Rural Funds Group | ASX: RFF

Annual Report
for the year ended 30 June 2021

Managed by:

Rural Funds Management

Managing good assets with good people

About Rural Funds Management Limited (RFM)

RFM is the responsible entity and manager of RFF. RFM is an agricultural fund and asset manager established in 1997. The management team includes specialist fund managers, corporate professionals, horticulturists, agricultural scientists and managers. RFM's company culture is informed by its long-standing motto "managing good assets with good people".

About Rural Funds Group (ASX: RFF)

Rural Funds Group is an agricultural Real Estate Investment Trust (REIT) listed on the ASX under the code RFF. RFF owns a diversified portfolio of Australian agricultural assets which are leased predominantly to corporate agricultural operators. RFF targets distribution growth of 4% per annum by owning and improving farms that are leased to good counterparties.

Contents

Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

Issued on: 30 September 2021

Image: Dryland wheat crop, Lynora Downs, central Queensland, July 2021.
Cover image: Full water storage, Lynora Downs, central Queensland, March 2021.

Image: Macadamia planting material, Nursery Farm, Bundaberg, central Queensland, August 2020.

Letter from the Managing Director

Dear Unitholder,

We are pleased to present to you the Rural Funds Group (RFF, the Fund) Annual Report for the year ended 30 June 2021 (FY21).

FY21 saw RFM continue the implementation of the strategies of developing properties for higher and better use and improving productivity on farms.

With regard to the first strategy, RFF has acquired $104m of cropping land, cattle properties and water entitlements in Rockhampton, Maryborough and Bundaberg. These assets will be developed to 5,000 ha of macadamia orchards over the next five years.

At Maryborough and Bundaberg, the Fund has over 5,400 ha of primarily cropping land, of which 2,500 ha will be planted to macadamias. This will fully commit the Fund's water entitlements in these regions; however, additional areas may be utilised for other types of cropping. At Rockhampton, the Fund owns over 3,400 ha of cattle properties and has secured sufficient water to plant 2,500 ha to macadamias as well as to support irrigated cattle operations.

First plantings of the macadamia orchards commenced during FY21 and by the end of FY22, RFM expects to have completed the initial 1,000 ha. Once the orchards have been planted, RFM will seek a long-term lessee on terms that are attractive to the Unitholders of RFF. We believe that by having the orchards planted before contracting lessees, we can achieve a higher rate of return for RFF Unitholders.

Importantly, the investment into macadamias aims to increase the lease income and total return generated from these assets, and further diversify sector revenue. Currently, the macadamias generate approximately 2% of RFF's revenue.

Funding for the above acquisitions included proceeds from the sale of the Mooral almond orchard. This orchard is an example of RFM's experience in converting assets to higher and better use. The almond orchard was developed by RFM in 2006 on a cropping and grazing property. The sale in FY21 was at a 21% premium to the value recorded in the RFF accounts[1]. Overall, the asset generated an internal rate of return in excess of 15% per annum for RFF.

Another major activity in the past 12 months was the Entitlement Offer announced in July which raised $100m of new equity. The Entitlement Offer was conducted at a price of $2.47 per unit and was well supported by existing investors. The proceeds from the Entitlement Offer will be used to continue the macadamia orchard developments and for new acquisitions.

After allowing for development expenditure, RFF has $100m of capital that can be allocated to cattle and cropping acquisitions. This enables the Fund to implement the second strategy mentioned above; acquiring natural resource assets such as cattle and cropping properties and improving their productivity.

An example of the successful implementation of improving productivity is Comanche, which is a 7,600 ha cattle property that RFF acquired in July 2018. Since acquiring the property, RFM has installed centre-pivot irrigation, further watering points, and improved pastures. These developments have increased the carrying capacity of the property by approximately 50%. By increasing carrying capacity, farm productivity is increased, as are the potential profits of the lessee. Importantly, because the farm is more profitable, it is more valuable, as evidenced by the internal rate of return of over 15%.

Continuation of RFF's development strategies were able to be carried out despite the ongoing challenges of the COVID-19 pandemic. In addition, there was no material impact to RFF as a result of the pandemic. In fact, favourable seasonal and market conditions have aided many agricultural industries to prosper in the past 12 months, including those in which RFF leases assets.

FY21 financial results

Total comprehensive income and earnings were approximately double that generated during the prior year. The higher earnings were driven primarily by independent valuations which were conducted on three quarters of RFF's assets.

Adjusted funds from operations (AFFO), a measure of cash flow generated by RFF, was 11.9 cents per unit (CPU); slightly ahead of the prior forecast of 11.7 CPU. Distributions of 11.28 CPU were paid during FY21, which was in line with prior forecasts.

Adjusted total assets[2] of RFF are now $1.2b and the adjusted net asset value (NAV) has increased by 13%, to $2.20 per unit. The adjustment relates to the recognition of water entitlements at their independent valuations.

In terms of the debt facility, the overall limit was increased to $380m in FY21. External borrowings[2] were $290m with gearing at 25%; well below the target gearing range of 30–35%. During the period, $60m of new forward-dated interest rate hedges were entered into as RFM seeks to take advantage of low debt funding costs.

Looking forward

RFM will continue its focus on the development of macadamia orchards in central Queensland and acquiring new cattle and cropping assets funded from the balance sheet capacity.

Forecast AFFO for FY22 is 11.6 CPU. Additional AFFO is expected to be driven by new acquisitions. RFM confirmed FY22 forecast distributions of 11.73 CPU representing 4% growth on FY21.

We look forward to providing you with updates as they arise during FY22 and encourage you to contact our Investor Services team if you have any queries about your investment.

Yours faithfully

David Bryant
Managing Director
Rural Funds Management Limited

1. Value recorded in the RFF accounts adjusted for independent valuation of water entitlements which are recognised at the lower of cost or fair value on balance sheet.
2. Pro forma for $100m Entitlement Offer announced 8 July 2021. Funds raised to acquire water assets ($38.4m), debt reduction ($58.6m) and transaction costs ($3.0m).

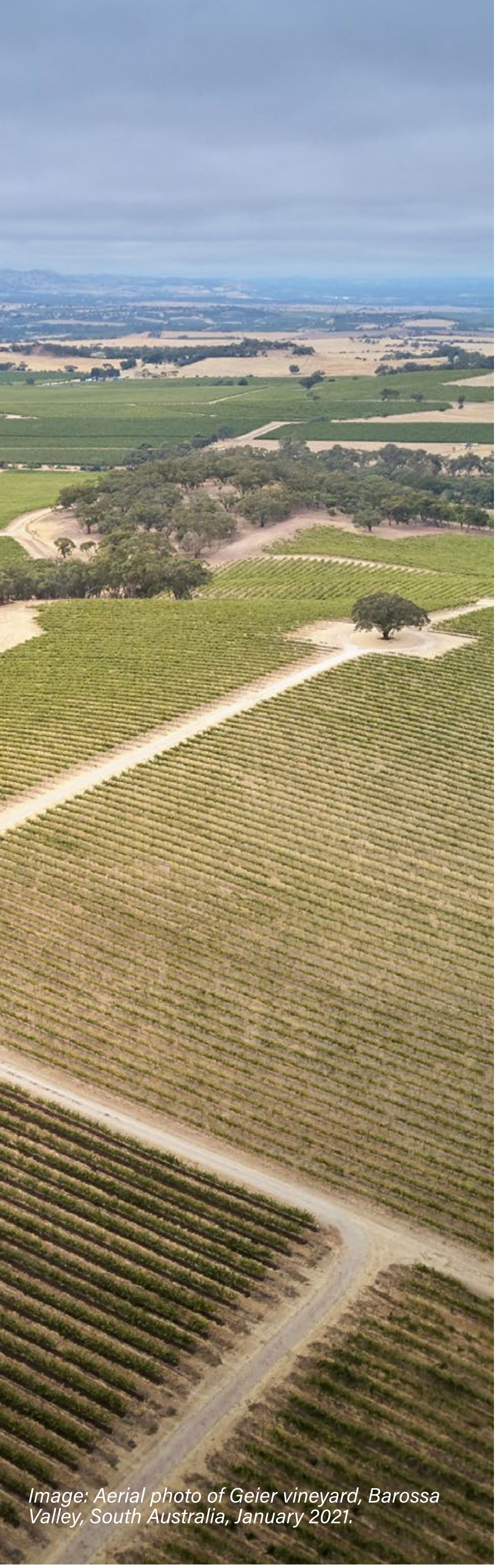


Image: Aerial photo of Geier vineyard, Barossa Valley, South Australia, January 2021.

Portfolio overview

The portfolio of assets is diversified by climatic zone and agricultural sector. The Fund seeks to invest in sectors in which Australia has a comparative advantage and the manager, RFM, has operating knowledge. Assets are leased predominantly to corporate agricultural operators.

Lease income growth is achieved through indexation mechanisms, productivity improvements and higher and better use developments.

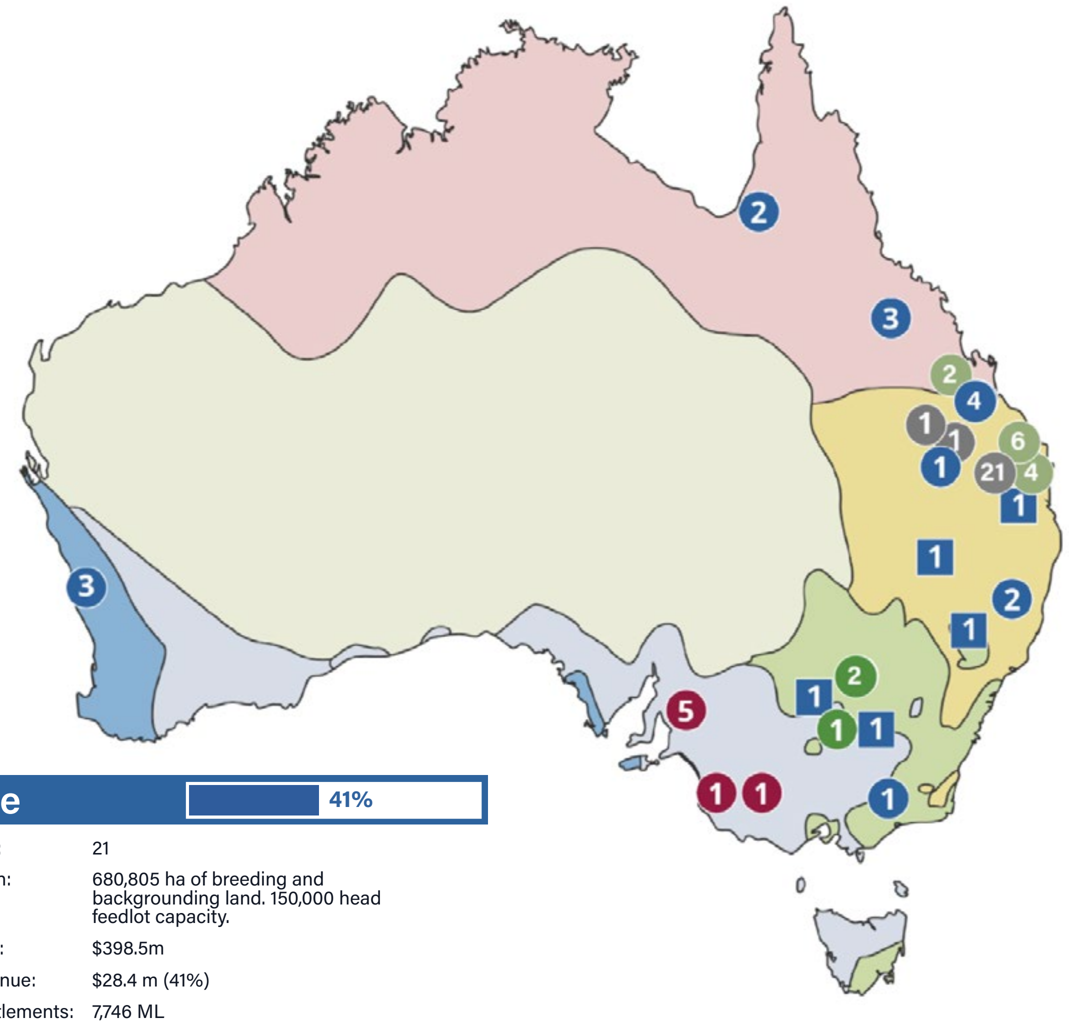
$1.2b[3]
Pro forma adjusted total assets

9.3 yrs
Weighted average lease expiry

66 properties
Across 5 sectors and multiple climatic zones

78%
FY22 forecast revenue from corporate or listed tenants

Assets map, sector information and key lessees[4]



Cattle — 41%

Properties:	21
Description:	680,805 ha of breeding and backgrounding land. 150,000 head feedlot capacity.
FY21 value:	$398.5m
FY22f revenue:	$28.4 m (41%)
Water entitlements:	7,746 ML
Corporate and listed lessees:	JBS, AACo, Stone Axe

Almonds — 41%

Properties:	3
Description:	4,139 ha of established orchards.
FY21 value:	$382.3m
FY22f revenue:	$28.6m (41%)
Water entitlements:	55,525 ML
Corporate and listed lessees:	Olam, Select Harvests

Cropping — 10%

Properties:	23
Description:	11,868 ha of irrigated cropping and dryland cropping land.
Pro forma FY21 value:	$156.3m
FY22f revenue:	$6.4m (10%)
Pro forma water entitlements:	45,687 ML
Corporate and listed lessees:	Queensland Cotton

Vineyards — 6%

Properties:	7
Description:	666 ha of mature vineyards.
FY21 value:	$64.9m
FY22f revenue:	$4.2m (5%)
Water entitlements:	936 ML
Corporate and listed lessees:	Treasury Wine Estates

Macadamias — 2%

Properties:	12
Description:	391 ha of planted area.
FY21 value:	$70.9m
FY22f revenue:	$1.3m (2%)
Water entitlements:	6,740 ML

3. Adjusted assets incorporates most recent independent property valuations, inclusive of water entitlements. Pro forma for $100m Entitlement Offer announced 8 July 2021.Funds raised to acquire water assets ($38.4m), debt reduction ($58.6m) transaction costs ($3.0m).

4. Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology; see Climatic Diversification discussion paper, 20 June 2016. Numbers in the circles/boxes on map show number of assets. Blue square boxes denote cattle feedlots. Cropping pro forma for 8,338 ML water entitlements announced on 8 July 2021 for $38.4m. Unencumbered water entitlements with a value of $66.8m not shown. Excludes other income (e.g. from annual water allocation sales, cropping operations and agistment). Corporate and listed lessees shown represent 78% of FY22 forecast lessee revenue exposure; other lessee types include RFM farming operations (9% FY22f), investment funds (2% FY22f) and private farming operators (11% FY22f).

FY21 financial results and highlights

The increase in earnings and adjusted net assets were largely driven by the receipt of independent property valuations and the sale of the Mooral almond orchard at a 21% premium to adjusted book value.

RFM continues to focus on two strategies within the portfolio which seek to increase earnings for Unitholders. Firstly, the conversion of assets to higher and better use, with an initial 1,000 ha of macadamia orchards expected to be developed in central Queensland by June 2022. The second strategy, improving the productivity of natural resource assets, is being deployed on existing cattle and cropping assets within the portfolio, including those revalued during the period. RFM is also seeking to acquire additional cattle and cropping properties which have development potential.

Both strategies are consistent with RFM's approach of investing in sectors in which Australia participates globally, and utilising RFM's development and operating knowledge.

Following the Entitlement Offer completed in August 2021, RFF has a pro forma balance sheet capacity of up to $185m which is intended to be used to fund additional acquisitions and macadamia orchard developments. Future adjusted funds from operations (AFFO) accretion is expected to be driven by finalisation of macadamia lessee arrangements and additional acquisitions.

Forecast FY22 distributions per unit (DPU) total 11.73 cents, representing a 4% increase on FY21. The weighted average lease expiry of the portfolio is 9.3 years. RFF has delivered a total Unitholder return of 348.9% over the period 2014 to 2021, compared to the index return of 116.0%.[7]

FY22f DPU
11.73 cents
↑ 4% on FY21

Pro forma gearing[6]
24.6%
Compared to 30%-35% target range

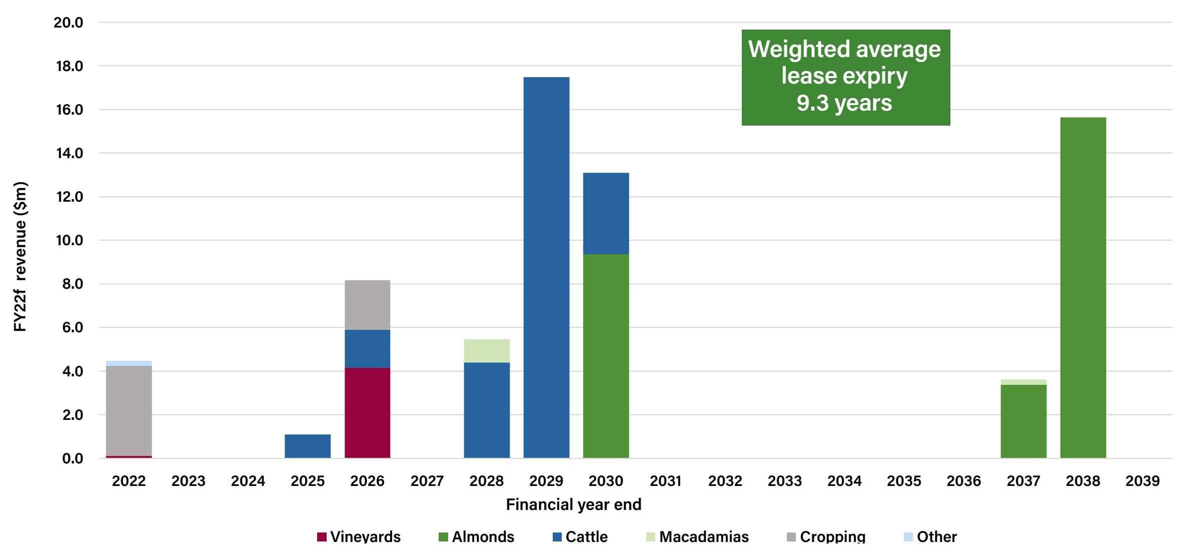
FY21 pro forma adj. NAV[6]
$2.20 per unit
↑ 13% on FY20

FY21 AFFO per unit
11.9 cents
↑ 0.2 cents on prior forecast

FY21 earnings (total comprehensive income) per unit
36.56 cents
↑ 98% on FY20

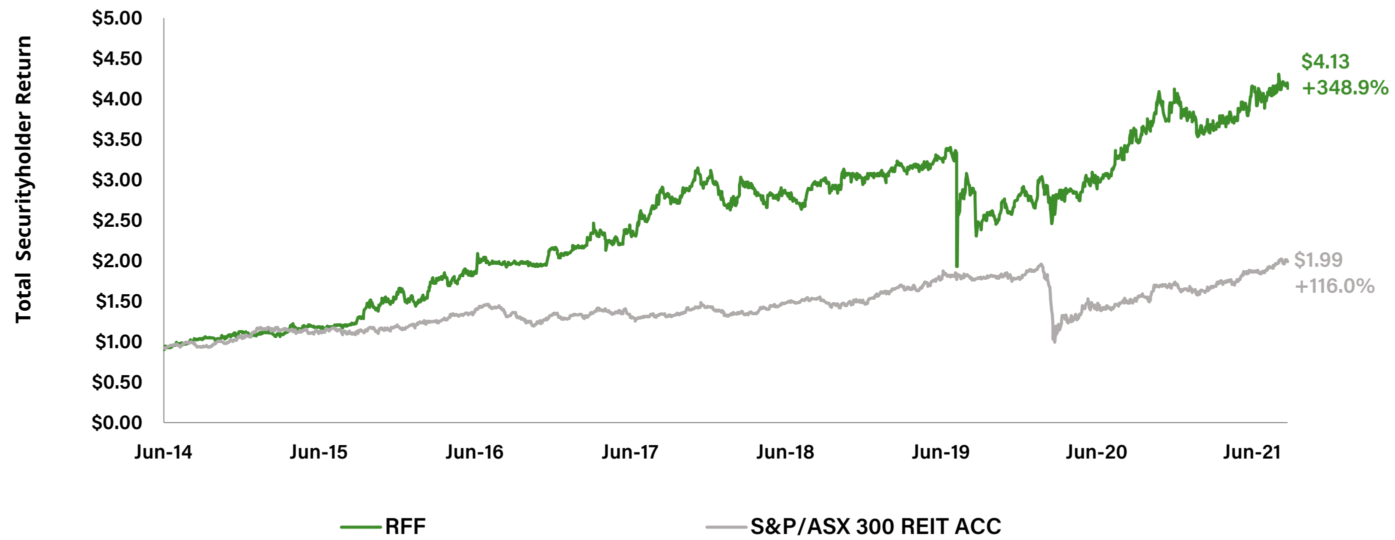
DPU yield
4.5%
Based on FY22f DPU and 21 September 2021 close price of $2.63

Lease expiry profile[5]



5. Excludes other income (e.g. from annual water allocation sales, cropping operations and agistment). Weighted average lease expiry (WALE) calculated as the FY22 forecast rent and the year of lease expiry.

