Australian Dairy Nutritionals

APPENDIX 4E - PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2022

Australian Dairy Nutritionals Group consists of:

Australian Dairy Nutritionals Limited (ACN 057 046 607) and Australian Dairy Farms Trust (ARSN: 600 601 689).

RESULTS FOR ANNOUNCEMENT TO THE MARKET

References to the 'Group' throughout this report relate to Australian Dairy Nutritionals Group and its controlled entities.

	Change	$'000 2022	$'000 2021
Revenue	Down 31%	15,063	21,714
Loss for the period	Down 40%	(4,149)	(6,911)
Loss for the period attributable to stapled security holders	Down 40%	(4,148)	(6,911)

	Cents	
	2022	2021
Net tangible asset backing per security	7.2	6.7

	Amount per Share (cents)	Franked Amount per Share (cents)	Tax Rate for Franking
Final dividend	Nil	Nil	Nil
Interim dividend	Nil	Nil	Nil
Record date			Not applicable

The Group does not have any dividend re-investment plan in operation.

Loss or gain of control over other entities

Ocean Dairy Pty Ltd (Ocean Dairy) was established in February 2022 and is owned 50/50 by Australian Diary Nutritionals Limited and Wellnex Life Ltd (ASX: WLL).

The Ocean Dairy joint venture was established to distribute the Ocean Road Dairies Organic A2 infant formula range within Australia (refer Note 23(c)).

Associates

The Group does not have any associates.

Audit Status

This Appendix 4E is based on the Annual Report, which has been subject to audit, with the Independent Auditor's Report included.

Additional Appendix 4E disclosure requirements can be found in the 2022 Australian Dairy Nutritionals Group Annual Report attached.

Australian Dairy Nutritionals

ANNUAL REPORT 2022

AUSTRALIAN DAIRY NUTRITIONALS GROUP

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Martin Bryant
Non-Executive Chairman

Adrian Rowley
Non-Executive Director

Jason Dong
Non-Executive Director

Bernard Kavanagh
Non-Executive Director

COMPANY SECRETARY

Kate Palethorpe
Company Secretary

REGISTERED OFFICE

325 Manifold Street
Camperdown VIC 3260

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

CORPORATE OFFICE

325 Manifold Street
Camperdown VIC 3260

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

SHARE REGISTER

Link Market Services Limited
Level 21
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Brisbane QLD 4000

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Facsimile:	(02) 9287 0303
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

