding goal being the development of the business into a sustainable and profitable co-operative that delivers maximum possible value to its members.

In our report this year the key messages are:

- The Co-op is now debt-free, with the last payment of the purchase loan made to the Lawrences on 1st June 2018.
- Incremental operational efficiencies have been implemented. These have enabled us to process and sell crop that was difficult to market due to adverse harvesting conditions on-orchard in 2017. The additional processing and marketing required to meet the shift in market segment was significant and is a credit to the management and staff of our Co-operative.
- Despite the difficulties above, the Co-operative was able to generate a net profit after tax of $5,437 for the year.
- Ongoing improvements, along with the planned purchase of smart sorting technology, will ensure that we can build further resilience and greater efficiencies into our business.
- Our marketing strategy is on track, and implementation is planned to commence this year.

Frank Brenmuhl
Company Chair

Shane McKenzie
General Manager

Summary of financial performance

The directors are delighted that the co-operative has achieved its first net profit. Though the profit is small at this stage, it shows excellent progress for our company.

In many ways we regard Walnuts NZ Co-op as a start-up company, because of the fundamental changes that took place when the business was transferred from private ownership to co-operative supplier ownership in 2015. A huge effort and investment is required in the set-up of a new business, and we have been working through these stages in our early years.

The table below compares actual financial results for the 2017/18 financial year with the third and final year of original forecasts in our first share offer document (Product Disclosure Statement, PDS), as legally required in our annual reporting. In our first year of business, we felt it was important to include in the PDS our best estimates of future financial performance. We wanted to give potential shareholders a sense of where we were going, particularly as there was no 'track record' with the company being in its first year. Since then, we have gained knowledge of operating conditions and have better data on which to base operational budgets. We no longer include financial forecasts in our PDS, and feel that comparison against budget and against previous years' performance is more relevant.

The information in the table below is taken from the audited financial statements that appear at the end of this Annual Report. Actual revenue and profit were lower than our original PDS forecasts. The main reasons for this, in our view, are; (1) our original forecasts were somewhat optimistic due to limited data on which to base budgets in our first year; (2) very wet weather conditions in April 2017 lead to significantly lower walnut quality which had flow-on effects for both processing efficiency and sales; (3) walnut supply volume has not increased as quickly as we anticipated.

Actual results for 2017/18 financial year compared to forecasts in original Product Disclosure Statement ($)

Please see auditor's commentary accompanying this table in the Financial Statements section of this Annual Report.

	Actual: 31-Mar-18	Original PDS forecasts	Variance
Revenue – sales	1,237,484	2,322,499	(1,085,015)
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	42,652	82,611	(39,959)
Net profit after tax	5,437	58,403	(52,966)
Dividends	-	-	-
Total assets	630,803	886,081	(255,278)
Cash and cash equivalents	85,557	288,288	(202,731)
Total liabilities	204,856	178,415	26,441
Total interest-bearing liabilities	16,277	16,277	0
Net cash flows from operating activities	(123,359)	12,887	(136,246)

The board of directors is pleased with the performance of management in our third year of operation and particularly notes the achievement of a small net profit despite poor walnut quality (due to the wet harvest) creating significant challenges in processing and marketing. Walnut supply volumes have been increasing slowly from year to year but have not done so as quickly as we anticipated. The slower rate of increase in supply has meant lower overall revenue and fewer opportunities for economies of scale than we expected could be the case for this stage of our development.

As at 31 March 2018, one early-stage milestone was nearing achievement. Since the co-operative purchased the business in 2015, we have been paying off the purchase loan to the previous owners. Our final loan payment is scheduled for 1 June 2018. Reaching the end of these payments will make a substantial difference for the company in the coming financial year.

No dividends were paid to shareholders in respect of the 2017/18 financial year, and we do not expect to be in a position to pay dividends for several years.

Walnut supply to the company is expected to continue to grow, even if not as quickly as originally predicted, and we must expand our capacity to both process and market this crop. We also need to improve operational effectiveness in the factory through the introduction of modern equipment. In the short term we are expecting that significant changes to the plant layout will be needed, along with the purchase of new equipment. A large effort is currently being put into market opportunities and branding. As a co-operative, we are already raising capital through shareholding; however, it looks likely that we will require further capital to develop as a company. We are currently assessing likely capital requirements for the next five years. The board is considering the needs and options for raising capital.

We continue to rely on our shareholders for support during these early years in the life of our co-operative.

Summary of non-financial performance

Performance against strategic plan

The board initially developed a set of strategic objectives in February 2017 (looking three years ahead). During the past year further detail was added in the form of actions and timeframes for implementation of the strategic plan. Any such plans need to be flexible to cope with changing circumstances and new opportunities, but are still an important framework for prioritising activities and reporting against. Below, we list progress against the stated objectives and also additional work contributing to the company's development.

Objective 1: Walnuts NZ Co-op enjoys an engaged shareholder base as a result of being well regarded and successful. Growers become financially successful and enjoy participating in their industry and new participants are being attracted.

- Attendance at the 2017 AGM was 25 people representing 17 shareholders, plus apologies from a further 6 shareholders. While attendance was down from the 2016 AGM (our first), attendees still represented 67% of the company's voting power.
- During the 2017/18 financial year, two new shareholders joined the co-op by purchasing shares from the co-op. Also, an existing shareholder sold their shares (along with their walnut orchard) to a further new shareholder. In total, 32,782 new shares were issued by the co-op to new and existing shareholders.
- We have continued to send out notes from the board to shareholders approximately quarterly, and communications from the factory have also gone out as required.

Objective 2: Financially successful

- Walnut quality from the 2017 harvest was generally poor as a result of very wet weather and difficult drying conditions. A high incidence of discoloured kernel and other quality problems meant that grades, and therefore payouts, were on average lower than usual. The factory had to direct these walnuts into markets where such product was acceptable, but this meant that the price received tended to be lower. At the same time, processing costs are affected by the greater amount of labour required to sort poor quality walnuts. In these conditions, we were pleased that the co-operative managed to achieve its first net profit. The board is committed to increasing processing efficiency and market opportunities with the goal of increased payouts for growers in future years.

