

**Forbidden Foods Limited
and its controlled entities**

ABN 82 616 507 334

Interim Report - Half Year Ended 31 December 2019

Forbidden Foods Limited
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For the half-year ended 31 December 2019

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Registered office

PKF Melbourne
Level 12, 440 Collins Street, Melbourne, VIC 3000

Principal place of business

Forbidden Foods Limited
Level 7, 575 Bourke Street, Melbourne, VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 13 May 2020.

Forbidden Foods Limited
Directors' Report
For the half-year ended 31 December 2019

The directors present their report, together with the financial statements, for the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Forbidden Foods Limited (previously Forbidden Foods Pty Ltd) (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of Forbidden Foods Limited during the half-year and up to the date of this report, unless otherwise stated:

Colleen Lockwood (appointed on 23 January 2020)
Jarrod Milani
Marcus Brown
Mark Hardgrave (appointed on 23 January 2020)

Principal activities

The principal activities of the consolidated entity during the half-year were supplying organic rice, conventional rice, rice flour and rice food solutions.

No significant changes in the nature of the consolidated entity's activities occurred during the half-year ended 31 December 2019.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$540,249 (31 December 2018: \$103,458).

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the consolidated entity during the half-year ended 31 December 2019.

Matters subsequent to the end of the period

Since 31 December 2019, the following events have occurred that are deemed worthy of disclosure in the financial statements:

Convertible notes

The consolidated entity issued a second tranche of convertible notes on 29 January 2020 totalling \$461,000 (Tranche 2). As at 31 December 2019, \$455,000 of the funds in relation to Tranche 2 had been received by the consolidated entity. The difference was received subsequent to 31 December 2019.

The convertible notes were issued to enable the company to pursue an Initial Public Offering.

Initial Public Offering

As at the date of signing the financial report, the company is in the process of completing an Initial Public Offering to raise approximately \$6,000,000 to \$7,000,000. Should the company be successful in completing the Initial Public Offering, it is anticipated the Initial Public Offering will be completed in June 2020.

Share split

The directors resolved on 23 January 2020 to split the total number of ordinary shares on issue from 170 ordinary shares to 40,000,000 ordinary shares. The total amount paid on these shares remained unchanged.

Conversion to a public company

Forbidden Foods Pty Ltd converted to a public company on 11 March 2020. The name of the company is now Forbidden Foods Limited.

Non-Executive Director agreements

The company entered into agreements with each of Mark Hardgrave and Colleen Lockwood, in respect of their services to the Company as Non-Executive Directors. Both Mark Hardgrave and Colleen Lockwood were formally appointed as directors of the company on 23 January 2020.

Forbidden Foods Limited
Directors' Report
For the half-year ended 31 December 2019

Coronavirus (COVID-19)

Management have assessed the financial impacts of COVID-19 on the fair value of assets, net realisable value of inventory and the recoverability of amounts owing to the consolidated entity. As at the date of signing this report, the accounting estimates and judgements made by management are not known to be materially impacted by COVID-19. Management have also assessed the potential impact on the groups supply chain for raw materials and the cost of acquiring raw materials due to fluctuations in foreign exchange rates. The groups supply chain has not been impacted to date however the Australian Dollar has depreciated against the United States Dollar which has increased the cost of raw material orders.

Other than the matters above, no matters that have arisen in the interval between the end of the half-year and the date of this report of a material or unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

Share under option

At the date of this report, the unissued ordinary shares of Forbidden Foods Limited under option are as follows:

Grant date	Expiry date	Exercise price	Number under option
5 Aug 2019	36 months from Initial Public Offering date	\$ 0.30	5,000,000
23 Jan 2020	36 months from Initial Public Offering date	\$ 0.30	1,500,000
			<u>6,500,000</u>

The options granted are all contingent on the company successfully completing an Initial Public Offering. At the date of signing the financial report, the Initial Public Offering had not been completed.