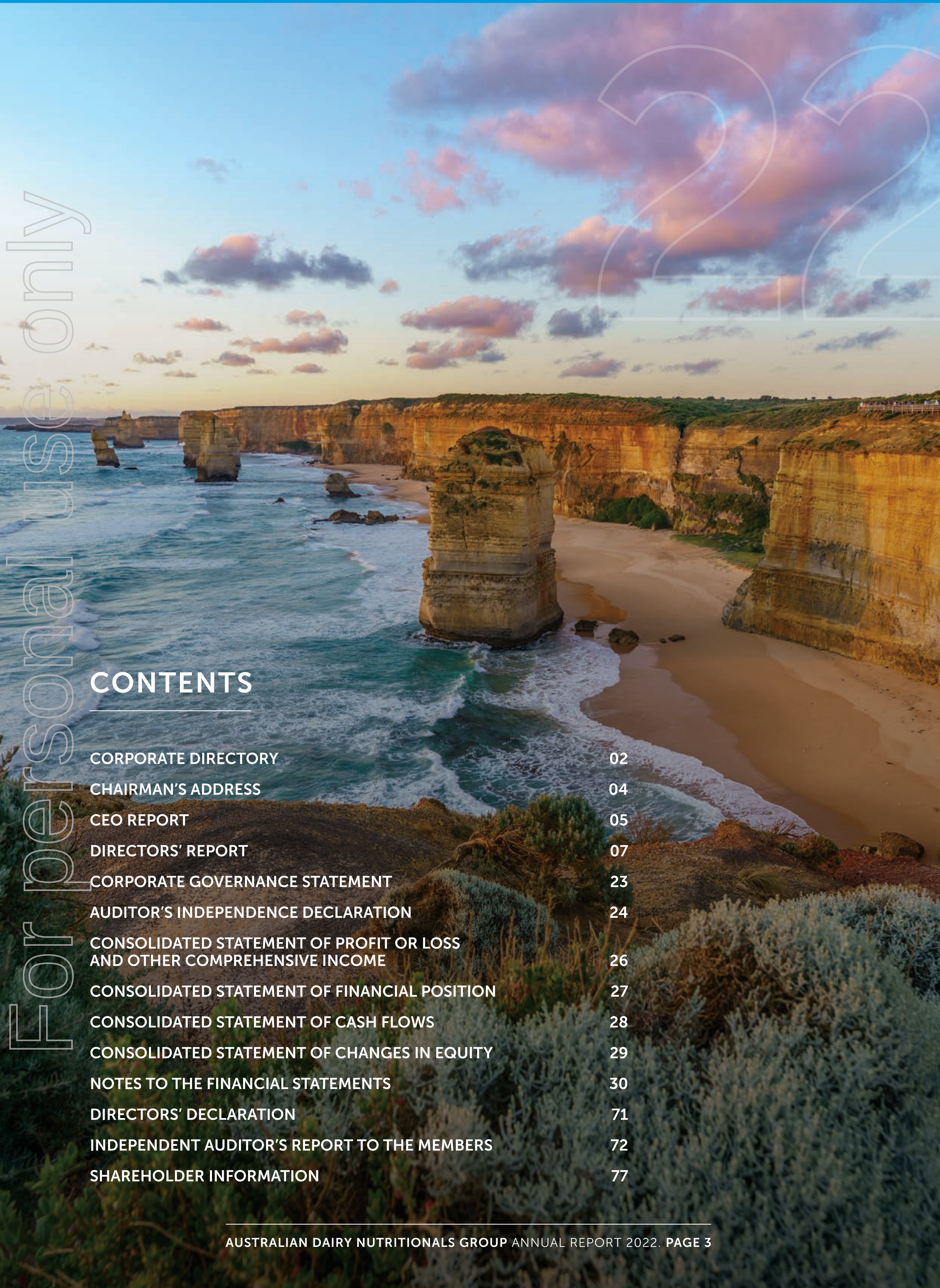
STOCK EXCHANGE

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

The ASX Code is "AHF".

WEBSITE

adnl.com.au



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CHAIRMAN'S ADDRESS

This financial year has been a strategically important year for Australian Dairy Nutritionals Group as it nears the completion of its 5-year transformation strategy to become a vertically integrated manufacturer of premium organic dairy nutritional products.

It is widely understood that during the last year the dairy industry had been significantly impacted by the changing macroeconomic environment and COVID-19 challenges. We used this period of volatility to focus on the completion of our investment in our infant formula plant and re-position our operations to focus on infant formula and dairy nutritionals, moving away from fresh dairy manufacturing. Substantial progress has been made giving myself and the Board confidence that our operations will be in the best position to support the business as it looks to leverage this investment through the launch of our organic A2 infant formula range and expand distribution of our future infant formula range.

This financial year marked the Group's first step into the infant formula and nutritionals market with the launch of our new future Gradulac Gentle infant formula range. The range has been available in Chemist Warehouse stores nationally since April 2022. Infant formula purchasers tend to be highly brand loyal, so we are supporting this launch with an omnichannel marketing campaign designed to build trust and brand recognition with consumers.

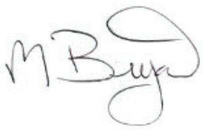
The Group's other notable successes for the year include:

- the establishment of the Ocean Dairy joint venture with Wellnex Life to launch the Ocean Road Dairies organic A2 infant formula range in Chemist Warehouse;
- the successful manufacture of Australia's first organic A2 whole milk powder at our new infant formula plant;
- conversion of all farms to organic certification with all herds now converted to A2 milk production;
- full repayment of our finance facility to CBA clearing all bank debt; and
- a successful private placement to IJ Funds Management to raise $2.75 million.

The Group's total income was $18m, a decrease of 23% from $23.5m in FY21, primarily due to the sale of the Ecklin South farm in September 2021 and lower fresh processing revenues. The Group's EBITDA result for the year was a $3m loss, an improvement of 43% on the $5.3m loss in FY21. While disappointing, the EBITDA improvement on FY21 reflects the efforts of the Board and management to better align the operations of the Group away from fresh dairy manufacturing to focus on infant formula and dairy nutritionals. Whilst Australia and most of the rest of the world are starting to live with COVID-19, the FY22 results also reflect the ongoing impact of the pandemic in all areas of our operations.

Despite the challenges our management team and their staff have performed to the highest standard and have enabled the Group to look confidently toward a strong future. The Group is excited about the coming financial year as the hard work of the last 5 years culminates in the production and sale of our own organic A2 branded infant formula, manufactured by our own infant formula plant using milk sourced from our farms.

To all our securityholders, thank you, for your continued support.



Martin Bryant
Chairman

CEO REPORT

Against the backdrop of an incredibly challenging operating environment over the past 12 months, great advances have been made by the Group in several areas.

We were very pleased to see our new future Gradulac Gentle infant formula range launched following several years of product development. The range is available in Chemist Warehouse stores nationally and via a guaranteed subscription arrangement through the future formula website. We will focus on expanding our distribution footprint both domestically and in selected international markets in the coming 12 months.

Big advances were made with the progress of our cornerstone infant formula project with construction of the purpose-built building complete, as well as installation and commissioning of the infant formula liquid mixing plant, evaporator and dryer. Just prior to the end of the financial year we were very pleased to produce Australia's first organic A2 whole milk powder at the plant and are now producing infant formula.