Total Unitholder return: RFF and S&P/ASX 300 A-REIT accumulation index[7]



6. Pro forma for $100.0m equity raising at $2.47 per unit disclosed 8 July 2021. Funds raised to acquire water assets ($38.4m), debt reduction ($58.6m) transaction costs ($3.0m).
7. S&P/ASX 300 A-REIT accumulation Index accumulation index 1 July 2014 to 21 September 2021 rebased to $1.00. RFF accumulation return rebased to $1.00 and assumes dividends reinvested.

Environmental, Social and Governance responsibilities

Image: Cattle at Comanche, Rockhampton, central Queensland, May 2021.

Environmental

RFF owns a portfolio of Australian agricultural assets and the stewardship of these assets is of critical importance to the performance and growth of RFF. As operators and custodians of agricultural assets RFM recognises the importance of acknowledging the potential risks that climate change could present to the Groups assets. As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to monitor emissions and seek to implement infrastructure and practice changes.

RFF leases require operators to use appropriate agricultural production methods. These include farm management methods to minimise environmental impact, protect biodiversity, manage water and sustain soil health. Wherever practical, the Responsible Entity as manager of the Fund promotes:

- monitoring of industry developments and adopting farm management practices that incorporate the latest research findings and technologies to minimise environmental impact, protect biodiversity and better use natural resources;
- maximising water-use efficiency by using modern, well-managed irrigation systems;
- water management practices that consider and manage water quality and minimise run-off;
- use of communication technologies to access water-use data remotely; and, assisting with optimal water use, adoption of nutrient management practices that improve long-term soil health;
- pest and weed management requiring the use of chemicals occurs in a safe and environmentally responsible manner; and
- lessees and personnel who understand and are focused on sustainable farming principles and adhere to environmental legislation and regulations.

RFM leases or operates some of the assets of RFF. During FY21 RFM updated it's Environmental Policy including a commitment to seek to undertake activities, particularly farming activities, in a sustainable manner. This includes identifying ways to utilise natural resources more efficiently and minimise the impact our production systems have on the environment. A summary of some of the specific actions include:

- nutrient management practices improving long term soil health, and avoiding over grazing of pastures;
- seeking energy efficiency and undertaking renewable energy feasibility studies on appropriate assets;
- maximising water use efficiency and minimising nutrient or effluent run-off.;
- maintaining relevant sites to protect biodiversity;
- considering the impact of emissions and seeking to implement infrastructure and practice changes where appropriate;
- disposing of waste responsibly and utilising progressive farming practices to minimise environmental damage; and
- taking all practical steps to adhere to the requirements of relevant environmental laws, regulations and standards.

A copy of this policy is available on RFM's website.

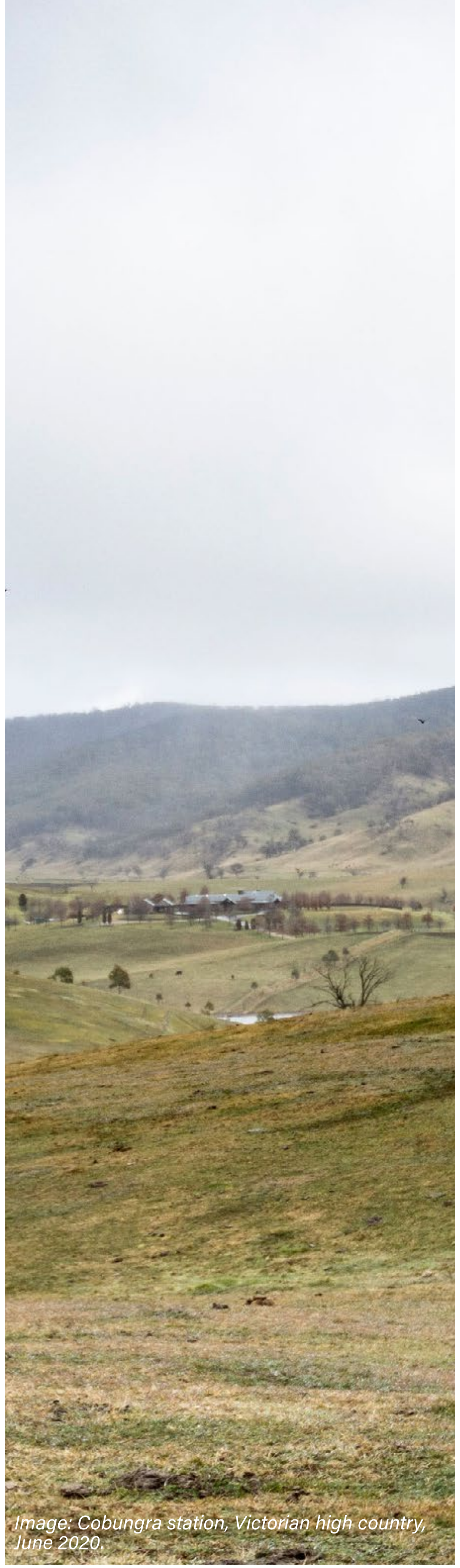


Image: Cobungra station, Victorian high country, June 2020.

The following case studies provide examples of initiatives RFM has undertaken in FY21 and those which are planned for FY22.

Case study: Greenhouse gas (GHG) reduction research and initiatives

During FY21 RFM commenced research on multiple projects which seek to quantify and reduce GHG emissions. Research has focused primarily on methods which have been outlined by the Australian Government Clean Energy Regulator. These methods generally fall into two approaches; either reducing emissions that would normally be produced, or actively storing carbon in vegetation or soil. The methods of which RFM commenced research during FY21 are detailed below:

Beef herd management

During FY20 RFM in conjunction with Meat and Livestock Australia (MLA) undertook an assessment of the emissions intensity of Mutton Hole, Rewan and Comanche and grazing land in NSW. Emissions intensity, rather than total emissions, is a metric used for assessing farming enterprises as it compares the GHG emissions generated per unit of farm product, such as kilograms of beef. Improved emissions intensity may be a result of higher farm production and a significant level of avoided emissions that would have otherwise been produced for the same level of output.

The report calculated that from 2016-17 to 2018-19 GHG emissions intensity declined by 17% on the New South Wales properties and 43% on the Queensland properties. The report identifies that improved feed quality and animal management are contributing factors to these results. A copy of the report is available on the MLA website.

Action: During FY21 RFM engaged with a research scientist to continue this project to provide recommendations on activities which further reduce GHG emissions.

Soil carbon sequestration

Soil carbon is a part of the organic matter in soil. Improving soil carbon sequestration involves managing agricultural land to encourage increases in soil carbon, such as through changes to farm management practices and converting land usage. The efficacy of these changes is determined through soil sampling which establishes existing soil carbon levels and changes over time.

Action: During FY22 RFM plans to engage an external consultant to commence baseline soil carbon levels on suitable properties and identify ways these may be reduced.

Image: Mustering cattle, Mutton Hole station, Queensland August 2021.

Reforestation

During FY21 RFM has commenced assessment of reforestation projects. Reforestation involves planting trees to reduce the amount of GHG entering the atmosphere, as carbon remains stored in the trees while they grow.

Action: During FY22 RFM plans to engage an external consultant to assess the application of tree planting on suitable properties.

Emissions assessments

During FY21 RFM commenced assessment of emissions study on a mature macadamia orchard. This incorporates farm emissions from fuel, fertiliser use, and transportation of harvested macadamias to the processing facility.

Action: During FY22 RFM plans to engage an external contractor to establish baseline data so that future emissions reductions can be quantified.

Solar energy assessment

During FY21 RFF funded the installation of 26 solar-powered water pumps on its north Queensland cattle properties Mutton Hole, Oakland Park and the Natal Aggregation.

Solar-powered water pumps utilise power from solar panels, pumping water from nearby water sources such as a dam or bore. These systems have replaced existing diesel-powered pumps, as well as being utilised in new installations.

The pumps provide a direct reduction in emissions, not only through reduced diesel usage, but also in the reduction of travel requirements for farm staff as regular refueling of the pumps is no longer necessary.

Also during the year, RFM continued work with a major Australian energy company to complete a feasibility study for solar energy systems on almond orchards. These projects are ongoing and subject to lessee agreement.

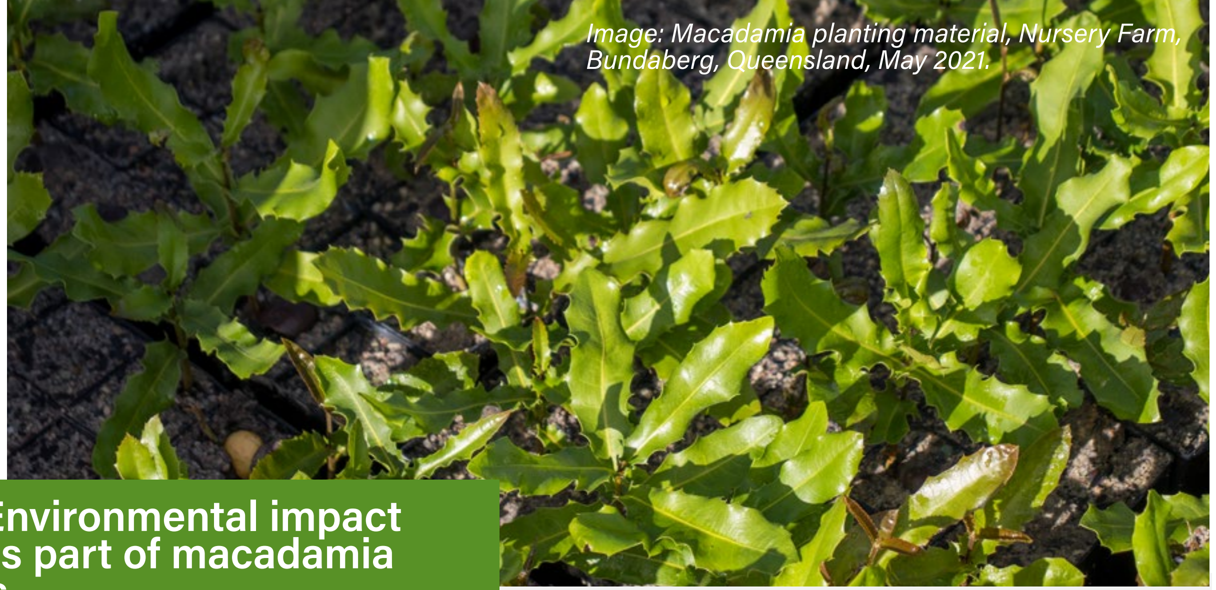


Image: Macadamia planting material, Nursery Farm, Bundaberg, Queensland, May 2021.

Case study: Environmental impact assessment as part of macadamia developments

During the planning stages of RFF's macadamia orchard developments, critical design principles that seek to minimise negative environmental impacts and optimise productivity are being considered. Examples include:

- detailed soil surveys and assessment of topography data. This allows water drainage plans to be designed to increase the likelihood that water flows from rain events are manageable in terms of volumes and velocities of water, to minimise soil erosion;
- optimal layout of irrigation design, providing operational efficiencies and reduced inputs, such as diesel consumption;
- precision tree planting and geo-referenced records, enabling the adoption of emerging low energy technologies including automation;
- high-specification dual irrigation systems, that provides targeted tree irrigation to maximise water use efficiency and minimise nutrient loss or leaching; and
- grassed interrows, which assists with the prevention of solids being removed with water run-off.

Adjacent to orchard development sites, active preservation and improvement of waterways to protect flora and promote biodiversity, is also being planned.

Image: Early sorghum crop, Lynora Downs, central Queensland, May 2021.

Case study: Reducing herbicide application

RFM are continually considering new innovations to improve agricultural practices and processes that improve productivity and benefit the environment.

In 2021, RFM undertook a trial of weed seeker technology on RFM's cropping operations in central Queensland. The technology uses near infrared cameras to detect and treat weeds.

The total amount of herbicide used is reduced significantly as the sprayed area is substantially lower, spraying only weeds and not bare soil.

In RFM's recent trial, weeds were treated in a fallow field, resulting in a material reduction of chemical application in the field area. This provided the benefits of a proportional reduction in chemical use and cost, as well as improved agronomic outcomes.

Social

People and safety

RFF does not directly employ staff. The Responsible Entity, RFM, is responsible for employees associated with the management and operation of the Fund.

RFM's guiding motto "managing good assets with good people" emphasises that our people are core to our business. The motto defines our approach to the selection and management of our people who are experienced and dedicated, and diligently support the RFM group. Our employees follow our Code of Conduct which promotes being respectful, being precise and diligent when doing our work, being honest, ethical, and doing what is best for the RFM group.

In return, we value, respect, and reward the contribution of our employees. We recognise employee contribution by providing:

- training and development opportunities;
- non-financial benefits such as life and salary continuance insurance;
- financial rewards by way of competitive remuneration and bonuses; and
- support for the well-being of our employees and their families through our Employee Assistance Program, flexible work practices, paid maternity leave and paid domestic violence leave.

An important element of our current work is an increased value on a culture of precision in our workplaces. Doing precise work provides many benefits, most importantly, it achieves a safer workplace.

During the year RFM has reviewed many policies, including the Safety Management System (SMS) and Safe Operating Procedures (SOPs). RFM also implemented an online safety system for the delivery of this information, providing easy access to key documentation that educates and supports activities on the ground. Additionally, RFF lessees are required to comply with safety and environmental obligations, and these are included in our leases. We also reviewed and strengthened our engagement processes and management of contractors, many of whom work on RFF properties undertaking development activities.

Further, access to the online safety system was provided to contractors to give them access to key induction and safety information and collect key documentation. The streamlining of the SMS includes guidance for our people about consultation with, management and monitoring of contractors on the ground.

We recognise there is gender and cultural disparity in the industry in which we operate, and we are taking active steps to remove unconscious bias from our recruitment processes by using anonymised screening and providing opportunities for minority groups. We do not set specific diversity targets however seek to ensure the candidate pool at each stage of the recruitment process reflects the diversity mix of total applications received. Further, we have committed to improving gender diversity at Board level by 2022.

Animal welfare

Some of RFF's properties are leased to agricultural producers involved in intensive production, such as cattle feedlots. The Responsible Entity has policies and procedures that are explicit about animal treatment and welfare.

RFF's cattle lessees are required to comply with best husbandry and pastoral practice. This is stipulated in leases signed with RFF. Best practice includes low-stress handling, disease minimisation and sustainable stocking rates. Most cattle sold by RFF lessees are sold and processed domestically, but a small number may be sold to the live export market.

Case study: Low stress cattle handling

RFM has policies and procedures for its operated properties that ensure that the mustering staff have the appropriate experience and training. The aim of each muster is to move the cattle in a controlled fashion, minimising the stress placed on the cattle, and reducing the risk of injury.

A range of techniques are used, such as:

- ensuring cattle are moved at a controlled pace,
- where possible walking cattle in the cooler parts of the day; and
- regularly resting cattle at water points.

Staff use the most appropriate method for the situation to achieve the best outcome for animal welfare.

Community involvement

An integral part of our corporate culture is to donate to charities and causes that are close to the hearts of our employees, including in the communities in which we operate or can have a positive impact. RFM continues to provide support to Tahen, a village in the Battambang province of Cambodia. An overview of this project is included in the adjacent case study. In the past RFM has also supported a number of organisations through donations and labour, further details can be located on our website.

Case study: Tahen Project

In FY21 RFM continued it's commitment to allocate resources towards an agricultural project in the Cambodian village of Tahen.

Tahen is located in the Battambang prefecture of western Cambodia, approximately 350km northwest of the capital Phnom Penh, and RFM's commitment includes the provision of both agricultural expertise and financial resources to improve farming practices in the village.

The funds donated by RFM enables the employment of a local, university educated agronomist as well as access to an Australian agricultural consultant who is a long-term Cambodian resident. These two resources, together with the project leader who is an agronomic engineer, are overseeing the rollout of updated farming practices to a team of 12 farmers.

RFM's funding has also enabled structural changes to farming operations, such as farming co-operatively in larger areas, the development of irrigation areas and acquisition of new equipment.

RFM maintains an ongoing and active involvement in the project. By providing education, mentoring, expertise and funding, it is hoped that RFM can provide sustainable economic and social benefits to the community. Although the structure and funding of this project is designed specifically for the Tahen village, RFM hopes that the lessons of this project can also be applied to other local communities.

Updates on the Tahen Project are regularly published on the RFM website.

Image: Aerial photo of rice crops, Tahen, Battambang prefecture of western Cambodia, 2019.

Image: RFM staff examining cotton, Mayneland, central Queensland, May 2021.

Governance

Corporate Governance Statement

Separate to this Annual Report RFM has released a Corporate Governance Statement. Some of the elements of the Statement which are relevant to Environment, Social, Governance (ESG) are summarised below.

Corporate Governance
RFM has an Internal Compliance Committee (ICC) that reports to the Board of Directors quarterly.

Conflicts of interest and related party transactions
RFM manages a number of entities. Where related party transactions occur between RFF and another RFM-managed entity, they are subject to the Conflict of Interest Management Policy. The Responsible Entity's responsibilities and contractual obligations are set out in the Fund's Constitution, the Corporations Act, the ASX Listing Rules and it's AFSL Licence. As the Responsible Entity, RFM must always act in the best interests of Unitholders, and if there is a conflict between Unitholders' interests and its own interests, it must give priority to Unitholders' interests.

The Responsible Entity has also established protocols, including appointing separate personnel to act for each entity with separate advice. To monitor compliance with these obligations, the Board receives a monthly report from the Compliance Department, who reports on the Responsible Entity's compliance, any conflicts of interest or related party transactions.

Ethical conduct
The Responsible Entity's employees are obligated to conduct themselves in accordance with the standards set out in the RFM Code of Conduct, the Corporate Governance Charter and other related policy documents. Our employees are expected to conduct themselves with integrity, in compliance with legislative requirements and internal policies and procedures.

RFM's anti-money laundering and counter-terrorism financing program aims to identify, mitigate and manage the risk that the Company or its Officers may unwittingly facilitate money laundering or financing of terrorism. The Responsible Entity manages the above risks in accordance with its Risk Management Policy which is available on the Responsible Entity's website.

The RFF Corporate Governance Statement, and RFM Policies, are available on RFM's website: www.ruralfunds.com.au

ASX additional information

Image: Ground preparation for macadamia orchard, Glendorf, central Queensland, May 2021.

ASX additional information

Additional information required by the ASX Limited (ASX) Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 6 September 2021.

Distribution of equity securities

Holding size	Unitholders	Class
1 – 1,000	4,399	Ordinary fully stapled securities
1,001 – 5,000	6,362	Ordinary fully stapled securities
5,001 – 10,000	2,727	Ordinary fully stapled securities
10,001 – 100,000	3,961	Ordinary fully stapled securities
100,001 and over	201	Ordinary fully stapled securities

Substantial Unitholders

Unitholder	Number of units	%
The Vanguard Group, Inc	38,418,056	10.9%
Argo Investments	19,170,328	5.0%

Holders of less than marketable parcels

The number of holders of less than marketable parcels, being $500 based on the ASX unit closing price of $2.62 as at 6 September 2021 is set out below:

Number of unitholders	Number of units
2,372	612,973

Voting rights

The voting rights attaching to the ordinary units, set out in section 253C of the Corporations Act 2001, are:

(i) on a show of hands, each member of a registered scheme has 1 vote; and

(ii) on a poll, each member of the scheme has 1 vote for each dollar of the value of the total interests they have in the scheme.