Rounding of amounts

Amounts in this report have been rounded off to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Marcus Brown
Director

Auditor's Independence Declaration to the Directors of Forbidden Foods Limited

In relation to our review of the financial report of Forbidden Foods Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

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



PKF
Melbournec, 13 May 2020

Kenneth Weldin
Partner

Forbidden Foods Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

		31 December 2019	31 December 2018
	Note	\$	\$
Revenue	4	2,144,352	1,899,438
Other income	4	11,728	-
Expenses			
Changes in inventories		(587,401)	(52,213)
Raw materials and consumables used		1,982,658	1,292,561
Employee benefits expense		240,050	219,826
Freight out and distribution expense		282,426	231,668
Depreciation and amortisation expense	5	50,148	5,641
Marketing and promotion costs		103,261	39,519
Occupancy costs		13,925	28,654
Other expenses	5	280,183	172,673
Finance costs	5	331,079	64,567
Loss before income tax expense		(540,249)	(103,458)
Income tax expense		-	-
Loss after income tax expense for the period		(540,249)	(103,458)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(546)	277
Total comprehensive loss for the period		(540,795)	(103,181)
Loss for the period is attributable to:			
Forbidden Foods Limited shareholders		(540,249)	(103,458)
		<u>(540,249)</u>	<u>(103,458)</u>
Total comprehensive loss for the period is attributable to:			
Forbidden Foods Limited shareholders		(540,795)	(103,181)
		<u>(540,795)</u>	<u>(103,181)</u>

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Forbidden Foods Limited
Consolidated statement of financial position
As at 31 December 2019

		31 December 2019	30 June 2019
	Note	\$	\$
Assets			
Current assets			
Cash and cash equivalents		440,613	14,671
Trade and other receivables		755,396	502,000
Inventories	6	1,136,892	549,491
Income tax refundable		4,434	4,434
Other - current assets		80,172	17,414
Total current assets		<u>2,417,507</u>	<u>1,088,010</u>
Non-current assets			
Property, plant and equipment		18,168	10,423
Intangibles		50,414	46,397
Right-of-use assets	7	204,006	-
Total non-current assets		<u>272,588</u>	<u>56,820</u>
Total assets		<u>2,690,095</u>	<u>1,144,830</u>
Liabilities			
Current liabilities			
Trade and other payables		741,071	798,752
Borrowings	8	1,416,687	152,352
Derivative financial instrument	9	662,824	-
Employee benefits		45,661	40,159
Lease liabilities	10	101,618	-
Other current liabilities		3,445	-
Total current liabilities		<u>2,971,306</u>	<u>991,263</u>
Non-current liabilities			
Employee benefits		18,537	15,956
Lease liabilities	10	103,436	-
Total non-current liabilities		<u>121,973</u>	<u>15,956</u>
Total liabilities		<u>3,093,279</u>	<u>1,007,219</u>
Net assets		<u>(403,184)</u>	<u>137,611</u>
Equity			
Issued capital	11	586,451	586,451
Reserves		(1,288)	(742)
Retained losses		(988,347)	(448,098)
Total equity		<u>(403,184)</u>	<u>137,611</u>

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

Forbidden Foods Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2019

	Issued capital	Reserves	Retained profits/(losses)	Total equity
Consolidated	\$	\$	\$	\$
Balance at 1 July 2018	586,451	198	(255,601)	331,048
Loss after income tax expense for the period	-	-	(103,458)	(103,458)
Other comprehensive income for the period	-	277	-	277
	<u>586,451</u>	<u>475</u>	<u>(359,059)</u>	<u>227,867</u>
Total comprehensive income/(loss) for the period	586,451	475	(359,059)	227,867
Contributions of equity, net of transaction costs	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2018	<u>586,451</u>	<u>475</u>	<u>(359,059)</u>	<u>227,867</u>

	Issued capital	Reserves	Retained profits/(losses)	Total equity
Consolidated	\$	\$	\$	\$
Balance at 1 July 2019	586,451	(742)	(448,098)	137,611
Loss after income tax expense for the period	-	-	(540,249)	(540,249)
Other comprehensive loss for the period	-	(546)	-	(546)
	<u>586,451</u>	<u>(1,288)</u>	<u>(988,347)</u>	<u>(403,184)</u>
Total comprehensive income/(loss) for the period	586,451	(1,288)	(988,347)	(403,184)
Contributions of equity, net of transaction costs	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2019	<u>586,451</u>	<u>(1,288)</u>	<u>(988,347)</u>	<u>(403,184)</u>

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

Forbidden Foods Limited
Consolidated statement of cash flows
For the period ended 31 December 2019