In addition to our key building and equipment projects, product development activities have focused on our Ocean Road Dairies Organic A2 infant formula range; a 3-stage range combining market leading packaging and certified organic ingredients to complement the high quality certified organic A2 protein milk from our farms.

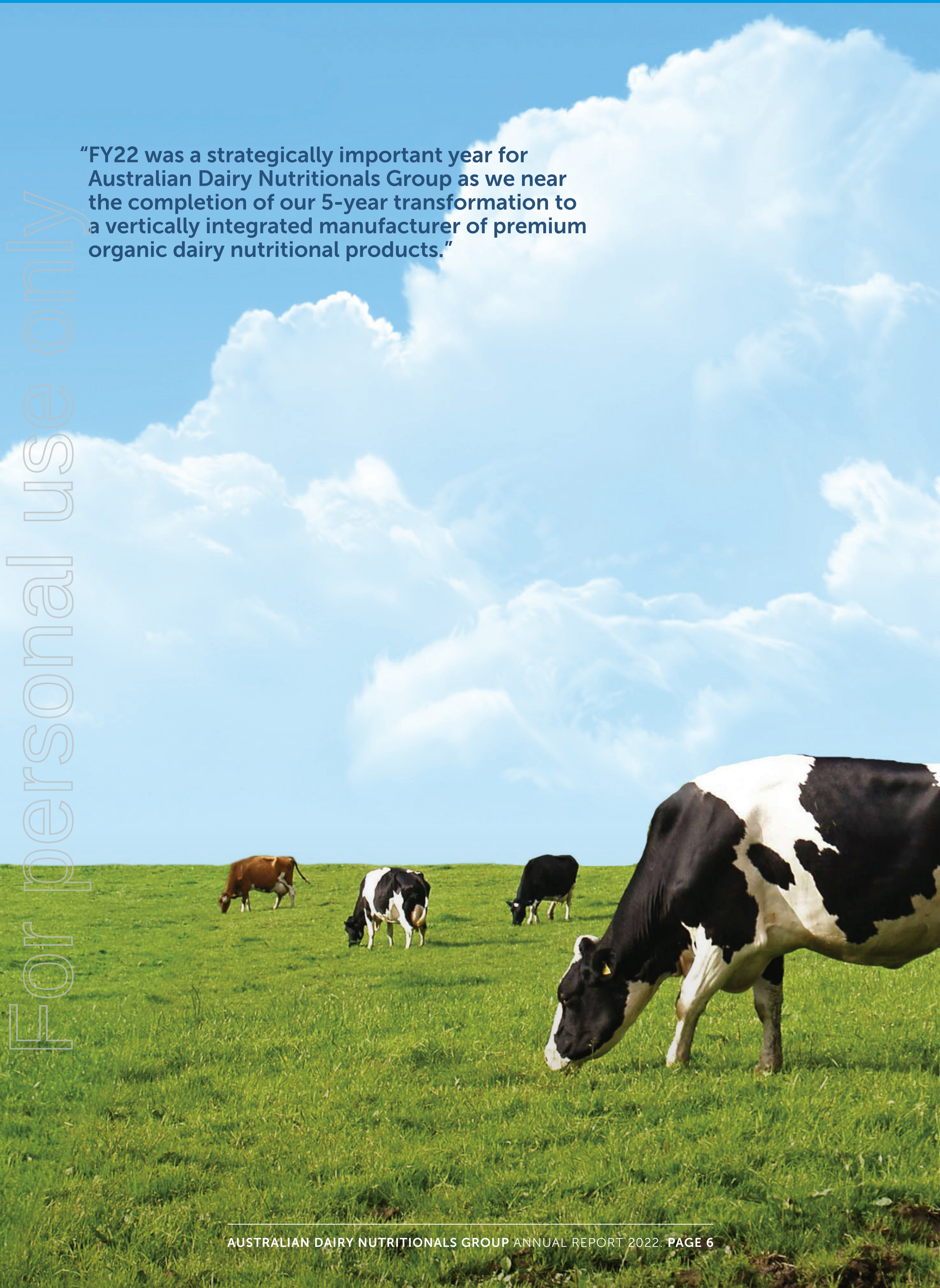
Thanks to the efforts of our farm managers and their teams our farms graze A2 only herds allowing us to transition to fully certified organic A2 protein milk production in October 2022. This transition has been critical to ensuring we have security of supply of organic A2 protein milk, which is in scarce supply, for the Ocean Road Dairies range.

During the financial year, COVID-19 restrictions continued to impact demand for 'on the go' yoghurt products such as pouches and single serves driving the Board's decision to exit yoghurt manufacturing announced in October 2021. With significant progress made with the infant formula project the Board also made the difficult decision to cease fresh milk processing at the Manifold Street site in Camperdown to allow us to transition skilled staff to the new plant and focus their efforts in the infant formula and dairy nutritionals space.

I would like to thank the Board, Management Team and all staff on their hard work over the last 12 months to not just meet the many challenges, but also make great progress in the delivery of our vertical integration strategy.

