ANNUAL REPORT
FOR FY21

Australian Dairy Nutritionals Limited
and its Controlled entities

During this financial year the COVID-19 pandemic, and the many associated lockdowns and regulation changes, continued to challenge the Group and our industry. Despite these challenges Australian Dairy Nutritionals has continued to focus on, and invest in, our strategy to become a fully vertically integrated dairy farmer and manufacturer of differentiated dairy products under its own brands.

The Group has been successful in achieving significant traction toward completion of our strategy, despite the pressure on the Group to continually adapt to a turbulent environment. This has been frustrating and costly, however, our successes are notable and include:

- the development of its new infant formula range;
- the construction of a new infant formula plant;
- funding the purchase of a high-speed canning line and the launching of our new infant formula range through the raising of $7.7m from new and existing securityholders; and
- continuing the transition of its farms to organic certification with a focus on regenerative farming.

The Group's total income was $21.7m, a slight decrease on FY20, leading to an operating EBITDA loss for the year of $2.99m. While disappointing, it does reflect the impact of the pandemic and a volatile dairy industry. In particular, due to an increasingly competitive domestic market our yoghurt production was much lower than expected and weighed heavily on our results.

While we have been disappointed with the ability to profitably access the domestic yoghurt market, we have been actively involved in discussions with potential strategic partners to provide access to Asian markets. We are hopeful that these discussions could lead to increased production volumes. In addition, with the completion of the new infant formula plant and the current lower volumes of yoghurt production we are completing a review of the fresh processing plant to determine the future optimal operating structure.

During this financial year, we have completed the construction and installation of the infant formula factory which enhances our ability to become a vertically integrated dairy farmer and manufacturer of differentiated products under our own brands. This brings us a step closer to producing our own organic A2 protein infant formula and powders from milk direct off our farms. Our aim is to achieve this in the first quarter of 2022. Current market indications are that the organic A2 protein powder is in high demand, and we are excited by the opportunities it will give us in accessing profitable markets, both domestic and offshore.

We continue to be happy with the development of the farms as we progress to achieving organic certification by the end of 2021. There has been considerable improvement in the pastures over the year leading to lower fodder and pasture maintenance costs. We will focus on regenerative farming and leverage the environmental and sustainable aspects of the farms' operations.

Despite the satisfactory results from the farms, we decided to reduce our farm portfolio to better match the future milk demand for our processing operations. This resulted in the sale of two farms, Drumborg in FY21 and Ecklin South in September 2021. The income from these sales will allow us to pay out the Group's existing finance facility. The remaining three farms will be the focus of our specialty milk production with two of the farms converting to organic A2 protein milk production.

Despite the frustrations wrought by the COVID pandemic, at a personal and professional level, the management team have become very practiced at managing the business through this current period of uncertainty. The Board is especially thankful of their efforts in maintaining a rigorous discipline to the adherence of the health and safety rules as they continue to protect the business and all employees.

The Group is excited about the coming financial year as the hard work of the last few years including the launch of our 'future' formula range and culminating in the production and sale of our own organic A2 branded infant formula, sourced from our farms.

To all our securityholders, thank you, for your continued support and I hope during these challenging times that you stay safe and healthy.

M Bryant

Martin Bryant - Chairman

Australian Dairy Nutritionals Group

DIRECTORS' REPORT

The Board of directors of Australian Dairy Nutritionals Limited (the Company) submits to members the Annual Report of the company and its controlled entities (the Group) for the financial year ended 30 June 2021.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- Ownership of dairy farms via the Australian Dairy Farms Trust;
- Operation of dairy farms and livestock through SW Dairy Farms Pty Ltd;
- Processing of raw milk and manufacture of dairy products including a variety of milks, cream, butter and yoghurt by Camperdown Dairy Company Pty Ltd at its existing leased facility located at 325 Manifold Street, Camperdown, Victoria.
- Distribution of dairy products and other food staples under Group owned brands or customer brands through the following distribution channels:
    - Retail (major supermarkets)
    - Foodservice and niche retailers
    - Home delivery; and
- Construction and installation of the Group's infant formula plant on the Group's property located at Depot and Old Geelong Road, Camperdown, Victoria.

In February 2021, the Group completed the sale of the Drumborg farm for a total purchase price of $7.4 million including livestock, plant and equipment. Proceeds were used to reduce the Group's debt facility with Commonwealth Bank of Australia (CBA) by $6.15 million and the remainder was retained for general working capital.

Additionally, on 24 August 2021 the Group announced the sale of its Ecklin South farm (excluding livestock and equipment) for a purchase price of $5.625 million (before costs). The sale is not conditional on finance and will complete on 30 September 2021. The proceeds of the sale will be used to pay out the Group's finance facility.

Effective 30 June 2021, Group subsidiary Camperdown Dairy Company Pty Ltd (CDC) acquired all of the assets of Jonesy's Distribution, giving it 100% ownership of the Jonesy's Dairy Fresh brand. The Company also took ownership of the final 25% stake in Jonesy's Distribution Pty Ltd (Jonesy's Distribution) held by Somerville Property Holdings Pty Ltd, giving the Group full ownership of Jonesy's Distribution.

BUSINESS MODEL AND OBJECTIVES

The primary focus of the Group in FY21 was the construction and installation of its infant formula plant and launch of its new 'future' infant formula range. This is part of the Group's broader strategy to becoming a fully vertically integrated dairy farmer and manufacturer of differentiated dairy products under its own brands with a focus on infant formula and nutritional products.

Despite the ongoing impact of COVID-19 restrictions and lockdowns in Victoria, construction of the Group's new infant formula plant building was completed as well as the installation of the infant formula plant itself. Commissioning activities have commenced and the Group is on target to commence production of milk powders and infant formula by the end of 2021. The Group is currently developing its own organic A2 protein infant formula range which it expects to commence manufacturing in the new plant using milk from its Yaringa and Brucknell South farms in early calendar year 2022.

In June 2021, the Group's fully certified organic dairy farm, Yaringa, transitioned to 100% organic A2 protein milk production in readiness for this major milestone. The Group's Brucknell South farm will also transition to 100% organic A2 protein milk production when it achieves full organic certification in October 2021.

FY21 was also a significant year for the Group's 'future' infant formula range. 'Future' is a unique, scientifically developed formulation that is adapted to the digestive capability of infants over the first 18 months of life. The 'future' range is contract manufactured by a third party with significant scalability and was successfully manufactured in commercial quantities during FY21. This was a significant milestone as the formulation is very unique and required significant cooperation between the technical teams of both parties. The 'future' range will launch in Q1 FY22, utilising a digital subscription model for domestic customers as well as being ranged through subsidiary Victorian Farmers Direct. The Group has also appointed a partner to establish a storefront on the key digital platforms in China.

The Group's fresh manufacturing segment had a difficult year, with low yoghurt production volumes continuing to weigh on the financial performance of this segment. The yoghurt category remains highly competitive, with bi-annual supermarket range reviews. With the construction of the Group's new processing facility in Depot Road now completed and significant focus on the powders and nutritionals segment, an operational review of the fresh processing plant is underway to determine the optimal structure moving forward.

OPERATING RESULTS

Total income for FY21 is $23,517,138 down 2% against the FY20 comparative period of $24,089,076. This is a result of a $249,299 decrease in revenue from the dairy processing segment and a $322,639 decrease from the dairy farm segment (see the Review of Operations below for further commentary). The operating EBITDA of the farm portfolio was $1,443,593 whilst the processing segment recorded a disappointing result of ($2,029,119).

Total expenses for FY21 were $30,427,975 down 4% against the FY20 comparative period of $31,585,164. This comprised a $1,158,830 decrease in expenses from the dairy processing segment and a $1,641 increase from the dairy farm segment. Corporate expenses for the year were $2,403,253. For segment reporting, the corporate expenses were allocated on a 50/50 basis between dairy processing and farming.

Included in total expenses is a non-cash impairment of $2,353,741 for FY21 relating to the carrying value of goodwill in the dairy processing segment. The Group has taken a conservative approach to the underlying calculations for goodwill, including the discount rate, and has taken into account the uncertain conditions impacting the Australian economy as a result of the COVID-19 pandemic. The write down has no impact on the cash position of the business or its future operations.

The consolidated net loss attributed to members of the Group, after providing for income tax was $6,910,837 (2020: $7,496,088). This result is comprised of a net loss from the dairy processing segment of $6,610,486 (2020: $7,520,018) and net loss from the dairy farm segment of $300,350 (2020: $23,930 profit). Net operating cash flow for the year was ($2,031,487) with operating EBITDA of ($2,988,779). Of the remaining farms after the sale of Drumborg the fair value of the farms has increased $3.6m from the previous valuation at 30 June 2020.

Substantial investments have been made in the farm portfolio which have been expensed in the accounts. The total fair value (including associated plant and equipment) of all farms exceeds historical written down value by $4,084,835. However, these are unbooked gains under the cost method adopted by the Group under AASB 116, and thus not included in the net assets in the accounts.

FINANCIAL POSITION

The net assets of the Group at 30 June 2021 total $33,986,965, an increase of $681,467 from the June 2020 comparative.

The key assets and liabilities in the statement of financial position at 30 June 2021 are:

- cash and cash equivalents of $6,192,119 (June 2020: $6,361,821);
- property, plant and equipment of $28,227,815 (June 2020: $29,757,034);
- intangible assets of $429,173 (June 2020: $2,753,218);
- biological assets (livestock) of $4,795,079 (June 2020: $5,368,015); and
- total borrowings of $5,980,506 (June 2020 $12,081,526).

The Group's bank borrowing is a facility with the Commonwealth Bank of Australia Limited (CBA), which was established in April 2016, and is due for repayment on 4 October 2021 (refer Note 16(b)).

All obligations under the loan agreement have been met in accordance with the terms of the facility. On 24 August 2021 the Group announced that it has signed an unconditional sale agreement for the Ecklin South farm for $5.625 million, with the proceeds of the sale to be used to repay the facility prior to 4 October 2021.

REVIEW OF OPERATIONS

Farms - Australian Dairy Farms Trust (land owner) and SW Dairies Pty Ltd (farm operator)

Over the 12 months from 1 July 2020, South West Victoria, where all of the Group's farms are located, again enjoyed favourable weather conditions with plenty of rainfall over the winter months and relatively mild, sunny conditions to the end of the year. All of the farms have enjoyed good pasture growth and record levels of silage were cut in December 2020. Typically, these stores are used in the drier, final quarter of the financial year however, good pasture growth, even in the drier months means the farms still have good stores of silage for the coming season. This has translated to a decrease in the total fodder costs (excluding Drumborg farm) from $1,712,402 in FY20 to $1,458,416 in FY21.

The pastures are also starting to realise the benefits of over 2 years of organic farming practises, evidenced by increasing bioactivity levels in the soils and significant improvements in soil nutrient levels. The Group is also focusing on additional regenerative farming practises and investigating various carbon sequestration incentives available to its farming operations.

The farm segment results also include a gain on change in fair value of livestock during the year of $1,614,189 (2020: $1,574,300) as livestock carrying values again showed gains in FY21 due to strong cattle prices in the open market.

The combination of good seasonal conditions and strong farm gate milk prices in South West Victoria enabled the farm segment to perform well in FY21. Net profit for the farm segment was up $398,768 in FY21 versus FY20 (after removing the Drumborg farm from both years' results). Securityholders should note that the farm segment reporting in Note 25 of the Annual Report shows a loss for the farm segment of $300,350 versus profit of $23,930 in FY20 however this result does not take into account the sale of the Drumborg farm in February 2021 as well as the allocation of head office costs to each segment (as required by the Accounting Standards).

REVIEW OF OPERATIONS (cont'd)

Registered valuers Preston Rowe Paterson completed an independent valuation of all farms for the year ended 30 June 2021. The basis of the valuation was 'As Is and In Use' with vacant possession and the combined fair value of all farm properties (excluding the Infant Formula Plant and Depot and Old Geelong Road Land) was $21,350,000. The total fair value (including associated plant and equipment) on all farms exceeds historical written down value by $4,084,835, however these are unbooked gains under the cost method adopted by the Group under AASB 116.

The Group's farm milk production in FY21 is significantly in excess of its current and future manufacturing requirements, even taking into account the new infant formula plant operating at full capacity. In addition, the farm portfolio ties up significant amounts of capital for the Group, at a time when its capital requirements are significant as it reaches the final stages of part 1 of its infant formula strategy.

With this in mind as well as the expiry of the Group's finance facility in October 2021, the Board undertook a strategic review of its farm portfolio in early FY21 in order to determine the optimal level of farm holdings required to support the ongoing strategic objectives of the Group. As a result of this review, it was decided that the Drumborg farm would be sold as the milk produced by this farm is surplus to the Group's requirements and, unlike the other Group farms, is located a significant distance (approximately 2 hours) from the Group's manufacturing operations in Camperdown, Victoria.

The sale settled on 7 February 2021 and the proceeds of the sale were used to strengthen the Group's balance sheet by repaying $6.15 million to reduce the Group's bank facility with CBA, the remaining $1.283 million for livestock and sundry items were retained for working capital purposes.

In addition, on 24 August 2021, the Group also announced that it had entered into an unconditional agreement to sell the Ecklin South farm for $5.625 million (excluding livestock and equipment). The sale represents a price of over $9,500 per acre which is significantly above the valuation for the farm at 30 June 2021 of $7,900 per acre. The sale will complete on 30 September 2021 and the proceeds of the sale will be used to repay the Group's finance facility.

After the sale, the Group's farm milk production will be better aligned with its manufacturing requirements (including when the infant formula plant is operating at full capacity) and will focus on production of specialised milk e.g. organic and A2 protein milk.

Processing

The Group manufactures a range of milks, cream, butter and yoghurt for distribution in the major supermarkets and niche retailers, hospitality businesses and home delivery. It also distributes The Collective range of dairy yoghurts, as well as The Collective's plant- based yoghurts to Woolworths and independent retailers.

Dairy processing revenue for FY21 was $13,820,660, down $249,299 on FY20. This was largely driven by flat demand for The Collective's dairy yoghurts. The yoghurt category is one of the most competitive in the Australian retail market and The Collective brand has had to compete against some of the most well-established brands in the market. Sales of The Collective's new products launched late in October 2020 did not deliver an increase in sales as anticipated. The flat sales volumes have directly impacted the performance of the Camperdown manufacturing plant which has a fixed cost structure designed to accommodate production volumes in excess of current production volumes.

Financial performance in the processing segment continues to be impacted by relatively high farm gate milk prices, leading to increased raw material costs. The average per litre farm gate milk price for conventional milk was 4 cents higher in FY21 and 1 cent lower for organic. However, given the lower sales volumes and subsequent decrease in production through the plant, total costs decreased from $21,589,977 in FY20 to $20,431,147 in FY21.

Included in total expenses is a non-cash impairment of $2,353,741 relating to the remaining carrying value of goodwill in the dairy processing segment written down at the end of 1HFY21. In making this decision, the Group took a conservative approach to the underlying calculations for the goodwill, including the discount rate as well as the ongoing uncertain conditions impacting the Australian economy as a result of the COVID-19 pandemic.

Distribution

(i) Major supermarkets

Camperdown Dairy's 2L whole milk and skim milk products were ranged in over 100 Woolworths stores in Victoria in FY21 and continue to perform well as a quality brand with a strong provenance story. Camperdown Dairy 2L Whole Milk and 2L Jersey milk was also launched in select Coles supermarkets in Victoria 2021.