Objective 3: Participating in high margin "Super Profit" market sectors

- A market research project was undertaken for us by KPMG through the Enterprise DNA programme. This included consideration of both international and domestic opportunities, quantitative work on the New Zealand market, and options for developing our brand.
- This was followed up by an in-depth marketing strategy development project by Auburn Marketing. The profitability of our current product types was assessed. Thought has been given to questions around commodity products compared to value-added products. Consideration has included the value of organics, e-sales, and brand

development. In recent months (in 2018/19 financial year), recommendations were provided to the board on sales opportunities through several potential channels, including retail via supermarkets with a potential product range and brand development guidelines.

- Next steps will be around re-branding (including putting in place finance for this work) and market development.

Objective 4: Significant improvement in operational efficiency

- Walnut sorting technology has moved on significantly beyond the level of our current colour-sorter in the factory. We have been assessing the new technology available, with samples of our walnuts sent overseas for testing through several systems. Results have been impressive – these 'smart' systems are able to successfully remove a very high proportion of shell and discoloured pieces from the good kernel. As at the end of the year under review (2017/18), the board was to consider capital expenditure on such a system, pending (1) the GM undertaking a trip overseas to visit and assess the sorter; (2) appropriate funding being put in place.
- Recent discussions with Callaghan Innovation have included their Lean Management programme and technical support.

Objective 5: Build capacity to process and sell the increased supply volumes predicted in coming years

- Both the proposed 'smart' sorter and the market research work described above are aimed at improving our ability to efficiently process and sell more walnuts.
- We exercised our right to renew the lease at the Tricketts Road site for a second period of three years.

Objective 6: Committed and stable management team

- Our dedicated General Manager, Shane McKenzie, has been working extremely hard across a wide range of activities. Our processing team at the factory showed commitment working with crop from a challenging harvest.

Other non-financial performance

Health and safety – In October a Health & Safety audit of the factory was undertaken by two board members. Generally it was noted that H&S is a key focus of staff and management with some good systems in controls in place. Despite great improvements made over the last year, it is an on-going journey and recommendations were made for further improvements. In the months since the audit, most of the recommendations have been acted on with some receiving on-going attention.

For the full year, we recorded 5 near-miss incidents in the factory, enabling us to improve working conditions and processes in these areas for the future. We also recorded two minor injuries.

Biogro certification – successful renewal of certification.

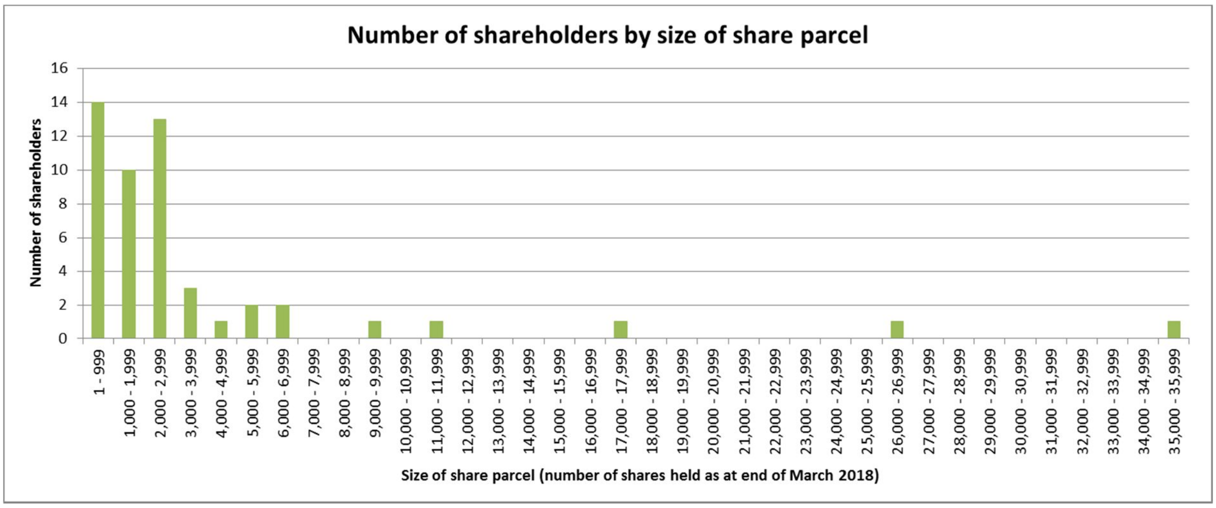
Food safety programme – A change in the Food Act in 2016 requires us to meet a higher level of Food Control Plan through MPI, and we have three years to become registered. Full certification is also a step toward being able to export. We passed three audits to a high standard during our first three years of operation, so have now been moved onto an 18-month audit cycle.

Transparency in grading – A quantitative system was developed for grading the 2017 crop, and was improved for the 2018 harvest. This gives us transparency for audit purposes (in terms of the value of product) and means we have quantitative data available for growers to show why a particular grade was given for each batch of walnuts.

Shareholding by walnut suppliers

As at the end of March 2018, the co-operative had 50 shareholders, holding a total of 190,233 shares. This is an increase of 2 shareholders, and 32,782 shares, since the end of March 2017. With a share price of $2.75, the total (gross) capital investment by walnut growers as at 31 March 2018 was $523,140.75.

Below is a graph of the number of shareholders (as at 31 March 2018) by size of share parcel.



As at the end of March 2018, 24 of our shareholders (48%) held less than 2000 shares, a further 21 (42%) held between 2000 and 7000 shares, and the final five (10%) held share parcels larger than 9,000.