Peter Skene
Chief Executive Officer

"FY22 was a strategically important year for Australian Dairy Nutritionals Group as we near the completion of our 5-year transformation to a vertically integrated manufacturer of premium organic dairy nutritional products."



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 2022.

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 and a newly created subsidiary of the Company, Regen Properties Pty Ltd;
- Operation of dairy farms and livestock through SW Dairy Farms Pty Ltd;
- Installation and testing of the Group's infant formula plant in the newly constructed building located at Depot and Old Geelong Road, Camperdown, Victoria.
- Processing of raw milk and manufacture of dairy products including a variety of milks, cream, and yoghurt by Camperdown Dairy Company Pty Ltd at its existing leased facility located at 325 Manifold Street, Camperdown, Victoria.
- Distribution of infant formula, fresh 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;
  - Cross border e-commerce (CBEC) via distribution partners; and
  - Home delivery.

On 30 September 2021, the Group completed the sale of the Ecklin South farm for a total purchase price of $5.625 million. All of the proceeds of this farm sale were used to pay out the remainder of the Group's debt facility with Commonwealth Bank of Australia, which expired in early October 2021, delivering a debt free balance sheet for the Group.

In January 2022, the Group conducted an internal restructure of its farm assets transferring both the Brucknell North and Brucknell South farm to a new subsidiary, Regen Properties Pty Ltd (RGP). The Yaringa farm will also be transferred to RGP pending assessment by the Victorian State Revenue Office, expected September 2022.

On 28 June 2022, the Group announced the sale of a further farm, Brucknell North, for a purchase price of $6.425 million. The sale completed on 15 July 2022 and the proceeds will be used to invest in inventory for its Ocean Road Dairies infant formula range and to support working capital. The Group has leased back the Brucknell North farm for a period of 3 years plus a further 1-year option to renew. This allows the Group to maintain its organic A2 protein milk production at this farm to support the manufacture of the Ocean Road Dairies infant formula range at the Group's infant formula plant. The Group is able to terminate this lease with 90 days written notice without liability, giving it significant flexibility in managing its raw milk requirements.

During the financial year, the Group took a number of steps to rationalise its fresh dairy operations as it shifts its focus to the infant formula and nutritionals space. In October 2021, Camperdown Dairy Company (CDC) terminated its yoghurt manufacturing agreement with The Collective, with manufacturing ceasing in April 2022.

Subsequent to the year end, on 9 August 2022 the Group announced that, after a further strategic review of its remaining fresh dairy operations, CDC would cease manufacturing fresh milk at the Manifold Street site in Camperdown by the end of August 2022. The decision to cease production was driven by a combination of significant increases in production costs, resourcing challenges associated with the tight labour market and ongoing competition from fully automated, low-cost competitors.

On 10 March 2022, the Group announced a private placement to IJ Funds Management Pty Ltd (IJ Funds Management) to raise up to $4.5 million at a price of $0.065 per security. A total of $2.75 million was received and IJ Funds Management were issued a total of 42,503,864 fully paid ordinary securities, taking IJ Funds Management's holding in the Group to 7.75% of the total issued capital in the Group at 30 June 2022.

During FY22 the Board also underwent a further renewal process to ensure its size and the knowledge, skills and experience of its members are appropriate to deliver the Group's current and future strategy. With the Group's transition to focus on nutritional products, Peter Skene resigned from the Board to allow him to focus on the CEO role and Mr Bernard Kavanagh was appointed on 21 June 2022 to replace him. Mr Kavanagh brings a wealth of knowledge and experience in the dairy and wider agricultural industry, built over 20 years working in executive and director roles at Warrnambool Cheese and Butter, Saputo Inc. and Keytone Dairy Limited.

BUSINESS MODEL AND OBJECTIVES

Entering The Infant Formula And Dairy Nutritionals Segment

In March 2018 the Group announced its 5-year strategy to transition to become a fully vertically integrated manufacturer of premium organic infant formula and dairy nutritional products. FY22 was the penultimate year of this strategy and one in which the Group made strong progress in delivering the final elements of this strategy.

The most significant progress was made in the delivery of the infant formula project, with the Group successfully completing the installation and commissioning of the plant in early 2022. As the plant was purchased second hand, this was an extremely complex process and one which was carried out by the Group's internal project team (typically this would be done by the plant manufacturer where a new plant is purchased).

Trial and testing of the new infant formula plant commenced early in 2022 and the Group were very pleased to announce in June 2022 that the plant successfully produced organic A2 whole milk powder using organic A2 protein milk from our farms. We believe this to be Australia's first production of organic A2 whole milk powder using Australian milk. Trial and testing of the plant has continued in the first quarter of FY23, with trials of all three stages of the Ocean Road Dairies Organic A2 infant formula range completed. The Board remains confident that the first commercial production of the Ocean Road Dairies infant formula range will occur by the end of Q1FY23.