(ii) Foodservice and niche retailers

The Group participates in the foodservice and niche retailer segment through the Jonesy's Distribution Pty Ltd (Jonesy's Distribution) business. When COVID-19 restrictions were lifted in Victoria in late October 2020, the Jonesy's Distribution business did not see significant uplift in sales revenue and therefore, in order to reduce costs and operational complexity, it was decided a distributor would be appointed for the Jonesy's Dairy Fresh milk range.

REVIEW OF OPERATIONS (cont'd)

The Group appointed Melbourne based distributor, Sealane as the exclusive distributor of the Jonesy's Dairy Fresh Brand commencing May 2021. Sealane has a large distribution footprint and provides superior logistics and customer service. Camperdown Dairy continues to manufacture the Jonesy's Dairy Fresh brand.

As part of the restructure of the Jonesy's Distribution business, Camperdown Dairy Company Pty Ltd acquired the assets of Jonesy's Distribution and the Company acquired the remaining 25% stake held by Somerville Property Holdings in Jonesy's Distribution.

(iii) Home delivery

The Group continued to see improvements in the performance of its home delivery business through FY21, assisted by ongoing demand for online and contactless food and grocery delivery. The Group is focusing on fine tuning the user experience and growing the distribution footprint in order to expand this business segment.

Construction of Infant Formula Plant on Camperdown Dairy Park SIte

On 4 April 2019 the Group announced to the market that it had acquired an introductory infant formula plant including evaporator and drier (Plant) from an overseas vendor. The Board acquired the Plant in order to accelerate the Group's entry into the organic infant formula market in a sensible staged manner without the initial, much higher cost of a large dryer with significantly more capacity.

The Plant was shipped to Melbourne in July 2019 and has been stored in Camperdown whilst the building to house the Plant is under construction at the Group's Camperdown Dairy Park site on Depot Road in Camperdown.

Spence Construction commenced construction of the infant formula plant building in June 2020. Despite the ongoing impact of COVID-19 restrictions, construction of the building progressed well allowing the building and installation of the infant formula plant to be completed by the end of FY21. Commissioning works are now ongoing, and the plant is expected to be operational on milk powder and infant formula by the end of 2021.

Construction of Infant Formula Plant on Camperdown Dairy Park SIte

(i) Placement

On 15 December 2020, the Group announced that it had accepted subscriptions from sophisticated and institutional investors for a placement of 108,333,334 new stapled securities at $0.06 per security to raise $6.5 million (Placement). The first tranche of the Placement completed on 22 December 2020, raising $3.313 million and the second tranche of the Placement was approved by securityholders on 18 February 2021 and completed on 25 February 2021, raising a further $3.19 million. The funds raised by the Placement were used as described in section (iii) below.

The Lead Manager for the placement, Blue Ocean Equities, was paid a fee of 6% of the proceeds of the Placement and issued 3,000,000 lead manager options on 10 March 2021.

(ii) Security Purchase Plan and Director Placement

On 11 January 2021, the Group announced a security purchase plan (SPP) for existing securityholders to purchase up to $30,000 securities at a price of $0.06, the same price as the Placement. The SPP was conducted without securityholder approval under the exemption in Listing Rule 7.1. A separate placement was conducted for the Directors, also at the same price as the Placement ($0.06 per security) (Director Placement) to allow the directors to participate in the capital raising process.

The SPP and the Director Placement raised an additional $1.272 million and these funds were used as set out in section (iii) below.

(iii) Use of Funds

The funds raised from the Placement were applied toward:

- the acquisition of the high-speed blending and packaging line (see section (iv) below);
- investment in the launch of the Group's 'future' and Organic A2 infant formula ranges including a comprehensive marketing and promotion plan for the new ranges; and
- general working capital and transaction costs.

(iv) Acquisition of Infant Formula Blending & Canning Line

On 10 March 2021 the Group completed the purchase of a high-speed blending and canning line for infant formula tins and nutritional powders (Blend & Can Line) from F.A Maker Pty Ltd (Vendor). The Line has capacity to produce 20 million tins per annum. The total purchase price of the Line was $864,744 which includes dismantling and packing of the Line into shipping containers and the cost of transporting the dismantled Line to Camperdown, Victoria. The Line is being stored in Camperdown.

REVIEW OF OPERATIONS (cont'd)

Launch of Infant Formula Brands - future and Organic A2 protein infant formula

The Group continued development of its proprietary 'future' infant formula formulation through FY21 culminating in a successful first commercial production in May 2021. This was a significant milestone for the Group as the range is unique and required significant cooperation between the Group's technical team and the contract manufacturer. The contract manufacturer has additional capacity to support ongoing sales of this range, leaving the Group's new infant formula plant free to produce its Organic A2 protein milk powder and infant formula range in early calendar year 2022.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group in FY21 included the capital raising and acquisition of the infant formula blend and pack line as well as the sale of the Drumborg and Ecklin South farms noted above. In addition, the Group completed the construction and installation of the infant formula plant (including the new building) and completed the development of its new 'future' infant formula range. Camperdown Dairy Company also acquired full ownership of the Jonesy's Dairy Fresh brand and appointed Melbourne based distributor Sealane as its exclusive distribution partner.

The Board of Directors also underwent a renewal in FY21 to better align the skills of the Board with the ongoing strategic direction of the Group. Jason Dong was appointed as a non-executive director on 16 April 2021. Mr Dong is a highly skilled executive with extensive experience working with Australian and Chinese enterprises to promote trade and industry relationships. His previous roles include Industry Adviser and Research Fellow for the Centre of International Agricultural Research of the Chinese Academy of Agricultural Sciences and a member of the Industry Advisory Board for the Centre for Asian Business and Economics at the University of Melbourne. Mr Dong will be a significant contributor in assisting the Group to establish business operations and relationships in China as well as the wider Asia region.

As part of the Board renewal process, Michael Hackett and Paul Morrel resigned as directors of the Group. Both individuals made a significant contribution to the Group and the Board thanks them for their service.

The Group continued to juggle the impact of the COVID-19 pandemic including associated Government mandated restrictions and lockdown periods. The health and safety of our staff remains our first priority in the management of our response to the pandemic. The corporate office has largely continued to work from home and the Victorian Farmers Direct and Jonesy's Distribution delivery drivers implemented contactless delivery processes, with minimal impact to customers.

At the farms and the Camperdown manufacturing facility, measures to limit unnecessary contact and promote social distancing have remained in place. The Camperdown manufacturing facility has experienced significant disruption through the imposition of lockdowns, particularly in the wholesale segment where sudden lockdowns have meant many customers have had to make last minute order cancellations or changes resulting in wasted product. At the farm level, access to casual and skilled staff has been a significant issue particularly through the peak of the milk production season.

The Group is continually monitoring the different areas of its business to ensure that it is adopting recommended practises relevant to each area to assist in reducing the spread of the virus and adapting its practises to ensure its business can continue to operate in a manner which ensures the safety of its customers and staff.

In the opinion of the directors, there are no other significant changes in the state of affairs of the Group that occurred during the year that are not disclosed elsewhere in this report or in the accompanying financial statements.

EVENTS AFTER THE REPORTING PERIOD

As the impact of the COVID-19 pandemic is ongoing the Group continues to monitor and respond to Government mandated restrictions and lockdowns. The situation continues to change rapidly and is dependent on measures imposed by each of the State Governments and the Federal Government, such as maintaining social distancing requirements, quarantine, vaccination programs, travel restrictions and economic stimulus. The Group will continue to assess any impact of COVID-19 on the business and ways to mitigate risks to the Group in relation to it.

As noted above, on 24 August 2021 the Group entered into an unconditional contract to sell its Ecklin South farm (excluding livestock and equipment) for a price of $5.625 million. The sale will complete on 30 September 2021 and the proceeds of the sale will be used to repay its finance facility with Commonwealth Bank of Australia prior to 4 October 2021.

In the opinion of the directors there are no material matters that have arisen since 30 June 2020 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

ENVIRONMENTAL ISSUES

The Group is regulated by environmental obligations contained in the *Environment Protection Act 1970* and is subject to water licensing restrictions under the *Water Act 1989*. The Group considers itself to be in compliance with its environmental obligations.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group is transforming from a dairy farming and contract packing operation to a fully vertically integrated manufacturer of differentiated dairy products with an emphasis on developing the Group's own brands. This transition shifts the Group's operations to products which return higher margins that are less exposed to competition from other market participants.

As part of this strategy, the Group is transitioning its dairy farms to fully certified organic operations. The first farm, Yaringa, achieved organic certification in November 2019 and the Brucknell South farm is on track to achieve full organic certification in October 2021. As noted above, both of these farms will be producing organic A2 protein milk by October 2021. The Brucknell North and Ecklin South farms will also be eligible for organic pasture certification in October 2021 however, the decision to convert the herd on these farms to organic will be made at the appropriate time taking into account organic milk and feed prices as well as the Group's manufacturing volumes.

The Group also continues to invest in its home delivery distribution business to extend distribution of its own brands beyond the major Australian supermarkets. There will be continued focus on securing distribution arrangements for its new infant formula ranges both domestically and internationally including launch of a storefront on one of the key digital platforms in China.

BUSINESS RISK

The Group consists of complementary businesses in dairy farming and manufacture and distribution of dairy products. The Group is exposed to a range of strategic, financial, operational, environmental and related risks that are inherent when operating in agricultural and fast-moving consumer goods markets. The Group has an enterprise risk management framework which, together with corporate governance, provides a framework for managing the material risks.

Below is a summary of some of the key risks impacting the Group but is not intended to be an exhaustive list:

Milk Prices

Milk prices are set by the Australian and global markets depending on the product type, seasonal demand and tariffs. In recent years, competitive forces within Australia have influenced fresh milk pricing whereas the export market for milk product is determined by international supply and demand and global seasonal conditions. Changes in domestic and global milk pricing will affect the revenue earned by the Group.

Operating Risks

The operation of processing factories, farms and other agricultural and manufacturing activities involve risks to employees, contractors, livestock and plant and equipment. This may include through accident, malfunction, acts of God and other events which are not foreseeable, unable to be insured against or which the Group and management have little or no control or knowledge. Some events may cause considerable or even catastrophic damage to the Group and its assets. There can be no assurance that the Group can avoid or insure against such events.

Environmental Risks

Agricultural businesses are exposed to various environmental risks such as fire, flood, drought, unseasonal rain, wind, storms and similar events of nature which can have adverse or positive impacts on the operation of the business. This could include increased operational costs, impact on the health and well-being of livestock. These risks are part of the operation of agricultural businesses and there may be limited avenues to mitigate such risks.

BUSINESS RISK (cont'd)

Development Projects

The Group proposes to undertake development projects to build new facilities and expand existing facilities, specifically the construction of the new building to house the acquired infant formula plant, and its future expansion by installing a further dryer. There are risks associated with development projects, including construction delays, cost overruns and delays in anticipated revenues flowing from the developments all of which could have an adverse effect on the Group's revenues and costs. Similar risks arise in the installation of significant equipment, such as the acquired infant formula plant, which may be delayed in its installation or may not perform to its designed capacity initially or at all.

Consumption Trends

Vegan or plant-based products are becoming more mainstream and as a result there is potential for future movement away from traditional dairy milk-based products, which could adversely impact the Group's revenues in the future.

Customer / supplier contract security

The supply of the Group's products to major retailers in Australia are governed by limited supply agreements which include six-monthly reviews at which time products may be removed from sale in those retailers. Such reviews could reduce the number of the Group's products sold by this channel, adversely impacting the Group's revenues in the future.

Food safety / quality

While the Group maintains and follows good industry quality and assurance practices there remains a risk of product contamination in supply, production and storage of the Group's products. A product contamination or threat of contamination may cause reputational damage to the Group and its brands from perspective suppliers, customers, the general public and regulators. This may also result in significant product recall costs, compensation payments and penalties all of which have an adverse effect on the Group's revenue and profitability.

Regulatory / compliance risk

Changes in relevant taxes, legal and administration regimes, accounting practice and government licensing and operations policies may adversely affect the financial performance of the Group. In order to perform its activities, the Group must comply with the environmental legislation of Federal, State and Local governments, which may include changes to the conditions of or further obligations under its environmental and water use licences and other regulated entitlements.

Current and future impact of COVID-19 and Export risks

An outbreak of the COVID-19 virus at the Group's production plant would cause the temporary shutdown of that plant and standing down of staff. This could have an adverse effect on the Group by reducing production while cleaning activities are undertaken and staff self-isolate, with a consequential effect on revenues. The Group is also exposed to the global dairy market and the availability of export opportunities of milk from Victoria. If country borders remain closed and exports limited, then there is a risk that there will be excess local supply, attracting a lower price, and reducing the prices which the Group is able to obtain for its products.

Funding expansion of Infant Formula Plant

In order to expand the Group's infant formula plant capacity and install the high-speed blending and canning line, further capital may need to be raised. There is no guarantee that those funds will be able to be raised, or if they are raised, raised at a cost which is acceptable to the Group. Further, any equity capital raising may dilute existing securityholders in the Group.

Global climate conditions risk

Changes in global and regional weather and climate conditions are not easily or reliably predicted and, can have a positive or negative effect on farm and manufacturing production which in turn affects revenues and costs. Domestic and international legislation, regulation and similar programs introduced to mitigate such climate change may have positive or adverse effects on Group financial performance and asset values over time.

Access to Specialised Raw Materials

As the Group moves to manufacture of more complex nutritional products and organic products, it will need to source raw materials from a variety of domestic and international suppliers. Some of these raw materials have limited supply, long lead times and require forward commitments to secure supply. If the Group does not manage its inventory requirements of these raw materials it may experience delays in production of its products and product outages. This may in turn, cause issues with the Group's customers if customer supply arrangements are impacted.

INFORMATION ON DIRECTORS

The following persons held office as directors of the Company during or since the end of the year. The names and details of the directors are:

Name	**Position**
Martin Bryant	Chairman
Adrian Rowley	Director
Jason Dong	Director (appointed 15 April 2021)
Peter Skene	Director / Group CEO
Michael Hackett	Director (retired 23 March 2021)
Paul Morrell	Director (retired 16 April 2021)

Martin Bryant	**Non-Executive Chairman**
Qualifications	Bachelor of Business - University of Western Australia Member of Australian Institute of Company Directors
Directorships held in other listed entities in the past 3 years	BCI Minerals Limited – retired November 2018
Interest in Group securities & options	A relevant interest in 1,500,000 stapled securities at 30 June 2021.

Martin Bryant was appointed to the Board on 11 November 2019 and was appointed Chairman of the Group on 23 December 2019. Martin is a highly skilled senior executive and director with extensive international experience at senior levels and a particular focus on Asia including China, Vietnam and The Philippines. Martin brings a wealth of strategic and operational experience to the Group and his insight and leadership of the Board will be invaluable as it executes its two-stage infant formula strategy.

Peter Skene	**Executive Director and CEO**
Qualifications	Bachelor of Applied Science - Melbourne University Bachelor of Commerce - Deakin University Associate Diploma in Dairy Technology - VCAH
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 13,415,385 stapled securities at 30 June 2021. A relevant interest in 7,000,000 loan securities and 1,000,000 performance rights at 30 June 2021.

Peter Skene was appointed to the Board on 1 July 2016. Peter has significant dairy industry experience starting on the factory floor and moving through positions from factory hand to Managing Director in dairy, food and other fast moving consumer goods (FMCG) industries. He has over 25 year's experience in the areas of sales, global supply chain, manufacturing, quality management, research and development and general management. As Group CEO, Peter has responsibility for all aspects of the Group's operations.