Twenty largest unitholders

Unitholder	Number of units	%
HSBC Custody Nominees (Australia) Limited	58,053,286	15.246%
JP Morgan Nominees Australia Pty Limited	51,482,855	13.521%
Argo Investments Limited	19,170,328	5.035%
CITICORP Nominees Pty Limited	18,666,174	4.902%
Netwealth Investments Limited <Wrap Services A/C>	14,141,155	3.714%
Rural Funds Management Ltd	11,843,659	3.110%
National Nominees Limited	5,767,850	1.515%
One Managed Investment Funds Ltd <Charter Hall Maxim Property Sec>	4,000,000	1.051%
Bryant Family Services Pty Ltd <BFS Superannuation Fund A/C>	3,580,012	0.940%
Netwealth Investments Limited <Super Services A/C>	2,958,162	0.777%
BNP Paribas Noms Pty Ltd <DRP>	2,287,330	0.601%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,949,536	0.512%
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	1,849,558	0.486%
SCCASP Holdings Pty Ltd <H & R Super Fund A/C>	1,663,073	0.437%
Boskenna Pty Ltd	1,353,044	0.355%
Neweconomy Com Au Nominees Pty Ltd <900 Account>	1,306,779	0.343%
BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	1,265,759	0.332%
BNP Paribas Nominees Pty Ltd ACG Clearstream	1,141,699	0.300%
BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAIL-CLIENT DRP>	1,045,415	0.275%
DGMH Super Pty Ltd <Lethbridge Super A/C>	920,939	0.242%

On-market buy-back

RFF confirms there is no on-market buy-back facility in operation.

Material lease details subsequent to listing rule 10.1 waiver

Pursuant to ASX Listing Rule 10.1, RFF confirms all relevant material leases have been terminated prior to the financial year.

Securities exchange

The Fund is listed on the ASX. The ASX reserves the right (but without limiting its absolute discretion) to remove Rural Funds Trust (RFT), or RF Active (RFA) from the official list if any of their securities cease to be "stapled" together, or any securities are issued by RFA which are not stapled to equivalent securities in RFT, or any securities are issued by RFT which are not stapled to equivalent securities in RFA.

Image: Improved pasture, Rewan , central Queensland, August 2021.

Financial Statements

for the year ended 30 June 2021

Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup
Company Secretary	Emma Spear
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 19, 60 Castlereagh Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay BARANGAROO NSW 2000
Share Registry	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000 Ph: 1300 737 760
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000 Rabobank Australia Group Darling Park Tower 3 201 Sussex Street SYDNEY NSW 2000
Stock Exchange Listing	Rural Funds Group units (Rural Funds Trust and RF Active form a stapled investment vehicle) are listed on the Australian Securities Exchange (ASX)
ASX Code	RFF

Directors' Report
30 June 2021

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the year ended 30 June 2021.

In accordance with AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and Rural Funds Trust has been identified as the parent for the purpose of preparing the consolidated financial report.

The Directors' report is a combined report that covers both Trusts. The financial information for the Group is taken from the Consolidated Financial Statements and notes.

Directors

The following persons held office as Directors of the Responsible Entity during the year and up to the date of this report:

Guy Paynter	Non-Executive Chairman
David Bryant	Managing Director
Michael Carroll	Non-Executive Director
Julian Widdup	Non-Executive Director

Principal activities and significant changes in state of affairs

The principal activity of the Group during the year was the development and leasing of agricultural properties and equipment. The Group is a lessor of agricultural property with revenue derived from leasing almond orchards, macadamia orchards, vineyards, cattle properties, cropping properties, agricultural plant and equipment, cattle and water rights.

The Group also provides a guarantee to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management, earning a return equivalent to an equity rate of return calculated on the amount of the guarantee during the year.

The following activities of the Group changed during the year:

In November 2020, the Group settled on the Maryborough acquisition, consisting of 5,258 hectares of sugar cane farms and 7,740 megalitres of water entitlements located in Maryborough, Queensland and associated plant and equipment for approximately $83.7m including transaction costs. The farms have the potential to be progressively converted to approximately 2,200 hectares of macadamia orchards with a substantial portion of the remaining area able to be used for cropping. Cropping operations have been performed on an interim basis for unleased portions of land where macadamia developments have not commenced.

In November 2020, the Group purchased the Riverton property located in the Fitzroy region in Queensland for $6.5m including transaction costs with potential for development into macadamia orchards.

In December 2020, the Group purchased the Stoneleigh property which will form part of the Rookwood Farms aggregation, located in the Fitzroy region in Queensland for $6.6m including transaction costs with potential for development into macadamia orchards.

In December 2020, the Group completed the sale of the Mooral almond orchard and associated plant and equipment for a contracted price of approximately $98.0m excluding transaction costs and adjustments. A remaining portion of the land contracted for $4.1m as part of the transaction was settled in February 2021.

In December 2020, the Group purchased an additional 1,655 hectares of land as part of the Homehill property, located in the Fitzroy region in Queensland for $4.3m including transaction costs.

In February 2021, the Group purchased the Corrowah property which will form part of the Rookwood Farms aggregation, located in the Fitzroy region in Queensland for $1.9m including transaction costs with potential for development into macadamia orchards.

In February 2021, the Group increased the guarantee to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management, from $82.5m to $99.9m to facilitate an increase in J&F's supply of cattle to JBS as part of its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

Rural Funds Group

Directors' Report

30 June 2021

Principal activities and significant changes in state of affairs (continued)

In March 2021, the Group purchased the Tongola property which will farm part of the Rookwood Farms aggregation, located in the Fitzroy region in Queensland for $3.2m including transaction costs with potential for development into macadamia orchards.

In May 2021, the Group completed the sale of the Wattlebank property located in the Fitzroy region in Queensland for approximately $1.0m. Water entitlements associated with the property were not sold as part of the transaction.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group during the year.

Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2021 amounted to $119,634,000 (2020: $48,988,000). The consolidated total comprehensive income of the Group for the year ended 30 June 2021 amounted to $123,917,000 (2020: $61,938,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments, non-cash tax expense and one-off transaction costs during the year, the profit would have been $40,423,000 (2020: $45,427,000), representing adjusted funds from operations (AFFO).

Adjusted funds from operations (AFFO)

The adjusted funds from operations (AFFO) calculated below effectively represents the underlying and recurring cash earnings from the Group's operations from which distributions are funded:

	2021 $'000	2020 $'000
Net profit before income tax from continuing operations	**120,292**	49,096
Change in fair value of interest rate swaps	**(12,923)**	7,624
Depreciation and impairments - other	**840**	2,244
Depreciation - bearer plants	**4,032**	4,838
Change in fair value of biological assets (unharvested crops)	**(1,028)**	-
Change in fair value of bearer plants	**(1,007)**	499
Change in fair value of investment property	**(42,289)**	(16,194)
Impairment of property - owner occupied	**1,651**	-
Change in fair value of financial assets/liabilities	**(116)**	(510)
Impairment of intangible assets	**4,188**	798
Straight-lining of rental revenue	**852**	(1,232)
Interest component of JBS feedlot finance lease	**(769)**	(789)
Income tax payable (RF Active)	**(432)**	(884)
Gain on sale of assets	**(32,868)**	(4,032)
Net profit before income tax from discontinued operations	**-**	1,502
Depreciation and impairments	**-**	649
Change in fair value of investment property	**-**	1,250
Income tax payable (RF Active)	**-**	(57)
Loss on disposal	**-**	29
Loss on disposal - one off transaction costs	**-**	596
AFFO	**40,423**	45,427
AFFO cents per unit	**11.9**	13.5

Rural Funds Group

Directors' Report

30 June 2021

Financial position

The net assets of the consolidated Group have increased to $648,544,000 at 30 June 2021 from $557,966,000 at 30 June 2020. At 30 June 2021, the Group had total assets of $1,041,904,000 (2020: $914,920,000).

At 30 June 2021, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of $122,402,000 (2020: $129,246,000). Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued every two years or more often where appropriate. These valuations attribute a value to the water entitlements held by the Group. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate of fair value. On this basis the fair value of water entitlements at 30 June 2021 was $212,580,000 (2020: $226,945,000). The value of water entitlements is illustrated in the table below:

	2021 $'000	2020 $'000
Intangible assets (water entitlements)	**110,418**	117,262
Investment in CICL	**11,464**	11,464
Investment in BIL	**520**	520
Total book value of water entitlements	**122,402**	129,246
Revaluation of intangible assets per valuation	**90,178**	97,699
Adjusted total water entitlements	**212,580**	226,945

Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of water entitlements comprising intangible assets and investments in BIL and CICL per these valuations.

	2021 $'000	2020 $'000
Net assets per Consolidated Statement of Financial Position	**648,544**	557,966
Revaluation of intangible assets per valuation	**90,178**	97,699
Adjusted net assets	**738,722**	655,665
Adjusted NAV per unit	**2.17**	1.94

Property leasing

At 30 June 2021 the Group held 66 (2020: 41) properties as follows:

- 3 almond orchards (4,139 planted hectares);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (261 planted hectares);
- 3 macadamia orchards under development (118 hectares);
- 2 properties with potential for areas to be developed into macadamia orchards (3,467 hectares);
- 21 cattle properties made up of 16 breeding, backgrounding and finishing properties (672,342 hectares) and 5 cattle feedlots with combined capacity of 150,000 head;
- 2 cropping properties (7,905 hectares).
- Maryborough, a total of 25 properties, with areas under development into macadamia orchards, leased out and owner operated (total 5,258 hectares).

During the year ended 30 June 2021, the properties held by the Group recorded an increment in the fair value of investment properties of $42,289,000 (2020: $16,194,000), an increment in bearer plants revaluation of $6,510,000 (2020: $12,451,000), an impairment of intangibles of $4,188,000 (2020: $798,000) relating to water entitlements and an impairment in property – owner occupied of $1,651,000 (2020: nil) relating to properties carrying out various cropping operations.

Property leasing (continued)

Almond orchards

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and Darlington Point, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 4,139 hectares (2020: 4,947 hectares):

- Yilgah 1,006 planted hectares (2020: 1,006 hectares);
- Tocabil 603 planted hectares (2020: 603 hectares);
- Kerarbury 2,530 planted hectares (2020: 2,530 hectares).

These properties are under lease to the following tenants:
- Select Harvests Limited (SHV) 1,006 planted hectares (2020: 1,221 hectares);
- Olam Orchards Australia Pty Limited (Olam) 3,133 planted hectares (2020: 3,133 hectares);

For its almond orchards the Group owns water entitlements of 55,525ML (2020: 67,743ML) comprising groundwater, high security river water, general security river water, supplementary river water, and domestic and stock river water. In addition, the Group owns 21,430ML (2020: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Vineyards

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (2020: 936ML). All vineyards are leased to Treasury Wine Estates Limited and produce premium quality grapes. Six of the vineyards are leased until June 2026 and one is leased until June 2022.

Macadamia orchards

Three established macadamia orchards are located near Bundaberg, QLD and leased to the following tenants:

- 2007 Macgrove Project (M07) 234 hectares (2020: 234 hectares);
- RFM Farming Pty Limited 27 hectares (RFM) (2020: 27 hectares).

The Cygnet property located in Bundaberg, Queensland is currently unleased with 37 hectares of macadamia plantings.

The Swan Ridge South property located in Bundaberg, Queensland is currently unleased and under development to 40 hectares of planned macadamia plantings.

The Nursery Farm property located in Bundaberg, Queensland is currently unleased with 41 hectares of macadamia plantings and a macadamia tree nursery.

The Riverton property and Rookwood Farms aggregation, totaling 3,467 hectares, located in the Fitzroy region in Queensland are currently unleased which have been identified as potential development sites for macadamia orchards.

Cattle property

Cattle properties held by the Group comprise of cattle breeding, backgrounding and finishing properties and cattle feedlots.

- Rewan located near Rolleston in central Queensland 17,479 hectares (2020: 17,479 hectares);
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares (2020: 225,800 hectares);
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares (2020: 390,600 hectares);
- Comanche located in central Queensland 7,600 hectares (2020: 7,600 hectares);
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares (2020: 8,280 hectares);
- Dyamberin located in the New England region of New South Wales 1,728 hectares (2020: 1,728 hectares);
- Woodburn located in the New England region of New South Wales 1,063 hectares (2020: 1,063 hectares);
- Cobungra located in the East Gippsland region of Victoria 6,497 hectares (2020: 6,497 hectares);
- Petro, High Hill and Willara located in Western Australia 6,196 hectares (2020: 6,196);
- Yarra located south west of Rockhampton in central Queensland 2,173 hectares (2020: 2,173);

Property leasing (continued)

Cattle property (continued)

- Homehill located north west of Rockhampton in central Queensland 4,925 hectares (2020: 3,270); and
- Prime City, Mungindi, Caroona, Beef City and Riverina, 5 cattle feedlots with a combined capacity of 150,000 head (2020:150,000 head).

The properties comprise a combined 672,342 hectares and are leased to the following tenants:

- Australian Agricultural Company Limited, leasing Rewan;
- Cattle JV Pty Limited, a wholly owned subsidiary of RFM, leasing Mutton Hole and Oakland Park;
- DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, leasing the Natal aggregation;
- Elrose Enterprises Pty Limited, leasing Comanche;
- Katena Pty Limited, leasing Cerberus; and
- Stone Axe Pastoral Company Pty Limited, leasing Dyamberin, Woodburn, Cobungra, Petro, High Hill and Willara.

In addition to this, JBS Australia Pty Limited (JBS) leases the Prime City, Mungindi, Caroona, Beef City and Riverina feedlots.

The remaining properties are not currently leased as at 30 June 2021.

The lease arrangement for the Natal aggregation includes a $10 million secured loan provided to the lessee and a $5 million cattle leasing arrangement to fund the purchase of cattle.

The lease arrangement for the Cerberus property includes a $1.6 million financing facility to fund the purchase of cattle. On 1 July 2021, the lease on the Cerberus property by Katena Pty Ltd was terminated by mutual agreement and all amounts owing to the Group have since been paid. A long-term lessee is currently being sought.

Cropping property

Cropping properties held by the Group comprise of:

- Lynora Downs, a 4,963 hectare (2020: 4,958 hectare) cropping property located near Emerald, QLD is leased to Cotton JV Pty Limited (Cotton JV), a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited) until April 2022.
- Mayneland, a 2,942 hectare (2020: 2,942 hectare) cropping property located 25 km north of Lynora Downs in central Queensland, is leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2022. A long-term lessee is being sought.

Maryborough

The Maryborough properties located in Queensland, comprise of 5,258 hectares and 7,740 ML of water entitlements, with areas having potential to be developed into approximately 2,200 hectares of macadamia orchards. While in the development phase, parts of the property will be:

- Under development into macadamia orchards
- Leased out to different parties for cropping operations
- Owner occupied and carrying out various cropping operations

Other activities

The Group provides a $99,900,000 (2020: $82,500,000) limited guarantee to J&F Australia Pty Ltd (J&F). The guarantee is currently used to support $99,900,000 of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

Breeder assets under finance lease with a net book value of $17,778,000 (2020: $14,383,000) are leased to Cattle JV Pty Limited.

Agricultural plant and equipment with a net book value of $3,422,000 (2020: $6,449,000) is owned by the Group and leased to M07, Cotton JV, Cattle JV and RFM Farming. Agricultural plant and equipment with a net book value of $5,294,000 (2020: $520,000) is used for the Group's cropping operations and developments.

Rural Funds Group

Directors' Report
30 June 2021

Banking facilities

At 30 June 2021 the core debt facility available to the Group was $380,000,000 (2020: $335,000,000), with a drawn balance of $344,143,000 (2020: $297,248,000). The facility is split into two tranches with a $270,000,000 tranche expiring in November 2022 and a $110,000,000 tranche expiring in November 2023. At 30 June 2021, RFF had active interest swaps totaling 53.2% (2020: 61.6%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total $
Distribution declared 2 June 2020, paid 31 July 2020	2.7118	9,158,113
Distribution declared 1 September 2020, paid 30 October 2020	2.8203	9,542,697
Distribution declared 2 December 2020, paid 29 January 2021	2.8203	9,558,150
Distribution declared 1 March 2021, paid 30 April 2021	2.8203	9,572,536
Distribution declared 1 June 2021, paid 30 July 2021	2.8203	9,586,215

Earnings per unit

Net profit after income tax for the year ($'000)	119,634
Weighted average number of units on issue during the year	338,961,068
Basic and diluted earnings per unit (total) (cents)	35.29

Indirect cost ratio

The indirect cost ratio (ICR) is the ratio of the Group's management costs over the Group's average net assets for the year, expressed as a percentage.

Management costs include management fees and other expenses such as corporate overheads in relation to the Group, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Group.

The ICR for the Group for the year ended 30 June 2021 is 1.89% (2020: 1.99%).

Matters subsequent to the end of the year

On 1 July 2021, the lease on the Cerberus property by Katena Pty Ltd was terminated by mutual agreement and all amounts owing to the Group have since been paid. A long-term lessee is currently being sought.

On 8 July 2021, the Group announced that it was undertaking a fully underwritten equity raise for $100.0m to fund the development of 1,000ha of macadamia orchards, acquire cattle properties to be leased by corporate lessees, and for the acquisition of 8,338 megalitres of Lower Murrumbidgee ground water entitlements for $38.4m. The purchase is expected to settle in August 2021, and the entitlements will be leased to a private farming company for five years.

On 15 July 2021, the Group completed the sale of a portion of surplus land on Kerarbury for approximately $1.6m.

No other matter or circumstance has arisen since the end of the year that has significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Likely developments and expected results of operations

The Group expects to continue to derive its core future income from the holding and leasing of agricultural property and water entitlements. Management is continually looking for growth opportunities in agricultural and related industries.

Environmental regulation

The operations of the Group are subject to significant environmental regulations under the laws of the Commonwealth and States or Territories of Australia. Water usage for irrigation, domestic and levee purposes, including containing irrigation water from entering the river, water course or water aquifer are regulated by the *Water Management Act 2000*. Responsibility of water licences that are leased to external parties then requires the tenant to meet the legislative requirements for these licences. There have been no known significant breaches of any environmental requirements applicable to the Group.

Rural Funds Group

Directors' Report
30 June 2021

Climate change risk

RFM is aware of the potential risks that climate change could present to the Group's assets. RFM has committed to a climatic diversification strategy in order to mitigate these risks. Some of the areas that RFM is focused on is the impact of emissions from Group's assets, including carbon dioxide, methane, and nitrous oxide.
The Group's assets produce these emissions through its agricultural infrastructure and machinery, cattle assets and through the application of fertiliser. As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to monitor emissions and seek to implement infrastructure and practice changes. RFM considers that climate change may present risks for the Group primarily in the form of residual risk of the Group's assets at the end of the lease terms. These risks may be mitigated by how the assets are managed. External valuations consider these types of factors as well as other risks when determining the valuations of the assets.

COVID-19 outbreak

The outbreak of Coronavirus Disease 2019 was ongoing during the year ended 30 June 2021 and as at the date of the financial statements. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Units on issue

339,900,556 units in Rural Funds Trust were on issue at 30 June 2021 (2020: 337,713,420). During the year 2,187,136 units (2020: 3,449,827) were issued by the Trust and nil (2020: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

In accordance with its constitution, Rural Funds Group indemnifies the Directors, Company Secretary and all other officers of the Responsible Entity and Custodian when acting in those capacities, against costs and expenses incurred in defending certain proceedings.

Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were. Guy brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	RFM Poultry

Directors' Report
30 June 2021

Information on Directors of the Responsible Entity (continued)

David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. RFM manages approximately $1.3 billion of agricultural assets. David is responsible for leading the RFM management team, maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships of other listed entities in the last three years	RFM Poultry
Michael Carroll	Non-Executive Director
Qualifications	Bachelor of Agricultural Science, La Trobe University and Master of Business Administration, Melbourne University Business School. Michael has also completed the Advanced Management Program, Harvard Business School and is a Fellow of the Australian Institute of Company Directors.
Experience	Chair of Viridis Ag Pty Limited and the Australian Rural Leadership Foundation. Director of Paraway Pastoral Company Limited, Genetics Australia and the Regional Investment Corporation. Michael also runs his own cattle business in south west Victoria. Former board positions include Select Harvests Limited, Elders Limited, Sunny Queen Australia Pty Limited, Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese and Butter Factory Company Holdings Limited, Queensland Sugar Limited, Rural Finance Corporation of Victoria, Meat and Livestock Australia and the Geoffrey Gardiner Dairy Foundation. Michael's executive experience includes establishing and leading the National Australia Bank's Agribusiness division and as a Senior Adviser in NAB's internal investment banking and corporate advisory team. Prior to that Michael worked for Monsanto Agricultural Products and a biotechnology venture capital company.
Special responsibilities	Chairman of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	Michael held previous roles as Chairman of Elders Limited and Director of Select Harvests Limited, Tassal Group Limited and RFM Poultry.