As at 31 March 2018, substantial shareholders (holding 5% or more of the issued shares) were those listed in the table below.

Substantial shareholders (holding 5% or more of the issued shares)	**Number and percentage of shares as at 31 March 2018**
Clive Marsh and Heather North	35,536 shares (18.7%)
Tunlaw Farm Limited	26,512 shares (13.9%)
Aylesbury Walnuts Limited	17,710 shares (9.3%)
BG Growers Limited	11,555 shares (6.1%)

AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2018

RODGERS & CO
CHARTERED ACCOUNTANTS

WALNUTS NEW ZEALAND CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

Walnuts New Zealand Co-operative Limited

RODGERS & CO
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Walnuts New Zealand Co-operative Limited

Company Directory
As at 31 March 2018

RODGERS & CO
CHARTERED ACCOUNTANTS

Issued Capital	190,233 Class A Shares
Registered Office	142 Tricketts Road, West Melton, Chistchurch 7676
Directors	Francis VR Brenmuhl Nelson J Hubber Andrew K Horsbrugh Basil Meyer Trevor G Nicholas Heather C North Colin R Prebble
Company Number	5645689
Auditors	PKF Goldsmith Fox Audit
Accountants	Rodgers & Co Limited Christchurch
Bankers	Westpac, Rolleston
Solicitors	Simpson Grierson, Auckland
Date of Formation	29 April 2015
Nature of Business	Walnuts processing and marketing
Business Location	West Melton Christchurch

Walnuts New Zealand Co-operative Limited

Directors' Annual Report
For the Year Ended 31 March 2018

The Directors hereby present their Annual Report including Financial Statements of the company for the year ended 31 March 2018.

Section 211 of the Companies Act 1993 requires the following disclosures:

Principal Activities
The business of the company is Walnuts processing and marketing . The nature of the company's business has not changed during the year.

Auditors
The company's Auditors for the year ended 31 March 2018 are PKF Goldsmith Fox Audit. PKF Goldsmith Fox Audit are willing to continue as the company auditors.

Fees paid and due to the Auditors are $9,000 for the audit of the financial statements (included in the Statement of Comprehensive Income). In addition, there will be a charge of $750.00 plus GST for the audit of the Share Register, which will be accounted for in the year ending 31 March 2019.

Directors Holding Office
The following Directors held office during the period (appointed in April 2015):

Francis VR Brenmuhl
Nelson J Hubber
Andrew K Horsbrugh
Basil Meyer
Trevor G Nicholas
Heather C North
Colin R Prebble

No directors resigned during the period.

Directors' Disclosures
Transactions were entered into with the following Directors' companies as transacting shareholders:

- Trevor G Nicholas - purchase of 4,707 Shares at $2.75 each.
- Andrew K Horsbrugh - purchase of 10,512 Shares at $2.75 each.

Transactions were entered into with the following Directors as transacting shareholders:

- Nelson J Hubber - purchase of 2,080 Shares at $2.75 each
- Colin R Prebble - purchase of 1,235 Shares at $2.75 each
- Heather C North - purchase of 6,175 Shares at $2.75 each

The Board of Directors received no notices from Directors wishing to use company information received in their capacity as Directors which would not have ordinarily been available.

Donations
No donations were made by the company during the period.

RODGERS & CO
CHARTERED ACCOUNTANTS

For and on behalf of the Board of Directors,

Director ______________________ Director ______________________

Date: 23 July 2018

Walnuts New Zealand Co-operative Limited

RODGERS & CO
CHARTERED ACCOUNTANTS

Statement of Comprehensive Income
For the Year Ended 31 March 2018

	Note	2018 $	2017 $
Sales	2	1,237,484	1,215,261
Cost of Sales	3	(844,182)	(895,533)
GROSS PROFIT		393,302	319,728
Other Income	2	48	211
Gain on Disposal of Plant & Equipment		1,568	1,533
Depreciation	13	(32,468)	(30,929)
Finance Costs		(3,994)	(4,578)
Other Operating Costs	4	(352,266)	(324,511)
PROFIT/(LOSS) BEFORE INCOME TAX		6,190	(38,546)
Income Tax Expense	10	(753)	12,246
NET PROFIT/(LOSS) FOR THE YEAR		$5,437	($26,300)
TOTAL COMPREHENSIVE INCOME		$5,437	($26,300)

This Statement is to be read in conjunction with the notes to the financial statements and audit report.

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Walnuts New Zealand Co-operative Limited

RODGERS & CO
CHARTERED ACCOUNTANTS

Statement of Changes in Equity
For the Year Ended 31 March 2018

	Note	2018 $	2017 $
EQUITY AT START OF YEAR		333,301	302,885
SURPLUS/(LOSS)			
Profit/(Loss) after Tax		5,437	(26,300)
Total Income and Expense		5,437	(26,300)
OTHER MOVEMENTS			
Share Capital	18(a)	87,209	56,716
EQUITY AT END OF YEAR		$425,947	$333,301
MOVEMENTS IN RETAINED EARNINGS	18(b)		
Retained Earnings at start of year		(46,471)	(20,171)
Net Profit/(Loss)		5,437	(26,300)
Retained Earnings at End of Year		(41,034)	(46,471)
MOVEMENTS IN ISSUED CAPITAL	18(a)		
Balance at Start of Year		379,772	323,056
Net Shares Issued		87,209	56,716
Balance at End of Year		466,981	379,772
		$425,947	$333,301

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Walnuts New Zealand Co-operative Limited