INFORMATION ON DIRECTORS (cont'd)

Adrian Rowley	**Non-Executive Director**
Qualifications	Certified Financial Planner
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 1,411,000 stapled securities at 30 June 2021.
Adrian Rowley was appointed to the Board on 20 July 2011. Adrian has had a career in financial services spanning 20 years and is currently Head of Equity Strategy at Watershed Funds Management.	

Jason Dong	**Non-Executive Director**
Qualifications	Master of Commerce (University of Melbourne) Bachelor of Economics, Shanxi University of Finance and Economics, China
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	No relevant interest in stapled securities at 30 June 2021.
Jason Dong was appointed to the Board on 15 April 2021. Jason is a highly skilled executive with extensive experience working with Australian and Chinese enterprises to promote trade and industry relationships. His previous roles include Industry Adviser and Research Fellow for the Centre of International Agricultural Research of the Chinese Academy of Agricultural Sciences and a member of the Industry Advisory Board for the Centre for Asian Business and Economics at the University of Melbourne.	

Michael Hackett	**Non-Executive Director**
Qualifications	Bachelor of Commerce - University of Queensland
Directorships held in other listed entities in the past 3 years	Cashwerkz Limited – retired December 2020 Australian Adventure Tourism Group Limited - retired August 2018
Interest in Group securities & options	A relevant interest in 23,298,887 stapled securities on retirement 23 March 2021.
Michael Hackett retired as a director on 23 March 2021	

Paul Morrell	**Non-Executive Director**
Qualifications	Trade Qualified - Diesel Mechanic Certificate IV - Business and Management
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 333,333 stapled securities on retirement 16 April 2021.
Paul Morrell retired as a director on 16 April 2021.	

COMPANY SECRETARY

The following persons held office as a company secretary of the Company during the financial year:

Kate Palethorpe	**Company Secretary and General Counsel**
Interest in Group securities & options	A relevant interest in 500,000 stapled securities at 30 June 2021. A relevant interest in 1,000,000 options at 30 June 2021
Kate Palethorpe was appointed to this role in September 2018. Kate is an experienced legal and governance professional with both domestic and international businesses. She holds a Bachelor of Science and Law and is admitted to the Victorian Supreme Court and High Court of Australia. She also has a strong background in food manufacturing and FMCG, including direct experience in product development, procurement and logistics.	

MEETINGS OF DIRECTORS

The Board generally meets on a monthly basis either in person or by telephone conference. Directors meet bi-annually with the Group's auditor to discuss relevant issues. On matters of corporate governance, the Board retains its direct interest rather than through a separate committee structure which at this stage is inappropriate for a Group of this size and structure.

Aside from formally constituted directors' meetings, the directors and chairman are in regular contact regarding the operation of the Group and particular issues of importance. Written reports on trading activities and operating strategies are prepared by or provided to the directors on a regular basis or as required by changing circumstances.

The number of directors' meetings and number of meetings attended by each of the Company directors during the financial year are set out in the table below:

Directors	Meetings eligible to attend	Meetings attended
Martin Bryant	17	16
Michael Hackett	11	9
Adrian Rowley	17	14
Peter Skene	17	17
Paul Morrell	12	8
Jason Dong	4	4

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2021 (2020: $nil) at the date of this report.

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year, the Company paid an insurance premium in respect of an insurance policy insuring the directors, the company secretary and all executive officers of the Group against a liability incurred as a consequence of holding that office in the Group to the extent permitted by the *Corporations Act 2001*. The amount of the premium was $60,076 (2020: $45,833) for all directors and officers for the year.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such by an officer or auditor.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of a court to bring proceedings against or on behalf of the Group or to intervene in any significant proceedings to which any such entity is a party for the purpose of taking responsibility for all or any part of those proceedings. No proceeding has had or is likely to have a material impact on the financial position of the Group.

NON-AUDIT SERVICES

The Board is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and is satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

NON-AUDIT SERVICES (cont'd)

i) all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and,

ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional Ethical Standards Board.

During the year ended 30 June 2021 there was no payment to external auditors for non-audit services (2020: $nil).

OPTIONS / PERFORMANCE SECURITIES

At the date of this report, the unissued ordinary stapled securities of Australian Dairy Nutritionals Limited under option are as follows:

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
12 February 2018	12 February 2023	12.4 cents	7,000,000[1.]
19 August 2019	19 August 2022	18 cents	2,500,000
18 November 2019	18 November 2022	11.5 cents	2,500,000[1.]
10 December 2020	30 June 2021[2.]	-	1,000,000
16 February 2021	15 August 2022	9 cents	4,000,000
17 Februry 2021	17 February 2024	9 cents	3,000,000

[1.] Loan Securities

[2.] Performance hurdles attached to 1,000,000 rights have been achieved as at 30 June 2021, however the securities have yet to be issued.

Option holders do not have any rights, by virtue of holding options, to participate in any issues of securities or other interests of the Company or any other entity.

There have been no other options granted over unissued securities or interests of any controlled entity within the Group during or since the end of the reporting period.

A summary of movements in options and other performance securities is set out in Note 26.

For details of options and performance securities issued to directors and executives as remuneration, refer to the Remuneration Report.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2021 has been received and a copy can be found at page 20.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Australian Dairy Nutritionals Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific incentives based on achievement of key operational and strategic objectives affecting the Group's performance. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- the remuneration policy is developed and approved by the Board. The Group does not have a remuneration committee due to the current size and nature of the Group's activities. Professional advice is sought by the Board from independent external consultants when required;
- All KMP receive a base salary (which is based on factors such as length of service, nature of role and experience) plus superannuation and performance incentives;
- Performance incentives are based on the achievement of strategic and operational objectives for the KMP, which are agreed in advance, typically at or shortly after the Group's budget and strategy for the relevant financial year is approved;
- Performance incentives are only paid if the Board determines the KMP has met some or all of the predetermined key performance indicators (KPIs);

REMUNERATION REPORT (cont'd)

- Incentives paid in the form of equity are intended to align the interests of the KMP and the Group with those of the securityholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and

- The Board reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is reviewed on an ongoing basis with a formal review conducted annually after issue of the Group's audited results for the relevant financial year. This includes review of the KMP's performance against agreed objectives and award of incentives (if relevant). The policy is designed to attract a high caliber of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive, at a minimum, a superannuation guarantee contribution in line with legislation, which is currently 10%. Some individuals, however, may choose from time to time to sacrifice part of their salary to increase payments towards superannuation.

There are currently no defined benefit superannuation entitlements to executive KMP and upon retirement KMP are paid employee benefit entitlements accrued to the date of retirement. Any options or rights not exercised before or on the date of termination will lapse (unless otherwise agreed by the Board).

All remuneration paid to KMP is valued at the cost to the Group and expensed.

The Board's policy is to remunerate non-executive directors at market rates for their time, commitment and responsibilities. The Chairman determines payments to the directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to directors is subject to approval by shareholders at the annual general meeting.

Directors are entitled to participate in the Long Term Incentive Plan (LTIP) to align their interests with shareholders' interests.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration. In addition, the Board's remuneration policy prohibits directors and KMP from using Australian Dairy Nutritionals Limited securities as collateral in any financial transaction, including margin loan arrangements.

Engagement of Remuneration Consultants

During the financial year, no consultants were engaged by the remuneration committee to review the elements of KMP remuneration and provide recommendations. As the size and nature of the Group's activities increase, this may become necessary.

Performance-based Remuneration

Performance incentives are set annually, in consultation with KMP and based on the Group's strategic and operational objectives, both short term and long term. A portion of the measures typically focus on the overall performance of the Group (measured by specific performance metrics) and a portion are specifically tailored to the area each individual is involved in and accountable for. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, based on an assessment of the KMP's performance against the agreed KPIs. In determining whether or not a KPI has been achieved, the Group bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports may be obtained from other organisations.

Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficacy is assessed in relation to the Group's goals and shareholder wealth, before KPIs are set for the following year.

Relationship between Remuneration Policy and Group Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The establishment of the LTIP is to encourage the alignment of personnel and shareholder interests. The Group believes this policy should be effective in increasing shareholder wealth in future years.

Performance Conditions Linked to Remuneration

During this financial year, the Group issued Performance Incentives to current KMP.

REMUNERATION REPORT (cont'd)

Employment Details of Members of Key Management Personnel

The following table provides employment details of persons who were, during the financial year, members of KMP of the consolidated Group. The table also illustrates the proportion of remuneration that was performance and non-performance based.

			Proportions of Elements of Remuneration Related to Performance (Other than Options Issued)		Proportions of Elements of Remuneration Not Related to Performance
			Non-salary Cash-based Incentives	Securities	Fixed Salary / Fees
Name	Position Held	Contract Details	%	%	%
M Bryant	Chairman	N/A	-	-	100
M Hackett	Director	N/A	-	-	100
A Rowley	Director	N/A	-	-	100
P Morrell	Director	N/A	-	-	100
J Dong	Director	N/A	-	-	100
P Skene	Group CEO / Director	3 month's notice	-	-	100

In the current year, no KMP received any performance-based remuneration.

Changes in Directors and KMP Subsequent to Year-end

There has been no change to directors or KMP subsequent to year-end.

Remuneration Expense Details for the Year Ended 30 June 2021

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the Group. Such amounts have been calculated in accordance with Australian Accounting Standards.

Key Management Personnel (KMP)	Short Term Benefit		Post Employment	Long-term Benefit	Termination	Equity-settled Share-based Payments	Total
	Salary / Director's Fees	Securities	Super Contributions	LSL	Termination Benefits	Performance Rights	
	$	$	$	$	$	$	$
M Hackett - 2021 [1]	45,000	-	4,275	-	-	-	49,275
M Hackett - 2020	68,750	-	6,531	-	-	-	75,281
A Rowley - 2021 [2]	60,000	-	5,700	-	-	-	65,700
A Rowley - 2020	55,000	-	5,225	-	-	-	60,225
P Skene - 2021	383,714	-	25,000	24,616	-	110,999	544,329
P Skene - 2020	376,942	-	23,441	25,059	-	-	425,442
P Morrell- 2021 [3]	50,000	-	4,750	-	-	-	54,750
P Morrell - 2020	60,000	-	5,700	-	-	-	65,700
M Bryant - 2021	75,000	-	7,125	-	-	-	82,125
M Bryant - 2020 [4]	45,833	-	4,354	-	-	-	50,187
J Dong - 2021 [5]	12,667	-	1,203	-	-	-	13,870
Total - 2021	**626,381**	**-**	**48,053**	**24,616**	**-**	**110,999**	**810,049**
Total - 2020	**606,525**	**-**	**45,251**	**25,059**	**-**	**-**	**676,835**

REMUNERATION REPORT (cont'd)

1. Michael Hackett retired as a director on 23 March 2021.

2. This amount is paid in accordance with a contract arrangement with Watershed Funds Management Pty Ltd, an entity associated with Adrian Rowley.

3. Paul Morrell retired as a director on 16 April 2021.

4. Martin Bryant was appointed as a director on 11 November 2019.

5. Jason Dong was appointed as a director on 15 April 2021.

Options and Rights Granted as Share-based Payments

		Grant Details			Exercised		Forfeit	
	Balance at 01/07/2020	**Issue Date**	**No.**	**Value ($)**	**No.**	**Value ($)**	**No.**	**Balance at 30/06/2021**
P Skene	7,000,000	17/02/2021	3,000,000	242,998	-	-	(2,000,000)	8,000,000

		Vested	Unvested
	Balance at 30/06/2021	**No.**	**No.**
P Skene	8,000,000	8,000,000	-

The fair value of options granted as remuneration as shown in the above table has been determined in accordance with Australian Accounting Standards and was recognised as an expense over the relevant vesting period.

There were no options or rights granted as share-based payments to KMP during the 2020 comparative year.

Description of Options/Rights Issued as Remuneration

There were no options or rights issued as remuneration during the year (2020: nil). On 29 November 2019, securityholders approved the issue of 6,000,000 performance rights to directors, subject to achievement of specific performance hurdles. The performance rights were not issued and have been cancelled.

KMP Securityholdings

The number of ordinary securities held directly, indirectly, or beneficially by each KMP (or their related parties) of the Group during the financial year is as follows:

30 June 2020	Balance at 01/07/2020	Granted as Remuneration	Other Changes	Balance at 30/06/2021
Martin Bryant	1,000,000	-	500,000	1,500,000
Michael Hackett[1]	23,298,887	-	(23,298,887)	-
Adrian Rowley	911,000	-	500,000	1,411,000
Peter Skene	12,515,385	-	900,000	13,415,385
Paul Morrell	-	-	-	-
Jason Dong	-	-	-	-
	37,725,272	**-**	**(21,398,887)**	**16,326,385**

[1] The balance includes relevant interests held indirectly.

REMUNERATION REPORT (cont'd)

Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments apart from those described in the tables above relating to options, rights and security holdings.

Loans to KMP

At the date of this report, there have been no loans made to or from any member of KMP.

Other Transactions with KMP and/or their Related Parties

As set out in Note 24(b) of the financial statements, the Group had the following transactions with KMP:

(i) Watershed Funds Management Pty Ltd - director related entity

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2021, Watershed Funds Management Pty Ltd was paid $65,700 (2020: $60,225) for the provision of services performed by Adrian Rowley as director. There was $6,023 (2020: $6,023) due at 30 June 2021.

There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above relating to equity and compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favorable than those reasonably expected under arm's length dealings with unrelated persons.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Martin Bryant
Chairman

31 August 2021

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the overall Corporate Governance of the Group.

The Board monitors the operational and financial position and performance of the Group and oversees the business strategy, including approving the strategic goals of the Group and considering and approving its business plan and the associated farm, processing and corporate budgets.

The Board is committed to maximising performance and growth and generating appropriate levels of security holder value and returns. In conducting the Group's business, the Board strives to ensure the Group is properly managed to protect and enhance securityholder interests and that the Group operates in an appropriate environment of Corporate Governance. In accordance with this, the Board has developed and adopted a framework of Corporate Governance policies, risk management practices and internal controls that it believes are appropriate for the Group.

The ASX Listing Rules require the Group to report on the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's Principles and Recommendations. The Corporate Governance Statement, which was lodged with this Annual Report, discloses the extent to which the Group will follow the recommendations taking into account the relatively small size of the Group in determining the extent of practical implementation.

The principal governance related policies and practices are as follows:

- Corporate Governance Statement
- Board Charter
- Securityholder Communication Policy
- Risk Management Policy
- Continuous Disclosure Policy
- Code of Conduct

Details of the Group's key policies, charters for the Board and code of conduct are available on the Group's website under the Governance tab at www.adnl.com.au.