	31 December 2019	31 December 2018
Note	\$	\$
Cash flows from operating activities		
Receipts from customers	1,862,874	1,876,807
Payments to suppliers and employees	(2,972,924)	(2,011,438)
Income taxes	-	4,266
	<u>(1,110,050)</u>	<u>(130,365)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Payments for intangibles	(9,397)	-
Payments for property, plant and equipment	(10,107)	(6,617)
	<u>(19,504)</u>	<u>(6,617)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issue of convertible notes	1,539,000	-
Proceeds from funds received in advance	455,000	-
Finance costs	(245,568)	(64,567)
Repayment of borrowings	(152,352)	-
Repayment of lease liabilities	(41,357)	-
	<u>1,554,723</u>	<u>(64,567)</u>
Net cash from/(used in) financing activities		
Net increase/(decrease) in cash and cash equivalents	425,170	(201,548)
Cash and cash equivalents at the beginning of the period	14,671	124,210
Effects of exchange rate changes on cash and cash equivalents	772	320
	<u>440,613</u>	<u>(77,018)</u>
Cash and cash equivalents at the end of the period		

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

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Note 1. General Information

These are the interim consolidated financial statements of Forbidden Foods Limited (the "Company"), comprising the Company and its controlled entities (the "Group") for the six months ended 31 December 2019. The interim financial statements are presented in Australian dollars, which is the functional and presentation currency of the Group.

Note 2. Basis of preparation and changes to the Group's accounting policies

Basis of preparation

The interim consolidated financial statements for the six months ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2019.

Going concern

The half-year financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity recorded operating cash outflows during the half-year ended 31 December 2019 of \$1,110,500 (31 December 2018: \$130,365) and as at 31 December 2019, the Group's current assets exceeded current liabilities by \$541,299.

The consolidated entity raised \$2,000,000 via the issue of convertible notes in two tranches:

- Tranche 1 of \$1,539,000 was issued during the half-year on 13 December 2019; and
- Tranche 2 of \$461,000 was issued subsequent to the end of the half-year on 29 January 2020.

As at the date of signing the interim financial report, the consolidated entity is undergoing an Initial Public Offering to raise an amount in the range of \$6,000,000 to \$7,000,000 in addition to the amounts already raised via the issue of convertible notes discussed above. Based on the consolidated entity's cash flow forecasts and achieving a successful Initial Public Offering referred to above, the directors are confident the group will be able to continue as a going concern.

The Directors have also prepared a cash flow forecast for the consolidated entity on the assumption the company is unsuccessful in completing the Initial Public Offering. Should the Initial Public Offering be unsuccessful, the Directors believe the consolidated entity will continue to meet all of its financial obligations for at least 12 months from the date of issuing these financial statements, however the Directors have assessed this would likely result in a material change to the current operations of the business.

The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the group not be able to continue as a going concern.

New or amended Accounting Standards and Interpretations adopted

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the new standard AASB 16 *Leases* which the Group adopted from 1 July 2019.

Any other new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Basis of preparation and changes to the Group's accounting policies (continued)

AASB 16 Leases

AASB 16 Leases was issued in January 2016 and supersedes AASB 117 *Leases*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for the leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use (ROU) asset.

The Group has applied AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 July 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 at the date of initial application.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics
- relied on its assessment of whether leases are onerous immediately before the date of initial recognition
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight in determining the lease term where the contract options to extend or terminate the lease

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'Other expenses' in the profit and loss.

Financial impact of initial recognition of AASB 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 4.00%.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	\$
Operating lease commitments disclosed as at 30 June 2019	186,500
Effect of discounting the above amounts	<u>(13,734)</u>
Lease liabilities recognised at 1 July 2019	<u><u>172,766</u></u>

Update to significant accounting policies

Following the adoption of AASB 16 described above, the updated accounting policies are as follows:

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Update to significant accounting policies (continued)

Right-of-use assets (continued)

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Financial instruments

Financial instruments are recognised initially on the date that the consolidated entity becomes a 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).

Financial assets

All recognised financial assets are subsequently measured in their entirety at amortised costs.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The consolidated entity's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Update to significant accounting policies (continued)
Financial instruments (continued)

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost. ECLs are based on the difference between the contractual cash flows due and the cash flows the consolidated entity expects to receive. Any shortfall is discounted at an approximation to the asset's original effective interest rate. The consolidated entity applies AASB 9's simplified approach to measure ECLs which uses a lifetime expected loss allowance for all trade receivables.