RODGERS & CO
CHARTERED ACCOUNTANTS

Balance Sheet
As at 31 March 2018

	Note	2018 $	2017 $
CURRENT ASSETS			
Cash and cash equivalents	8	85,557	202,524
Taxation	10	13	58
Trade and other receivables	19	167,579	165,694
Inventories	12	118,518	180,618
Total Current Assets		371,667	548,894
NON-CURRENT ASSETS			
Plant & Equipment	13	177,291	190,883
Intangibles	14	66,500	66,500
Deferred Tax Asset	10	15,345	16,098
Total Non-Current Assets		259,136	273,481
TOTAL ASSETS		630,803	822,375
CURRENT LIABILITIES			
GST due for payment		3,423	20,444
Trade and other payables	20	145,391	358,325
Provisions	21	29,765	20,519
Term loans - current portion	15	26,277	63,483
Total Current Liabilities		204,856	462,771
NON-CURRENT LIABILITIES			
Term liabilities	15	-	26,303
Total Non-Current Liabilities		-	26,303
TOTAL LIABILITIES		204,856	489,074
NET ASSETS		$425,947	$333,301
Represented by:			
EQUITY			
Share capital	18(a)	466,981	379,772
Retained Earnings	18(b)	(41,034)	(46,471)
TOTAL EQUITY		$425,947	$333,301

For and on behalf of the Board :

Director ____________________ Director ____________________

Date: 23 July 2018

This Statement is to be read in conjunction with the notes to the Financial Statements and the audit report.

Goldsmith Fox Audit PKF

Walnuts New Zealand
Co-operative Limited

RODGERS & CO
CHARTERED ACCOUNTANTS

Cash Flow Statement
For the Year Ended 31 March 2018

	Note	*2018* $	*2017* $
Cash Flows from Operating Activities	9		
Cash was received from:			
Receipts from customers		1,421,180	1,407,339
Interest received		48	211
		1,421,228	1,407,550
Cash was paid to:			
Payments to suppliers and employees		1,507,638	1,303,456
Rent paid		33,000	28,000
Interest paid		3,994	4,578
Income tax paid		(45)	904
		1,544,587	1,336,938
Net Cash Inflow (Outflow) from Operating Activities		(123,359)	70,612
Cash Flows from Investing Activities			
Cash was received from:			
Proceeds from sale of fixed assets		2,024	2,690
		2,024	2,690
Cash was paid to:			
Purchase of fixed assets		19,332	30,635
		19,332	30,635
Net Cash Inflow (Outflow) from Investing Activities		(17,308)	(27,945)
Cash Flows from Financing Activities			
Cash was received from:			
Shares issued less transactions costs		87,209	56,716
		87,209	56,716
Cash was paid to:			
Loan principal repayments		63,509	61,021
		63,509	61,021
Net Cash Inflow (Outflow) from Financing Activities		23,700	(4,305)
NET INCREASE (DECREASE) IN CASH HELD		(116,967)	38,362
Cash and cash equivalents as at 1 April		202,524	164,162
Cash and Cash Equivalents as at 31 March	8	85,557	202,524

This Statement is to be read in conjunction with the Notes to the Financial Statements, and the audit report.

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1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of Walnuts New Zealand Co-operative Limited ('the company'). Walnuts New Zealand Co-operative Limited is a Co-operative Company incorporated in New Zealand and registered under the Companies Act 1993 and Co-operative Companies Act 1996. Walnuts New Zealand Co-operative Limited is engaged in the business of Walnuts processing and marketing. Its goal is to grow the wealth and security of producer-shareholders by providing them with a path to market for their product.

The Company is an Issuer of a regulated product and a reporting entity for the purposes of the Financial Reporting Act 2013.

The Company is designated as a for-profit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards.

The financial statements for the year ended 31 March 2018 present the financial position of the company as at 31 March 2018 and the financial performance for the year ended on that date.

The Financial Statements presented for the year ended 31 March 2018 were authorised for issue by the Directors on 23 July 2018. The entity's owners do not have the power to amend the financial statements once issued.

Basis of Preparation

The financial statements of Walnuts New Zealand Co-operative Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards. The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the company, with the exception of certain items for which specific accounting policies have been identified.

The information is presented in New Zealand dollars, which is the Company's functional and presentation currency and all values are rounded to the nearest dollar ($).

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are Impairment and Deferred Tax.

Accounting Standards and Interpretations
During the year the company adopted all mandatory new and amended standards and interpretations. At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and which the company has not early adopted.

Accounting Standards and Interpretations Issued but not yet effective
At the date of authorisation of these financial statements, the following Standards and Intepretations which have not been applied in these financial statements, were in issue but not yet effective for the period presented:

NZ IFRS 9 in respect of Financial Instruments, which will be effective for the accounting periods beginning on or after 1 January 2018.

NZ IFRS 15 in respect of Revenue from Contracts with Customers, which will be effective for accounting periods beginning on or after 1 January 2018.

NZ IFRS 16 in respect of Leases being accounted for under a single on-balance sheet model in a similar way to finance leases under IAS 17. This standard will be effective for annual periods beginning on or after 1 January 2019.

The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that there would be no material impact to the amounts recognised or disclosed in the financial statements. In respect of NZ IFRS 16 (Leases), the leases will be close to expiry by the time the Standard is effective.

Changes in Accounting Policies
There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the previous period.

Comparative Figures
The comparative figures shown are for the year ending 31 March 2017.

Specific Accounting Policies
In the preparation of these financial statements, the specific accounting policies are as follows:

(a) **Plant & Equipment**
Plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Where an item of plant and equipment is disposed of or when no further economic benefits are expected from its use; the gain or loss (calculated as the difference between net sales price and carrying amount of the asset) is recognised in the Statement of Comprehensive Income.

The assets residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate at each financial year end.

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(b) **Depreciation**

Depreciation was provided for in the Statement of Comprehensive Income on a diminishing value basis over the estimated useful life of each asset. The principal rates in use were:

Furniture & Fittings	13% to 16%
Office Equipment	16% to 50%
Plant & Equipment	10% to 100%

(c) **Impairment - Non-financial Assets**

Assets other than deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income. Any reversal of the impairment loss is recognised as income immediately.

(d) **Shares Issued**

Shares issued by the Company are recorded at the value of proceeds received, net of costs directly attributable to the issue of the shares.