Nexia Australia

Auditor's Independence Declaration under S307C of the *Corporations Act 2001*

To the Directors of Australian Dairy Nutritionals Limited

As the lead auditor for the audit of Australian Dairy Nutritionals Limited I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Dairy Nutritionals Limited and the entities it controlled during the year.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Gavin Ruddell
Director

Date: 31 August 2021

Nexia Brisbane Audit Pty Ltd
Registered Audit Company 299289
Level 28, 10 Eagle Street
Brisbane QLD 4000
GPO Box 1189
Brisbane QLD 4001
p +61 7 3229 2022
f +61 7 3229 3277
e email@nexiabrisbane.com.au
w nexia.com.au

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $	2020 $
Revenue	4(a)	21,714,193	22,467,336
Other income	4(b)	1,802,945	1,621,740
Administration costs	4(c)(v)	(754,044)	(805,349)
Employment expenses	4(c)(iv)	(6,047,672)	(6,262,998)
Finance costs	4(c)(i)	(454,849)	(527,359)
Dairy product related costs	4(c)(iii)	(12,830,175)	(11,863,680)
Dairy farm related costs	4(c)(ii)	(4,579,477)	(5,552,223)
Depreciation and amortisation expense		(1,113,469)	(1,781,871)
Deemed cost of livestock disposed	4(c)(vi)	(2,294,548)	(1,143,695)
Impairment expenses	4(c)(vi)	(2,353,741)	(3,647,988)
Loss before income tax		**(6,910,837)**	**(7,496,088)**
Tax expense	5	-	-
Net loss for the year		**(6,910,837)**	**(7,496,088)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		-	-
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the year		**-**	**-**
Total comprehensive loss for the year		**(6,910,837)**	**(7,496,088)**
Loss is attributable to:			
Company shareholders		(6,403,982)	(7,448,762)
Trust unitholders		(506,855)	(47,326)
		(6,910,837)	**(7,496,088)**
Total comprehensive loss is attributable to:			
Company shareholders		(6,403,982)	(7,448,762)
Trust unitholders		(506,855)	(47,326)
		(6,910,837)	**(7,496,088)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	30	(1.62)	(2.08)
Diluted earnings per stapled security (cents)	30	(1.62)	(2.08)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Notes	2021 $	2020 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	6,192,119	6,361,821
Trade and other receivables	7	1,321,409	2,081,011
Inventories	8	1,038,700	1,257,907
Other assets	9	151,020	164,949
Total Current Assets		**8,703,248**	**9,865,688**
Non-Current Assets			
Biological assets	10	4,795,079	5,368,015
Right of use assets	11	956,287	1,368,635
Intangible assets	12	429,173	2,753,218
Property, plant & equipment	13	28,227,815	29,757,034
Total Non-Current Assets		**34,408,354**	**39,246,902**
Total Assets		**43,111,602**	**49,112,590**
LIABILITIES			
Current Liabilities			
Trade and other payables	14	1,969,469	2,213,785
Lease liabilities		200,079	307,650
Provisions	15	566,887	565,064
Borrowings	16	5,980,506	12,081,526
Total Current Liabilities		**8,716,941**	**15,168,025**
Non-Current Liabilities			
Lease liabilities		309,468	524,132
Provisions	15	98,228	114,935
Total Non-Current Liabilities		**407,696**	**639,067**
Total Liabilities		**9,124,637**	**15,807,092**
Net Assets		**33,986,965**	**33,305,498**
EQUITY			
Issued capital	17(a)	40,562,399	33,191,050
Reserves	18	918,363	720,408
Accumulated losses		(30,152,297)	(23,771,315)
Equity attributable to shareholders		**11,328,465**	**10,140,143**
Non-controlling interests			
Issued units	17(a)	30,744,991	30,744,991
Accumulated losses		(8,086,491)	(7,579,636)
Equity attributed to non-controlling interests		**22,658,500**	**23,165,355**
Total Equity		**33,986,965**	**33,305,498**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $	2020 $
Cash Flows from Operating Activities			
Receipts from customers		22,494,337	25,334,445
R&D tax incentive		-	299,516
Payments to suppliers and employees		(24,086,291)	(27,430,492)
Interest received		15,316	77,679
Finance costs		(454,849)	(527,359)
Net operating cash flows	6(b)	**(2,031,487)**	**(2,246,211)**
Cash Flows from Investing Activities			
Payment for property, plant and equipment		(4,896,237)	(1,260,456)
Proceeds from sale of property, plant and equipment		6,148,064	-
Payment for biological assets	10	(107,423)	(8,988)
Payment for intangible assets	12(b)	(79,107)	(56,485)
Payment for acquisition of Organic Nutritionals Pty Ltd	3(i)	-	(1,235,013)
Cash on acquisition of Epicurean Dairy	3(iii)	-	106,947
Net investing cash flows		**1,065,297**	**(2,453,995)**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs		7,220,203	7,677,005
Repayment of CBA facility		(6,073,494)	-
Proceeds from borrowings - unsecured		376,734	355,818
Repayment of borrowings - unsecured		(404,260)	(328,292)
Repayment of hire purchase loans		(195,636)	(266,372)
Repayment of lease principal		(127,059)	(124,682)
Net financing cash flows		**796,488**	**7,313,477**
Net increase / (decrease) in cash held		**(169,702)**	**2,613,271**
Cash at the beginning of the period		6,361,821	3,748,550
Cash at the end of the financial period	6	**6,192,119**	**6,361,821**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	Issued Capital Ordinary $	Option Reserve $	Accumulated Losses $	Non-controlling Interest (Trust) $	Total $
Balance at 1 July 2020		33,191,050	720,408	(23,771,315)	23,165,355	33,305,498
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(6,403,982)	(506,855)	(6,910,837)
Total comprehensive loss for the year		**-**	**-**	**(6,403,982)**	**(506,855)**	**(6,910,837)**
Transactions with equity holders in their capacity as equity holders and other transfers:						
Contributions of equity, net of transaction costs	17(a)	7,145,590	-	-	-	7,145,590
Option expense		-	220,955	-	-	220,955
Supplier securities issued	17(a)	131,759				131,759
Employee and consultant performance securities issued	17(a)	94,000	-	-	-	94,000
Transfer to retained earnings (options)	26(c)(ii)	-	(23,000)	23,000	-	-
Total transactions with equity holders		**7,371,349**	**197,955**	**23,000**	**-**	**7,592,304**
Balance at 30 June 2021		**40,562,399**	**918,363**	**(30,152,297)**	**22,658,500**	**33,986,965**

	Notes	Issued Capital Ordinary $	Option Reserve $	Accumulated Losses $	Non-controlling Interest (Trust) $	Total $
Balance at 1 July 2019		25,474,856	591,634	(16,264,510)	23,212,681	33,014,661
AASB16 adjustment		-	-	(20,865)	-	(20,865)
Balance at 1 July 2019		**25,474,856**	**591,634**	**(16,285,375)**	**23,212,681**	**32,993,796**
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(7,448,762)	(47,326)	(7,496,088)
Total comprehensive loss for the year		**-**	**-**	**(7,448,762)**	**(47,326)**	**(7,496,088)**
Transactions with equity holders in their capacity as equity holders and other transfers:						
Contributions of equity, net of transaction costs	17(a)	7,596,194	-	-	-	7,596,194
Option expense		-	162,977	-	-	162,977
Employee performance securities issued	17(ii)	120,000	-	-	-	120,000
AASB 3 remeasurement	3(iii)	-	-	(71,381)	-	(71,381)
Transfer to retained earnings (options)	26(c)(ii)	-	(34,203)	34,203	-	-
Total transactions with equity holders		**7,716,194**	**128,774**	**37,178**	**-**	**7,807,790**
Balance at 30 June 2020		**33,191,050**	**720,408**	**(23,771,315)**	**23,165,355**	**33,305,498**

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Australian Dairy Nutritionals Group ("the Group") was formed by the stapling of Australian Dairy Nutritionals Limited ("the Company") and its controlled entities, and Australian Dairy Farms Trust ("the Trust"). The Financial Reports of the Group and the Trust have been presented jointly in accordance with ASIC Class Order 13/1050 relating to combining accounts under stapling and for the purpose of fulfilling the requirements of the Australian Securities Exchange.

The Trust is a registered managed investment scheme under the Corporations Act 2001. The Responsible Entity, Dairy Fund Management Limited, is governed by the terms and conditions specified in the constitution and is domiciled in Australia.

The Group was established for the purpose of facilitating a joint quotation of the Company and the Trust on the Australian Securities Exchange. The constitutions of the Trust and the Company ensure that, for so long as the two entities remain jointly quoted, the number of units in the Trust and the number of shares in the Company shall be equal and the unitholders and shareholders are identical. Both the Responsible Entity of the Trust and the Company must at all times act in the best interests of the Group.

To account for the stapling, Australian Accounting Standards require an acquirer (the Company) to be identified and an acquisition to be recognised. The net assets and net profit of the acquiree (the Trust) are recognised as non-controlling interest as they are not owned by the acquirer in the stapling arrangement.

The stapling arrangement will cease upon the earliest of either the winding up of the Company or the Trust or by agreement between the parties.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements were authorised for issue by the Board of Directors as at the date of signing the directors' declaration.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Principles of Consolidation

Stapling

The stapling of the Company and the Trust was approved at separate meetings of the respective shareholders and unitholders on 1 September 2014. On 22 October 2014, shares in the Company and units in the Trust were stapled to one another and are now quoted as a single security on the Australian Securities Exchange.

Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company and the Trust, the Company is identified as having acquired control over the assets of the Trust. To recognise the in-substance acquisition, the following accounting principles have been applied:

(1) no goodwill is recognised on acquisition of the Trust because no direct ownership interest was acquired by the Company in the Trust;

(2) the equity issued by the Company to unitholders to give effect to the transaction is recognised at the dollar value of the consideration payable by the unitholders. This is because the issue of shares by the Company was administrative in nature rather than for the purposes of the Company acquiring an ownership interest in the Trust; and

(3) the issued units of the Trust are not owned by the Company and are presented as non-controlling interests in the Group notwithstanding that the unitholders are also the shareholders by virtue of the stapling arrangement. Accordingly, the equity in the net assets of the Trust and the profit / (loss) arising from these net assets have been separately identified in the statement of comprehensive income and statement of financial position.

The Trust's contributed equity and accumulated losses are shown as a non-controlling interest in this Financial Report. Even though the interests of the equity holders of the identified acquiree (the Trust) are treated as non-controlling interests the equity holders of the acquiree are also equity holders in the acquirer (the Company) by virtue of the stapling arrangement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Principles of consolidation (cont'd)

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the Company and all subsidiaries from the date on which control is obtained by the Company.

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-entity transactions, balances and unrealised gains on transactions between Company entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in Note 23 to the consolidated financial statements.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and

(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interest is recognised in the consolidated financial statements.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Principles of consolidation (cont'd)

Goodwill (cont'd)

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or Group's of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

(c) Income tax

Under current income tax legislation the Trust is not liable to pay tax provided its taxable income and realised capital gains are distributed to unitholders. The liability for capital gains tax that may arise if the land and buildings were sold is not accounted for in this report.

The Company's income tax expense for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

Tax consolidation

The Company and its wholly owned entities (this excludes the Trust) have formed a tax-consolidated group with effect from 1 July 2014 and are, therefore, taxed as a single entity from that date. The head entity within the tax consolidated group is Australian Dairy Nutritionals Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group, using the 'separate taxpayer within the group' approach by reference to carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts referred to in the following section. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits to the tax consolidated group will be available against which the asset can be utilised. Any subsequent period adjustment to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, is recognised by the head entity only.

Tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax consolidate group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Income tax (cont'd)

Tax funding arrangements and tax sharing arrangements (cont'd)

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

(d) Fair value of assets and liabilities

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

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

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

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

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

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

(e) Inventories

Inventories and consumables held for use in operations are valued at the lower of cost and net realisable value. Cost is determined on the average cost basis and comprises the cost of purchase including transport costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(f) Biological Assets

Biological assets are comprised of livestock (dairy cattle). Biological assets are measured at fair value less costs to sell, with any change recognised in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The Group, at each reporting date, appoints an external, independent valuer who having recent experience in the location and nature of cattle held by the Group performs a valuation for the reporting date. Fair value is determined by reference to market values for cattle of similar age, weight, breed and genetic make-up. The fair value represents the estimated amount for which cattle could be sold on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the event an independent valuer has not been appointed the Group determines whether an active or other effective market exists for a biological asset in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist then the directors use one of the following valuation methods, when available, in determining fair value:

- the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or
- market prices, in markets accessible to the entity, for similar assets with adjustments to reflect differences.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial liabilities

All of the Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period.

The effective interest rate is the internal rate of return of the financial asset or liability; that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

The Group does not have any financial liabilities classified as held for trading, designated as fair value through profit or loss or any financial guarantee contracts.

A financial liability cannot be reclassified.

Financial assets

Financial assets are subsequently measured at:

- amortised cost; or
- fair value through other comprehensive income, or through profit and loss.

Measurement is on the basis of the two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates; and
- the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Financial instruments (cont'd)

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial assets:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (i.e. the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity which was elected to be classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Impairment

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost;

Loss allowance is not recognised for:

- financial assets measured at fair value.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the simplified approach to impairment, as applicable under AASB 9: Financial Instruments.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

In measuring the expected credit loss, a provision matrix for trade receivables was used taking into consideration various data to get to an expected credit loss (i.e. diversity of customer base, appropriate groupings of historical loss experience, etc.).

Recognition of expected credit losses in financial statements

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Property, Plant and Equipment

Basis of measurement of carrying amount

Land, buildings and improvements, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount. The recoverable value of farm property is based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings and an assessment of the properties' value in use.

In the event the carrying amount of property, plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses are recognised in profit or loss. Any reversal of an impairment loss is recognised in profit and loss, to the extent that the increased carrying amount does not exceed 'historical carrying amount' had no impairment loss been recognised previously. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(l) for details of impairment).

Subsequent costs for an asset are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets, including buildings but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is available for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful-life rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate (years)
Land	Not depreciated
Land improvements	3 years
Buildings	40 years
Fixed Improvements	30 years
Plant and equipment - owned	3-10 years
Plant and equipment - leased	2-5 years
Motor Vehicles	5 years

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income in the period which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(i) Leases (the Group as lessee)

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability is recognised by the Group where the Group is a lessee. However all contracts that are classified as short-term leases (lease with remaining lease term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Leases (the Group as lessee) (cont'd)

- the amount expected to be payable by the lessee under residual value guarantees
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options if lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability as mentioned above, any lease payments made at or before the commencement date as well as any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates exercising a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

(j) Employee Benefits

Short-term employee benefits

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

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

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

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

Equity-settled payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to equity. The fair value of options is determined using a binomial pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(k) 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 using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(l) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised immediately in profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Intangibles other than Goodwill

Other intangibles have a finite life and are carried at cost or fair value less any accumulated amortisation and any impairment losses, and are amortised over their useful lives.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less.

(o) Trade and other receivables

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

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(g) for further discussion on the determination of impairment losses.

(p) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

(q) Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Goods and services tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(s) Revenue and Other Income

Revenue recognition policies are as follows:

The sale of dairy farm and dairy processing segment products are measured at the fair value of consideration received net of any trade discounts and volume rebates allowed.

The sale of dairy products represents a single performance obligation and accordingly, revenue will be recognised in respect of the sale of these goods at the point in time when control over the corresponding goods and services is transferred to the customer (i.e. at a point in time for sale of goods when the goods are delivered to the customer or transfer to the freight forwarder).

Dairy cattle fair value adjustments are determined at the end of each reporting date (refer Note 10). The amount of the net increment or decrement in the fair value is recorded as either revenue or expense and is determined as:

- The difference between the total net fair value of dairy cattle recognised at the beginning of the financial year and the total fair value of dairy cattle recognised as at the reporting date; less
- Costs expected to be incurred in realising the fair value (including freight and selling costs).

Dairy cattle sales are recognised when:

- there has been a transfer of control to the customer (through the execution of a sales agreement at the time of delivery of the cattle to the customer);
- the quantity and quality of the cattle has been determined; and
- the price is fixed and generally title has passed.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Government funding / grant assistance is recognised at fair value where there is reasonable assurance the grant will be received and all conditions will be met.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(t) Critical Accounting Estimates and Judgments

The preparation of the financial statements requires directors to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. The director's continually evaluate their judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Judgements and estimates are based on historical experience and on other various factors they believe are 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.