Financial liabilities

The consolidated entity measures all financial liabilities initially at fair value less transaction costs, subsequently all financial liabilities, excluding derivative financial instruments, are measured at amortised cost using the effective interest rate method. The consolidated entity measures derivative financial instruments at fair value through profit and loss.

The financial liabilities of the consolidated entity comprise trade payables, factoring arrangements and convertible notes.

Convertible notes

Convertible notes are separated into two liabilities, derivative financial instrument and convertible note liability, based on the terms of the convertible note agreements.

On issuance of the convertible notes the derivative financial instrument, representing the discount on conversion, is recognised at fair value with the difference between the face value of the convertible notes and the value of the derivative financial instrument recognised as the convertible note liability. The interest on the convertible notes will also convert at a discount, therefore a further derivative financial instrument is recorded to recognise the discount upon conversion.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Note 4. Revenue

	31/12/2019	31/12/2018
	\$	\$
<i>Sales revenue</i>		
Sale of goods	<u>2,144,352</u>	<u>1,899,438</u>
	<u>2,144,352</u>	<u>1,899,438</u>
<i>Other revenue</i>		
Rent received	<u>11,728</u>	<u>-</u>
	<u>11,728</u>	<u>-</u>
Revenue	<u><u>2,156,080</u></u>	<u><u>1,899,438</u></u>

Disaggregation of revenue

Disaggregation of revenue from contracts with customers is as follows:

	2019	2018
	\$	\$
<i>Geographical regions</i>		
Australia	2,056,575	1,823,719
New Zealand	<u>87,777</u>	<u>75,719</u>
	<u><u>2,144,352</u></u>	<u><u>1,899,438</u></u>

Note 5. Expenses

	31/12/2019	31/12/2018
	\$	\$
Loss before income tax includes the following specific items:	<u>(540,249)</u>	<u>(103,458)</u>
<i>Depreciation</i>		
Plant and equipment	2,363	4,867
Right of use assets	<u>42,405</u>	<u>-</u>
<i>Amortisation</i>		
Trademarks and websites	<u>5,380</u>	<u>774</u>
<i>Finance costs</i>		
Convertible note finance costs	85,511	-
Interest and finance charges paid/payable	<u>75,134</u>	<u>64,567</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>19,774</u>	<u>17,396</u>

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Note 6. Current assets - inventories

	31/12/2019	30/06/2019
	\$	\$
Stock in transit	485,003	122,623
Stock on hand	651,889	426,868
	<u>1,136,892</u>	<u>549,491</u>

Note 7. Non-current assets - right-of-use assets

	31/12/2019	30/06/2019
	\$	\$
Right-of-use assets	204,006	-
	<u>204,006</u>	<u>-</u>

Set out below are the carrying amounts of the right-of-use assets recognised and the movements during the period:

As at 1 July 2019 - refer to reconciliation in note 2	172,766
Additions	73,645
Depreciation expense	<u>(42,405)</u>
As at 31 December 2019	<u>204,006</u>

Note 8. Current liabilities - borrowings

	31/12/2019	30/06/2019
	\$	\$
Borrowings	-	152,352
Convertible notes	961,687	-
Deposits	455,000	-
	<u>1,416,687</u>	<u>152,352</u>

The company raised \$1,539,000 through the issue of convertible notes issued on 13 December 2019 (Tranche 1). Tranche 1 was the first of two tranches, with the second tranche of \$461,000 issued subsequent to the end of the period on 29 January 2020. The funds received in relation to Tranche 2 that were received prior to the end of the period are held as deposits.

The terms of both tranches included a derivative financial instrument which per AASB 9 *Financial Instruments* is required to be accounted for separate to the host liability. Further details on the derivative financial instrument are included in note 9.

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Note 9. Current liabilities - derivative financial instrument

	31/12/2019	30/06/2019
	\$	\$
Derivative financial instrument	<u>662,824</u>	<u>-</u>
	<u><u>662,824</u></u>	<u><u>-</u></u>

The derivative financial instrument is embedded in the convertible notes issued by the company during the period. The terms of the convertible notes are if the company undertakes an Initial Public Offering on the Australian Stock Exchange prior to the maturity date of the convertible notes, the convertible notes including accrued interest, will automatically convert to ordinary shares at an effective price equal to 70% of the IPO price.