Another significant milestone in the infant formula and nutritionals segment was the establishment of the Ocean Dairy Pty Ltd (Ocean Dairy) joint venture with Wellnex Life Ltd (ASX: WLL) to distribute the Ocean Road Dairies Organic A2 infant formula range within Australia. Ocean Dairy is jointly owned by the Company and WLL, and draws on the strengths of both partners. The Group is responsible for the manufacture of the Ocean Road Dairies infant formula range at its infant formula plant using organic A2 protein milk from its farms. WLL will be responsible for the sale of the new range in the Australian retail and pharmacy channel, including in Chemist Warehouse stores nationally. At the time of writing, the Ocean Road Dairies range is expected to be available in Chemist Warehouse stores nationally in October 2022.

The Group will have the exclusive right to distribute the organic A2 infant formula range internationally, including through cross border e-commerce channels in China. The Group will pay Ocean Dairy a royalty on sales through the overseas cross boarder e-commerce channel and also has the option to purchase WLL's shares (based on an independent valuation) in Ocean Dairy at any time within 2 to 5 years after it commences supply of the Ocean Road Dairies range.

FY22 also saw the launch of the Group's Future Gradulac Gentle infant formula range. This is an innovative, 3 step range with increasing levels of lactose designed to be gentle on baby's tummies. The Future Gradulac Gentle range has been available in Chemist Warehouse stores nationally since April 2022 and is available via a guaranteed subscription model through the Group's website www.futureformula.com.au. Tier 1 cross border e-commerce customer GMH is also selling the Future range in China through its digital platforms.

The Group has supported the launch of the Future Gradulac Gentle range with an omnichannel marketing and brand awareness strategy which is critical in gaining the trust and adoption of new products in this category, where consumers tend to be extremely brand loyal. The Group has also applied for accelerated approval from the US Food and Drug Administration (FDA) for the sale of the Future Gradulac Gentle range in the United States in response to severe infant formula shortages in that market caused by a food quality incident with a major domestic manufacturer. At the time of writing the application is still under active review.

Our Farms: Supporting Our Vertical Integration Strategy

To support our vertical integration strategy, all of the Group's farm properties have achieved organic pasture certification and have transitioned to A2 herds. The A2 herds on Yaringa and Brucknell South farms are certified organic, and the Brucknell North herd will achieve organic certification in October 2022. The three farms produce approximately 6.5 million litres per year, which is well in excess of the volume required by the infant formula plant, even when operating at full capacity during the second half of the year, when production is seasonally lower.

This was the key driver of the Board's decision to free up capital by selling two of the farm properties in FY22. The Ecklin South farm was sold on 29 September 2021 for $5.625 million and all of the proceeds of the sale were used to pay out the final amount of the Group's finance facility with the CBA, delivering a debt free balance sheet.

The Brucknell North farm was sold just after the end of the financial year on 15 July 2022 for a purchase price of $6.425 million. The proceeds from the sale will be used to fund raw material and packaging purchases, additional infant formula production runs as well as general working capital requirements.

Immediately after the sale settled, Group subsidiary, SW Dairy Farms Pty Ltd (SWD) leased the Brucknell North farm back for a period of 3 years with an option to extend for a further 12 months. The rental cost is based on an agreed percentage return on the purchase price of the Brucknell North property. SWD will continue to operate the farm and maintain its organic certification to produce organic A2 protein milk for its fresh milk and infant formula products. SWD also has the right to terminate the lease at any time during the term (and any extended term) on 90 days written notice, giving significant flexibility to the Group in determining the optimal strategy for sourcing its raw milk requirements.

Both farms were sold at a time of record high property prices allowing the Group to crystallise good capital growth on both properties through the sales. The Group is also investigating ways to further simplify its corporate structure to reduce complexity and costs, including destapling the Trust.

BUSINESS MODEL AND OBJECTIVES (cont'd)

Strategic Alignment Of Our Operations: Exiting Fresh Dairy Manufacturing

In September 2021, the Board commenced a strategic review of the Group's fresh dairy manufacturing segment after a disappointing FY21 financial performance. As a result of this review, the Board announced the decision to cease yoghurt manufacturing at the Manifold Street site and terminate the Group's manufacturing agreement with The Collective.

Yoghurt manufacturing ceased in April 2022 at which time The Collective also purchased the Group's high speed pouch machine for $365k. As part of the termination and transition arrangements, The Collective paid a termination payment to the Group of $66k and purchased residual packaging and raw materials from the Group when manufacturing ceased, allowing the Group to minimise inventory write downs associated with the termination.

Early in 2022, with yoghurt manufacturing to cease at the Manifold Street site and strong progress being made with the Group's infant formula project and vertical integration strategy, the Board recognised a further review of the remaining fresh processing operations was required to ensure the Group's resources and operations align with the final stage of its vertical integration strategy to drive sales of its nutritional products.