Accounting measurements for which significant judgements, estimates and assumptions have been made are:

- Carrying value determination of land and buildings, refer Note 13;
- Carrying value determination of goodwill and intangibles, refer Note 12;
- Fair value determination of livestock, refer Note 10;
- Classification of debt, refer Note 16;
- Share based payments, refer Note 26; and
- Income tax and other taxes, refer Note 5.

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. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(u) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(v) New and Amended Accounting Policies Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period but determined that their application to the financial statements is either not relevant or not material.

NOTE 2: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2021 $	2020 $
Statement of Financial Position		
Assets		
Current assets	15,341,454	10,136,695
Non-current assets	12,562,305	12,889,053
Total assets	**27,903,759**	**23,025,748**
Liabilities		
Current liabilities	5,084,304	4,885,559
Non-current Liabilities	920	277
Total liabilities	**5,085,224**	**4,885,836**
Equity		
Issued capital	40,562,398	33,191,051
Reserves	918,363	720,408
Retained earnings	(18,662,226)	(15,761,547)
Total Equity	**22,818,535**	**18,149,912**
Statement of Profit or Loss and Other Comprehensive Income		
Total loss	(2,923,679)	(1,765,431)
Total comprehensive loss	(2,923,679)	(1,765,431)

Contingent liabilities and guarantees

The Company has a contingent liability for payment of royalties in respect of Epicurean Dairy Products commencing April 2022 and guarantees in respect of CBA borrowings, refer Note 16.

The Company does not have any other contingent liabilities or guarantees for the year ended 30 June 2021 (2020: nil).

Contractual commitments

At 30 June 2021, the parent company had not entered into any contractual commitments.

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NOTE 3: BUSINESS COMBINATIONS

(i) Organic Nutritionals Pty Ltd (31 December 2019 acquisition)

On 26 August 2019, Australian Dairy Nutritionals Limited acquired 100% of the issued capital and control of Organic Nutritionals Pty Ltd (Organic Nutritionals) for a total purchase consideration of $1,235,013. This acquisition forms part of the Group's overall strategy to expand its dairy processing business and is a key step in its organic infant formula project.

The identifiable assets acquired and liabilities assumed on acquisition of Organic Nutritionals were as follows:

	$
Purchase consideration:	
Cash	1,235,013
Total purchase consideration	**1,235,013**
Fair value of assets acquired and liabilities assumed:	
Trade and other receiveables	14,879
Property, plant and equipment	1,220,134
Net identifiable assets acquired and liabilities assumed	**1,235,013**

(ii) Jonesy's Distribution Pty Ltd (31 December 2019 acquisition)

On 7 October 2019, Australian Dairy Nutritionals Limited (the Group) acquired the business assets of Jonesy's Dairy Fresh as part of a joint venture with Somerville Property Holdings Pty Ltd (Sommerville Property). There was no consideration paid and the joint venture company, Jonesy's Distribution Pty Ltd (Jonesy's Distribution) is 75% owned by the Group and 25% owned by Somerville Property.

The business assets of Jonesy's Dairy Fresh include premium quality brands and products, long established relationships supplying cafes, restaurants and retailers and the associated delivery systems and infrastructure. The Group supplies Jonesy's Dairy Fresh with milk and dairy products, providing another distribution channel for its products.

The identifiable assets acquired and liabilities assumed on acquisition of the Jonesy's Dairy Fresh business assets were as follows:

	$
Purchase consideration	-
Fair value of assets acquired and liabilities assumed:	
Property, plant and equipment	4,500
Net identifiable assets acquired and liabilities assumed[1.]	**4,500**

(iii) Camperdown Brand Manufacturing Pty Ltd (formerly Epicurean Dairy Pty Ltd) (Epicurean Dairy)

On 30 April 2020 the Group acquired 100% of the issued capital and control of Epicurean Dairy. The acquisition expanded the Group's manufacturing arrangement for The Collective range of yoghurt products to include the exclusive right to manufacture, distribute and sell The Collective products in Australia.

The acquisition agreement for Epicurean Dairy also provides for the Group to pay royalties in the range of 1% - 4% of revenue on certain products commencing April 2022.

The identifiable assets acquired and liabilities assumed on acquisition of Epicurean Dairy were as follows:

	$
Purchase consideration	-
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	106,947
Trade and other receivables[1.]	907,939
Inventories	132,692
Other assets	36,939
Property plant and equipment	41,399
Trade and other payables	(1,202,593)
Provisions	(51,764)
Net identifiable assets acquired and liabilities assumed[2.]	**(28,441)**

NOTE 3: BUSINESS COMBINATIONS (cont'd)

[1.] Included in trade and other receivables is a $535,255 receivable from the vendor for the working capital adjustment on acquisition. At 30 June 2020 the provisional accounting for the acquisition estimated the receivable to be $606,636. As required by AASB 3, the original estimate has been reassessed, resulting in the restatement of the 30 June 2020 comparative accounts in the Statement of Financial Position as set out below:

	Restated $	Previously Reported $
Statement of Financial Position		
Assets		
Current assets		
Receivables	2,081,011	2,152,392
All other current assets	7,784,677	7,784,677
Non-current assets	39,246,902	39,246,902
Total assets	**49,112,590**	**49,183,971**
Liabilities		
Current liabilities	15,168,025	15,168,025
Non-current Liabilities	639,067	639,067
Total liabilities	**15,807,092**	**15,807,092**
Net assets	**33,305,498**	**33,376,879**
Equity		
Issued capital	33,191,050	33,191,050
Reserves	720,408	720,408
Accumulated losses	(23,771,315)	(23,699,934)
Non-controlling interests	23,165,355	23,165,355
Total Equity	**33,305,498**	**33,376,879**

NOTE 4: REVENUE AND EXPENSES

	Notes	2021	2020
		$	$
(a) Revenue			
Revenue from contracts with customers	(i)	21,301,894	21,892,308
Other sources of revenue	(ii)	412,299	575,028
Total revenue		**21,714,193**	**22,467,336**
(i) Revenue disaggregation			
The revenue is disaggregated by service line and timing of revenue recognition.			
Service lines:			
- Dairy processing		13,609,650	13,893,084
- Dairy farms		7,692,244	7,999,224
		21,301,894	21,892,308
Timing of revenue recognition			
Services transferred to customers:			
- at a point in time		21,301,894	21,892,308
(ii) Other sources of revenue			
Interest		15,316	77,679
Farm costs recoveries		37,897	55,669
R&D tax incentive		-	299,516
Government grants - Cashflow Boost subsidy		323,393	100,000
Fuel rebate and other revenue		35,693	42,164
		412,299	575,028
(b) Other Income			
Gain on change in fair value of livestock (refer Note 10)		1,614,189	1,574,300
Gain on acquisition of property, plant and equipment		-	47,440
Gain on disposal of property, plant and equipment		188,756	-
		1,802,945	**1,621,740**
(c) Expenses			
(i) Finance costs			
CBA facility		389,196	467,433
Loans - unsecured		23,838	6,533
Finance costs - right of use assets		20,937	23,388
Finance charges payable under finance leases		20,878	30,005
		454,849	**527,359**
(ii) Dairy related costs			
Feed costs		1,741,843	2,532,373
Repairs, maintenance and vehicle costs		450,610	459,880
Animal health costs		69,641	63,683
Land holding and lease costs		64,844	(59,514)
Breeding and herd testing expenses		222,373	168,642
Dairy shed expenses		110,881	131,850
Electricity		234,203	279,556
Other dairy related costs		1,685,082	1,975,753
		4,579,477	**5,552,223**

NOTE 4: REVENUE AND EXPENSES (cont'd)

	2021	2020
	$	$
(iii) Dairy processing related costs		
Cost of goods sold	9,282,333	9,188,136
Freight costs	1,669,919	910,654
Property and lease costs	229,289	248,124
Loss allowance on receivables	72,816	371,856
Other dairy processing related costs	1,575,818	1,144,910
	12,830,175	**11,863,680**
(iv) Employment benefits expense		
Employee and director remuneration costs	5,807,332	6,100,021
Equity settled remuneration costs	240,340	162,977
	6,047,672	**6,262,998**
(v) Administration and non-dairy related costs		
Administration costs	432,131	474,550
Professional costs	321,913	330,799
	754,044	**805,349**
(vi) Other significant items		
Impairment of goodwill (refer Note 12)	2,353,741	4,262,652
Impairment reversal - land and buildings (refer Note 13)	-	(614,664)
	2,353,741	**3,647,988**
Deemed cost of livestock sold (refer Note 10)	2,294,548	1,143,695

NOTE 5: INCOME TAX EXPENSE

	2021	2020
(a) The prima facie tax on profit before income tax is reconciled to the income tax as follows		
Prima facie tax payable / (benefit) on profit / (loss) from ordinary activities before income tax at 26% (2020: 27.5%):	(1,796,818)	(2,061,424)
Add /(less)		
Tax effect of:		
- trust loss not recognised	132,089	188,337
- current period tax losses not recognised	1,860,605	1,486,411
- net amount of expenses not currently deductible	991,656	833,892
- other income not included in assessable income	(1,187,532)	(447,216)
Income tax expense / (benefit) attributable to entity	-	-

Applicable weighted average effective tax rates are nil due to losses.

NOTE 5: INCOME TAX EXPENSE (cont'd)

(b) Deferred tax assets not recognised

Deferred tax assets and liabilities not brought to account, the net benefit of which will only be realised if the conditions for deductibility set out in Note 1 occur. The amount of losses ultimately available is also dependent on compliance with conditions of deductibility imposed by law.

	2021 $	2020 $
Temporary differences	156,823	400,817
Tax losses	10,276,345	8,761,554
Capital losses	243,233	257,266
Net unbooked deferred tax assets	**10,676,401**	**9,419,637**

The Group has revenue losses of $39,524,405 (2020: $31,860,198) and capital losses of $935,513 (2020: $935,513). The revenue losses comprise $33,744,098 of Group losses and $5,780,307 of transferred in losses "pre-stapling". The transferred in losses can be carried forward and may be utilised against taxable income in future years provided the Same Business Test is satisfied. The Group is of the view that it satisfies the necessary criteria for these losses to be made available against future taxable profit, however the ATO will not rule on the availability to carry forward the losses at a point in time, they will only rule on the ability to utilise the losses at the date of utilisation.

The 2020 year carry forward loss amounts have been re-stated to agree to tax returns as lodged.

NOTE 6: CASH AND CASH EQUIVALENTS

	Note	2021 $	2020 $
Current			
Cash at bank and in hand		6,192,119	6,361,821
Total cash and cash equivalents	28	**6,192,119**	**6,361,821**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

(a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash and cash equivalents comprising the following at 30 June 2021:

	2021 $	2020 $
Cash at bank and in hand	6,192,119	6,361,821
	6,192,119	**6,361,821**

A floating charge over cash and cash equivalents has been provided to the CBA as part of security arrangements for current facilities. For further details refer to Note 16: Borrowings.

NOTE 6: CASH AND CASH EQUIVALENTS (cont'd)

(b) Reconciliation of Result after Income Tax to Cash Flows from Operations

	2021	2020
	$	$
Net loss after income tax	(6,910,837)	(7,496,088)
Adjustment of non-cash items		
Amortisation and depreciation	1,113,469	1,781,871
Deemed cost of livestock disposed	2,294,548	1,143,695
Fair value adjustment of biological assets	(1,614,189)	(1,574,300)
Impairment expenses	2,353,741	3,647,988
Loss on disposal of property, plant and equipment	(188,757)	-
Bad debts and impairment provision	72,816	371,856
Gain on acquisition of property, plant and equipment	-	(47,440)
Equity settled share-based payments	240,340	162,977
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	553,995	947,070
(Increase) / decrease in other assets	13,929	88,406
(Increase) / decrease in inventories	219,207	(129,499)
Increase / (decrease) in trade and other payables	(164,865)	(1,321,099)
Increase / (decrease) in provisions	(14,884)	178,352
Net operating cash flows	**(2,031,487)**	**(2,246,211)**

(c) Changes in liabilities arising from Financing Activities:

	1 July 2020	Cash flows	Acquisition	Non-cash Accrual	30 June 2021
	$	$	$		$
CBA Facility	12,054,000	(6,073,494)	-	-	5,980,506
Loans - unsecured	27,526	(404,260)	376,734	-	-
Lease liabilities	831,782	(322,695)	-	461	509,548
Total	**12,913,308**	**(6,800,449)**	**376,734**	**461**	**6,490,054**

(d) Non-cash investing activities (refer note 17(a)(ii))

During the year there were 1,922,577stapled securities issued to F.A Maker Pty Ltd for a deposit and progress payment on a high-speed blending and canning line for infant formula tins and nutritional powder bags. The fair value of securities issued, determined by reference to market price, was $131,759.

(e) Non-cash financing activities (refer note 26(c)(i))

During the year the Group issued 3,000,000 lead manager options for fees associated with the capital raise. The issue price of the options was 2.5 cents calculated using the Black-Scholes method and the fair value of the options issued is $74,615.

NOTE 7: TRADE AND OTHER RECEIVABLES

	Note	2021 $	2020 $
Current			
Trade receivables		1,169,649	1,274,163
Other receivables		170,763	1,000,622
Provision for impairment		(19,003)	(193,774)
Total current trade and other receivables	28	**1,321,409**	**2,081,011**

(a) Lifetime Expected Credit Loss Credit Impaired

	Opening balance $	Net measurement of loss allowance $	Amounts written off $	Total $
Trade receivables	-	91,819	(72,816)	19,003
Other receivables	193,774	-	(193,774)	-
Current trade receivables	193,774	91,819	(266,590)	19,003

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision for all receivables as at 30 June 2021 is determined as follows; the expected credit losses also incorporate forward-looking information.

2021	Current $	>30 days past due $	>60 days past due $	>90 days past due $	Total $
Expected loss rate	0%	0%	0%	14%	
Gross carrying amount	1,134,119	45,729	29,246	131,318	**1,340,412**
Loss allowing provision (i)	-	-	-	19,003	**19,003**

2020	Current $	>30 days past due $	>60 days past due $	>90 days past due $	Total $
Expected loss rate	9%	0%	0%	0%	
Gross carrying amount	2,473,946	121,823	869	744,916	**3,341,554**
Loss allowing provision (i)	193,774	-	-	-	**193,774**

(i) In May 2020, former joint venture partner Organic Dairy Farmers of Australia Limited (ODFA) appointed voluntary administrators. The Group had an outstanding receivable of $193,774 with ODFA for deferred settlement on the joint venture due in instalments to July 2022. Given the uncertainty around the future of ODFA and recoverability of the outstanding amount, a bad debt provision was made for the full amount in the 2020 comparative and the full amount was written-off as non-recoverable in this financial year.

NOTE 7: TRADE AND OTHER RECEIVABLES (cont'd)

Credit risk

The Group has a significant concentration of credit risk with two key customers totaling $449,288 (2020: $1,741,060 (four customers)) or 34% (2020: 74%) of receivables at balance date. There is no impairment on these customers and outstanding amounts are within terms at year end.

The class of assets described as "trade and other receivables" is considered to be the main source of credit risk to the Group.

On a geographical basis, the Group has all credit risk exposures in Australia.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and an assessment of both the current and the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques used or significant assumptions made during the current reporting period.

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(b) Financial assets Measured at Amortised Cost

	Note	2021 $	2020 $
Trade and other receivables			
Total current		1,321,409	2,081,011
Total financial assets measured at amortised cost	28	**1,321,409**	**2,081,011**

(c) Collateral pledged

A floating charge over some trade receivables has been provided for certain debt. For further details refer to Note 16: Borrowings.