Directors' Report
30 June 2021

Information on Directors of the Responsible Entity (continued)

Julian Widdup	Non-Executive Director
Qualifications	Bachelor of Economics, Master of Business Administration and University Medal from the Australian National University. Completed the Senior Executive Leadership Program at Harvard Business School. Fellow of the Institute of Actuaries of Australia and Fellow of the Australian Institute of Company Directors.
Experience	Julian Widdup is currently a director of the Australian Catholic Superannuation & Retirement Fund, Screen Canberra and Cultural Facilities Corporation. He worked in the financial services industry for over 20 years including as a senior executive of asset management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital). Julian brings extensive experience to the RFM board having been a director of Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power utility and the Victorian AgriBioscience Research Facility.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	RFM Poultry

Interests of Directors of the Responsible Entity

	Guy Paynter Units	David Bryant* Units	Michael Carroll Units	Julian Widdup Units
Balance at 30 June 2019	1,059,104	14,414,854	27,623	-
Additions	500,000	823,180	57,111	110,203
Balance at 30 June 2020	**1,559,104**	**15,238,034**	**84,734**	**110,203**
Additions	-	-	133,668	5,562
Balance at 30 June 2021	**1,559,104**	**15,238,034**	**218,402**	**115,765**

*Includes interests held by Rural Funds Management Limited as the Responsibly Entity.

Company Secretary of the Responsible Entity

Emma Spear is RFM's company secretary. Emma joined RFM in 2008, is a member of CPA Australia and is admitted as a Legal Practitioner of the Supreme Court of the ACT.

Meetings of Directors of the Responsible Entity

During the financial year 19 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetings		Audit Committee meetings		Remuneration Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	15	15	2	2	2	2
David Bryant	15	15	-	-	-	-
Michael Carroll	15	15	2	2	2	2
Julian Widdup	15	15	2	2	2	2

Non-audit services

Fees of $20,395 (2020: $15,960) were paid or payable to PricewaterhouseCoopers for compliance audit services provided for the year ended 30 June 2021.

Directors' Report

30 June 2021

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act* 2001 for the year ended 30 June 2021 has been received and is included on page 35 of the annual report.

The Directors' report is signed in accordance with a resolution of the Board of Directors of Rural Funds Management Limited.

David Bryant
Director

25 August 2021

Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Rural Funds Trust and the entities it controlled during the period.

Rod Dring
Partner

Sydney
25 August 2021

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Rural Funds Group

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Continuing operations			
Revenue	B3	**67,166**	66,818
Other income	B3	**3,935**	4,397
Management fees		**(11,017)**	(9,621)
Property expenses		**(2,829)**	(2,038)
Finance costs		**(10,498)**	(10,255)
Cost of goods sold		**(484)**	-
Other expenses		**(5,609)**	(4,938)
Gain on sale of assets		**32,868**	4,032
Depreciation and impairments - other		**(840)**	(2,244)
Change in fair value of investment property	C2	**42,289**	16,194
Change in fair value of bearer plants	C3	**1,007**	(499)
Depreciation - bearer plants	C3	**(4,032)**	(4,838)
Impairment of intangible assets	C5	**(4,188)**	(798)
Impairment of property - owner occupied	C6	**(1,651)**	-
Change in fair value of biological assets	F7	**1,136**	-
Change in fair value of interest rate swaps		**12,923**	(7,624)
Change in fair value of financial assets/liabilities		**116**	510
Net profit before income tax from continuing operations		**120,292**	49,096
Income tax expense	D1	**(658)**	(1,553)
Net profit after income tax from continuing operations		**119,634**	47,543
Net profit before income tax from discontinued operations		**-**	1,502
Income tax expense on discontinued operations		**-**	(57)
Net profit after income tax from discontinued operations		**-**	1,445
Net profit after income tax		**119,634**	48,988
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Revaluation increment - Bearer plants	C3	**5,503**	12,950
Income tax relating to these items	D1	**(1,220)**	-
Other comprehensive income for the year, net of tax		**4,283**	12,950
Total comprehensive income attributable to unitholders		**123,917**	61,938

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Total net profit after income tax for the year attributable to unitholders arising from:			
Rural Funds Trust		**117,696**	44,627
RF Active (non-controlling interest)		**1,938**	4,361
Total		**119,634**	48,988
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		**121,979**	57,577
RF Active (non-controlling interest)		**1,938**	4,361
Total		**123,917**	61,938
Total comprehensive income for the year attributable to unitholders arising from:			
Continuing operations		**123,917**	60,493
Discontinued operations		**-**	1,445
Total		**123,917**	61,938
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)		**35.29**	14.15
Per unit of Rural Funds Trust (cents)		**34.72**	12.85
Per unit of RF Active (cents)		**0.57**	1.30
Basic and diluted earnings per unit attributable to the unitholders:			
Per stapled unit (cents)	B4	**35.29**	14.58
Per unit of Rural Funds Trust (cents)	B4	**34.72**	13.28
Per unit of RF Active (cents)	B4	**0.57**	1.30

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position
As at 30 June 2021

	Note	2021 $'000	2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	F1	**11,647**	5,085
Trade and other receivables	F2	**4,945**	5,446
Other current assets	F3	**4,995**	2,688
Assets held for sale	C8	**1,621**	63,358
Biological assets	F7	**2,988**	-
Income tax receivable	D2	**477**	-
Total current assets		**26,673**	76,577
Non-current assets			
Investment property	C2	**596,924**	474,838
Plant and equipment - bearer plants	C3	**160,782**	153,528
Financial assets	C4, E2	**107,177**	100,225
Intangible assets	C5	**110,418**	106,551
Property - owner occupied	C6	**28,284**	-
Plant and equipment - other	C7	**8,716**	3,201
Derivative financial assets	E3	**2,930**	-
Total non-current assets		**1,015,231**	838,343
Total assets		**1,041,904**	914,920
LIABILITIES			
Current liabilities			
Trade and other payables	F4	**3,195**	3,502
Current tax payable	D2	**-**	1,533
Interest bearing liabilities	E1	**2,456**	3,814
Derivative financial liabilities	E3	**3,604**	3,666
Distributions payable	E8	**10,022**	9,460
Total current liabilities		**19,277**	21,975
Non-current liabilities			
Interest bearing liabilities	E1	**344,143**	297,248
Deferred tax liabilities	D2	**7,450**	5,855
Other non-current liabilities	F5	**4,421**	3,877
Derivative financial liabilities	E3	**18,069**	27,999
Total non-current liabilities		**374,083**	334,979
Total liabilities (excluding net assets attributable to unitholders)		**393,360**	356,954
Net assets attributable to unitholders		**648,544**	557,966
Total liabilities		**1,041,904**	914,920

*Water entitlements are held at cost less accumulated impairment in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note B1 Segment information, for disclosure of the Directors' valuation of water entitlements, which are supported by independent property valuations.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position
As at 30 June 2021

	Note	2021 $'000	2020 $'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units	E7	**380,440**	355,923
Asset revaluation reserve	F6	**48,347**	59,412
Retained earnings		**206,767**	131,628
Parent entity interest		**635,554**	546,963
Unitholders of RF Active			
Issued units	E7	**4,700**	4,651
Retained earnings		**8,290**	6,352
Non-controlling interest		**12,990**	11,003
Total net assets attributable to unitholders		**648,544**	557,966

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders
For the year ended 30 June 2021

2021	Note	Issued units $'000	Asset revaluation reserve $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2020		**355,923**	**59,412**	**131,628**	**546,963**	**11,003**	**557,966**
Other comprehensive income		**-**	**4,283**	**-**	**4,283**	**-**	**4,283**
Total other comprehensive income		**-**	**4,283**	**-**	**4,283**	**-**	**4,283**
Profit before income tax		**-**	**-**	**117,527**	**117,527**	**2,765**	**120,292**
Income tax expense	D1	**-**	**-**	**169**	**169**	**(827)**	**(658)**
Total comprehensive income for the year		**-**	**4,283**	**117,696**	**121,979**	**1,938**	**123,917**
Transfer on disposal of bearer plants to retained earnings		**-**	**(15,348)**	**15,348**	**-**	**-**	**-**
Issued units							
Units issued during the year		**4,871**	**-**	**-**	**4,871**	**49**	**4,920**
Issue costs		**-**	**-**	**-**	**-**	**-**	**-**
Total issued units	E7	**4,871**	**-**	**-**	**4,871**	**49**	**4,920**
Distributions to unitholders	B5, E7	**19,646**	**-**	**(57,905)**	**(38,259)**	**-**	**(38,259)**
Balance at 30 June 2021		**380,440**	**48,347**	**206,767**	**635,554**	**12,990**	**648,544**

2020	Note	Issued units $'000	Asset revaluation reserve $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2019		358,269	46,462	114,565	519,296	6,576	525,872
Other comprehensive income		-	12,950	-	12,950	-	12,950
Total other comprehensive income		-	12,950	-	12,950	-	12,950
Profit before income tax		-	-	45,213	45,213	5,385	50,598
Income tax expense	D1	-	-	(586)	(586)	(1,024)	(1,610)
Total comprehensive income for the year		-	12,950	44,627	57,577	4,361	61,938
Issued units							
Units issued during the year		6,494	-	-	6,494	66	6,560
Issue costs		79	-	-	79	-	79
Total issued units	E7	6,573	-	-	6,573	66	6,639
Distributions to unitholders	B5, E7	(8,919)	-	(27,564)	(36,483)	-	(36,483)
Balance at 30 June 2020		355,923	59,412	131,628	546,963	11,003	557,966

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows
For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**64,194**	71,021
Payments to suppliers (inclusive of GST)		**(29,318)**	(26,723)
Interest received		**126**	139
Finance income		**13,197**	10,218
Finance costs		**(10,498)**	(10,881)
Income tax paid		**(2,293)**	(439)
Net cash inflow from operating activities		**35,408**	43,335
Cash flows from investing activities			
Payments for investment property	C2	**(84,163)**	(59,779)
Payments for plant and equipment - bearer plants	C3	**(4,457)**	(2,997)
Payments for intangible assets	C5	**(8,055)**	(3,250)
Payments for financial assets		**(7,096)**	(27,243)
Payments for property - owner occupied	C6	**(29,959)**	-
Payments for plant and equipment	C7	**(7,187)**	(2,228)
Proceeds from sale of Mooral assets		**97,330**	-
Proceeds from sale of investment property		**960**	-
Proceeds from sale of plant and equipment		**968**	173
Proceeds from sale of intangible assets		**-**	6,668
Proceeds from sale of poultry assets		**-**	71,913
Transaction costs on disposal of poultry assets		**-**	(596)
Distributions received		**64**	50
Net cash outflow from investing activities		**(41,595)**	(17,289)
Cash flows from financing activities			
Proceeds from issue of units	E7	**4,920**	6,639
Proceeds from borrowings		**185,293**	78,101
Repayment of borrowings		**(139,766)**	(72,316)
Distributions paid		**(37,698)**	(35,973)
Net cash inflow/(outflow) from financing activities		**12,749**	(23,549)
Net increase in cash and cash equivalents held		**6,562**	2,497
Cash and cash equivalents at the beginning of the year		**5,085**	2,588
Cash and cash equivalents at the end of the year		**11,647**	5,085

The accompanying notes form part of these financial statements.

A. REPORT OVERVIEW

General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 25 August 2021 and have the power to amend and reissue the Financial Report.

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in section G3.

COVID-19 outbreak

The outbreak of Coronavirus Disease 2019 was ongoing during the year ended 30 June 2021 and as at the date of the financial statements. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Basis of preparation

The Trusts have common business objectives and operate collectively as an economic entity known as Rural Funds Group. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The report has been prepared on a going concern basis.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated. The financial statements are based on historical cost, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

These financial statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

Principles of consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, income, expenses and cash flows relating to transactions between entities in the consolidated Group have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to the controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a 30 June financial year end.

Controlled entities

In accordance with AASB 3 *Business Combinations*, Rural Funds Trust is deemed to control RF Active from the stapling date of 16 October 2014. Rural Funds Trust is considered to be the acquirer of RF Active due to the size of the respective entities and as the stapling transaction and capitalisation of RF Active was funded by a distribution from Rural Funds Trust that was compulsorily used to subscribe for units in RF Active.

Significant 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, estimates and assumptions 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 it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

The following are areas for which significant judgements, estimates or assumptions are made:

Valuation of property related assets

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two financial years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety.

Significant judgement is applied in order to allocate the total property value, as disclosed in the independent valuation reports where applicable, to investment property, bearer plants and water entitlements. The allocation technique will vary depending on the nature of the lease arrangement.

Where information is available, each component of the property, meaning the land and infrastructure, the trees and any water assets, disclosed in the financial statements as investment property, bearer plants and water entitlements, will be allocated on an encumbered (subject to lease) basis.

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, evidence of other market transactions and the analysis of those component parts, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components. Significant judgement is applied as part of these allocations, which vary from property to property, given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date. Allocation techniques are disclosed in Note C1.

Estimation of useful lives of bearer plants

The useful lives of bearer plants have been estimated by assessing industry data. The useful lives of bearer plants are disclosed in Note C3.

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Rural Funds Group

Notes to the Financial Statements

30 June 2021

B. RESULTS

B1 Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of the Responsible Entity. During the year ended 30 June 2021, the Group held property in agricultural sectors presented in five segments (2020: six segments) each holding and leasing agricultural property and equipment. Segment revenue includes rental income, finance income and interest income. Segment property assets include investment property, bearer plants, intangible assets, property – owner occupied, financial assets and plant and equipment. Revenue and property assets not categorised in these sectors are managed at a corporate level. Liabilities and direct or indirect expenses are not allocated to individual segments as these are reviewed by the chief operating decision maker on a consolidated basis.

Segment revenue and revaluation movements

2021	Almonds $'000	Cattle $'000	Vineyards $'000	Cropping $'000	Macadamias $'000	Other $'000	Total $'000
Rental revenue	30,755	13,788	4,037	3,814	1,301	231	53,926
Rental revenue - straight-lining	(859)	(8)	18	-	-	(3)	(852)
Interest received	2	120	-	-	-	4	126
Finance income	12	13,920	-	-	34	-	13,966
Total revenue	29,910	27,820	4,055	3,814	1,335	232	67,166
Gain on disposal	32,481	186	-	-	-	201	32,868
Depreciation - bearer plants	(2,798)	-	(1,016)	-	(218)	-	(4,032)
Depreciation - property (owner occupied)	-	-	-	(24)	-	-	(24)
Change in fair value through profit or loss	(1,490)	45,623	(2,634)	1,748	(5,673)	-	37,573
Revaluation increment through other comprehensive income	643	-	4,068	-	792	-	5,503
Total revaluation	(848)	45,623	1,434	1,748	(4,881)	-	43,076
Revaluation of water entitlements per director's valuation	7,333	-	642	-	355	438	8,768
Total revaluation	6,485	45,623	2,076	1,748	(4,526)	438	51,844

Revaluation for the cattle segment largely relates to the external valuation of Rewan, Oakland Park, Mutton Hole, Cobungra and the Natal Aggregation. The revaluation increment is mainly due to market movements.

Revaluation of the Maryborough assets has been allocated to the Cropping and Macadamias. The revaluation largely relates to transaction costs that have been written off as part of the acquisition. Refer to section B1 – Maryborough note for further details of the segment allocation.

Refer to section C1 for details on properties valued during the year.

Rural Funds Group

Notes to the Financial Statements

30 June 2021

B1 Segment information (continued)

Segment revenue and revaluation movements (continued)

2020	Almonds $'000	Cattle $'000	Vineyards $'000	Cropping $'000	Macadamias $'000	Poultry (discontinued) $'000	Other $'000	Total $'000
Rental revenue	33,457	12,235	3,891	3,296	1,335	5,136	270	59,620
Rental revenue - straight-lining	678	501	56	-	(3)	-	-	1,232
Interest received	-	80	-	-	-	24	35	139
Finance income	-	10,981	-	-	6	-	-	10,987
Total revenue	34,135	23,797	3,947	3,296	1,338	5,160	305	71,978
Loss on disposal	-	-	-	-	-	(625)	-	(625)
Depreciation - bearer plants	(3,656)	-	(965)	-	(217)	-	-	(4,838)
Change in fair value through profit or loss	2,473	12,866	-	(534)	44	(1,250)	558	14,157
Revaluation increment through other comprehensive income	12,335	-	-	-	615	-	-	12,950
Total revaluation	**14,808**	**12,866**	**-**	**(534)**	**659**	**(1,250)**	**558**	**27,107**
Revaluation of water entitlements per director's valuation	6,867	-	-	-	(29)	(2,595)	16,687	20,930
Total revaluation	**21,675**	**12,866**	**-**	**(534)**	**630**	**(3,845)**	**17,245**	**48,037**

Rural Funds Group

Notes to the Financial Statements
30 June 2021

B1 Segment information (continued)

Segment assets

2021	Almonds $'000	Cattle $'000	Vineyards $'000	Cropping $'000	Macadamias $'000	Unallocated $'000	Total $'000
Investment property	126,189	305,151	34,540	83,300	47,744	-	596,924
Plant and equipment - bearer plants	125,580	-	23,815	-	11,387	-	160,782
Financial assets - property related	11,762	90,846	738	-	952	14	104,312
Intangible assets (water)	66,707	1,848	500	4,236	4,464	32,663	110,418
Property - owner occupied	-	-	-	28,284	-	-	28,284
Plant and equipment	100	640	-	2,065	5,911	-	8,716
Assets held for sale	1,621	-	-	-	-	-	1,621
Total property assets per statutory accounts	**331,959**	**398,485**	**59,593**	**117,885**	**70,458**	**32,677**	**1,011,057**
Revaluation of intangible assets per director's valuation	50,349	-	5,330	-	408	34,091	90,178
Total adjusted property assets at director's valuation	**382,308**	**398,485**	**64,923**	**117,885**	**70,866**	**66,768**	**1,101,235**
Other assets per statutory accounts	-	-	-	-	-	30,847	30,847
Total adjusted assets	**382,308**	**398,485**	**64,923**	**117,885**	**70,866**	**97,615**	**1,132,082**

Rural Funds Group

Notes to the Financial Statements
30 June 2021

B1 Segment information (continued)

Segment assets (continued)

2020	Almonds $'000	Cattle $'000	Vineyards $'000	Cropping $'000	Macadamias $'000	Unallocated $'000	Total $'000
Investment property	127,519	249,534	38,170	47,896	11,719	-	474,838
Plant and equipment - bearer plants	126,805	-	19,756	-	6,967	-	153,528
Financial assets - property related	12,621	83,382	720	-	817	17	97,557
Intangible assets (water)	66,707	2,947	500	3,672	1,161	31,564	106,551
Plant and equipment	-	510	-	1,048	1,643	-	3,201
Assets held for sale	63,358	-	-	-	-	-	63,358
Total property assets per statutory accounts	**397,010**	**336,373**	**59,146**	**52,616**	**22,307**	**31,581**	**899,033**
Revaluation of intangible assets per director's valuation	59,306	-	4,688	-	53	33,652	97,699
Total adjusted property assets at director's valuation	**456,316**	**336,373**	**63,834**	**52,616**	**22,360**	**65,233**	**996,732**
Other assets per statutory accounts	-	-	-	-	-	15,887	15,887
Total adjusted assets	**456,316**	**336,373**	**63,834**	**52,616**	**22,360**	**81,120**	**1,012,619**

Rural Funds Group

Notes to the Financial Statements

30 June 2021

B1 Segment information (continued)

Maryborough allocation

The Maryborough properties located in Queensland, comprise of 5,258 hectares and 7,740 ML of water entitlements, with areas having potential to be developed into a planned 2,200 hectares of macadamia orchards. While in the development phase, parts of the property will be:

- Under development into macadamia orchards (classified as investment property)
- Leased out to different parties for cropping operations (classified as investment property)
- Owner occupied and carrying out various cropping operations (classified as property – owner occupied). While these properties are being operated by the Group, the intention is for these properties to be leased out and/or developed into macadamia orchards.