(e) **Intangible Assets**

Intangible assets consists of Goodwill. Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired, at the time of acquisition. Goodwill is deemed to have an indefinite useful life and, therefore, is not amortised, but tested annually for impairment (Refer to Note 14).

Any impairment is recognised within the Statement of Comprehensive Income and may not be subsequently reversed.

(f) **Goods & Services Tax**

These financial statements have been prepared on a GST exclusive basis with the exception of trade receivables and trade creditors and other trade payables which are shown inclusive of GST.

(g) **Finance Costs**

Finance costs shall be recognised as an expense in the period in which they are incurred.

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(h) **Income Tax**

The income tax expense recognised for the period includes both the current period provision and the income tax effects of timing differences, being deferred income tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current period provision is the expected tax payable on the taxable profit for the period based on tax rates enacted at balance date. Current tax for the period is recognised as a liability or asset in the Balance Sheet to the extent that is is not yet paid or refunded.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise deductible temporary differences. Deferred tax has been calculated on the assumption that there will be no change in tax law or circumstances of the Company that will result in tax losses not being available to the Company in the future.

(i) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of processed inventories includes the cost of direct product, direct labour and a proportion of the factory overhead, based on normal operating capacity.

(j) **Leased Assets**

Plant and equipment and land and buildings are leased by Walnuts New Zealand Co-operative Limited.

Operating Leases

Operating leases are those which all the risks and benefits are substantially retained by the lessor. Operating lease payments are expensed in the periods the amounts are payable.

(k) **Cash and Cash Equivalents**

Cash in the balance sheet comprise cash at bank and in hand.

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RODGERS & CO
CHARTERED ACCOUNTANTS

(l) **Financial Instruments**

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either purchase or sell the asset (trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through Statement of Comprehensive Income' in which case transaction costs are expensed to Statement of Comprehensive Income immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. In other circumstances, valuation techniques are adopted.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the Statement of Comprehensive Income.

Financial Assets at Fair Value through Statement of Comprehensive Income

Financial assets are classified at 'fair value through the Statement of Comprehensive Income when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in Statement of Comprehensive Income.

Receivables

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.

Receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

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Impairment
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Comprehensive Income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. This reversal is recognised in the Statement of Comprehensive Income.

Derecognition of Financial Instruments
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

(m) **Revenue**
Sales of goods are recognised when the company has performed its contractual obligations in respect of that consideration.

Interest income is recognised using the effective interest method.

(n) **Receivables**
Receivables are stated at their estimated realisable value. Bad debts are written off in the year in which they are identified.

(o) **Provisions**
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(p) **Employee Entitlements**
A liability for holiday pay entitlements is recognised in the balance sheet.

Where the payment is expected to occur more than 12 months after balance date, the liability is recorded at its present value. Where the payment is expected to be made in less than 12 months, the provision is the amount expected to be paid.

(q) **Statement of Cash Flows**
Definitions of the terms used in the Statement of Cash Flows.

"Cash and cash equivalents" comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

"Operating Activities" are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

"Investing Activities" are those activities relating to the acquisition and disposal of investment property and any other non-current assets.

"Financing Activities" are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity capital.

(r) **Segment**
The Company operates in one industry and geographic segment. All activities are carried out in Christchurch, New Zealand. The directors review the operating results on a regular basis and make decisions on resource allocation based on the review of results. The nature of goods and services provided have similar characteristics within the operating segment.

2. OPERATING REVENUE

	2018 $	2017 $
Sales	1,237,484	1,215,261
Interest Received	48	211
Total Other Income	48	211
Total Operating Revenue	1,237,532	1,215,472

3. COST OF SALES

	2018 $	2017 $
Purchases	489,604	568,518
Freight	39,366	33,972
Employee Expenses - Direct Wages	315,212	293,043
Total Cost of Sales	844,182	895,533

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4. OPERATING EXPENSES

	2018 $	2017 $
Employee Expenses - Wages	158,115	138,223
Employee Expenses - Other	4,301	3,055
Employee Expenses - Recruitment, HR	15,818	-
Accident Compensation Levy	3,601	3,016
Accountancy Fees	7,000	8,750
Advertising & Marketing	8,959	2,876
Administration Outwork	15,507	13,275
Audit Fees	9,000	8,950
Bank Charges	628	609
Cleaning & Rubbish Disposal	3,376	448
Compliance Costs	5,520	11,324
Consultancy Fees	19,500	18,798
Entertainment	227	819
Freight & Courier	10	18
General Expenses	199	1,710
General Expenses - Factory	2,232	3,662
Governance & Company Secretary Costs	9,288	9,732
Insurance	12,847	11,592
Legal Expenses	205	793
Light Power & Heating	6,902	5,558
Motor Vehicle Expenses	3,987	3,332
Motor Vehicle Lease payments	8,376	8,376
Plant & Equipment <$500	894	4,080
Printing, Stationery & Computer Expenses	7,123	6,175
Rents and Rates	33,810	28,714
Rent - Plant & Equipment	-	1,233
Repairs & Maintenance	6,164	6,104
Rodent Control	2,489	2,417
Subscriptions & Registrations	1,678	2,900
Telephone, Tolls & Internet	4,312	4,136
Travel & Parking Expenses	198	13,836
Total Operating Expenses	352,266	324,511

Governance costs include $8,400 paid to Heather North for duties as Company Secretary, and membership payment to Co-operative Business New Zealand. Insurance costs include Directors' Liability Insurance.