This review identified several issues with the Group's fresh dairy operations which will continue to adversely impact the Group's financial performance including resourcing and logistics disruptions from COVID-19, increasing production costs and ongoing competition from fully automated, low-cost competitors. As a result of this, the Board advised the market on 9 August 2022 that the Group will cease fresh milk processing at the Manifold Street site by the end of August 2022.

Whilst disappointing for Camperdown Dairy staff and customers, the decision was made in the best interests of the Group.

The closure of the fresh processing plant will allow the Group to transition most permanent staff at the Manifold Street site to the new infant formula site and minimise job losses. The closure will also:

- reduce operational complexity by allowing the Group to run a single operational, quality and compliance system for nutritionals rather than a dual site system covering both fresh milk and nutritionals;
- avoid upcoming significant maintenance and capital costs necessary to improve the condition of the aging Manifold Street building; and
- deliver significant savings for the Group's insurance portfolio.

The decision to cease fresh milk processing in no way diminishes the efforts of our dedicated staff who have worked tirelessly to deliver award winning, premium quality dairy products to consumers in Victoria and nationwide. The Camperdown Dairy brand has a good reputation in the market as a regional Victorian brand and will be retained by the Group.

When fresh milk operations cease, the Group will continue to lease the site on a short-term basis for storage until the infant formula site obtains its export licence. Select processing equipment will be transitioned to the infant formula site, but the majority will remain at the Manifold Site to allow it to be sold, with or without the site lease.

Closure of the fresh milk operations will also allow the Group's management team to completely focus on delivering the final elements of the vertical integration strategy and ensure the Group is best positioned to capitalise on the opportunities this presents.

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was $4,148,521 (2021: $6,910,837 loss). This result is comprised of a net loss from the dairy processing segment of $3,926,947 (2021: $6,610,487 loss) and net loss from the dairy farm segment of $221,574 (2021: $300,350 loss). Net operating cash flow for the year was ($3,795,011) (2021: ($2,031,487)) with operating EBITDA of ($3,020,918), an improvement of $2,321,601 on 2021. Included in the results for 2022 is a gain on the disposal of the Ecklin South farm in September 2021 of $1,555,342.

Total revenue for FY22 is down $6,651,248 against the FY21 comparative period of $21,714,193. This is a result of a decrease in revenue from the dairy processing segment of $4,429,688 and a $2,221,560 decrease from the dairy farm segment. This was due largely to the wind down of yoghurt manufacturing operations at the fresh dairy plant and for the farm segment, the sale of the Ecklin South farm in September 2021.

Total expenses for FY22 were $22,109,019, down 27% against the FY21 comparative period of $30,427,975. This comprised a $7,105,091 decrease in expenses from the dairy processing segment and a $1,213,865 decrease from the dairy farm segment. Corporate expenses for the year were $2,586,598 (2021: $2,403,253). For segment reporting, the corporate expenses were allocated on a 50/50 basis between dairy processing and farming.

FINANCIAL POSITION

The net assets of the Group at 30 June 2022 total $39,948,487, an increase of $5,961,522 from the June 2021 comparative.

The key assets and liabilities in the statement of financial position at 30 June 2022 are:

- cash and cash equivalents of $2,431,696 (2021: $6,192,119);
- property, plant and equipment of $27,003,288 (2021: $28,227,815);
- inventories of $1,398,681 (2021: $1,038,700);
- non-current assets held for sale of $6,425,000 (2021: $nil);
- biological assets (livestock) of $4,416,205 (2021: $4,795,079); and
- borrowings of $502,770 (2021 $5,980,506).

As noted above, the Group utilised the proceeds of the sale of the Ecklin South farm to repay in full it's bank facility with the Commonwealth Bank of Australia Limited (CBA) on 30 September 2021 (refer Note 16(b)).

The Group's borrowing at the end of FY22 comprised a short term, unsecured loan of $500,000 from M & J Bryant, the Group's Chairman. The loan was repaid in full on 29 July 2022 (refer Note 16(a)).

During the year, the Group changed its accounting policy on the measurement of the carrying amount of land and buildings from cost to fair value to better represent the value of its farm assets. This change was made as farm values in Southwest Victoria have risen strongly in the past few years, meaning the carrying value of the farms was significantly out of step with the actual valuation of the farms. This resulted in a $7,160,545 increase in the value of the farm portfolio of the Group (see further commentary in the review of operations).

REVIEW OF OPERATIONS

Farms - Australian Dairy Farms Trust (Land Owner) And Sw Dairies Pty Ltd (Farm Operator)

Registered valuers Preston Rowe Paterson completed an independent valuation of all farms on 3 February 2022. The carrying amounts at 30 June 2022 for the Brucknell South and Yaringa farms are the independent valuations plus capitalised costs from the valuation date, less depreciation. The Brucknell North farm is held as an asset for sale based on the agreed purchase price of $6.425 million. The combined value of the Group's farm portfolio (including the non-current asset held for sale) is $20,491,617, up 59% on FY21 for the same 3 farms. A fair value gain of $7,160,545 is reflected in other comprehensive income.