Revaluation movements for the year largely relates to transaction costs that have been written off as part of the acquisition.

Revaluation

2021	Cropping $'000	Macadamias $'000	Other $'000	Total $'000
Change in fair value of investment property	(1,249)	(1,137)	-	(2,386)
Impairment of property (owner occupied)	(1,651)	-	-	(1,651)
Depreciation - property (owner occupied)	(24)	-	-	(24)
Impairment of intangible assets	(301)	(166)	-	(467)
Total revaluation	**(3,225)**	**(1,303)**	**-**	**(4,528)**

Assets

2021	Cropping $'000	Macadamias $'000	Unallocated $'000	Total $'000
Investment property	21,351	21,455	-	42,806
Plant and equipment - bearer plants	-	1,053	-	1,053
Property - owner occupied	28,284	-	-	28,284
Intangible assets	4,235	2,342	-	6,577
Total property assets per statutory accounts	**53,870**	**24,850**	**-**	**78,720**
Revaluation of intangible assets per director's valuation	-	-	-	-
Total adjusted property assets at director's valuation	**53,870**	**24,850**	**-**	**78,720**

Rural Funds Group

Notes to the Financial Statements

30 June 2021

B1 Segment information (continued)

Net asset value adjusted for water rights

The chief operating decision maker of RFF assesses the segments on property asset values adjusted for water rights. RFF owns permanent water rights and entitlements which are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

The book value of the water rights (including investments in BIL and CICL recognised as financial assets) at 30 June 2021 is $122,402,000 (2020: $129,246,000).

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contains information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and on this basis the fair value of water entitlements before deferred tax adjustments at 30 June 2021 was $212,580,000 (2020: $226,945,000) representing the value of the water rights of $90,178,000 (2020: $97,699,000) above cost.

The following is a reconciliation of the book value at 30 June 2021 to an adjusted value based on the Directors' valuation of the water rights which are assessed by the chief operating decision maker.

	Per Statutory Consolidated Statement of Financial Position $'000	Revaluation of water entitlements per Directors' valuation $'000	Directors' valuation (Adjusted) $'000
Assets			
Total current assets	26,673	-	**26,673**
Total non-current assets	1,015,231	90,178	**1,105,409**
Total assets	1,041,904	90,178	**1,132,082**
Liabilities			
Total current liabilities	19,277	-	**19,277**
Total non-current liabilities	374,083	-	**374,083**
Total liabilities (excluding net assets attributable to unitholders)	393,360	-	**393,360**
Net assets attributable to unitholders	648,544	90,178	**738,722**
Net asset value per unit ($)	**1.91**		**2.17**

Rural Funds Group

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B1 Segment information (continued)

30 June 2021	Area*	30 June 21 Adjusted property value $'000	30 June 20 Adjusted property value $'000	Most Recent Independent Valuation Date $'000	Most Recent Independent Valuation Encumbered Valuation $'000
Almonds					
Mooral (NSW)	808 ha	-	75,879	Mar 2020	76,000
Yilgah (NSW)	1,006 ha	106,563	105,112	Mar 2021	107,000
Tocabil (NSW)	603 ha	48,876	47,119	Mar 2021	49,000
Kerarbury (NSW)	2,530 ha	226,472	223,282	Mar 2021	228,000
Cattle					
Rewan (QLD)	17,479 ha	50,400	43,159	Dec 2020	50,400
Mutton Hole (QLD)	140,300 ha	16,680	9,209	Jun 2021	16,680
Oakland Park (QLD)	85,500 ha	8,500	5,605	Jun 2021	8,500
Natal Aggregation (QLD)	390,600 ha	88,500	63,700	Jun 2021	88,500
Comanche (QLD)	7,600 ha	24,238	22,003	Jun 2020	21,997
Cerberus (QLD)	8,280 ha	13,963	13,849	Jun 2020	13,844
Dyamberin (NSW)	1,729 ha	13,959	13,900	Jun 2020	13,900
JBS Feedlots Finance Lease Receivable (NSW/QLD)	150,000 hd	55,615	54,846	N/A	N/A
Woodburn (NSW)	1,063 ha	7,397	7,300	Jun 2020	7,300
Cobungra (VIC)	6,497 ha	40,800	35,050	Jun 2021	40,800
Petro (WA)	2,942 ha	12,221	11,700	Dec 2019	11,700
High Hill (WA)	1,601 ha	4,967	4,900	Dec 2019	4,900
Willara (WA)	1,653 ha	4,985	4,900	Dec 2019	4,900
Yarra (QLD)	2,173 ha	6,245	6,194	Jun 2020	6,150
Homehill (QLD)	4,925 ha	12,875	7,750	Jun 2020	11,839
Cropping					
Lynora Downs (QLD)	4,963 ha	41,500	33,736	Jun 2021	41,500
Mayneland (QLD)	2,942 ha	20,450	17,832	Apr 2020	17,500
Maryborough – Cropping (QLD)	3,962 ha	53,870	-	Nov 2020	53,806
Macadamias					
Swan Ridge (QLD)	130 ha	6,679	6,653	Oct 2019	6,400
Moore Park (QLD)	104 ha	3,882	3,953	Oct 2019	4,000
Bonmac (QLD)	27 ha	2,797	2,852	Oct 2019	2,900
Cygnet (QLD)	37 ha	2,826	1,770	Apr 2021	2,800
Swan Ridge South (QLD)	40 ha	1,692	1,645	-	-
Nursery Farm (QLD)**	41 ha	5,914	3,028	Apr 2021	3,800
Riverton (QLD)	1,015 ha	4,900	-	Mar 2021	4,520
Rookwood Farms (QLD)***	2,452 ha	10,463	-	Mar 2021	7,070
Maryborough – Macadamias (QLD)	1,296 ha	24,850	-	Nov 2020	20,853
Vineyards					
Kleinig (SA)	206 ha	22,997	22,286	Mar 2021	23,100
Geier (SA)	243 ha	27,562	27,748	Mar 2021	27,700
Dohnt (SA)	30 ha	1,196	1,019	Mar 2021	1,200
Hahn (SA)	50 ha	5,069	5,154	Mar 2021	5,100
Mundy and Murphy (SA)	55 ha	4,093	4,062	Mar 2021	4,100
Rosebank (VIC)	82 ha	3,788	3,365	Mar 2021	3,800
Water rights					
River water (NSW)	8,754 ML	65,655	65,216	Jun 2021	65,655
River water (QLD)****	3,710 ML	1,099	1,795	Jun 2020	1,099
Total property and water assets		**1,054,538**	**957,571**		
Cattle finance leases and other assets		**35,582**	29,031		
Plant and equipment		**8,716**	3,201		
Other receivables and equipment leases		**2,399**	3,161		
Plant and equipment held for sale		**-**	3,768		
Total adjusted property assets		**1,101,235**	**996,732**		

* Unless otherwise denoted, the almond, vineyard and macadamia areas refer to planted and planned development areas.
**Nursery Farm includes the value of immature trees in the nursery which is not accounted for in the external valuation. Cost of immature trees approximates fair value.
***Rookwood Farms aggregation comprises of the Stoneleigh, Corrowah and Tongola properties. Encumbered valuation for the Tongola property has not yet been obtained.
****Comparative value relates to the Wattlebank property sold during the year. Water entitlements associated with the property were not sold as part of the transaction.

Rural Funds Group

Notes to the Financial Statements

30 June 2021

B1 Segment information (continued)

Total property assets by property (continued)

Revaluations from external valuations

The cattle properties have increased in value during the year ended 30 June 2021. An external valuation was completed for Rewan during the half year ended 31 December 2021. External valuations were obtained for the Natal aggregation, Cobungra, Oakland Park and Mutton Hole properties during second half of the year ended 30 June 2021. The total uplift for the year ended 30 June 2021 has been largely due to the external valuer's assessment of the value of the land which can be measured by an increase in the rate of adult equivalents for the property. The uplift has been driven by improved demand and market sentiment for cattle properties in the respective regions. All of the Group's cattle properties have been valued by an independent valuer within the last 18 months. Demand and market sentiment have also been affected by a decrease in the cost of funding. Further information on the significant unobservable inputs adopted by the external valuer in the fair value measurement of the properties is described in note C1.

Adjusted property values movements after the most recent independent valuation

Increases to the adjusted property value from the last encumbered valuation is primarily a result of new acquisitions or capital expenditure subsequent to the valuation, designed to improve an asset's productivity and value.

Decrease to the adjusted property value from the last encumbered valuation is primarily a result of depreciation on the bearer plants.

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B2 Adjusted funds from operations (AFFO)

The following presents the components of adjusted funds from operations (AFFO) and provides a reconciliation from AFFO to Net profit after income tax which is assessed by the chief operating decision maker.

	2021 $'000	2020 $'000
Continuing operations		
Revenue	**67,166**	66,818
Other income	**3,935**	4,397
Cost of goods sold (cropping operations)	**(484)**	-
Change in fair value of biological assets (harvested crops)	**108**	-
Management fees	**(11,017)**	(9,621)
Property expenses	**(2,829)**	(2,038)
Finance costs	**(10,498)**	(10,255)
Other expenses	**(5,609)**	(4,938)
Straight-lining of rental revenue	**852**	(1,232)
Interest component of JBS feedlot finance lease	**(769)**	(789)
Income tax payable on public trading trust (RF Active)	**(432)**	(884)
Discontinued operations		
Revenue	**-**	5,160
Other income	**-**	4
Management fees	**-**	(334)
Property expenses	**-**	(28)
Finance costs	**-**	(626)
Other expenses	**-**	(150)
Income tax payable on public trading trust (RF Active)	**-**	(57)
Adjusted Funds From Operations (AFFO)	**40,423**	45,427
Change in fair value of interest rate swaps	**12,923**	(7,624)
Depreciation and impairments - other	**(840)**	(2,893)
Depreciation - bearer plants	**(4,032)**	(4,838)
Change in fair value of investment property	**42,289**	16,194
Change in fair value of investment property - discontinued operations	**-**	(1,250)
Change in fair value of financial assets/liabilities	**116**	510
Change in fair value of biological assets (unharvested crops)	**1,028**	-
Change in fair value of bearer plants	**1,007**	(499)
Impairment of intangible assets	**(4,188)**	(798)
Impairment of property - owner occupied	**(1,651)**	-
Straight-lining of rental revenue	**(852)**	1,232
Interest component of JBS feedlot finance lease	**769**	789
Income tax expense	**(226)**	(669)
Gain on sale of assets	**32,868**	4,003
Loss on disposal - one off transaction costs on disposal	**-**	(596)
Net profit after income tax	**119,634**	48,988
AFFO cents per unit	**11.9**	13.5

Rural Funds Group

Notes to the Financial Statements

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B3 Revenue

	2021 $'000	2020 $'000
Continuing operations		
Rental income	**53,074**	55,716
Finance income	**13,966**	10,987
Interest received	**126**	115
Total	**67,166**	66,818

The Group's revenue is largely comprised of income under leases and finance income. All revenue is stated net of the amount of goods and services tax (GST).

Rental income arises from the leasing of property assets and operational plant and equipment and is accounted for on a straight-line basis over the period of the lease. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

Finance income arises from the provision of financial guarantees and working capital loans, finance leases on cattle feedlots and cattle breeders and leased agricultural plant and equipment and recognised on an accrual basis using the effective interest rate method.

Other Income

	2021 $'000	2020 $'000
Sale of temporary water allocations	**3,275**	4,308
Other income	**176**	89
Sale of agricultural produce	**484**	-
Other income - discontinued operations	**-**	4
Total	**3,935**	4,401

Expenses

Expenses such as Responsible Entity fees, property expenses and overheads are recognised on an accruals basis. Interest expenses are recognised on an accrual basis using the effective interest method.

B4 Earnings per unit

	2021	2020
Per stapled unit		
Net profit after income tax for the year ($'000)	**119,634**	48,988
Weighted average number of units on issue during the year (thousands)	**338,961**	336,035
Basic and diluted earnings per unit (total) (cents)	**35.29**	14.58
Per unit of Rural Funds Trust		
Net profit after income tax for the year ($'000)	**117,696**	44,627
Weighted average number of units on issue during the year (thousands)	**338,961**	336,035
Basic and diluted earnings per unit (total) (cents)	**34.72**	13.28
Per unit of RF Active		
Net profit after income tax for the year ($'000)	**1,938**	4,361
Weighted average number of units on issue during the year (thousands)	**338,961**	336,035
Basic and diluted earnings per unit (total) (cents)	**0.57**	1.30

Basic earnings per unit are calculated on net profit attributable to unitholders of the Group divided by the weighted average number of issued units.

Rural Funds Group

Notes to the Financial Statements

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B5 Distributions

The group paid and declared the following distributions during the year:

	Cents per unit	Total $
Distribution declared 2 June 2020, paid 31 July 2020	2.7118	9,158,113
Distribution declared 1 September 2020, paid 30 October 2020	2.8203	9,542,697
Distribution declared 2 December 2020, paid 29 January 2021	2.8203	9,558,150
Distribution declared 1 March 2021, paid 30 April 2021	2.8203	9,572,536
Distribution declared 1 June 2021, paid 30 July 2021	2.8203	9,586,215

Rural Funds Group

Notes to the Financial Statements

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C. PROPERTY ASSETS

This section includes detailed information regarding RFF's properties, which are made up of multiple line items on the Consolidated Statement of Financial Position including Investment property, Plant and equipment – bearer plants, Financial assets – property related, Intangible assets, Property – owner occupied and Plant and equipment – other.

C1 RFF property assets

		2021 $'000	2020 $'000
Investment property	C2	**596,924**	474,838
Plant and equipment - bearer plants	C3	**160,782**	153,528
Financial assets - property related	C4	**104,312**	97,557
Intangible assets	C5	**110,418**	106,551
Property - owner occupied	C6	**28,284**	-
Plant and equipment - other	C7	**8,716**	3,201
Asset held for sale	C8	**1,621**	63,358
Total		**1,011,057**	899,033

Rental income and fair value movements from RFF property assets

	2021 $'000	2020 $'000
Continuing operations		
Rental income from property assets	**67,040**	66,703
Change in fair value of investment property	**42,289**	16,194
Revaluation increment/(decrement) - bearer plants	**6,510**	12,451
Depreciation - bearer plants	**(4,032)**	(4,838)
Discontinued operations		
Rental income from property assets	**-**	5,136
Change in fair value of investment property	**-**	(1,250)
Loss on disposal	**-**	(625)

Leasing arrangements

Minimum lease payments receivable under non-cancellable operating leases of investment properties, bearer plants, plant and equipment, water rights and assets held for sale not recognised in the financial statements, are receivable as follows:

	2021 $'000	2020 $'000
Within 1 year	**52,016**	56,860
Between 1 and 2 years	**51,510**	56,959
Between 2 and 3 years	**49,673**	56,902
Between 3 and 4 years	**50,140**	55,239
Between 4 and 5 years	**50,758**	55,785
Later than 5 years	**305,258**	370,538
Total	**559,355**	652,283

C1 RFF property assets (continued)

Key changes to the property portfolio during the year:

- In November 2020, the Group settled on the Maryborough acquisition, consisting of 5,258 hectares of sugar cane farms and 7,740 megalitres of water entitlements located in Maryborough, Queensland and associated plant and equipment for approximately $83.7m including transaction costs. The farms have the potential to be progressively be converted to approximately 2,200 hectares of macadamia orchards with a substantial portion of the remaining area able to be used for cropping.
- In November 2020, the Group purchased the Riverton property located in the Fitzroy region in Queensland for $6.5m including transaction costs with potential for development into macadamia orchards.
- In December 2020, the Group purchased the Stoneleigh property which will form part of the Rookwood Farms aggregation, located in the Fitzroy region in Queensland for $6.6m including transaction costs with potential for development into macadamia orchards.
- In December 2020, the Group completed the sale of the Mooral almond orchard and associated plant and equipment for a contracted price of approximately $98.0m excluding transaction costs and adjustments. A remaining portion of the land contracted for $4.1m as part of the transaction was settled in February 2021.
- In December 2020, the Group purchased an additional 1,655 hectares of land as part of the Homehill property, located in the Fitzroy region in Queensland for $4.3m including transaction costs.
- In February 2021, the Group purchased the Corrowah property which will form part of the Rookwood Farms aggregation, located in the Fitzroy region in Queensland for $1.9m including transaction costs with potential for development into macadamia orchards.
- In March 2021, the Group purchased the Tongola property which will form part of the Rookwood Farms aggregation, located in the Fitzroy region in Queensland for $3.2m including transaction costs with potential for development into macadamia orchards.
- In May 2021, the Group completed the sale of the Wattlebank property located in the Fitzroy region in Queensland for a contracted price of approximately $1.0m. Water entitlements associated with the property were not sold as part of the transaction.

Macadamia development

The Group is developing macadamia orchards across a number of properties located in Queensland, Australia. As part of the development, costs relating to the acquisition, construction and development of macadamia orchards will be capitalised to the respective asset class that the cost relates to. The asset classes identified are investment property, bearer plants and water entitlements.

Investment Property

This includes costs associated with the acquisition for land, buildings, orchard and irrigation infrastructure and any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Bearer Plants

This includes costs associated with the acquisition of macadamia trees, planting costs, growing costs incurred for the trees to reach maturity including fertiliser and watering costs and costs associated with establishing the macadamia trees in the orchard and bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Water entitlements

This includes costs associated with the purchase of water entitlements. Water entitlements are deemed ready for use on acquisition.

Borrowing costs

Borrowing costs may be capitalised on qualifying assets up until the property is ready for use. Borrowing costs relating to the acquisition, construction and development of the macadamia orchards are capitalised to the respective asset classes up until the property is deemed ready for use. Properties could be deemed ready for use when the property has been leased or when the property is operating in a manner as intended by management, for example, a macadamia orchard may be deemed operational when the orchard is fully planted and the trees have reached maturity.

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30 June 2021

C1 RFF property assets (continued)

Valuations

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two financial years or more often where appropriate. Independent valuers engaged hold recognised and relevant professional qualifications with experience in agricultural properties.

The following existing properties had relevant independent valuations during the year ended 30 June 2021:

Almond properties	Kerarbury, Yilgah, Tocabil
Cattle properties	Rewan, Natal Aggregation, Cobungra, Oakland Park, Mutton Hole
Macadamia properties	Cygnet, Nursery Farm
Vineyard properties	Geier, Kleinig, Hahn, Rosebank, Mundy and Murphy, Dohnt
Cropping properties	Lynora Downs
Maryborough properties	Maryborough
Other	Unleased High Security Murrumbidgee Water

The Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt. The Directors have adopted all valuations from independent valuers in the years where valuations have been obtained.

The Directors have deemed that independent valuations were not required on the remaining properties as there have been no material changes to the industry, physical and geographical conditions of these properties in which the independent valuers have previously assessed. For these properties, the Directors have performed internal assessments, considering the latest valuation reports, that the carrying amount is still reflective of the fair value of the properties at reporting date.

The Group's properties, including those under development, are carried at fair value excluding the value of water rights. Water rights are treated as intangible assets, which are held at historical cost less accumulated impairment losses. Independent valuation reports assess and provide value for properties in its entirety. The independent valuation reports contain information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements, where relevant.

Judgement is applied in order to allocate the total property value, as disclosed in the independent valuation reports, to each component; investment property, bearer plants and water entitlements. The allocation technique will vary depending on the nature of the lease arrangement.

Where information is available, such as when provided by the external valuer, each component of the property, meaning the land and infrastructure, the trees and any water assets, disclosed in the financial statements as investment property, bearer plants and water entitlements, will be allocated on an encumbered (subject to lease) basis.

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components. Judgement is applied as part of these allocations which vary from property to property given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

Valuation reports obtained during the year ended 30 June 2021 have referred to circumstances of uncertainty as a result of the outbreak of COVID-19. For the avoidance of doubt, such references have not meant that the valuations cannot be relied upon but rather ensures transparency of the fact that in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. Discussions held with the valuers have confirmed that there is no expected material impact to the valuations as a result of COVID-19.

Significant accounting judgements, estimates and assumptions in relation to valuation of property assets

At the end of each reporting period, the Directors update their assessment of fair value of each property, considering the most recent independent valuations. The Directors determine a property's value using reasonable fair value estimates from the most recent independent valuer's valuation reports.