5. AUDITOR'S REMUNERATION

	2018 $	2017 $
Amounts received or receivable by PKF Goldsmith Fox Audit for:		
Auditing the financial statements	9,000	8,950
Total	9,000	8,950

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6. **RELATED PARTIES**

The following transactions with related parties occurred during the period:

(a) Purchases of goods and services and Interest on balances owed to Directors

The Directors, who are growers/suppliers of walnuts, undertook trade with the Co-operative during the year at arm's length. The value of these transactions as a group was $267,740 (2017: $190,595), including a deduction for drying costs. $100,634 was outstanding to the Directors at 31 March 2018 (2017: $146,032). To assist with cashflow, the Directors have elected not to be paid for the amount outstanding at 31 March 2018, which is when all other growers are paid. However, interest at 8% per annum is paid to each Director on the amounts outstanding until the Company has made payment in full. Interest paid to Directors for the year ending 31 March 2018 is $2,170 (2017: $Nil).

Andrew Horsbrugh, a Director, is the NZ Agent for AMB Rousset, an overseas supplier for walnut processing equipment. There were no transactions with this supplier during the year.

Basil Meyer, a Director, is the NZ Agent for Feucht Obsttechnik, an overseas supplier for walnut processing equipment. There were no transactions with this supplier during the year.

(b) Key management compensation and transactions

Heather North, Director, was paid for the role of Company Secretary during the year, and the total remuneration was $8,400 (2017: $7,000). Heather North, T/A Lightfoot Walnuts is also a grower/supplier of walnuts and undertook trade with the Co-operative during the year at arm's length. The value of the transactions was $71,002 (2017 $45,804). $21,156 was outstanding at 31 March 2018 (2017: $32,824). Interest of $496 at 8% per annum was paid to Heather North during the year for amounts outstanding (2017: $Nil).

(c) Loans

The company has a term loan from A Cracker of a Nut Limited for the purchase of the business (Vendor Loan). The Directors of A Cracker of a Nut Limited are shareholders of Walnuts New Zealand Co-operative Limited. The original balance was $185,000. The loan is secured and interest is charged at 4% p.a. (Refer to Note 15).

(d) Deed of Lease

A Deed of Lease for the lease of the premises and car parks at 142 Tricketts Road, West Melton, Christchurch was entered into on 1 May 2015 with MF & JM Lawrence Partnership for $24,000 plus GST per annum for the first year, 2016/2017 $28,000 and 2017/2018 $33,000, with the right of renewal confirmed on 15 March 2018 for a further three years ending on 30 April 2021 for $33,000 plus GST per annum.

MF & JM Lawrence own 3.2% of the Company's shares as at 31 March 2018 (2017: 3.8%).

(e) Acquisition of Interests in Other Entities

On 23 December 2016, transacting shareholders, Malcolm and Jennifer Lawrence, transferred 100% of the shares in Kernelz Limited and Walnuts New Zealand Limited at nil consideration, to Walnuts New Zealand Co-operative Limited. Refer to Note 24.

No amounts with any related parties have been written off or foregone during the period.

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7. **SECURITIES AND GUARANTEES**

The only securities and guarantees relate to Term Liabilities (refer to Note 15).

8. **CASH & CASH EQUIVALENTS**

	2018 $	2017 $
Cash and bank accounts	85,557	202,524

9. **CASH FLOW INFORMATION**

	2018 $	2017 $
Net Profit/(Loss) after Taxation	5,437	(26,300)
Plus/(Less) Non Cash Items:		
Depreciation and Gain/Loss on Disposal	30,900	29,396
	30,900	29,396
Plus/(Less) Movements in Working Capital		
Decrease (Increase) in accounts receivable	(1,885)	9,576
Decrease (Increase) in inventories	62,100	(686)
Increase (Decrease) in accounts payable, GST due	(229,955)	67,175
Provisions added	9,246	4,601
Income tax	798	(12,304)
	(159,697)	68,362
Net Cash Inflow/(Outflow) from Operating Activities	(123,360)	71,458

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10. TAXATION

	2018 $	2017 $
Net Operating Profit/(Loss) Before Tax	6,190	(38,546)
Add Non-deductible Expenses	5,774	1,571
Net Surplus/(Deficit) for Taxation	11,964	(36,975)
Tax Losses brought forward	(36,975)	-
Net Surplus/(Deficit) per Tax Return	(25,011)	(36,975)
The Taxation Charge is Represented by		
Deferred tax	753	(12,246)
	753	(12,246)
Current year tax	-	-
Less		
RWT credits	13	58
Total Income Tax Refund/(Due) per Balance Sheet	13	58

Deferred Tax

	2018 $	2017 $
Opening balance	(16,098)	(3,852)
Deferred portion of current year's tax expense	753	(12,246)
Deferred Tax Closing Balance at 28%	(15,345)	(16,098)

The tax charge in the Statement of Comprehensive Income reflects the movements in deferred tax on holiday pay and tax losses.

11. IMPUTATION CREDIT ACCOUNT

At balance date imputation credits available to the shareholders were

	2018 $	2017 $
Opening Balance	1,359	455
Payments to / (Refunds from) IRD	(58)	846
RWT credits attached to Interest income received	13	58
Closing Balance	1,314	1,359

12. INVENTORIES

	2018 $	2017 $
Shelf/Processed Stock	53,300	63,411
Growers Stock	65,218	117,207
Total Inventories	118,518	180,618

Inventory Commitments

A general security interest is held over all property by A Cracker of a Nut Limited, which includes inventories. Subsequent to balance date, the charge has now been released (refer Note 15).