NOTE 8: INVENTORIES

	2021 $	2020 $
Current		
Packaging	383,920	357,972
Raw materials, finished goods and chemicals	178,771	555,992
Feedstock, hay and silage	476,009	343,943
Total inventories (at cost)	**1,038,700**	**1,257,907**

NOTE 9: OTHER ASSETS

	2021 $	2020 $
Current		
Prepayments	114,995	125,060
Bonds and deposits	36,025	39,889
Total other assets	**151,020**	**164,949**

NOTE 10: BIOLOGICAL ASSETS

	Notes	2021 $	2020 $
Non-current			
Dairy livestock	(a)	4,795,079	5,368,015
Total biological assets		**4,795,079**	**5,368,015**

NOTE 10: BIOLOGICAL ASSETS (cont'd)

Movements during the year:

	2021 $	2020 $
Opening carrying amount	5,368,015	4,928,422
Purchases of livestock	107,423	8,988
Deemed cost of livestock disposed	(2,294,548)	(1,143,695)
Gain from changes to fair value	1,614,189	1,574,300
Closing carrying amount	**4,795,079**	**5,368,015**

Movements during the year (herd numbers):	**2021 No.**	**2020 No.**
Opening balance	3,662	3,939
Purchases	58	5
Natural increase and attrition	1,177	1,530
Sales	(1,997)	(1,812)
Closing balance	**2,900**	**3,662**

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2021, the livestock has been valued at fair value, by independent stock agents, based on the prices in the open cattle market in the locality of the dairy operations. A fair value gain of $1,614,189 (2020: $1,574,300) has been recognised in profit and loss at 30 June 2021, and represents price movements, natural increase and the movement in ages of young stock.

(b) Financial risks associated with the Group's dairy herd relates to selling prices of milk, and is managed by way of contracted revenue prices.

(c) During the year ended 30 June 2021, the Group produced 10.6 million litres (2020: 12.7 million litres) of raw milk. The average number of cows milked during the year was 1,655 (2020: 1,908).

NOTE 11: RIGHT OF USE ASSETS

The Group has the following land and building leases recognised under AASB16.

- a 5-year and 3-month lease on factory premises at 325 Manifold Street, Camperdown, with an expiry date of 31 March 2025; and
- a 3-year and 2-month lease on 368 acres of land on Cooramook Road, Grassmere, Victoria.

  The land lease has a 3-year option, which provides the Group opportunities to manage the lease in order to align with business strategies. The extension or termination option is only exercisable by the Group; however, management has no reasonable certainty at this point in time that the option will be exercised and as such the option is not included in the calculation of the lease liability.

The Group also has leases for plant and equipment.

(i) AASB 16 related amounts recognised in the statement of financial position

Right of use assets	**Notes**	**2021 $**	**2020 $**
Leased land and buildings		918,924	918,924
Accumulated depreciation		(611,580)	(484,703)
	(a)	**307,344**	**434,221**
Leased plant and equipment		996,959	1,295,290
Accumulated depreciation		(348,016)	(360,876)
	(a)	**648,943**	**934,414**
Total right of use assets		**956,287**	**1,368,635**

NOTE 11: RIGHT OF USE ASSETS (cont'd)

(a) Movement in carrying amounts:	**2021** **$**	**2020** **$**
Leased land and building:		
Opening balance	434,221	-
Recognised on initial application of AASB 16 (previously classified as operating leases under AASB 117)	-	561,100
Depreciation expense	(126,877)	(126,879)
Net carrying amount	**307,344**	**434,221**
Leased plant and equipment:		
Opening balance	934,414	-
Opening balance transferred from property plant and equipment on initial application of AASB 16	-	1,103,500
Disposals	(182,412)	-
Transfer to owned plant and equipment	-	(54,009)
Depreciation expense	(103,059)	(115,137)
Net carrying amount	**648,943**	**934,414**

(ii) AASB 16 related amounts recognised in the statement of profit or loss

Depreciation charge related to right of use assets	229,936	242,016
Interest expense on lease liabilities (included in finance costs)	41,815	53,393

(iii) AASB 16 related amounts recognised in the statement of cash flows

Total cash outflows for leases	322,695	391,055

NOTE 12: INTANGIBLE ASSETS

	Notes	**2021** **$**	**2020** **$**
Goodwill			
- at cost		6,616,393	6,616,393
Less impairment expense		(6,616,393)	(4,262,652)
	(a)	**-**	**2,353,741**
Recipes, formulations and patents			
- at cost		346,846	346,846
		346,846	**346,846**
Product development			
- at cost		163,898	87,021
Less accumulated amortisation		(81,571)	(34,390)
		82,327	**52,631**
Total intangible assets	(b)	**429,173**	**2,753,218**

NOTE 12: INTANGIBLE ASSETS (cont'd)

(a) Goodwill relates to the dairy processing segment cash-generating-unit (CGU) and was assessed for impairment using a value-in-use calculation applying reasonable based estimates of revenue, gross margin, discount rates and terminal growth rate.

In the current year the CGU trading performance is down on the projections used in the 2020 assessment and as a result the directors have adopted a conservative approach and fully impaired the goodwill, resulting in a $2,353,741 (2020: $4,262,652) impairment expense.

The write down of the goodwill has no impact on the cash position or future operations of CDC's business and the directors are of the opinion that there is still significant value in the CDC plant operations and the portfolio of brand names not recognised in the Statement of Financial Position.

(b) The movement in carrying amount of intangibles comprises:

	2021 $	2020 $
Opening balance	2,753,218	6,974,236
Additions in year	79,107	56,485
Impairment expense	(2,353,741)	(4,262,652)
Amortisation	(49,411)	(14,851)
Closing balance	**429,173**	**2,753,218**

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Notes	2021 $	2020 $
Land, buildings and improvements			
- at cost		22,433,563	25,028,516
Less accumulated depreciation		(1,290,995)	(2,060,038)
	(a)(i)	**21,142,568**	**22,968,478**
Plant and equipment - owned			
- at cost		10,482,036	9,683,794
Less accumulated depreciation		(3,396,790)	(2,895,238)
		7,085,246	**6,788,556**
Total property, plant and equipment		**28,227,815**	**29,757,034**

(a) Below is a table showing the carrying value of land, buildings and improvements by property:

Property name	Acquisition date	Carrying value 2021	Carrying value 2020
Brucknell No 1	22 October 2014	4,056,706	4,069,408
Brucknell No 2	22 October 2014	4,124,416	4,148,805
Brucknell No 3	6 March 2015	2,288,819	2,298,239
Missens Road	9 July 2015	1,481,499	1,488,798
Drumborg (ii)	16 September 2015	-	5,298,432
Yarring - Nirranda South	4 October 2018	4,727,862	4,744,426
Depot & Old Geelong Road (Camperdown) - Land	17 November 2017	272,974	272,974
Infant Formula Plant Project	in progress	4,190,292	647,396
Total		**21,142,568**	**22,968,478**

Land, buildings and improvements represents the total holding costs of each property including purchase price, acquisition costs, capitalised development and land improvement costs since acquisition.

(i) Registered valuers Preston Rowe Paterson completed an independent valuation of all farms for the year ended 30 June 2021. The basis of the valuation was 'As Is and In Use' with vacant possession and the combined fair value of all farm properties (excludes the Infant Formula Plant and Depot and Old Geelong Road Land) was $23,350,000. The total fair value (including associated plant and equipment) on all farms exceeds historical written down value by $4,084,835, however these are unbooked gains under the cost method adopted by the Group under AASB 116.

(ii) On 11 February 2021, the Group announced the completion of the sale of the Drumborg farm for a total purchase price of $7.4 million including livestock and plant and equipment.

NOTE 13: PROPERTY, PLANT AND EQUIPMENT (cont'd)

Movements in the Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land, Buildings & Improvements	Plant & Equipment - Owned	Total
2021	**$**	**$**	**$**
Balance beginning of the financial year	22,968,478	6,788,556	**29,757,034**
Additions	3,551,969	1,529,363	5,081,332
Disposals	(5,298,433)	(519,257)	(5,817,690)
Depreciation expense	(79,446)	(713,415)	(792,861)
Balance at end of financial year	**21,142,568**	**7,085,247**	**28,227,815**

	Land, Buildings & Improvements	Plant & Equipment - Owned	Plant & Equipment - Leased	Total
2020	**$**	**$**	**$**	**$**
Balance beginning of the financial year	22,494,925	5,591,954	1,103,560	**29,190,439**
Opening balance transferred to right of use assets on initial application of AASB 16	-	-	(1,103,560)	**(1,103,560)**
Transfer from right of use assets	-	54,009	-	**54,009**
Impairment reversals	614,664	-	-	**614,664**
Additions	678,306	582,150	-	**1,260,456**
Additions - acquisition of Jonesy's Distribution	-	4,500	-	**4,500**
Additions - acquisition of Organic Nutritionals	-	1,220,134	-	**1,220,134**
Additions - acquisition of Epicurean Dairy	-	41,399	-	**41,399**
Depreciation expense	(819,417)	(705,590)	-	**(1,525,007)**
Balance at end of financial year	**22,968,478**	**6,788,556**	**-**	**29,757,034**

NOTE 14: TRADE AND OTHER PAYABLES

	Notes	2021 $	2020 $
Current			
Trade creditors		1,267,623	1,532,857
Sundry creditors and accrued expenses		701,846	680,928
Total trade and other payables		**1,969,469**	**2,213,785**

	Notes	2021 $	2020 $
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		1,969,469	2,213,785
Financial liabilities as trade and other payables	28	**1,969,469**	**2,213,785**

NOTE 15: PROVISIONS

	2021 $	2020 $
Current		
Employee benefits	566,887	565,064
Total current provisions	**566,887**	**565,064**
Non-current		
Employee benefits	98,228	114,935
Total non-current provisions	**98,228**	**114,935**
Total provisions	**665,115**	**679,999**
Movement in provisions:		
Opening balance	679,999	449,884
Additional provision	269,429	405,907
Amounts used	(284,313)	(175,792)
Closing balance	**665,115**	**679,999**

Provision for employee benefits

A provision has been recognised for employee entitlements relating to annual leave and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1(j) to this report.

NOTE 16: BORROWINGS

	Notes	2021 $	2020 $
Current			
Loans - unsecured	(a)	-	27,526
CBA facility - secured	(b)	5,980,506	12,054,000
Total current borrowings		**5,980,506**	**12,081,526**

(a) The Group has unsecured short-term loans for payment of the Group's insurance policies in the 2020 comparative.

(b) The Group established borrowing facilities with the Commonwealth Bank of Australia Limited (CBA) in April 2016, as a three year re-drawable loan facility of $10,000,000 to assist with the acquisition of Camperdown Dairy Company. Since that time, the term and principal amount has been varied and at 30 June 2021 the principle amount is $5,980,506 with a facility repayment date of 4 October 2021. The facility is subject to compliance with predetermined covenants and at least annual reviews.

All obligations under the loan agreement have been met in accordance with the terms of the facility. On 24 August 2021 the Group announced that it has signed an unconditional sale agreement for the Ecklin South farm for $5.625 million (excluding livestock and equipment), with the proceeds of the sale to be used to repay the facility prior to 4 October 2021.

NOTE 16: BORROWINGS (cont'd)

Collateral Provided:

The CBA facility is secured by a first registered mortgage over all the Group farms and a general security interest over all assets of Australian Dairy Farms Trust (ADFT). In addition, the Company has provided a negative pledge to not grant a security interest over its shareholding in Camperdown Dairy Company, and an unlimited guarantee secured over all its present and after acquired property.

Lease liabilities are secured by the underlying leased assets.

The carrying amounts of assets pledged as security are:

	2021 $	2020 $
First mortgage over land and buildings	21,142,568	22,968,478
General security interest over all assets of ADFT	7,525,760	12,284,453
First registered charge over leased equipment	204,704	421,908
Negative pledge and guarantee over all other Group assets	14,238,569	13,509,132
Total assets pledged as security	**43,111,601**	**49,183,971**

NOTE 17: ISSUED CAPITAL

	2021 $	2020 $
Contributed equity of the Group	71,307,390	63,936,041

(a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2020	Opening balance	370,986,440		33,191,050	30,744,991	63,936,041
07 Jul 2020	Employee performance securities (i)	500,000	0.068	34,000	-	34,000
21 Dec 2020	Supplier securities (ii)	450,068	0.063	28,354	-	28,354
21 Dec 2020	Placement - tranche 1 (iii)	55,272,898	0.06	3,316,374	-	3,316,374
17 Feb 2021	SPP - external (iv)	16,706,011	0.06	1,002,362	-	1,002,362
25 Feb 2021	Placement - tranche 2 (iii)	53,060,436	0.06	3,183,626	-	3,183,626
9 Mar 2021	Supplier securities (ii)	1,472,509	0.07	103,405	-	103,405
9 Mar 2021	SPP - directors (iv)	2,249,999	0.06	135,000	-	135,000
9 Mar 2021	Consulting services (v)	1,000,000	0.06	60,000	-	60,000
	Transaction costs			(491,772)	-	(491,772)
30 June 2021		**501,698,361**		**40,562,399**	**30,744,991**	**71,307,390**

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2019	Opening balance	300,144,291		25,474,856	30,744,991	56,219,847
19 Aug 2019	Placement - Tranche 2 (vi)	67,342,149	0.12	8,081,058	-	8,081,058
18 Nov 2019	Employee performance securities (vii)	1,000,000	0.12	120,000	-	120,000
18 Nov 2019	Loan securities (viii)	2,500,000		-	-	-
	Transaction costs			(484,864)	-	(484,864)
30 June 2020		**370,986,440**		**33,191,050**	**30,744,991**	**63,936,041**

NOTE 17: ISSUED CAPITAL (cont'd)

The basis of allocation of the issue price of stapled securities issued post stapling is determined by arrangement between the Company and Trust as set out in the Stapling Deed.

(i) On 7 July 2020, there were 500,000 stapled securities issued as a share based payment under the AHF Long Term Incentive Plan at a price of $0.068 per security. The fair value of securities issued, determined by reference to the market price, was $34,000.

(ii) On 21 December 2020, there were 450,068 stapled securities issued to F.A Maker Pty Ltd for a 10% deposit on a high-speed blending and canning line for infant formula tins and nutritional powder bags. The fair value of securities issued, determined by reference to market price, was $28,354. A further 1,472,509 stapled securities were issued as a progress payment on 9 March 2021 with a fair value determined by reference to the market price of $103,405.

(iii) On 21 December 2020, there were 55,272,898 stapled securities issued on completion of a placement being conducted in two tranches. The fair value of securities issued in tranche 1, determined by reference to the placement price of $0.06 per security, was $3,316,374. The second tranche of 53,060,436 were issued on 25 February 2021 raising an additional $3,183,626.

(iv) On 17 February 2021, there were 16,706,011 stapled securities issued on completion of a Security Purchase Plan (SPP). The fair value of securities issued, determined by reference to the placement price of $0.06 per security, was $1,002,362. The director component of 2,249,999 stapled securities were issued following securityholder approval on 9 March 2021, raising an additional $135,000.

(v) On 9 March 2021, there were 1,000,000 stapled securities issued as a share based payment for consulting services under the AHF Long Term Incentive Plan at a price of $0.06 per security. The fair value of securities issued, determined by reference to the market price, was $60,000.

(vi) On 19 July 2019, there were 67,342,149 stapled securities issued on completion of a placement being conducted in two tranches (refer (vii)). The fair value of securities issued in tranche 2, determined by reference to the placement price of $0.12 per security, was $8,081,058.

(vii) On 18 November 2019, there was 1,000,000 stapled securities granted as a share-based payment. The fair value of securities issued, determined by reference to market price, was $120,000.