Independent valuation reports assess and provide fair values for properties in their entirety. Judgement is applied in order to allocate the total property values as disclosed in the independent valuation reports, to investment property, bearer plants, property – owner occupied and water entitlements. The independent valuation reports contain information with which judgement is applied to allocate values to investment property, bearer plants, property – owner occupied and water entitlements.

Rural Funds Group

Notes to the Financial Statements

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C1 RFF property assets (continued)

Valuations (continued)

Investment property, Bearer plants and Property – owner occupied

The main level 3 inputs used by the Group include discount rates, terminal capitalisation rates, capitalisation rates, rate per area of land, adult equivalent rates and carrying capacity estimated in the respective valuations based on comparable transactions and industry data. At the end of each reporting period, the directors update their assessment of the fair value of each property. Changes in level 3 fair values are analysed at each reporting date and during discussions with the independent valuers.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurement:

Description*	Fair value at 2021 $'000	Fair value at 2020 $'000	Primary valuation technique	Allocation technique	Unobservable inputs**	Range of inputs 2021 %	Range of inputs 2020 %
Almond orchard property	**251,769**	303,203	Discounted Cash Flow	Rental base	Discount rate (%)	**6.75 - 7.50**	7.00 - 7.75
				Component based	Terminal Capitalisation Rate (%)	**8.25 - 12.50**	8.50 - 12.50
Cattle property and infrastructure	**305,151**	249,534	Summation assessment	Component based	$ per adult equivalent (AE) carrying capacity (Backgrounding properties)	**$3,804 - $7,381**	$2,600 - $7,381
			Productive unit		$ per adult equivalent (AE) carrying capacity (Breeder properties)	**$1,426 - $2,000**	$870 - $1,507
Vineyard property and infrastructure	**58,355**	57,926	Discounted Cash Flow	Component based	Discount rate (%)	**7.50 - 8.50**	8.25 - 8.75
					Terminal Capitalisation rate (%)	**8.25 - 10.00**	7.50 - 8.00
Cropping property and infrastructure	**111,584**	47,896	Summation assessment	Component based	$ per irrigated hectare	**$15,250 - $20,000**	$16,750 - $20,000
					Average $ per plantable hectare (Maryborough)	**$10,430**	-
Macadamia orchard property	**59,131**	18,686	Discounted Cash Flow	Rental base/Proportionate	Discount rate (%)	**7.25 - 8.50**	7.25 - 8.50
					Terminal Capitalisation rate (%)	**7.25 - 8.50**	7.25 - 8.50
				Component based	Average $ per plantable hectare (Development)	**$12,508**	-
Total	**785,990**	**677,245**					

*Fair values disclosed exclude water assets.

**There were no significant inter-relationships between unobservable inputs that materially affect fair values. Unobservable inputs are based on assessments by external valuers.

Rural Funds Group

Notes to the Financial Statements

30 June 2021

C1 RFF property assets (continued)

Valuations (continued)

Primary valuation technique

External valuations typically assess property values using different valuation techniques.

Discounted cash flow	Valuation based on future net rental cash flows discounted to the present value. The terminal value (as determined by the terminal capitalisation rate) is typically assessed and discounted in these types of valuations. The valuer may also use comparative sales as supporting information.
Summation assessment	Assessment of the property on an asset by asset basis based on comparative sales evidence and typically driven by a rate per productive hectare and assessment of other components such as water and supporting buildings.
Productive unit	Assessment on the property driven by the value per adult equivalent head that is supported by the property and carrying capacity of the property.

Allocation technique

Independent valuation reports assess and provide value for properties in their entirety. Component allocation techniques are adopted to allocate the total property value to investment property, bearer plants, property – owner occupied and water entitlements. The component allocation technique applied is assessed on each external valuation to ensure that the allocation technique is consistent with the nature and characteristics of the property including any lease encumbrances. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

The following allocation techniques have been applied:

Rental base	Applied for properties with long term indexed leases by allocating value to component assets using the rental base. The rental base is identifiable and generally determined by the cost of the assets. The allocation by rental base reflects the encumbered nature of the assets where rental incomes are not affected by short term market fluctuations in the value of the assets due to lack of rental review mechanism.
Component based	The encumbered value is allocated based on information in the valuation report which enables the allocation by components on an encumbered basis. To determine the allocation of components on an encumbered basis, the external valuer will assess various factors such as market indicators, comparable sales data of encumbered assets, comparable rental data and other relevant information such as replacement cost concepts.
Component based – Almonds	Applied for properties where leases include rental reviews. Information is provided in the valuation to allocate the encumbered value of the property to water assets, investment property and bearer plants on an encumbered basis. Firstly, the approach allocated value to water assets based on comparable encumbered rental data. The value of land was determined based on comparable sales data. Orchard infrastructure including irrigation was determined based on a replacement cost assumption adjusted for an estimate of the age of the assets. Bearer plants was identified as being the residual value of the total encumbered value of the property.
Proportionate	Applied for properties where leases include rental reviews and where component based information is not able to be used. For properties with water assets, the allocation considers the unencumbered value of water assets and allocates this on a proportionate basis to the encumbered value of the property. Judgement is then applied to allocate encumbered values to investment property and bearer plants using available information, including information from the valuation report and the nature of capital expenditure on the relevant property.

C1 RFF property assets (continued)

Valuations (continued)

Unobservable inputs

Unobservable inputs are assumptions based on the assessments and determinations made by external valuers in their capacity as qualified experts which are key inputs in the valuation techniques utilised.

Discount rate (%)	The higher the discount rate the lower the fair value
Terminal capitalisation rate (%)	The higher the terminal capitalisation rate the lower the fair value
$ per irrigated hectare	The higher the value per irrigated hectare, the higher the fair value
Average $ per plantable hectare	The higher the value per plantable hectare, the higher the fair value
$ per adult equivalent carrying capacity	The higher the value per adult equivalent carrying capacity, the higher the fair value

C2 Investment property

2021	Almond property $'000	Cattle property $'000	Vineyard property $'000	Cropping property $'000	Macadamia property $'000	Poultry property $'000	Total $'000
Opening net book amount	**127,519**	**249,534**	**38,170**	**47,896**	**11,719**	**-**	**474,838**
Acquisitions	**-**	**4,413**	**-**	**22,599**	**36,932**	**-**	**63,944**
Additions	**3,717**	**6,507**	**11**	**5,433**	**4,483**	**-**	**20,151**
Capitalisation of borrowing costs	**-**	**-**	**-**	**-**	**68**	**-**	**68**
Classified as held for sale or disposals	**(3,392)**	**(774)**	**-**	**-**	**-**	**-**	**(4,166)**
Amortisation of lease incentives	**-**	**(200)**	**-**	**-**	**-**	**-**	**(200)**
Fair value adjustment	**(1,655)**	**45,671**	**(3,641)**	**7,372**	**(5,458)**	**-**	**42,289**
Closing net book amount	**126,189**	**305,151**	**34,540**	**83,300**	**47,744**	**-**	**596,924**

2020	Almond property	Cattle property	Vineyard property	Cropping property	Macadamia property	Poultry property	Total
Opening net book amount	136,016	193,447	37,651	46,260	4,857	71,096	489,327
Acquisitions	-	38,753	-	-	5,329	-	44,082
Additions	7,911	3,908	519	2,170	904	285	15,697
Classified as held for sale or disposals	(18,881)	-	-	-	-	(70,131)	(89,012)
Amortisation of lease incentives	-	(200)	-	-	-	-	(200)
Fair value adjustment	2,473	13,626	-	(534)	629	(1,250)	14,944
Closing net book amount	127,519	249,534	38,170	47,896	11,719	-	474,838

Investment properties comprise land, buildings and integral infrastructure including shedding, irrigation and trellising.

C2 Investment property (continued)

Investment properties are held for long-term rental yields and capital growth and are not occupied by the Group. RFF measures and recognises investment property at fair value where the valuation technique is based on unobservable inputs. Changes in fair value are presented through profit or loss in the Consolidated Statement of Comprehensive Income.

Capital expenditure that enhances the future economic benefits of the assets are capitalised to investment property. Incentives provided are also capitalised to the investment property and are amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

C3 Plant and equipment – bearer plants

2021	Bearer Plants - Almonds $'000	Bearer Plants - Vineyards $'000	Bearer Plants - Macadamias $'000	Total $'000
Opening net book amount	**126,805**	**19,756**	**6,967**	**153,528**
Additions	**948**	**-**	**3,845**	**4,793**
Capitalisation of borrowing costs	**-**	**-**	**1**	**1**
Disposals	**(18)**	**-**	**-**	**(18)**
Depreciation and impairment	**(2,798)**	**(1,016)**	**(218)**	**(4,032)**
Fair value adjustment - profit and loss	**-**	**1,007**	**-**	**1,007**
Fair value adjustment - other comprehensive income	**643**	**4,068**	**792**	**5,503**
Closing net book amount	**125,580**	**23,815**	**11,387**	**160,782**

2020	Bearer Plants - Almonds $'000	Bearer Plants - Vineyards $'000	Bearer Plants - Macadamias $'000	Total $'000
Opening net book amount	145,226	20,721	6,968	172,915
Additions	2,897	-	100	2,997
Classified as held for sale or disposals	(29,998)	-	-	(29,998)
Depreciation and impairment	(3,655)	(965)	(217)	(4,837)
Fair value adjustment - profit and loss	-	-	(499)	(499)
Fair value adjustment - other comprehensive income	12,335	-	615	12,950
Closing net book amount	**126,805**	**19,756**	**6,967**	**153,528**

Bearer plants are solely used to grow produce over their productive lives and are accounted for under AASB 116 *Property, Plant and Equipment.*

Bearer plants are held for long-term rental yields and are not operated by the Group. RFF initially measures and recognises bearer plants at cost. After initial measurement, the Group adopts the revaluation model and bearer plants are carried at fair value less any accumulated depreciation and accumulated impairment losses.

Bearer plants are subject to revaluations based on the Group's valuation policies. Increases in the carrying amounts arising from revaluation of bearer plants are recognised in other comprehensive income and accumulated in net assets attributable to unitholders under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss are recognised in profit or loss. Revaluation decreases which offset previous increases are recognised in other comprehensive income in the asset revaluation reserve. Any other decreases are recognised in profit and loss.

Bearer plants are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. Depreciation commences when bearer plants are assumed ready for use which is based on when the trees reach maturity. The useful lives and maturity assumptions used for each class of depreciable asset are shown below:

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C3 Plant and equipment – bearer plants (continued)

Fixed asset class:	Useful life:	Depreciation commences from years:
Almond bearer plants	30 years	6 years
Vineyard bearer plants	40 years	4 years
Macadamia bearer plants	45 years	13 years

At the end of each annual reporting period, the useful life, maturity assumptions and carrying amount of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Bearer plants as stated on a historical cost basis is as follows:

	2021	2020
	$'000	$'000
Cost	**130,585**	148,698
Accumulated depreciation	**(12,809)**	(14,389)
Accumulated impairment	**(1,827)**	(2,840)
Bearer plants at historical cost less accumulated impairment	**115,949**	131,469

C4 Financial assets – property related

	2021	2020
	$'000	$'000
Financial Assets - property related		
Investment - BIL	**520**	520
Investment - CICL	**11,464**	11,464
Finance Lease - Breeders	**17,778**	14,383
Finance Lease - Feedlots	**55,615**	54,846
Finance Lease - Equipment	**1,066**	978
Cattle Facility - Katena Pty Ltd ATF Schafferius Family Trust	**532**	1,300
Finance Lease - DA & JF Camm Pty Limited	**6,004**	1,881
Term Loan - DA & JF Camm Pty Limited	**10,000**	10,000
Other receivables	**1,333**	2,185
Total	**104,312**	97,557

Barossa Infrastructure Ltd (BIL) is an unlisted public Company supplying non-potable supplementary irrigation water for viticulture in the Barossa. The Group holds a minority interest in BIL.

Coleambally Irrigation Co-operative Limited (CICL) is one of Australia's major irrigation companies and is wholly owned by its farmer members. CICL's irrigation delivery system delivers water to 400,000 hectares of area across the Coleambally Irrigation District, in the Riverina, near Griffith, NSW. The Group holds a minority interest in CICL.

Finance Lease – Breeders is comprised of breeders owned by the Group which have been leased to Cattle JV Pty Limited, a wholly-owned subsidiary of Rural Funds Management Limited, for a term of ten years ending in 2026. As part of the arrangement, the lessee is required to maintain the breeder herd and maintain an active breeding program. During the year, additional breeders were leased to Cattle JV Pty Limited and were included as part of the breeder herd. The expected credit loss on the finance lease is assessed on the value of the breeder herd secured against the finance lease. This assessment involves the monitoring of the value of the breeder herd through a bi-annual mustering process conducted by Cattle JV Pty Limited and an annual valuation process. There has been no expected credit loss recognised at 30 June 2021 (2020: nil).

Finance Lease – Feedlots is comprised of feedlots leased to JBS Australia Pty Limited (JBS) for a term of ten years ending in 2028 with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group. The call option held by JBS can be exercised from year six but will incur a break fee if exercised before year ten.

Finance Lease – Equipment is comprised of agricultural plant and equipment leased to 2007 Macgrove Project and Cattle JV Pty Limited.

A $1,600,000 cattle financing facility with a term of ten years was extended to Katena Pty Ltd, the lessee of the Cerberus property to fund the purchase of trade cattle. The facility is due to expire in September 2028. The balance drawn as at 30 June 2021 is $532,000 (2020: $1,300,000). Its fair value approximates its carrying amounts. On 1 July 2021, the lease arrangement with Katena Pty Ltd was terminated by mutual agreement and all amounts owing to the Group have since been paid

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C4 Financial assets – property related (continued)

Finance Lease – DA & JF Camm Pty Limited comprises of cattle owned by the Group and leased to DA & JF Camm Pty Limited, the lessee of the Natal aggregation, as part of a $5,000,000 facility. The facility is secured and due to expire in December 2022. The gross balance drawn as at 30 June 2021 is $6,004,000 (2020: $1,881,000). The balance drawn net of security deposits held is $4,789,000 (2020: $1,505,0000). A $10,000,000 loan secured by properties with a term of ten years was also extended to DA & JF Camm Pty Limited and is due in December 2027. Its fair value approximates the carrying amount. The expected credit loss on the finance lease and term loan are based on an assessment of the value of the security held. There has been no expected credit loss recognised at 30 June 2021 (2020: nil).

Other receivables relates to recognition of rental revenue on a straight-line basis in accordance with AASB 16 *Leases.*

Significant accounting judgements in the valuation of Coleambally Irrigation Co-operative and Barossa Infrastructure Limited shares

The investments in BIL and CICL are treated the same as water rights, that is, recorded at historical cost less accumulated impairment losses and not revalued.

Finance leases

Finance leases are measured at amortised cost. Each lease payment was allocated as a reduction to the finance lease receivable and as finance income. The finance income was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period. These represent leases of property or biological assets where all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are substantially transferred from the lessor.

Minimum lease payments receivable under non-cancellable finance leases of feedlots, breeders and equipment not recognised in the financial statements, are receivable as follows:

	2021	2020
	$'000	$'000
Within 1 year	**5,880**	5,234
Between 1 and 2 years	**5,876**	5,201
Between 2 and 3 years	**5,858**	5,200
Between 3 and 4 years	**5,802**	5,185
Between 4 and 5 years	**23,183**	5,148
Later than 5 years	**63,567**	81,788
Total	**110,166**	107,756

Rural Funds Group

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C5 Intangible assets

Intangible assets are made up of water rights and entitlements. Refer to note B1 for Directors' valuation of water rights and entitlements.

2021	Almonds	Cattle	Vineyards	Cropping	Macadamias	Poultry infrastructure (discontinued)	Unallocated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-current								
Opening net book amount	**66,707**	**2,947**	**500**	**3,672**	**1,161**	**-**	**31,564**	**106,551**
Additions	**-**	**-**	**-**	**4,537**	**3,518**	**-**	**-**	**8,055**
Transfers	**-**	**(1,099)**	**-**	**-**	**-**	**-**	**1,099**	**-**
Impairment	**-**	**-**	**-**	**(3,973)**	**(215)**	**-**	**-**	**(4,188)**
Closing net book amount	**66,707**	**1,848**	**500**	**4,236**	**4,464**	**-**	**32,663**	**110,418**
Cost	**67,462**	**2,560**	**500**	**8,209**	**4,765**	**-**	**32,663**	**116,159**
Accumulated impairment	**(755)**	**(712)**	**-**	**(3,973)**	**(301)**	**-**	**-**	**(5,741)**
Net book amount	**66,707**	**1,848**	**500**	**4,236**	**4,464**	**-**	**32,663**	**110,418**

2020	Almonds	Cattle	Vineyards	Cropping	Macadamias	Poultry infrastructure (discontinued)	Unallocated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-current								
Opening net book amount	76,660	1,599	500	3,672	815	1,049	34,236	118,531
Additions	758	2,060	-	-	432	-	-	3,250
Classified as held for sale	(10,711)	-	-	-	-	-	-	(10,711)
Disposals	-	-	-	-	-	(1,049)	(2,672)	(3,721)
Impairment	-	(712)	-	-	(86)	-	-	(798)
Closing net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551
Cost	67,462	3,659	500	3,672	1,247	-	31,564	108,104
Accumulated impairment	(755)	(712)	-	-	(86)	-	-	(1,553)
Net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551

Rural Funds Group

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C5 Intangible assets (continued)

Water rights

Permanent water rights and entitlements are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

The impairment recognised during the year in the cropping segment largely relates to the Lynora Downs property based on the 30 June 2021 independent valuation.

C6 Property – owner occupied

2021	Land	Building	Irrigation	Total
	$'000	$'000	$'000	$'000
Opening net book amount	**-**	**-**		**-**
Additions	**29,056**	**840**	**63**	**29,959**
Impairment	**(1,651)**	**-**	**-**	**(1,651)**
Depreciation	**-**	**(24)**	**-**	**(24)**
Closing net book amount	**27,405**	**816**	**63**	**28,284**

2020	Land	Building	Irrigation	Total
	$'000	$'000	$'000	$'000
Opening net book amount	-	-	-	-
Additions	-	-	-	-
Depreciation and impairment	-	-	-	-
Closing net book amount	-	-	-	-

Property – owner occupied relates to owner occupied property that is being used to conduct cropping operations by the Group and accounted for under AASB 116 *Property, Plant and Equipment*. Property – owner occupied are held under the revaluation model.

These assets are subject to revaluations based on the Group's valuation policies. Increases in the carrying amounts arising from revaluation of Property are recognised in other comprehensive income and accumulated in net assets attributable to unitholders under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss are recognised in profit or loss. Revaluation decreases which offset previous increases are recognised in other comprehensive income in the asset revaluation reserve. Any other decreases are recognised in profit and loss.

Elements of Property – owner occupied are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. The useful lives and for each class of depreciable asset are shown below:

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:
Land	Not applicable
Buildings	20 years

At the end of each annual reporting period, the useful life of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Rural Funds Group

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30 June 2021

C6 Property – owner occupied (continued)

Property – owner occupied as stated on a historical cost basis is as follows:

2021	Land	Building	Irrigation	Total
	$'000	$'000	$'000	$'000
Cost	29,056	840	63	29,959
Accumulated depreciation and impairment	(1,651)	(24)	-	(1,675)
Net book amount	27,405	816	63	28,284

2020	Land	Building	Irrigation	Total
	$'000	$'000	$'000	$'000
Cost	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
Net book amount	-	-	-	-

C7 Plant and equipment – other

2021	Plant and equipment
	$'000
Opening net book amount	**3,201**
Additions	**7,187**
Transfers from held for sale	**248**
Disposals	**(767)**
Depreciation	**(787)**
Decrement (depreciation capitalised to developments)	**(337)**
Impairment	**(29)**
Closing net book amount	**8,716**
Cost	**16,711**
Accumulated depreciation	**(6,673)**
Accumulated impairment	**(1,322)**
Net book amount	**8,716**

2020	Plant and equipment
	$'000
Opening net book amount	8,537
Additions	2,228
Classified as held for sale or disposals	(4,671)
Depreciation	(1,600)
Impairment	(1,293)
Closing net book amount	3,201
Cost	10,043
Accumulated depreciation	(5,549)
Accumulated impairment	(1,293)
Net book amount	3,201

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C7 Plant and equipment – other (continued)

Classes of plant and equipment other than bearer plants are measured using the cost model as specified below. The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and removing the asset, where applicable.