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13. PLANT & EQUIPMENT

	2018 $	2017 $
Furniture & Fittings		
At cost	3,498	3,498
Less accumulated depreciation	(1,092)	(686)
	2,406	2,812
Current year depreciation	406	366
	406	366
Office Equipment		
At cost	22,206	16,362
Less accumulated depreciation	(13,033)	(8,018)
	9,173	8,344
Current year depreciation	5,015	4,927
	5,015	4,927
Plant & Equipment		
At cost	237,706	228,110
Less accumulated depreciation	(71,994)	(48,383)
	165,712	179,727
Current year depreciation	27,047	25,636
	27,047	25,636
Total Plant & Equipment	$177,291	$190,883
Total Depreciation & Impairment for the year	$32,468	$30,929

2018 Reconciliation between Opening and Closing Carrying Amount	Furniture & Fittings $	Office Equipment $	Plant & Equipment $	Total $
Gross carrying amount				
Balance at 1 April 2017	2,812	8,344	179,727	190,883
Additions	-	5,844	13,488	19,332
Disposals	-	-	(2,024)	(2,024)
Gain/(Loss) on Disposal	-	-	1,568	1,568
Less Current Year Depreciation	(406)	(5,015)	(27,047)	(32,468)
Balance at 31 March 2018	2,406	9,173	165,712	177,291

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14. INTANGIBLES

	2018 $	2017 $
Goodwill		
Opening Balance	66,500	66,500
Closing Balance	66,500	66,500
Total Intangibles	$66,500	$66,500

The purchase price of the business was $201,500, which was made up of Plant and Equipment $135,000 and Goodwill $66,500.

An impairment test was carried out for the year ending 31 March 2018 based on future maintainable earnings (FME). The figure was calculated on an average weighted value of earnings (EBITDA), using actual results for 2016 to 2018 and projections for 2019. An earnings multiplier was then applied to calculate the enterprise value, justified by the existing customer base that was purchased at the time of acquisition. An impairment provision might be made if there was a reduction of $1,347 (2%) in the average weighted value of earnings, which would result in a goodwill value that is less than the carrying value.

15. TERM LIABILITIES

Term Liabilities, are detailed below along with the original term, security and interest rate as at balance date.

	2018 $	2017 $
Term liabilities at balance date:		
Loan - A Cracker of a Nut Ltd (Vendor Finance)	16,277	79,786
Interest rate: 4% per annum		
Term: 36 Months from 1 May 2015		
Monthly Repayments: Equal monthly payments		
Loan - NZ Walnut Industry Group	10,000	10,000
Interest rate: 0% per annum		
Term: Further term being negotiated		
Monthly Repayments: Not required		
	26,277	89,786
Repayable as follows:		
Less than one year	26,277	63,483
One to five years	-	26,303
Total	26,277	89,786

Securities & Guarantees

- A General Security Interest in favour of A Cracker of a Nut Limited in respect of all of the right, title and interest in all property. Maximum priority sum $300,000. Subsequent to balance date, the loan has been repaid and the charge over the company's assets has now been released.

- The loan from NZ Walnut Industry Group is unsecured.

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16. OPERATING LEASE COMMITMENTS

	2018 $	2017 $
Rent of Property		
Less than one year	33,000	33,000
Greater than one year and no greater than five years	68,750	2,750
	$101,750	$35,750
Lease of Plant/Vehicles		
Less than one year	8,376	8,376
Greater than one year and no greater than five years	-	8,376
	$8,376	$16,752

17. CAPITAL EXPENDITURE COMMITMENTS

At year end Walnuts New Zealand Co-operative Limited has committed $0 (2017: $0) to capital expenditure.

18. SHAREHOLDERS' EQUITY

(a) **Capital**

	2018 $	2017 $
190,233 Class A Shares	523,141	432,990
Transaction Costs	(56,160)	(53,218)
Total Issued and Paid up Capital	466,981	379,772

The Company incurred transaction costs of $2,942 (2017: $2,175) for legal and professional fees and distribution costs relating to the issue of new shares during the year, which have been deducted from equity (share capital).

At year end Walnuts New Zealand Co-operative Limited has Class A Shares (with voting rights), which can only be held by suppliers and intending suppliers of walnuts to Walnuts New Zealand Co-operative Limited.

The holder of Class A shares has one vote at shareholder meetings for every 500 shares held in the company (or part thereof). The shares are transferable, with the agreement of the Board.

The shares were authorised and issued at $2.75 each, and are fully paid up. The shares have no par value.

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(b) **Retained Earnings**

	2018 $	2017 $
Retained Earnings opening balance	(46,471)	(20,171)
Net Profit/(Loss) after tax	5,437	(26,300)
Available for appropriation	(41,034)	(46,471)
Retained Earnings Closing Balance	(41,034)	(46,471)

19. **TRADE AND OTHER RECEIVABLES**

	2018 $	2017 $
Trade Receivables	163,658	163,195
Payments in Advance	3,921	2,499
	167,579	165,694

20. **TRADE AND OTHER PAYABLES**

	2018 $	2017 $
Trade Creditors	122,686	335,700
Accrued Expenses	9,554	7,446
Accrued Wages	10,785	13,305
Westpac - Mastercard	1,082	1,874
Growers Pending Shares Issue	1,284	-
	145,391	358,325

The amount for Trade Creditors is made up of $103,038 (2017: $307,796) owed to growers and $19,648 (2017: $27,904) owed to other suppliers of goods and services.

21. **PROVISIONS**

	2018 $	2017 $
<u>Current</u>		
Employee Benefits		
Provision for Holiday Pay	29,765	20,519
Total Current Provisions	29,765	20,519
Total Provisions	29,765	20,519

22. **FINANCIAL INSTRUMENTS**

The Company does not enter into any off Balance Sheet debt financial instruments. All financial instruments are recognised in the Financial Statements.

The Company's activities expose it to a variety of credit risk, market risk and liquidity risk.

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(a) Credit Risk

Credit risk is the risk of the failure of a debtor or counterparty to honour its contractual obligation resulting in financial loss to the Company.

Financial assets which potentially subject the Company to credit risk consist of bank balances, trade receivable, and balances due from the Inland Revenue Department. The Company considers the maximum exposure to credit risk is for trade receivables of $163,658. Cash equivalents are placed with New Zealand banks holding high credit ratings. Collateral is held in respect to financial assets. There were no material impaired or past due debtors as at 31 March 2018.