The farm segment results include a gain on change in fair value of livestock during the year of $1,342,672 (2021: $1,614,189) as livestock carrying values again showed gains in FY22 due to strong cattle prices in the open market.

The Group also undertook an internal restructure of its farm properties in FY22. Both the Brucknell North and Brucknell South farm properties were transferred from ADFT to a newly incorporated Group subsidiary, Regen Properties Pty Ltd (RGP). The Yaringa farm is also in the process of being transferred to RGP and this is anticipated to occur in September 2022. The Group successfully applied for and obtained the corporate reconstruction concession to reduce the stamp duty payable on the transfer of the two Brucknell farms and expects to rely on the concession for the transfer of the Yaringa farm.

As noted above, the Group sold the Ecklin South farm on September 2021 and used the proceeds of the sale to repay the Group's finance facility with the CBA. Prior to the end of FY22 the Group also announced the sale of the Brucknell North farm for a purchase price of $6.425 million. The sale settled on 15 July 2022, with the farm immediately leased back by the Group for a period of 3 years plus an option to renew for a further 12 months.

With the sale of the Ecklin South and Brucknell North farms, the Group's farm milk production is now better aligned with the manufacturing requirements of the infant formula plant whilst also maintaining sufficient flexibility for the Group's raw milk procurement requirements.

Processing - Organic Nutritionals Pty Ltd (Nutritionals)

(I) Future Gradulac Gentle Infant Formula

The Group launched its first infant formula range, Future Gradulac Gentle in FY22. The launch has been supported by an omni-channel marketing program to gain consumer awareness and trust with the brand. The range has been available in Chemist Warehouse stores nationally since April 2022. In December 2021 the Group also announced the appointment of a tier 1 distributor operating in the Chinese cross border e-commerce channel (CBEC) and some preliminary sales and marketing has commenced in this channel.

REVIEW OF OPERATIONS (cont'd)

The Future Gradulac Gentle range is manufactured by an external contractor with good capacity to support ongoing sales of this range, leaving the Group's new infant formula plant available to produce its organic A2 milk powder and infant formula range. The Group has also applied to the United States Food and Drug Administration (FDA) for accelerated approval to sell the Future infant formula range in the United States to assist with infant formula shortages in this market due to a food safety issue. This application is currently under active review by the FDA.

(Ii) Infant Formula Plant (Depot Road) And Ocean Road Dairies Organic A2 Infant Formula

Spence Construction commenced construction of the infant formula plant building on the Depot Road, Camperdown site in June 2020. Despite the ongoing impact of COVID-19 restrictions, construction of the building progressed well and was completed in early 2021. Configuration, installation and commissioning works were completed by the Group's internal project team (with assistance from specialist contractors) and trial and testing works commenced in early 2022.

On 1 July 2022 the Group announced that the infant formula plant had successfully produced organic A2 whole milk powder with milk sourced from its own farms. Testing of the organic A2 whole milk powder produced excellent results and the powder has been used in further test batches. In August 2022 the Group produced all 3 stages of the Ocean Dairies Organic A2 infant formula range in trial productions. At the date of this report, the Board remains confident that commercial production of the Ocean Road Dairies Organic A2 range remains on track to be complete by the end of Q1FY23 ready for national ranging in Chemist Warehouse in October 2022.

As noted above, sale and distribution of the Ocean Road Dairies Organic A2 infant formula range in Australia will be managed by Ocean Dairy Pty Ltd, a 50/50 joint venture between Australian Dairy Nutritionals Limited (ADNL) and Wellnex Life Ltd (ASX: WLL). The Ocean Road Dairies infant formula products will first be ranged nationally in Chemist Warehouse stores before being expanded into other pharmacy and specialist retail stores. ADNL will be responsible for distribution of the Ocean Road Dairies range to overseas markets and will pay Ocean Dairy a royalty on selected sales of the products in these markets.

Processing – Camperdown Dairy Company Pty Ltd (Fresh Dairy)

In FY22, CDC manufactured a range of milks, cream and yoghurt for distribution in the major supermarkets and niche retailers, hospitality businesses and home delivery. As noted above, in October 2021 the Group announced, following a strategic review of its fresh dairy manufacturing operations, that it had given notice to terminate its manufacturing agreement with The Collective and cease manufacturing yoghurt at the Manifold Street site in Camperdown. After a transition period to run down outstanding raw materials and packaging, yoghurt manufacturing ceased in April 2022. As part of the transition process The Collective purchased the Group's high speed pouch machine for $365k and paid a termination payment of $64k.

With yoghurt manufacturing to cease at the Manifold Street site, in early 2022 the Board undertook a further strategic review of its remaining fresh dairy manufacturing. As a result of this review, the Group announced that it would also cease manufacturing fresh milk at the Manifold Street site by the end of August 2022 due to rising production costs, resourcing issues and strong competition from fully automated, low-cost competitors.