(viii) On 18 November 2019, there was 2,500,000 loan securities granted as a share-based payment.

(b) Options and Rights

There are 10,500,000 (2020: 2,500,000) options or rights on issue at 30 June 2021 (refer Note 26(c)).

(c) Loan Securities

There are 9,500,000 (2020: 9,500,000) loan securities on issue at 30 June 2021 (refer Note 26(b)).

(d) Stapled Securities

The fully paid ordinary shares in the Company are stapled with the fully paid units in the Trust to produce Stapled Securities. These entitle the holder to participate in dividends and distributions as declared from time to time and the proceeds on winding up. Subject to the Corporations Act 2001, every holder of stapled securities present at a meeting in person, or by proxy, is entitled to one vote for each stapled security held.

(e) Capital management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

The Group is not subject to any externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

NOTE 17: ISSUED CAPITAL (cont'd)

This strategy, consistent with the prior year, is to ensure that the Group's gearing ratio remains below 35%. The gearing ratios for the years ended 30 June 2021 and 30 June 2020 are as follows:

	Notes	2021 $	2020 $
Total borrowings	16	5,980,506	12,081,527
Less cash and cash equivalents	6	(6,192,119)	(6,361,821)
Net debt		(211,613)	5,719,706
Total equity		33,398,965	33,376,878
Total capital		33,775,352	39,096,584
Gearing Ratio		N/A	15%

NOTE 18: RESERVES

Nature and purpose of reserves

The option reserve records amounts recognised on issue of share based payments (options and securities).

NOTE 19: CAPITAL COMMITMENTS

In June 2020, after a comprehensive planning and development process, the Group entered into a construction agreement with Spence Construction to construct the infant formula plant on the Group's Camperdown Dairy Park site. Despite the ongoing impact of COVID-19 restrictions, construction of the building progressed well, allowing the building of the infant formula plant to be completed by the end of this financial year. A section of roof was removed to accommodate the installation of the plant and equipment and at the date of this report there is $153K remaining to be invoiced per the contract to finalise the project.

NOTE 20: CONTINGENT LIABILITIES

As set out in Note 3, the Group has a contingent liability for payment of royalties in respect of Epicurean Dairy Products commencing April 2022.

The Group does not have any other contingent liabilities for the year ended 30 June 2021 (2020: nil).

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2021.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	2021	2020
	$	$
Short term	626,381	606,525
Post employment	48,053	45,251
Other long-term	24,616	25,059
Share-based payments	110,999	-
	810,049	**676,835**

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

Post-employment benefits

These amounts are the current-year's cost of providing for the Group's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service leave benefits accruing during the year.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity settled remuneration, as measured by the fair value of the options, rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

NOTE 22: AUDITORS' REMUNERATION

Remuneration of the auditor for:

	2021	2020
	$	$
Audit and review of the financial statements	78,970	71,852

NOTE 23: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2021 Percentage Owned	2020 Percentage Owned
Parent Entity:			%	%
Australian Dairy Nutritionals Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd		ordinary	100	100
Dairy Fund Management Limited		ordinary	100	100
DFI Operations Pty Ltd (deregistered)		ordinary	-	100
Camperdown Dairy Company Pty Ltd		ordinary	100	100
Victorian Farmers Direct Pty Ltd		ordinary	100	100
Flahey's Nutritionals Pty Ltd (deregistered)		ordinary	-	100
Organic Nutritionals Pty Ltd		ordinary	100	100
Jonesy's Distribution Pty Ltd		ordinary	100	75
Camperdown Brand Manufacturing Pty Ltd (formerly Epicurean Dairy Pty Ltd)		ordinary	100	100
Camperdown Dairy Park Trust		units	100	100
Other Controlled Entities			%	%
Australian Dairy Farms Trust	(b)(c)	units	-	-

The financial year of all controlled entities is the same as that of the holding company and all controlled entities are incorporated in Australia. All entities principal place of business and country of incorporation is Australia. All ownership interests are directly held and have equal voting rights. Other than for borrowings as detailed in Note 16, there are no significant restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

(a) Ultimate Controlling Entity

The ultimate controlling entity of the Group is Australian Dairy Nutritionals Limited.

(b) Transactions with Non-controlling interests in ADFT

As set out in Note 1, ADFT is a controlled entity. Transactions with non-controlling interests in ADFT in the year comprised equity as set out in Note 17.

(c) Summarised Financial Information of Subsidiaries with Material Non-controlling Interests

Set out below is the summarised financial information for ADFT, before any intra-group elimination:

	2021	2020
	$	$
Summarised Financial Position		
Current assets	11,403,165	12,338,399
Non-current assets	17,265,164	22,914,532
Current liabilities	(6,009,829)	(12,087,576)
Non-current liabilities	-	-
Net Assets	**22,658,500**	**23,165,355**
Carrying amount of non-controlling interests	22,658,500	23,165,355
Summarised Financial Performance		
Revenue	217,580	55,669
Loss after tax	(506,855)	(47,326)
Other comprehensive income after tax	-	-
Total comprehensive loss	**(506,855)**	**(47,326)**

NOTE 23: CONTROLLED ENTITIES (cont'd)

	2021	2020
	$	$
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	(539,742)	(555,795)
Net cash from / (used in) investing activities	5,865,647	(32,315)
Net cash from / (used in) financing activities	(5,284,235)	556,645
Net cash increase / (decrease) in cash and cash equivalents	**41,670**	**(31,465)**

NOTE 24: RELATED PARTY TRANSACTIONS

(a) The Group's main related parties are as follows:

(i) Entities exercising control over the Group:

The ultimate parent entity that exercises control over the Group is Australian Dairy Nutritionals Limited, which is incorporated in Australia.

(ii) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 21.

(iii) Other related parties:

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

(b) Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

(i) Watershed Funds Management Pty Ltd - director related entity

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2021, Watershed Funds Management Pty Ltd was paid $65,700 (2020: $60,225) for the provision of Adrian Rowley as director. There was $6,023 (2020: $6,023) due at 30 June 2021.

(iii) Funding amongst Group entities is on an unsecured, interest free, no fixed term basis.

NOTE 25: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed by the Board in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service; and
- external regulatory requirements.

Types of products and services by segment

Dairy Farms

The dairy farms segment includes the ownership and operation of dairy farms and dairy livestock for the production and sale of fresh raw milk for conversion to milk and milk products.

Dairy Processing

The dairy processing segment includes the processing and sale of dairy products to domestic markets.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless otherwise stated, all amounts reported to the Board with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

In accordance with AASB 8, corporate costs and KMP remuneration have been allocated to the dairy farm and dairy processing segments on a 50/50 basis, representative of the consumption of this expenditure. Finance costs - banking facility, have been allocated in accordance with historical use of funds.

There are no intersegment sales.

Segment assets

If an asset is used across multiple segments, if possible it is allocated to the segment that receives the majority of economic value from it, otherwise it is split between segments. Segment assets are generally identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are, if possible, allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment, otherwise they are split between segments. Bank facility borrowings are considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

NOTE 25: SEGMENT REPORTING (cont'd)

(i) Segment Performance

30 June 2021	**Dairy Farm**	**Dairy Processing**	**Total**
Revenue	**$**	**$**	**$**
External sales	7,890,834	13,808,043	21,698,877
Other income	1,802,945	-	1,802,945
Interest revenue	2,699	12,617	15,316
Total segment revenue	**9,696,478**	**13,820,660**	**23,517,138**
Total group revenue			**23,517,138**
Segment net loss before tax	**(300,350)**	**(6,610,487)**	**(6,910,837)**

(i) Segment Performance

30 June 2020	**Dairy Farm**	**Dairy Processing**	**Total**
Revenue	**$**	**$**	**$**
External sales	8,405,978	13,983,679	22,389,657
Other income	1,574,300	47,440	1,621,740
Interest revenue	38,839	38,840	77,679
Total segment revenue	**10,019,117**	**14,069,959**	**24,089,076**
Total group revenue			**24,089,076**
Segment net loss before tax	**23,930**	**(7,520,018)**	**(7,496,088)**

(ii) Segment Assets	**Dairy Farms**	**Dairy Processing**	**Total**
As at 30 June 2021	**$**	**$**	**$**
Segment assets	28,220,235	14,891,367	43,111,602
Segment assets include:			
Additions to non-current assets	134,985	4,953,454	5,088,439

(ii) Segment Assets	**Dairy Farms**	**Dairy Processing**	**Total**
As at 30 June 2020	**$**	**$**	**$**
Segment assets	34,847,737	14,264,763	49,112,500
Segment assets include:			
Additions to non-current assets	50,205	2,541,757	2,591,962

NOTE 25: SEGMENT REPORTING (cont'd)

(iii) Segment Liabilities	**Dairy Farms**	**Dairy Processing**	**Total**
	$	**$**	**$**
As at 30 June 2021			
Segment liabilities	1,105,560	8,019,077	9,124,637

	Dairy Farms	**Dairy Processing**	**Total**
	$	**$**	**$**
As at 30 June 2020			
Segment liabilities	4,477,396	11,329,696	15,807,092

(iv) Revenue by geographic region

Revenue attributable to external customers is disclosed below, based on the location of the external customer

	2021	**2020**
	$	**$**
Australia	23,517,138	24,089,076
Other countries	-	-
Total revenue	**23,517,138**	**24,089,076**

(v) Assets by geographic region

The location of segment assets is disclosed below by geographical location of the assets

	2021	**2020**
	$	**$**
Australia	43,111,602	49,112,500
Other countries	-	-
Total assets	**43,111,602**	**49,112,500**

NOTE 26: SHARE BASED PAYMENTS

(a) Stapled securities granted to employees under the Group Incentive Plan as share-based payments during the year ended 30 June 2021 are as follows:

Grant Date	**Number**
7 July 2020	500,000
9 March 2021	1,000,000

The fair value of securities granted, determined by reference to market price, was $94,000 and these securities were issued as compensation to management personnel of the Group.

Stapled securities granted to employees under the Group Incentive Plan as share-based payments during the 2020 were as follows:

Grant Date	**Number**
18 November 2019	1,000,000

The fair value of securities granted, determined by reference to market price, was $120,000 and these securities were issued as compensation to management personnel of the Group.

NOTE 26: SHARE BASED PAYMENTS (cont'd)

(b) There were no loan securities granted to employees as share-based payments during the year ended 30 June 2021.

A summary of movements in the number of all loan securities during the year is as follows:

	2021	2020
Opening balance	**9,500,000**	**7,000,000**
Granted	-	2,500,000
Closing balance (exercisable)	**9,500,000**	**9,500,000**

Details of loan securities issued in the 2020 comparative are as follows:

Grant Date	Number	Exercise Price	Vesting Date	Exercisable on or before
18 November 2019	2,500,000	$0.115	18 November 2019	18 November 2022

A summary of key terms and conditions of the loan securities are:

- Loan securities are securities in the stapled entity, each carrying the same dividend rights and otherwise ranking pari passu in all respects with ordinary issued securities in the Group;
- Financial assistance is provided to participants by way of a limited recourse interest free loan to acquire the securities;
- The loan is repayable at any time or is repayable immediately if the participant ceases to be an employee;
- The Group retains security over the loan securities whilst ever there is an amount outstanding under the loan; and
- Loan securities that have not vested and / or are subject to loan repayment will be restricted from trading.

Under the applicable Accounting Standards, the loan securities and related limited recourse loan are accounted for as options, which gives rise to a share based payment expense. The value of the loan and the issue price of the shares are not recorded as loans receivable or share capital of the Group until repayment or part repayment of the loan occurs.

The fair value of loan securities granted during the comparative year was $158,191. This value was calculated using a binomial option pricing model applying the following inputs:

Exercise price:	$0.115
Life of the option:	3 years
Expected share price volatility:	79.977%
Weighted average risk-free interest rate:	0.75%

(c) A summary of movements in the number of all options during the year is as follows

	2021	2020
Opening balance	**2,500,000**	**16,250,000**
Granted (i)	10,000,000	2,500,000
Forfeited (ii)	(2,000,000)	(16,250,000)
Exercised (iii)	-	-
Closing balance	**10,500,000**	**2,500,000**

(i) Granted options

- On 10 December 2020 the Group issued 3,000,000 performance rights to Peter Skene.

  The issue price of the options was 8.1 cents calculated using the Black-Scholes method, the expiry date is 30 June 2021 and the rights vest when various performance hudles are met. Other Key inputs include volatility of 56.50% and a risk free rate of 0.09%.

  The fair value of the rights issued is $242,998. 1,000,000 of the performance rights vested on 30 June 2021 and the balance of 2,000,000 were forfeited as performance hurdles were not met.

- On 16 February 2021 the Group issued 4,000,000 performance options to management personel.

  The issue price of the options was 0.009 cents calculated using the Black-Scholes method, the expiry date is 15 August 2022, the options vest on issue and have an exercise price of 9 cents. Other Key inputs include volatility of 56.32% and a risk free rate of 0.09%.

  The fair value of the options issued is $35,341.

NOTE 26: SHARE BASED PAYMENTS (cont'd)

- On 17 February 2021 the Group issued 3,000,000 lead manager options for fees associated with the capital raise.

  The issue price of the options was 2.5 cents calculated using the Black-Scholes method, the expiry date is 17 February 2024 and the options will vest when the stapled security price is 9 cents or more for a period of 5 consecutive trading days.

  The fair value of the options issued is $74,615
- In the 2020 comparative, the Group issued 2,500,000 lead manager options to L39 Pty Ltd on 19 August 2019, representing 1% of the total proceeds of the placement completed on that date.

  The issue price of the options was 4.8 cents calculated using the Black-Scholes method, the expiry date is 19 August 2022, the options will vest when the stapled security price is 18 cents or more for a period of 5 consecutive trading days and have an exercise price of 18 cents. Other Key inputs include volatility of 56.50% and a risk-free rate of 0.012%.

  The fair value of the options issued was $120,000.

(ii) Cancelled and forfeited performance options/rights

Options or rights are forfeited if performance hurdles are not satisfied or after the holder ceases to be employed by the Group, unless the Board determines otherwise.

On 30 June 2021, 2,000,000 performance rights issued during the year were forfeited as the performance hurdles were not satisfied. 1,500,000 performance rights have no impact to the financial statements as the hurdles were non-market based and $23,000 has been transferred from the equity reserve to retained earnings for the remaining 500,000 which had market-based hurdles.

In the 2020 comparative, the following performance options or rights were cancelled or forfeited:

10,000,000 performance options were forfeited as the performance hurdle was not satisfied and $34,203 was transferred from the equity reserve to retained earnings.

On 24 December 2018, 6,250,000 consideration securities were issued to Christopher Flahey as part of the acquisition of Flahey's Nutritionals Pty Ltd. The consideration securities were subject to various performance milestones and Christopher Flahey remaining employed with the Group on milestone dates. The consideration securities are forfeited if performance hurdles are not satisfied. In the year ended 30 June 2020, Christopher Flahey resigned from the company and $126,273 has been written back into profit for previously accrued share based payments and the consideration securities have been cancelled.

(iii) Exercised performance options

During the year ended 30 June 2021 (202: nil) there were no performance options exercised.

(iv) Performance options approved but not issued

On 29 November 2019, securityholders approved the issue of 6,000,000 performance rights to directors, subject to achievement of specific performance hurdles. The performance rights were not issued to directors and have been cancelled.

(d) Included under employee benefits expense in the statement of profit or loss is $240,340 (2020: $162,977), which relates to equity-settled share-based payment transactions - securities and options.