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The Group manages and monitors its leased assets and physically attend to properties where assets are located on a regular basis.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:
Capital works in progress	Not applicable
Plant and equipment	2-16 years
Farm vehicles and equipment	2-16 years

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

C8 Assets held for sale

	Note	2021	2020
		$'000	$'000
Investment property	C2	**1,621**	18,881
Bearer plants	C3	**-**	29,998
Intangible assets	C5	**-**	10,711
Plant and equipment	C7	**-**	3,768
Total		**1,621**	63,358

At 30 June 2021, investment property held for sale related to a portion of surplus land on Kerarbury contracted for sale for $1.6m. The sale was completed on 15 July 2021.

During the year, the Group completed the sale of the Mooral almond orchard and associated plant and equipment for a contracted price of approximately $98.0m excluding transaction costs and adjustments. The Mooral almond orchard is not considered a separate line of business and has not been treated as a discontinued operation.

C9 Capital commitments

Capital expenditure across all properties largely relates to macadamia developments, almond property improvements, cattle property developments and cropping property developments. These commitments are contracted for but not recognised as liabilities. Increase in the commitments during the year largely relates to contracted purchases of water entitlements in relation to Rookwood Weir.

	2021	2020
	$'000	$'000
Bearer plants	**16,235**	2,728
Investment property	**38,923**	22,050
Intangible assets	**35,432**	-
Total	**90,590**	24,778

D. TAX

Since 1 July 2014 both Rural Funds Trust and RFM Chicken Income Fund (a subsidiary of Rural Funds Trust) became flow through trusts for tax purposes. As a result, it is no longer probable that a tax liability will be incurred in these entities in relation to future sale of assets for a gain or through trading. RFM Chicken Income Fund was treated as a flow through trust up until the date of disposal. RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) is the head of a separate tax consolidated group, taxed in its own right. RF Active (a subsidiary of Rural Funds Trust) is a public trading trust and is taxed as a company.

D1 Income tax expense

The charge for current income tax expense is based on the profit adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding in a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged/credited in the income statement except where it relates to items that may be credited directly to net assets attributable to unitholders, in which case the deferred tax is adjusted directly against net assets attributable to unitholders.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on management's judgement, the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The major components of income tax expense comprise:

	2021 $'000	2020 $'000
Current tax	**283**	1,533
Deferred tax	**378**	77
Adjustments in respect of deferred income tax of previous years	**(3)**	-
Income tax expense reported in the Statement of Comprehensive Income	**658**	1,610
Income tax expense is attributable to:		
Profit from continuing operations	**658**	1,553
Profit from discontinued operation	**-**	57
Total	**658**	1,610
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax liabilities	**1,596**	77
Total	**1,596**	77

Amounts charged or credited directly to equity

	2021 $'000	2020 $'000
Change in fair value taken through asset revaluation reserve	**1,220**	-
Total	**1,220**	-

D1 Income tax expense (continued)

Numerical reconciliation of income tax expense to prima facie tax payable

	2021 $'000	2020 $'000
Net profit before income tax	**120,292**	50,598
At the statutory income tax rate of 30% (2020: 30%)	**36,088**	15,179
Tax effect of amounts that are not taxable in determining taxable income	**(35,427)**	(12,977)
Adjustments in respect of tax of previous years	**(3)**	-
General capital gain tax discount on the sale of capital assets	**-**	(592)
Total	**658**	1,610

Franking credits

At 30 June 2021 there are $2,434,000 of franking credits available to apply to future income distributions (2020: $901,000).

D2 Deferred tax and current tax payable

	2021 $'000	2020 $'000
Deferred tax liabilities		
Bearer plants	**5,051**	3,795
Plant and equipment	**1,026**	2,208
Fair value investment property	**4,838**	4,461
Other assets	**383**	60
Gross deferred tax liabilities	**11,298**	10,524
Set off of deferred tax assets	**(3,848)**	(4,669)
Net deferred tax liabilities	**7,450**	5,855
Deferred tax assets		
Investments	**223**	223
Other	**33**	35
Unused income tax losses	**3,592**	4,411
Gross deferred tax assets	**3,848**	4,669
Set off of deferred tax liabilities	**(3,848)**	(4,669)
Net deferred tax assets	**-**	-

Recognised tax assets and liabilities

	Current income tax		Deferred income tax	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Opening balance	**(1,533)**	(439)	**(5,855)**	(5,778)
Charged to income	**(283)**	(1,533)	**(375)**	(77)
Credited to equity	**-**	-	**(1,220)**	-
Tax payments	**2,293**	439	**-**	-
Closing balance	**477**	(1,533)	**(7,450)**	(5,855)
Tax expense in the Consolidated Statement of Comprehensive Income			**658**	1,610
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax asset			-	-
Net deferred tax liability			**(7,450)**	(5,855)

E. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

RFM, the Responsible Entity of RFF, is responsible for managing the policies designed to optimise RFF's capital structure. This is primarily monitored through an internal gearing ratio target range of 30-35% calculated as interest bearing liabilities on adjusted total assets. The optimal capital structure is reviewed periodically, although this may be impacted by market conditions which may result in an actual position which may differ from the desired position.

E1 Interest bearing liabilities

	2021 $'000	2020 $'000
Current		
Equipment loans (ANZ)	**2,407**	3,775
J&F Guarantee - Borrowing loss provision	**49**	39
Total	**2,456**	3,814
Non-current		
Borrowings (ANZ)	**220,252**	190,008
Borrowings (Rabobank)	**123,891**	107,240
Total	**344,143**	297,248

Interest bearing liabilities are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost. Any difference between cost and redemption value is recognised in the statement of comprehensive income over the entire period of the borrowings on an effective interest basis. Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least twelve months from the balance sheet date.

J&F Guarantee Accounting policy

Subsequent to initial recognition, financial guarantee contracts are measured as financial liabilities at the higher of any loss allowance calculated and the amount initially recognised. A loss allowance is recognised for expected credit losses on a financial guarantee contract. The expected credit loss is assessed based on the probability of default and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the risk of default at reporting date is compared to the risk of default at the date of initial recognition. Consideration is made to factors that could impact the financial guarantee such as actual or expected significant adverse changes in business, financial or economic conditions, and any material / adverse changes to the operating results of the associated parties of the financial guarantee.

J&F Guarantee

The J&F Guarantee is a $99.9 million limited guarantee provided by the Group to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited, for a period of ten years from August 2018. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B3, paid on a monthly basis. The guarantee is currently used to support $99.9 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. Given J&F's primary source of income is from payments from JBS, a J&F default is only likely to occur in the event of a JBS default. In the event of a JBS default, J&F would cease buying cattle and commence selling cattle in the feedlots. As cattle are sold, J&F bank loans would be repaid. Given that lot-fed cattle can gain up to 2kgs per day, and are sold on a per kg basis, a material fall in the cattle price would be required for there to be a shortfall. The guarantee would be called to cover any shortfall between J&F borrowings and cattle sales, but limited to $99.9 million, or up to a maximum of $100.0 million if any future increases in the guarantee have been agreed.

The guarantee fee received from J&F during the year was $7,117,000 (2020: $5,622,000). The return to the Group relating to the guarantee fee arrangement for the year was approximately 10.6% (2020: 11.0%) inclusive of interest offset savings. There was no event of default during the year, and as a result, the guarantee has not been called.

E1 Interest bearing liabilities (continued)

J&F Guarantee (continued)

The financial guarantee was recognised at fair value at inception, which was nil. Subsequently, it is carried at the value of the expected credit loss. The credit loss has been calculated considering the likelihood of the financial guarantee being triggered and its financial impact on the Group. In calculating the allowance, consideration is given to counterparty risk associated with the arrangement, with JBS being the ultimate counterparty. The credit risk of JBS was determined to not have increased significantly since initial recognition, therefore the loss allowance for the guarantee has been recognised at an amount equal to 12-month expected credit losses. Consideration is also given to the value of cattle in assessing any potential shortfall should the guarantee be called by the Group. The credit loss allowance is recognised at fair value through profit or loss. The additional credit loss provision recognised in the year was $10,000.

As part of the JBS transaction, the Group purchased five feedlots from JBS Australia Pty Limited (JBS) and leased them back to JBS. The feedlots are classified as a finance lease with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group as noted in C4. The call option held by JBS can be exercised from year six in 2024 but will incur a break fee if exercised before year ten in 2028.

Borrowings

At 30 June 2021 the core debt facility available to the Group was $380,000,000 (2020: $335,000,000), split into two tranches, with a $270,000,000 tranche expiring in November 2022 and a $110,000,000 tranche expiring in November 2023.

As at 30 June 2021 RFF had active interest rate swaps totaling 53.2% (2020: 61.6%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

Loan covenants

Under the terms of the updated borrowing facility, the Group was required to comply with the following financial covenants for the year ended 30 June 2021:

- maintain a maximum loan to value ratio of 50%;
- maintain net tangible assets (including water entitlements) in excess of $400,000,000;
- a minimum hedging requirement of 40% of debt drawn under the borrowing facility; and
- an interest cover ratio for the Group not less than 3.00:1.00.

The loan to value ratio calculation includes the J&F guarantee of $99.9 million (2020: $82.5 million).

Rural Funds Group has complied with the financial covenants of its borrowing facilities during the year.

Loan amounts are provided at the Bankers' floating rate, plus a margin. For bank reporting purposes, these assets are valued at market value based on latest external valuation report. Refer to section B1 for Directors' valuation of water rights and entitlements.

Borrowings with Australian and New Zealand Banking Group (ANZ) and Rabobank Australia Group (Rabobank) are secured by:

- a fixed and floating charge over the assets held by Australian Executor Trustee Limited (AETL) as custodian for Rural Funds Trust, RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) and RF Active; and
- registered mortgages over all property owned by the Rural Funds Trust and its subsidiaries provided by AETL as custodian for Rural Funds Trust and its subsidiaries.

E1 Interest bearing liabilities (continued)

The following assets are pledged as security over the loans:

2021	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Mortgage: Leased Properties	596,924	75,648	160,782	70,464	-	1,621	905,439
Other assets	-	34,770	-	24,848	-	-	59,618
Equipment loans	-	-	-	-	8,716	-	8,716
Total	**596,924**	**110,418**	**160,782**	**95,312**	**8,716**	**1,621**	**973,773**

2020	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Mortgage: Leased Properties	474,838	74,987	153,528	12,649	-	59,590	775,592
Other assets	-	31,564	-	74,093	-	-	105,657
Equipment loans	-	-	-	-	3,201	3,768	6,969
Total	474,838	106,551	153,528	86,742	3,201	63,358	888,218

E2 Financial assets – other (non-property related)

	2021	2020
	$'000	$'000
Investment - Macadamia Processing Co	**824**	664
Investment - Almondco Australia Limited	**2,041**	2,004
Total	**2,865**	2,668

The Group's investments in Marquis Macadamias Limited (formerly Macadamia Processing Co Limited) and Almondco Australia Limited are held at fair value through profit and loss (level 3 – see section E4).

E3 Derivative financial instruments measured at fair value

	2021	2020
	$'000	$'000
Derivative financial assets		
Non-current		
Interest rate swaps	**2,931**	-
Total other assets	**2,931**	-
Derivative financial liabilities		
Current		
Interest rate swaps	**3,604**	3,666
Total other liabilities	**3,604**	3,666
Non-current		
Interest rate swaps	**18,069**	27,999
Total other liabilities	**18,069**	27,999

The Group's derivative financial instruments are held at fair value (level 2 - see section E4).

E4 Fair value measurement of assets and liabilities

This note explains the judgements and estimates made in determining fair values of Investment property, Plant and equipment – bearer plants and financial assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified each item into the three levels prescribed under Australian Accounting Standards as mentioned above.

Level 1 Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).
Level 2 Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

RFF's financial assets and liabilities relating to interest rate swap derivatives are level 2.

At 30 June 2021, all non-financial assets are level 3.

RFF's unlisted equity investments, BIL, CICL, Marquis Macadamias Ltd (formerly MPC) and Almondco are level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2020: nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments via level 2 inputs include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves

Specific valuation techniques used to value financial assets, investment property and bearer plants via level 3 are discussed in section C1.

E5 Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

a. *Financial assets*

Financial assets are divided into the following categories which are described in detail below:

- financial assets at amortised cost; and
- financial assets at fair value through profit or loss.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

b. *Financial assets at amortised cost*

Financial assets held with the objective of collecting contractual cash flows are recognised at amortised cost. After initial recognition these are measured using the effective interest method, less provision for expected credit loss. Any change in their value is recognised in profit or loss.

Discounting is omitted where the effect of discounting is considered immaterial.

For trade receivables, finance lease receivables and loans receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited against other income in profit or loss.

E5 Financial instruments (continued)

c. Financial assets at fair value through profit or loss

The group classifies the following financial assets at fair value through profit or loss:

- debt investments that do not qualify for measurement at either amortised cost
- equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income

The Group's derivatives, investments in Marquis Macadamias Ltd and Almondco are at fair value through profit or loss.

Assets included within this category are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

d. Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are reported in profit or loss and are included in the income statement line item titled "finance costs".

Financial liabilities that measured at fair value through profit or loss include the Group's derivatives. All other financial liabilities are measured at amortised cost.

E6 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in financial assets.

The most significant financial risks which the Group is exposed to are described below:

- Market risk - interest rate risk and price risk
- Credit risk
- Liquidity risk

The principal categories of financial instrument used by the Group are:

- Loans and receivables
- Finance lease receivables
- Cash at bank
- Bank overdraft
- Trade and other payables
- Floating rate bank loans
- Interest rate swaps

a. Financial risk management policies

Risks arising from holding financial instruments are inherent in the Group's activities and are managed through a process of ongoing identification, measurement and monitoring. The Responsible Entity is responsible for identifying and controlling risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Group from changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

Concentrations of risk arise where a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Rural Funds Group

Notes to the Financial Statements
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E6 Financial risk management (continued)

b. Interest rate risk and swaps held for hedging

Interest rate risk is managed by using a floating rate debt and through the use of interest rate swap contracts. The Group does not speculate in the trading of derivative instruments.

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

The notional principal amounts of the swap contracts approximate 53.2% (2020: 62.6%) of the Group's drawn down debt at 30 June 2021.

At balance date, the details of the effective interest rate swap contracts are:

	Effective average interest rate payable		Balance	
	2021	**2020**	**2021**	**2020**
	%	**%**	**$'000**	**$'000**
Maturity of notional amounts				
Settlement - between 0 to 3 years	**2.70**	2.70	**15,000**	15,000
Settlement - 3 to 5 years	**3.24**	3.42	**73,000**	13,000
Settlement - greater than 5 years	**2.97**	3.06	**95,000**	155,000
Total			**183,000**	183,000

The following interest rate swap contracts that have been entered into but are not yet effective as at 30 June 2021 are:

	Effective average interest rate payable		Balance	
	2021	**2020**	**2021**	**2020**
	%	**%**	**$'000**	**$'000**
Maturity of notional amounts				
Settlement - greater than 5 years	**1.99**	1.99	**90,000**	90,000
Total			**90,000**	90,000

The net gain recognised on the swap derivative instruments for the year ended 30 June 2021 was $12,923,000 (2020: $7,624,000 loss).

At 30 June 2021 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2021	**2020**
	$'000	**$'000**
Cash	**11,647**	5,085
Interest bearing liabilities (non-current)	**(344,143)**	(297,248)
Total	**(332,496)**	(292,163)

At 30 June 2021, 0.72% (2020: 1.25%) of the Group's debt is fixed, excluding the impact of interest rate swaps.

Rural Funds Group

Notes to the Financial Statements
30 June 2021

E6 Financial risk management (continued)

c. Interest rate risk (sensitivity analysis)

At 30 June 2021, the effect on profit before tax and net assets attributable to unitholders as a result of changes in the interest rate, net of the effect of interest rate swaps, with all other variables remaining constant, would be as follows:

	2021 $'000	2020 $'000
Change in profit before income tax:		
Increase in interest rate by 1%	**17,353**	19,749
Decrease in interest rate by 1%	**(18,923)**	(21,794)
Change in equity:		
Increase in interest rate by 1%	**17,353**	19,749
Decrease in interest rate by 1%	**(18,923)**	(21,794)

d. Credit risk

The maximum exposure to credit risk (excluding the value of any collateral or other security) at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets. This has been disclosed in the Consolidated Statement of Financial Position and notes to the financial statements.

Credit risk and associated impacts are also managed through security, in the form of guarantees, security deposits and property security in favor of the group. Counterparty credit risk for finance leases and term loans have also been assessed and accounted for through the recognition of credit loss provisions.

All of the entity's debt investments at amortised cost are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months' expected losses. Management considers the credit risk to be low where the counterparty does not have material outstanding repayments and has capacity to meet its contractual debt obligations. Debt investments are secured against collateral which is monitored by management. In recognising any potential credit loss provisions, management also assesses the collateral held. Where the fair value of such collateral is greater than the debt investment, a lower loss allowance amount is recognised.

Rural Funds Group

Notes to the Financial Statements
30 June 2021

E6 Financial risk management (continued)

e. Liquidity risk and capital management

The Responsible Entity of the Group defines capital as net assets attributable to unitholders. The Group's objectives when managing capital are to safeguard the going concern of the Group and to maintain an optimal capital structure. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate headroom on borrowing facilities are maintained. The Group is able to maintain or adjust its capital by divesting assets to reduce debt or adjusting the amount of distributions paid to unitholders.

The table below reflects all contractually fixed repayments and interest resulting from recognised financial liabilities as at 30 June 2021. The amounts disclosed in the table are the contractual undiscounted cash flows which have been estimated using interest rates applicable at the reporting date.

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Financial assets												
Financial liabilities												
Interest bearing liabilities	**1,660**	1,564	**1,660**	1,564	**348,846**	231,258	**-**	73,948	**-**	-	**352,166**	308,334
Trade and other payables	**3,195**	3,502	**-**	-	**-**	-	**-**	-	**-**	-	**3,195**	3,502
Equipment loans	**315**	573	**290**	587	**1,311**	1,658	**491**	957	**-**	-	**2,407**	3,775
Interest rate swaps	**1,802**	1,833	**1,802**	1,833	**7,134**	7,003	**6,039**	6,838	**4,230**	6,280	**21,007**	23,787
Total	**6,972**	7,472	**3,752**	3,984	**357,291**	239,919	**6,530**	81,743	**4,230**	6,280	**378,775**	339,398

Rural Funds Group

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E7 Issued units

	2021		2020	
	No.	$'000	No.	$'000
Units on issue at the beginning of the period	**337,713,420**	**360,574**	334,263,593	362,854
Units issued during the year	**2,187,136**	**4,920**	3,449,827	6,639
Distributions to unitholders	**-**	**19,646**	-	(8,919)
Units on issue	**339,900,556**	**385,140**	337,713,420	360,574

The holders of ordinary units are entitled to participate in distributions and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary units has one vote in person or by proxy, and upon a poll each unit is entitled to one vote. Voting is determined based on the closing market value of each unit.

The Group does not have authorised capital or par value in respect of its units.

Distributions totaling $38,259,000 were declared during the year. Distributions are allocated to the components of equity which is comprised of issued units and retained earnings.

E8 Distributions payable

	2021	2020
	$'000	$'000
Distributions payable	**10,022**	**9,460**
Total	**10,022**	9,460

Rural Funds Group

Notes to the Financial Statements
30 June 2021

F. OTHER ASSETS AND LIABILTIIES

F1 Cash and cash equivalents

	2021	2020
	$'000	$'000
Cash at bank	**11,647**	5,085
Total	**11,647**	5,085

Reconciliation of cash

Cash and cash equivalents reported in the Statement of Cash flows are reconciled to the equivalent items in the Statement of Financial Position as follows:

	2021	2020
	$'000	$'000
Cash and cash equivalents	**11,647**	5,085

F2 Trade and other receivables

	2021	2020
	$'000	$'000
Current		
Trade receivables	**3,427**	3,607
Sundry receivables	**787**	623
Receivables from related parties	**731**	1,216
Total	**4,945**	5,446

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue with no significant overdue amounts.