Note 10. Current and non-current liabilities - lease liabilities

Lease liabilities

	31/12/2019	30/06/2019
	\$	\$
<i>Current</i>		
Lease liabilities	101,618	-
<i>Non-current</i>		
Lease liabilities	<u>103,436</u>	<u>-</u>
	<u><u>205,054</u></u>	<u><u>-</u></u>

Set out below are the carrying amounts of the lease liabilities recognised and the movements during the period:

	\$
As at 1 July 2019 - refer to reconciliation in note 2	172,766
Additions	73,645
Accretion of interest	3,113
Payments	<u>(44,470)</u>
As at 31 December 2019	<u><u>205,054</u></u>

Forbidden Foods Limited
Notes to the interim financial statements
For the period ended 31 December 2019

Note 11. Equity - issued capital

	31/12/2019 \$	30/06/2019 \$
Ordinary shares - fully paid	586,451	586,451
	<u>586,451</u>	<u>586,451</u>

Movements in ordinary share capital

Details	Date	Shares	\$
Balance	30 June 2019	170	586,451
Balance	31 December 2019	<u>170</u>	<u>586,451</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2019 and 30 June 2019.

Note 13. Events after the reporting period

Since 31 December 2019, the following events have occurred:

Convertible notes

The consolidated entity issued a second tranche of convertible notes on 29 January 2020 totalling \$461,000 (Tranche 2). As at 31 December 2019, \$455,000 of the funds in relation to Tranche 2 had been received by the consolidated entity. The difference was received subsequent to 31 December 2019.

The convertible notes were issued to enable the company to pursue an Initial Public Offering.

Initial Public Offering

As at the date of signing the financial report, the company is in the process of completing an Initial Public Offering to raise approximately \$6,000,000 to \$7,000,000. Should the company be successful in completing the Initial Public Offering, it is anticipated the Initial Public Offering will be completed in June 2020.

Share split

The directors resolved on 23 January 2020 to split the total number of ordinary shares on issue from 170 ordinary shares to 40,000,000 ordinary shares. The total amount paid on these shares remained unchanged.

Conversion to a public company

Forbidden Foods Pty Ltd converted to a public company on 11 March 2020. The name of the company is now Forbidden Foods Limited.

Note 13. Events after the reporting period (continued)

Non-Executive Director agreements

The company entered into agreements with each of Mark Hardgrave and Colleen Lockwood, in respect of their services to the Company as Non-Executive Directors. Both Mark Hardgrave and Colleen Lockwood were formally appointed as directors of the company on 23 January 2020.

Coronavirus (COVID-19)

Management have assessed the financial impacts of COVID-19 on the fair value of assets, net realisable value of inventory and the recoverability of amounts owing to the consolidated entity. As at the date of signing this report, the accounting estimates and judgements made by management are not known to be materially impacted by COVID-19. Management have also assessed the potential impact on the groups supply chain for raw materials and the cost of acquiring raw materials due to fluctuations in foreign exchange rates. The groups supply chain has not been impacted to date however the Australian Dollar has depreciated against the United States Dollar which has increased the cost of raw material orders.

Other than the matters above, no matters that have arisen in the interval between the end of the half-year and the date of this report of a material or unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

Forbidden Foods Limited
Directors' declaration
For the half-year ended 31 December 2019

In accordance with a resolution of the directors of Forbidden Foods Limited, I state that:

In the directors' opinion:

(a) the consolidated financial statements and notes of Forbidden Foods Limited for the half-year ended 31 December 2019 are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* ;

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the directors



Marcus Brown
Director

13 May 2020
Melbourne

Independent Auditor's Review Report to the Members of Forbidden Foods Limited
Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Forbidden Foods Limited (the Company) and its entities (collectively the Group) which comprises the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 in the financial report, which comments on conditions, including current financial loss and cash outflows on operations that, along with other matters and assumptions set forth in the note indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and therefore, whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



PKF

Melbourne, 13 May 2020



Kenneth Weldin

Partner

PKF Melbourne Audit & Assurance Pty Ltd ABN 75 600 749 184

Level 12, 440 Collins Street, Melbourne, Victoria 3000

T: +61 3 9679 2222 F: +61 3 9679 2288 www.pkf.com.au

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