Financial assets comprise:

	2018	*2017*
	$	*$*
Current Financial Assets		
Cash and Cash Equivalents	85,557	202,524
Trade and Other Receivables	163,658	163,195
Payments in Advance	3,921	2,499
	253,136	368,218

(b) Market Risk

Market risk is the risk that changes in market prices will affect the Company's profitability. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The Company considers the most significant market risk to be as follows:

Interest Rate Risk:
The fixed interest rates range between 0% and 4% per annum.

Interest rate sensitivity analysis:
The sensitivity analysis outlined below has been based on the exposure to interest rates for financial instruments at the end of the reporting period.

Based on the Company's average net level of interest bearing debt, the profit and equity for the year ended 31 March 2018 would decrease/increase by $805 if there was a movement of plus/minus 100 basis points.

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(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The directors are responsible for the Liquidity Risk Management and as such have built an appropriate liquidity risk management framework for the management of short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Management also determines the timing and level of payout to the growers.

The following table details exposure to liquidity risk:

2018	**Less than 1 year**	**1-5 years**	**Greater than 5 years**	**Total**
Trade and Other Payables	178,579	-	-	178,579
Term Loans	26,386	-	-	26,386
Gross Liabilty	204,965	-	-	204,965
Less interest	109	-		109
Principal	204,856	-	-	204,856

2017	**Less than 1 year**	**1-5 years**	**Greater than 5 years**	**Total**
Trade and Other Payables	399,288	-	-	399,288
Term Loans	65,544	26,386	-	91,930
Gross Liabilty	464,832	26,386	-	491,218
Less interest	2,036	109		2,145
Principal	462,796	26,278	-	489,074

Trade and Other Payables include GST and Provisions.

(d) Fair Values

Walnuts New Zealand Co-operative Limited has financial instruments carried at fair value, with the fair value of all financial instruments equivalent to their carrying value. The following hierarchy defines the valuation method used to value these instruments. Level 3 has been used as the valuation method.

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(e) Capital Management

The Company's capital structure consists of share capital and retained earnings.

Capital Management is the responsibility of the directors to sustain growth and maximise shareholder value.

23. **INTERESTS IN OTHER ENTITIES**

On 23 December 2016, 100% of the shares in Kernelz Limited and Walnuts New Zealand Limited were transferred to the Company at nil consideration by transacting shareholders, Malcolm and Jennifer Lawrence. The companies are currently shelf companies, and are being held by Walnuts NZ Co-operative Limited, for the right to the names only.

24. **GOING CONCERN**

The company made a small profit for the year ended 31 March 2018 and is dependent upon the continued support of its shareholders and financiers. The directors are satisfied with the trading results post year end to support the going concern assumption.

25. **CONTINGENT LIABILITIES**

At balance date there are no known contingent liabilities. Walnuts New Zealand Co-operative Limited has not granted any securities in respect of liabilities payable by any other party.

26. **EXCEPTIONAL OPERATING RISKS**

The Company does not have any exceptional operating risks.

27. **SIGNIFICANT EVENTS AFTER BALANCE DATE**

No significant events occurred after the balance date.

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28. PRODUCT DISCLOSURE STATEMENT FORECASTS COMPARED TO ACTUAL

	Actual 31-Mar-18	Product Disclosure Statement Forecasts	Variance
Revenue - Sales	1,237,484	2,322,499	(1,085,015)
Earnings Before Interest, Tax, depreciation and amortisation (EBITDA)	42,652	82,611	(39,959)
Net Profit after tax	5,437	58,403	(52,966)
Dividends	-	-	-
Total Assets	630,803	886,081	(255,278)
Cash and cash equivalents	85,557	288,288	(202,731)
Total Liabilities	204,856	178,415	26,441
Total interest-bearing liabilities	16,277	16,277	-
Net Cash Flows from Operating Activities	(123,359)	12,887	(136,246)

Commentary

Revenue - Sales	Weather conditions in the previous year at Harvest had a negative impact on the supply of walnuts both in terms of quantity and quality, and therefore revenue, for the 2018 year end.
Earnings Before Interest, Tax, depreciation and amortisation (EBITDA)	As per the above. In spite of this, the Directors are pleased with the performance of Management in the second year of operation.
Net Profit after tax	As per above.
Dividends	No dividend proposed.
Total Assets	Trade Receivables were expected to be significantly higher ($111,324 more) in line with the forecasted higher revenue (see above) Cash and cash equivalents were expected to be significantly higher ($202,731) due to higher projected revenue over 2017 and 2018. See below. Fixed Assets were expected to be lower ($62,376), however new machinery was purchased over the years ending 2016-2017 to automate the processing of walnuts. Intangible Assets were expected to be lower. Forecasts were conservative with regards to the potential impairment of the Goodwill arising from the purchase of the business from A Cracker of a Nut Limited.
Cash and cash equivalents	Forecasts were $202,731 higher (see above).
Total Liabilities	The timing of the pay out was forecast for March where some was paid out in the 2019 income year. Once again, the Directors agreed to withhold their year end grower payments to ensure the Co-operative Company has sufficient cash flows to continue trading.
Total interest-bearing liabilities	In line with Directors' expectations.
Net Cash Flows from Operating Activities	Forecasts were higher due to higher revenue expected.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Walnuts New Zealand Co-Operative Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Walnuts New Zealand Co-Operative Limited (the company), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

This report is made solely to the company's shareholders, as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters which we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to the audit we have carried out the following assignments; compilation work in relation to the audit of the Share Register which is compatible with independence requirements.

Other than the audit and this assignment, we have no relationship with or interests in, the company.

Emphasis of Matter

Without modifying our opinion we draw attention to note 24, going concern, and the Company's reliance on the continued support of its shareholders and financiers.

Information Other than the Financial Statements and Auditor's Report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and audit report which we obtained prior to the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gordon Hansen.

PKF Goldsmith Fox Audit.

Christchurch, New Zealand
23 July 2018