F3 Other current assets

	2021	2020
	$'000	$'000
Prepayments	**797**	2,101
Deposits	**4,137**	587
Inventory	**61**	-
Total	**4,995**	2,688

F4 Trade and other payables

	2021	2020
	$'000	$'000
Trade payables	**1,597**	725
Accruals	**1,413**	1,189
Sundry creditors	**185**	1,588
Total	**3,195**	3,502

Notes to the Financial Statements
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F5 Other non-current liabilities

	2021	2020
	$'000	$'000
Lessee deposits	**4,421**	3,877
Total	**4,421**	3,877

F6 Asset revaluation reserve

	2021	2020
	$'000	$'000
Opening balance	**59,412**	46,462
Disposal of bearer plants	**(15,348)**	-
Bearer plants revaluation	**5,503**	12,950
Total comprehensive income	**5,503**	12,950
Income tax applicable	**(1,220)**	-
Closing balance	**48,347**	59,412

F7 Biological assets

	2021	2020
	$'000	$'000
Opening net book amount	**-**	**-**
Additions	**2,336**	**-**
Increases due to biological transformation	**1,136**	**-**
Decreases due to sales	**(484)**	**-**
Closing net book amount	**2,988**	**-**

In November 2020, the Group settled on the Maryborough acquisition, consisting of 5,258 hectares of sugar cane farms and 7,740 megalitres of water entitlements located in Maryborough, Queensland. The farms have the potential to be progressively converted to approximately 2,200 hectares of macadamia orchards. Farms that are unleased or where development has not actively commenced have being retained for cropping operations in the short term.

Biological assets relate to the Group's cropping operations. In accordance with AASB 141 *Agriculture* the Group's biological assets have been recognised at fair value as determined based on the present value of expected net cash flows from the crops.

Fair value has been based on expected net cash flows from the crops discounted from the time of harvest. The main level 3 inputs used by the Group include estimates based on the expected sugar per hectare of cane planted, production costs (including input and harvest costs), and the estimated time of harvest adjusted for the risks of the cash flows.

Segment	Fair value at		Unobservable inputs	Range of inputs	
	30 June 2021 $'000	30 June 2020 $'000		30 June 2021	30 June 2020
Biological assets (sugar)	2,988	-	Sugar from cane planted (tonnes per ha)	4.3 - 7.0 tonnes per ha	-
			Net price ($ per tonne)	$366.05 - $463.67 per tonne	-
Total	2,988	-			

Significant estimates used in determining the expected net cash flows:

Sugar from cane planted (tonnes per ha)	The higher the sugar from cane planted the higher the fair value
Net price ($ per tonne)	The higher the net price, the higher the fair value

Changes in the fair value of biological assets are recognised in the statement of comprehensive income in the year they arise.

Notes to the Financial Statements
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G. ADDITIONAL INFORMATION

G1 Key management personnel

Related parties are persons or entities that are related to the Group as defined by AASB 124 *Related Party Disclosures*. These include directors and other key management personnel and their close family members and any entities they control as well as subsidiaries and associates of the Group. The following provides information about transactions with related parties during the year as well as balances owed to or from related parties as at 30 June 2021.

Directors

The Directors of RFM are considered to be key management personnel of the Group. The Directors of the Responsible Entity in office during the year and up to the date of this report are:

Guy Paynter
David Bryant
Michael Carroll
Julian Widdup

Interests of Directors of the Responsible Entity

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2021 are:

	Guy Paynter Units	David Bryant Units	Michael Carroll Units	Julian Widdup Units
Balance at 30 June 2019	1,059,104	14,414,854	27,623	-
Additions	500,000	823,180	57,111	110,203
Balance at 30 June 2020	**1,559,104**	**15,238,034**	**84,734**	**110,203**
Additions	-	-	133,668	5,562
Balance at 30 June 2021	**1,559,104**	**15,238,034**	**218,402**	**115,765**

*Includes interests held by Rural Funds Management Limited as the Responsibly Entity.

Other key management personnel

In addition to the Directors noted above, RFM, as Responsible Entity of the Group is considered to be key management personnel with the authority for the strategic direction and management of the Group.

The constitutions of Rural Funds Trust and RF Active (the stapled entities forming the Group) are legally binding documents between the unitholders of the Group and RFM as Responsible Entity. Under the constitutions, RFM is entitled to the following remuneration:

- Management fee: 0.6% per annum (2020: 0.6%) of adjusted total assets; and,
- Asset management fee: 0.45% per annum (2020: 0.45%) of adjusted total assets.

Compensation of key management personnel

No amount is paid by the Group directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 *Related Party Disclosures* is paid by the Group to the Directors as key management personnel. Fees paid and payable to RFM as Responsible Entity are disclosed in note G2.

Rural Funds Group

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G2 Related party transactions

Responsible Entity (Rural Funds Management) and related entities

Transactions between the Group and the Responsible Entity and its associated entities are shown below:

	2021 $'000	2020 $'000
Management fee	**6,296**	5,689
Asset management fee	**4,722**	4,266
Total management fees	**11,018**	9,955
Expenses reimbursed to RFM	**6,664**	5,222
Expenses reimbursed to RFM Macadamias	**1,703**	-
Expenses reimbursed to RFM Almond Fund	**-**	90
Dividends declared to the Responsible Entity	**1,336**	1,272
Total amount paid to RFM and related entities	**20,721**	16,539
Rental income received from RFM Almond Fund	**2,123**	2,640
Rental income received from RFM Almond Fund 2006	-	717
Rental income received from RFM Almond Fund 2007	-	266
Rental income received from RFM Almond Fund 2008	-	753
Rental income received from RFM	**8**	409
Rental income received from RFM Farming	**1,640**	2,168
Rental income received from Cattle JV	**1,702**	1,363
Rental income received from Cotton JV	**2,502**	2,320
Rental income received from 2007 Macgrove Project	**1,219**	1,096
Finance income from Cattle JV	**1,618**	1,198
Interest income from Cattle JV	**50**	87
Finance income from J&F Australia Pty Limited	**7,117**	5,622
Rental income received from RFM Poultry	-	5,158
Expenses charged to RFM Almond Fund	**788**	59
Expenses charged to RFM Macadamias	**123**	108
Expenses charged to RFM Farming	**2**	169
Total amounts received from RFM and related entities	**18,892**	24,133

The terms and nature of the historical transactions between the Group and related parties have not changed during the year ended 30 June 2021. Transactions entered into between related parties during the year have been reviewed.

The key movements during the year:

Expenses reimbursed to RFM relates to expenses incurred or paid by RFM on behalf of the Group which are subsequently reimbursed by the Group. Examples of these expenses include corporate overheads, professional service fees such a legal, audit and tax matter costs and regulatory fees and charges. During the year ended 30 June 2021, additional costs were incurred by RFM on behalf of the Group as a result of transaction activity including the sale of the Mooral almond orchard and property acquisitions and developments.

Expenses reimbursed to RFM Macadamias relates to expenses incurred or paid by RFM Macadamias on behalf of the Group in relation to the Group's macadamia developments.

Rural Funds Group

Notes to the Financial Statements
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G2 Related party transactions (continued)

Responsible Entity (Rural Funds Management) and related entities (continued)

Rental income from RFM Almond Fund (RAF) relates to rent on the Mooral almond orchard which was previously charged to RFM Almond Fund 2006, RFM Almond Fund 2007, RFM Almond Fund 2008 and RFM's Almond Lots which merged to form RAF during the prior year ended 30 June 2020. Rental income from RAF ceased on 2 December 2020 when the Group completed the sale of the Mooral almond orchard and associated plant and equipment. Expenses charged to RFM Almond Fund largely relates to the usage of water entitlement allocations for the Mooral orchard.

Rental income from RFM Poultry ceased on 18 December 2019 when the poultry assets were sold to ProTen Investment Management Pty Ltd as trustee for ProTen Investment Trust (ProTen).

Finance income from J&F Australia Pty Limited (J&F) relates to the $99.9 million (2020: $82.5 million) limited guarantee provided to J&F, a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income.

Debtors and finance lease receivables

	2021 $'000	2020 $'000
RFM Farming Pty Limited	**329**	307
RFM Macadamias Pty Limited	**946**	429
Cattle JV Pty Limited	**18,120**	14,352
Cotton JV Pty Limited	**-**	8
J&F Australia Pty Limited	**-**	575
RFM Almond Fund	**-**	721
Total	**19,395**	16,392

Receivables are not secured and have terms of up to 30 days. Finance lease receivables are secured by the Group's ownership of the relevant assets. Outstanding balances are settled through payment.

$172,000 was overdue from Cattle JV Pty Limited as at 30 June 2021. Interest is charged on any overdue amounts.

Creditors

	2021 $'000	2020 $'000
RFM	**-**	195
Total	**-**	195

Custodian fees

	2021 $'000	2020 $'000
Australian Executor Trustees Limited	**309**	286
Total	**309**	286

Financial Guarantee

The Group provides a $99.9 million (2020: $82.5 million) guarantee to J&F Australia Pty Limited (J&F), a subsidiary of RFM. The guarantee is currently used to support $99.9 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

G2 Related party transactions (continued)

Entities with influence over the Group

	2021 Units	%	2020 Units	%
Rural Funds Management	**11,843,659**	**3.48**	11,843,659	3.51

Other

Michael Carroll was a director of Select Harvests Limited up to 25 January 2021. Select Harvests Limited leases orchards from Rural Funds Group. This is not a related party as defined by AASB 124 *Related Party Disclosure*. Transactions are on commercial terms and procedures are in place to manage any potential conflicts of interest. Mr. Carroll did not participate in the negotiation of these leases.

G3 Parent entity information

The Group was formed by the stapling of the units in two trusts, Rural Funds Trust and RF Active. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and the Rural Funds Trust has been identified as the parent for preparing Consolidated Financial Reports. RFM Australian Wine Fund and Agricultural Income Trust Fund 1, holding the Group's vineyard assets, are wholly owned subsidiaries of Rural Funds Trust. The financial information of the parent entity, Rural Funds Trust has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at historical cost less any accumulated impairment. Distributions received from equity investments are recognised in the parent entity's profit or loss when its right to receive the distribution is established.

The individual financial statements of the parent entity, Rural Funds Trust, show the following aggregate amounts:

	2021 $'000	2020 $'000
Statement of Financial Position		
ASSETS		
Current assets	**19,183**	9,789
Non-current assets	**977,665**	859,031
Total assets	**996,848**	868,820
LIABILITIES		
Current liabilities	**12,563**	12,639
Non-current liabilities	**374,422**	332,453
Total liabilities	**386,985**	345,092
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Issued units	**380,440**	355,923
Asset revaluation reserve	**45,093**	59,006
Retained earnings	**184,330**	108,799
Total equity	**609,863**	523,728

	2021 $'000	2020 $'000
Statement of Comprehensive Income		
Net profit after income tax	**118,089**	52,769
Other comprehensive income for the year, net of tax	**1,435**	12,950
Total comprehensive income attributable to unitholders	**119,524**	65,719

G4 Cash flow information

Reconciliation of net profit after income tax to cash flow from operating activities

	2021 $'000	2020 $'000
Net profit after income tax	**119,634**	48,988
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Gain on sale of assets	**(32,868)**	(3,407)
Depreciation and amortisation/impairment - other	**840**	2,893
Depreciation - bearer plants	**4,032**	4,838
Amortisation of lease incentives	**200**	200
Finance income - lease receivable	**(769)**	(789)
Finance lease income received but excluded from profit	**235**	-
Change in fair value of investment property	**(42,289)**	(14,944)
Change in fair value of financial assets/liabilities	**(116)**	(510)
Change in fair value of bearer plants	**(1,007)**	499
Impairment of property - owner occupied	**1,651**	-
Impairment of intangible assets	**4,188**	798
Change in fair value of biological assets	**(1,136)**	-
Change in fair value of interest rate swaps	**(12,923)**	7,624
Straight-lining of rental revenue	**852**	(1,232)
Dividend income classified as investing cash flows	**(64)**	(50)
Changes in operating assets and liabilities		
Decrease/(increase)in trade and other receivables	**503**	(403)
Increase in other assets	**(4,159)**	(989)
Decrease in trade and other payables	**(305)**	(2,600)
(Decrease)/increase in net tax liabilities	**(1,635)**	1,171
Increase in other liabilities	**544**	1,248
Net cash inflow from operating activities	**35,408**	43,335

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Reconciliation of net debt is presented below:

	2021 $'000	2020 $'000
Cash and cash equivalents	**11,647**	5,085
Borrowings - repayable within one year	**(2,407)**	(3,775)
Borrowings - repayable after one year	**(344,143)**	(297,248)
Net debt	**(334,903)**	(295,938)
Cash and cash equivalents	**11,647**	5,085
Gross debt - fixed interest rates	**(2,407)**	(3,775)
Gross debt - variable interest rates	**(344,143)**	(297,248)
Net debt	**(334,903)**	(295,938)

G5 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	2021	2020
	$	$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	**396,657**	379,473
Other statutory assurance services	**-**	90,168
Compliance audit	**20,395**	15,690
Total	**417,052**	485,331

G6 Other accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments with less than 3 months of original maturity which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of trade and other receivables or payables in the Consolidated Statement of Financial Position.

Cash flows in the Consolidated Statement of Cash Flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Leases

Leases of fixed assets or biological assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred from the lessor, are classified as finance leases.

Lease payments for operating leases, where substantially all of the risks and benefits have not been transferred from the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Provisions

Provisions are recognised when the Group has 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 at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the income statement.

Provisions for distributions

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

G7 Events after the reporting date

On 1 July 2021, the lease on the Cerberus property by Katena Pty Ltd was terminated by mutual agreement and all amounts owing to the Group have since been paid. A long-term lessee is currently being sought.

On 8 July 2021, the Group announced that it was undertaking a fully underwritten equity raise for $100.0m to fund the development of 1,000ha of macadamia orchards, acquire cattle properties to be leased by corporate lessees, and for the acquisition of 8,338 megalitres of lower Murrumbidgee ground water entitlements for $38.4m. The purchase is expected to settle in August 2021, and the entitlements will be leased to a private farming company for five years.

On 15 July 2021, the Group completed the sale of a portion of surplus land on Kerarbury for approximately $1.6m.

No other matter or circumstance has arisen since the end of the year that has significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

G9 Contingent liabilities

Other than what has been disclosed in the accounts there are no contingent liabilities as at 30 June 2021.

Rural Funds Group

Directors' Declaration

30 June 2021

In the Directors of the Responsible Entity's opinion:

1 The financial statements and notes of Rural Funds Group set out on pages 36 to 87 are in accordance with the *Corporations Act 2001*, including:

   a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   b. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and

2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note A confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the persons performing the chief executive officer and chief financial officer functions as required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of the Directors of Rural Funds Management Limited.

David Bryant
Director

25 August 2021

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Independent auditor's report

To the stapled security holders of Rural Funds Group

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Rural Funds Trust (the Registered Scheme) and its controlled entities (together Rural Funds Group, or the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The structure of Rural Funds Group is commonly referred to as a "stapled group". In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the units in Rural Funds Trust have been stapled to the units in RF Active. For the purposes of consolidation accounting, Rural Funds Trust is 'deemed' the parent and the Group financial report reflects the consolidation of Rural Funds Trust and its controlled entities, including RF Active.

Materiality

- For the purpose of our audit we used overall Group materiality of $2 million, which represents approximately 5% of the Group's Adjusted Funds From Operations.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Adjusted Funds From Operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The audit of the Group was performed by a team which included individuals with industry expertise and property valuation experts.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	How our audit addressed the key audit matter
Valuation of agricultural properties, which comprise: ***- Investment property*** *$596.9m* ***- Bearer plants*** *$160.8m* ***- Water entitlements*** *$110.4m* ***- Property – owner occupied*** *$28.3m* *(Refer to notes C2, C3, C5 and C6)* The Group holds agricultural properties for long-term leasing or for development into orchards. Cropping operations are performed on an interim basis for unleased portions of land where developments have not commenced. Each agricultural property held for leasing or development comprises one or more of the following three components: • investment properties (including land and infrastructure attached to land) • bearer plants (including almond trees, macadamia trees and wine grape vines) • water entitlements. Agriculture properties on which cropping operations are currently conducted by the Group are classified as property – owner occupied. The Group's valuation policy requires agricultural properties to be externally valued by an expert every two years or more often where the Group considers appropriate. External valuations provide an aggregate value for each agricultural property. Key variables and consideration in the valuations can include discount rates, passing rents, comparable sales, market rent, cattle carrying capacity, value per cattle adult equivalent. Factors such as associated lease agreements, prevailing market conditions, and the individual nature, condition and location of these properties impact these variables, and overall valuations. The aggregate value of each agricultural property is allocated across the components of investment properties (carried at fair	For a selection of external valuations obtained by the Group, together with PwC real estate property valuation experts: • we assessed the competency, qualifications, experience and objectivity of the external valuers • we read the valuers' terms of engagement to identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation • we interviewed external valuers in relation to a selection of properties subject to valuation and on the rationale behind the chosen allocation techniques • we compared a sample of inputs used in the valuation and allocation models, such as rental income and lease terms, to the relevant lease agreements • we assessed the reasonableness of certain inputs including, where applicable, market rents, discount rates and capitalisation rates, rates per ha, cattle carrying capacity, value per cattle adult equivalent used in the valuation and allocation models, for a sample of properties based on benchmark market data • we inspected the final valuation reports and compared the fair value as per the valuation to the value recorded in the Group's accounting records. For properties not subject to external valuations, we discussed with the directors and evaluated the directors' internal assessment of the fair value of the properties and their assertion that the properties are carried at fair

Key audit matter	How our audit addressed the key audit matter
value), bearer plants (carried under revaluation model), water entitlements (carried at cost less accumulated impairment), and property – owner occupied (carried under revaluation model). The directors, or external valuers where appropriate, determined the suitable allocation technique to be applied to each agricultural property, considering the nature and characteristics of the property including any lease encumbrances. This was a key audit matter because: • agricultural properties are fundamental to the Group's business model. Investment properties, bearer plants and water entitlements, and property – owner occupied form the majority of the Group's assets in the consolidated statement of financial position • the quantum of changes in fair value of agricultural properties directly impact the consolidated statement of comprehensive income • the nature of agricultural property valuations is inherently subjective due to the use of assumptions and estimates in the valuation model. The COVID-19 outbreak has caused an increase in estimation uncertainty for fair value of properties • the selection and application of allocation technique are inherently subjective due to the unique characteristics of each property • the valuations and allocation outcomes are sensitive to key inputs/assumptions in the model such as the discount rate and capitalisation rates, the utilisation of comparable sales data and to allocation techniques.	value as per the latest external valuation report, adding any capital expenditure made during the intervening period. We conducted site inspections of two cattle properties in Northern Queensland. We assessed the adequacy of the disclosures in Notes C1, C2, C3, C5 and C6 of investment properties, bearer plants, water entitlements and property-owner occupied considering the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Related party transactions *(Refer to note G2)* The Group's Responsible Entity, along with other funds for which it is the Responsible Entity, are considered related parties of the Group. Key transactions with these parties include: • rental income from the lease of agricultural properties and plant and equipment • finance income from the lease of cattle • finance and interest income • management fees and asset management fees paid • distributions from investments • reimbursement of operating expenses • provision of a limited financial guarantee and receipt of associated fee income Related party transactions were a key audit matter due to the significant impact of these transaction on the results of the Group. Additionally, because of their nature, they are pervasive and material to the presentation of and disclosures within the financial report.	We developed an understanding of the Group's relevant controls and processes for identifying related parties and related party transactions. For significant contracts entered into during the year, we verified that the transactions were appropriately approved. For a sample of lease income recorded during the year, we compared the lease income to the relevant supporting documents including the lease agreements. For management fees and asset management fees, we compared the rates used to determine fees to the rates disclosed in the explanatory memorandum issued on formation of the Group. We discussed the related party transactions with management to develop an understanding of the business rationale for the transactions. In relation to the financial guarantee, we developed an understanding of the arrangement from reading the Explanatory memorandum, and from discussions with management and others of the purpose, terms and conditions, and substance of the arrangement. We assessed the adequacy of the disclosures in Note G2, of related party relationships and transactions considering the requirements of Australian Accounting Standards.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report and Additional Information for Listed Public Entities. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

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

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Responsible Entity and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Group 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 of the Responsible Entity either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Rod Dring
Partner

Sydney
25 August 2021

Responsible Entity and Manager

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Managed by:

Rural Funds Management

Managing good assets with good people