NOTE 27: EVENTS AFTER THE BALANCE DATE

As the impact of the COVID-19 pandemic is ongoing the Group continues to monitor and respond to Government mandated restrictions and lockdowns. The situation continues to change rapidly and is dependent on measures imposed by each of the State Governments and the Federal Government, such as maintaining social distancing requirements, quarantine, vaccination programs, travel restrictions and economic stimulus. The Group will continue to assess any impact of COVID-19 on the business and ways to mitigate risks to the Group in relation to it.

On 24 August 2021 the Group entered into an unconditional contract to sell its Ecklin South farm (excluding livestock and equipment) for a price of $5.625 million. The sale will complete on 30 September 2021 and the proceeds of the sale will be used to repay its finance facility with Commonwealth Bank of Australia prior to 4 October 2021.

In the opinion of the directors there are no material matters that have arisen since 30 June 2020 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

NOTE 28: FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable, bank loans and leases.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

	Notes	2021 $	2020 $
Financial assets			
Financial assets at amortised cost:			
Cash and cash equivalents	6	6,192,119	6,361,821
Trade and other receivables	7	1,321,409	2,081,011
Bonds and deposits	9	36,025	39,889
Total financial assets		**7,549,553**	**8,482,721**
Financial Risk Management Policies			
Financial liabilities			
Financial liabilities at amortised cost:			
Lease liabilities		509,548	831,782
Trade and other payables	14	1,969,469	2,213,785
Borrowings	16	5,980,506	12,081,526
Total financial liabilities		**8,459,523**	**15,127,093**

The main purpose of the financial instruments listed is to raise finance for the Group's operations when the Board considers it appropriate. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. Risks arising from the Group's financial instruments include interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Treasury Risk Management

The Board considers financial risk exposure to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are reviewed by the Board when necessary. These include the use of credit risk policies and future cash flow requirements.

Financial Risk Exposures and Management

(a) Credit risk

The Group trades only with parties that it believes to be creditworthy. The maximum exposure to credit risk is equivalent to the financial assets' carrying value. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, however the Group will always have exposure to potential bad debts (see also Note 7).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, bonds and deposits, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of those instruments. The Group generally does not require third party collateral.

(b) Liquidity risk

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

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing surplus cash with appropriately regulated financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

The table following presents contractual maturity of the Group's financial instruments. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates taking into consideration management expectations that Group banking facilities will be extended.

Financial liability and financial asset maturity analysis:

	Within 1 year		1 to 5 years		Over 5 years		192,119	
	2021	2020	2021	2020	2021	2020	2021	2020
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Borrowings	(5,980,506)	(27,526)	-	(12,054,000)	-	-	(5,980,506)	(12,081,526)
Lease liabilities	(200,079)	(307,650)	(309,468)	(524,132)	-	-	(509,547)	(831,782)
Trade & other payables	(1,969,469)	(2,213,785)	-	-	-	-	(1,969,469)	(2,213,785)
Total expected outflows	**(8,150,054)**	**(2,548,961)**	**(309,468)**	**(12,578,132)**	**-**	**-**	**(8,459,522)**	**(15,127,093)**
Financial assets - cash flows realisable								
Cash	6,192,119	6,361,821	-	-	-	-	6,192,119	6,361,821
Trade and other receivables	1,321,409	2,081,011	-	-	-	-	1,321,409	2,081,011
Bonds and deposits	-	-	36,025	39,889	-	-	36,025	39,889
Total anticipated inflows	**7,513,528**	**8,442,832**	**36,025**	**39,889**	**-**	**-**	**7,549,553**	**8,489,111**
Net (outflows) / inflows on financial instruments	**(636,526)**	**5,893,871**	**273,443**	**(12,538,243)**	**-**	**-**	**(909,969)**	**(6,637,982)**

- The Groups financial assets are pledged as security for debt (refer Note 16).

(c) Market risk

Interest rate risk

The Group at the date of this report has debt exposure through $509,547 in fixed rate facilities, $5,980,506 in variable rate facilities, and $6,192,119 in variable rate cash balances.

Sensitivity Analysis

The Group has performed sensitivity analysis relating to its exposure to variable interest rate at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

Interest rate sensitivity analysis

At 30 June 2021, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2021	2020
Change in profit	**$**	**$**
- Increase in interest rate by 1%	2,116	(56,922)
- Decrease in interest rate by 1%	(2,116)	56,922
Change in equity		
- Increase in interest rate by 1%	2,116	(56,922)
- Decrease in interest rate by 1%	(2,116)	56,922

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

	Footnote	Carrying Amount		Fair Value	
		2021	**2020**	**2021**	**2020**
		$	**$**	**$**	**$**
Financial assets					
Financial assets at amortised cost:					
Cash and cash equivalents	(i)	6,192,119	6,361,821	6,192,119	6,361,821
Trade and other receivables	(i)	1,321,409	2,081,011	1,321,409	2,081,011
Bonds and deposits	(i)	36,025	39,889	36,025	39,889
Total financial assets		**7,549,553**	**8,482,721**	**7,549,553**	**8,482,721**
Financial liabilities					
Financial liabilities at amortised cost:					
Trade creditors	(i)	1,969,469	2,213,785	1,969,469	2,213,785
Lease liabilities	(ii)	509,548	831,782	509,548	831,782
Borrowings	(ii)	5,980,506	12,081,526	5,980,506	12,081,526
Total financial liabilities		**8,459,523**	**15,127,093**	**8,459,523**	**15,127,093**

The fair values disclosed in the above table have been determined based on the following methodologies:

(i) Cash and cash equivalents, trade and other receivables, bonds and deposits and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.

(ii) Fair values on borrowings and lease liabilities are determined using a discounted cash flow model incorporating current commercial borrowing rates.

NOTE 29: FAIR VALUE MEASUREMENT

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- biological assets.

The Group may measure some items of property at fair value on a non-recurring basis. The Group does not subsequently measure any other assets or liabilities at fair value on a non-recurring basis.

(a) Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	**Level 2**	**Level 3**
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one valuation technique. This valuation technique maximises, to the extent possible, the use of observable market data. All significant inputs required to measure fair value are observable, therefore the asset or liability or is included in Level 2.

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

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

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

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

The following tables provide the fair values of the Group's assets measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

30 June 2021

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Non-financial assets					
Biological assets	10	-	4,795,079	-	4,795,079
Total non-financial assets recognised at fair value on a recurring basis		**-**	**4,795,079**	**-**	**4,795,079**

30 June 2020

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Non-financial assets					
Biological assets	10	-	5,368,015	-	5,368,015
Total non-financial assets recognised at fair value on a recurring basis		**-**	**5,368,015**	**-**	**5,368,015**

(b) Techniques and Inputs Used to Measure Level 2 Fair Values

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

Description	**Fair Value at 30 June 2021 $**	**Valuation Technique(s)**	**Input Used**
Non-financial assets			
Biological assets	4,795,079	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	4,795,079		

There were no changes during the period in the valuation techniques used by the Group to determine Level 2 fair values.

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

(c) Disclosed Fair Value Measurements

The following assets and liabilities are not measured at fair value in the statement of financial position, but their fair values are disclosed in the notes:

- Cash;
- Trade and other receivables;
- Bonds and deposits;
- Trade and other payables;
- Borrowings; and
- Farm properties.

NOTE 30: EARNINGS PER STAPLED SECURITY CALCULATION

	2021 cents	2020 cents
Earnings per stapled security:		
Basic loss per stapled security	(1.62)	(2.08)
Diluted loss per stapled security	(1.62)	(2.08)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(6,910,837)	(7,496,088)

	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	426,356,807	360,603,521
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**426,356,807**	**360,603,521**

All options on issue are considered to be dilutive potential ordinary securities, however they are presently anti-dilutive at 30 June 2021 as the Group is in losses.

NOTE 31: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2021 (2020: $nil) at the date of this report.

Australian Dairy Nutritionals Group

DIRECTORS' DECLARATION

For the year ended 30 June 2021

In the opinion of the directors of Australian Dairy Nutritionals Group:

(a) the financial statements and notes of the Company and of the Group are in accordance with the *Corporations Act 2001*, and:

(i) give a true and fair view of the Company's and Group's financial position as at 30 June 2021 and of their performance for the year ended on that date; and

(ii) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

(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; and

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2021.

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

M Bryant

Martin Bryant
Chairman

31 August 2021

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Independent Auditor's Report to the Members of Australian Dairy Nutritionals Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Dairy Nutritionals Limited ((“the Company”) and its subsidiaries (“the Group”)), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

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

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

Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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 of the current period. These 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.

Nexia Brisbane Audit Pty Ltd
Registered Audit Company 299289
Level 28, 10 Eagle Street
Brisbane QLD 4000
GPO Box 1189
Brisbane QLD 4001
p +61 7 3229 2022
f +61 7 3229 3277
e email@nexiabrisbane.com.au
w nexia.com.au

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Independent Auditor's Report to the Members of Australian Dairy Nutritionals Limited

Key audit matter	How our audit addressed the key audit matter
Assessment of carrying value of property, plant and equipment Refer Note 13 of the financial report. At 30 June 2021 key assets of the Group included land buildings and improvements of \$21,142,568 and plant and equipment of \$7,085,246. During the year the Group continued to record operating losses and cash outflows from operating activities of \$2.03m (2020: outflow \$2.25m). Accounting standards require an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. The Group has identified impairment indicators which required management to perform an impairment assessment. Impairment testing of property plant and equipment was a key audit matter due to the significance of the impairment expense of goodwill reported in the consolidated statement of profit or loss and other comprehensive income, the significance of the value of the recorded assets in the statement of financial position and the degree of estimation required by the Group in assessing assets not yet in service.	Our procedures included, but were not limited to: • We completed site visits at locations of material property, plant and equipment and inspected the general state of the assets to assess whether assets continue to be employed in the business and are in sound working order; • We performed procedures to determine that recorded assets existed and were reported completely and accurately in the financial records of the Group; • We assessed the competence and qualifications of the independent property valuation expert used by the Group; • We assessed the valuation reports obtained by the Group, with reference to the methodology used, prior independent expert valuations, and our knowledge of the Group assets; • We considered the carrying value of the Groups farms with reference to evidence of similar market transactions; • We tested the mechanical accuracy of managements cash flow forecast which supported the future use of property, plant and equipment; • We performed sensitivity analysis on a number of assumptions, including growth rates and forecasted profitability of the cash flow forecast; • We considered whether managements allocation of corporate overheads was reasonable based on past performance; and • We evaluated the adequacy of the disclosures made in the financial report regarding the assessment of the carrying value of the farm assets.

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Independent Auditor's Report to the Members of Australian Dairy Nutritionals Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report, for the year ended 30 June 2021, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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

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Independent Auditor's Report to the Members of Australian Dairy Nutritionals Limited (continued)

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent Auditor's Report to the Members of Australian Dairy Nutritionals Limited (continued)

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in pages 14 to 18 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Australian Dairy Nutritionals Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Nexia Brisbane Audit P/L

Nexia Brisbane Audit Pty Ltd

Gavin Ruddell
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 31 August 2021

The following information was extracted from Australian Dairy Nutritional Group's Register of Securityholders on 27 August 2021:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

		Fully Paid Stapled Securities	
		Securities Held	**% of Issued Capital**
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	74,364,952	14.82
2	MR JIMMY THOMAS & MS IVY RUTH PONNIAH	23,483,671	4.68
3	CORPORATE SOLUTIONS PTY LTD	15,309,892	3.05
4	SIR RONALD ALFRED BRIERLEY	12,500,000	2.49
5	PETER JOHN SKENE & LYNNE NICOLE SKENE	7,000,000	1.40
6	COSTINE PTY LTD	6,042,324	1.20
7	RATHVALE PTY LIMITED	5,289,885	1.05
8	FIDUCIARY NOMINEES PTY LTD	5,205,540	1.04
9	CITICORP NOMINEES PTY LIMITED	5,035,528	1.00
10	MRS LINDA YE & MR DAVID XIAO DONG YE	4,800,000	0.96
11	MR PETER JOHN SKENE & MRS LYNNE NICOLE SKENE	4,375,385	0.87
12	WAVET FUND NO2 PTY LTD	4,166,666	0.83
13	MR JUNLONG LIANG	3,855,000	0.77
14	MOWSAN PTY LTD	3,601,490	0.72
15	DAIRY FARMLAND MANAGEMENT COMPANY PTY LTD	3,429,913	0.68
16	CAROLINE HOUSE SUPERANNUATION FUND PTY LTD	3,400,000	0.68
17	MR PATRICK JOHN BRADY	3,000,000	0.60
18	MYALL RESOURCES PTY LTD	2,600,000	0.52
19	MR PETER LESLIE MULALLY	2,600,000	0.52
20	MR SHAN WANG	2,589,800	0.52
		192,650,046	**38.40**
	Total Securities on issue	**501,698,361**	**100.00**

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	Number of Securityholders	Securities	%
1 - 1000	201	45,781	0.01
1,001 - 5,000	629	1,927,891	0.38
5,001 - 10,000	547	4,680,831	0.93
10,001 - 100,000	1,437	57,194,990	11.40
100,001 or greater	608	437,848,868	87.28
	3,422	**501,698,361**	**100.00**

MARKETABLE PARCELS

On 27 August 2021, using the last traded security price of $0.054 per security, there were 1,103 holdings, which were of less than a marketable parcel ($500).

VOTING RIGHTS

On a show of hands, every member present in person or by proxy or attorney or being a corporation by its authorised representative shall have one vote. On a poll, every member who is present in person or by proxy or attorney, or being a corporation, by its authorised representative, shall have one vote for every stapled security of which he is the holder.

SUBSTANTIAL SECURITYHOLDERS

The names of the substantial securityholders listed in the Group's register on 27 August 2021 are:

	Securities Held	% of Voting Power Advised
We Say Go Pty Ltd ATF We Say Go Trust	55,440,764	11.05

UNLISTED OPTIONS/RIGHTS OVER ORDINARY SECURITIES

At the date of this report, the unissued ordinary securities of Australian Dairy Nutritionals Limited under option are as follows:

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
19 August 2019	19 August 2022	$0.18	2,500,000
10 December 2020	30 June 2021	-	1,000,000
16 February 2021	15 August 2022	$0.09	4,000,000
17 February 2021	17 February 2024	$0.09	3,000,000

Option holders do not have any rights to participate in any issues of securities or other interests of the Company or any other entity.

RESTRICTED SECURITIES

There are 9,500,000 restricted loan securities on issue at the date of this report.

Board of Directors

Martin Bryant
Chairman

Adrian Rowley
Director

Jason Dong
Director

Peter Skene
Director / Group CEO

Company Secretary

Kate Palethorpe
Company Secretary

Registered Office

325 Manifold Street
Camperdown VIC 3260

Telephone: (03) 8692 7284
Email: shareholders@adfl.com.au
Web: www.adnl.com.au

Corporate Office

326 Lorimer Street
Port Melbourne VIC 3205

Telephone: (03) 8692 7284
Email: shareholders@adfl.com.au
Web: www.adnl.com.au

Share Register

Link Market Services Limited
Level 21
10 Eagle Street
Brisbane QLD 4000

Telephone: 1300 554 474
Facsimile: (02) 9287 0309
Email: registrars@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

Auditor

Nexia Brisbane Audit Pty Ltd
Level 28
10 Eagle Street
Brisbane QLD 4000

Telephone: (07) 3229 2022
Facsimile: (07) 3229 3277
Email: audit@nexiabrisbane.com.au
Web: www.nexia.com.au

Stock Exchange

Australian Dairy Nutritionals Group is listed on the official List of the Australian Securities Exchange Limited (ASX).

The ASX Code is “AHF”.