Dairy processing revenue for FY21 was $13,820,660, down $249,299 on FY20. This was largely driven by lower sales of The Collective's yoghurts as well as the impact of yoghurt manufacturing ceasing in April 2022. The decision to cease fresh milk processing doesn't impact the FY22 results but, will reduce revenue by $4 million in FY23.

Financial performance in the processing segment was impacted by high farm gate milk prices in FY22, leading to increased raw material costs. The average per litre for conventional milk at the farm gate was 10 cents higher in FY22. However, lower sales volumes and reduced production through the plant as part of the yoghurt wind down process meant total costs decreased from $20,431,147 in FY21 to $13,326,056 in FY22.

Distribution

(i) Major supermarkets

In FY22 Camperdown Dairy's 2L whole milk and skim milk products were ranged in over 160 Woolworths stores in Victoria. In March 2022 Woolworths also commenced a trial of the Camperdown Dairy organic A2 whole milk. Camperdown Dairy 2L Whole Milk and 2L Jersey milk was also ranged in select Coles supermarkets in Victoria in FY22.

(ii) Foodservice and niche retailers

In May 2021, Sealane Group commenced as the exclusive distributor of the Jonesy's Dairy Fresh Brand in Victoria. Whilst Camperdown Dairy continued to manufacture the Jonesy's Dairy Fresh milks the transition to a distributor model for this brand allowed the Group to shut down the Jonesy's Distribution business, reducing both costs and complexity.

Camperdown Dairy continued to supply select other distributors in the Victoria market during FY22 however these arrangements will cease when fresh milk manufacturing ceases at the Manifold Street site at the end of August 2022.

REVIEW OF OPERATIONS (cont'd)

(iii) Home delivery

The Group's home delivery business underwent some operational changes in FY22 to ensure its model was able to scale to accommodate a wider distribution footprint. COVID-19 restrictions made preferred customer acquisition programs difficult to execute however the business has now developed a multi-channel customer acquisition plan which it will formally roll out in FY23.

Capital Raising – Private Placement To IJ Funds Management

On 10 March 2022, the Group announced a private placement to IJ Funds Management (IJ Funds Management) to raise up to $4.5 million at a price of $0.0647 per security (Placement). A total of $2.75 million was received from IJ Funds Management and the Group issued a total of 42,503,864 fully paid ordinary securities, taking IJ Funds Management's holding in the Group to 7.75% of the total issued capital of the Group as at 30 June 2022.

The proceeds of the Placement will be used to fund:

- expansion of the Group's distribution network in Asia as well as marketing and promotional activities in this region;
- support the Group's investment in inventory to support ranging of both the Future and organic A2 infant formula ranges in Chemist Warehouse; and
- general working capital and transaction costs.

In conjunction with the Placement, the Group also engaged IJ Funds Management to provide consultancy services to the Group in relation to the expansion of the Group's business in Asia as well as marketing and networking activities in the region. The consultancy services fee is $45,833 per month, for a period of 6 months commencing 1 July 2022.

At the conclusion of the consultancy services the Board expects that IJ Funds Management will have assisted the Group with introduction to and establishment of additional distribution arrangements in Asia, advised on logistics and fulfillment and worked with The Group's marketing team to advise on and implement multi-channel marketing and promotional campaigns for the Group's products in China.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group in FY22 included the sale of the two farm properties (Ecklin South and Brucknell North) as well as the private placement to IJ Funds Management. At the operational level there were several significant changes including:

- launch of the Group's Future Gradulac Gentle infant formula range and ranging in Chemist Warehouse stores nationally;
- completion of the commissioning of the Group's new infant formula plant at the Depot Road site in Camperdown and significant progress in the trial and testing of the plant including successful production of Australia's first organic A2 whole milk powder using milk from the Group's farms;
- establishment of the Ocean Dairy joint venture between ADNL and Wellnex Life Ltd to manage sale and distribution of the Ocean Road Dairies Organic A2 infant formula range within Australia, including national ranging in Chemist Warehouse stores targeted for October 2022; and
- strategic review of the fresh dairy manufacturing operations to ensure the Group's operations align with its strategic objectives moving forward. As a result of this review fresh dairy manufacturing at the Group's Manifold Street site will cease at the end of August 2022 to allow the Group to fully focus on the nutritionals segment.

The Board of Directors also underwent a renewal in FY22 to better align the skills of the Board with the ongoing strategic direction of the Group. Chief Executive Officer, Peter Skene resigned from the Board in June 2022 to allow him to focus on the CEO role and Mr Bernard Kavanagh was appointed to the Board to replace him. Mr Kavanagh brings a wealth of knowledge, skills and experience in the dairy and wider agricultural industry. He also has significant experience built over 20 years in both executive and director positions at Warnambool Cheese & Butter Limited, Saputo Inc, Keytone Dairy Limited and Viplus Dairy Pty Ltd.

Despite the country learning to 'live with COVID-19' in FY22, the Group continued to juggle the impact of the pandemic including staff absences, lack of skilled and unskilled labour and logistics challenges. The health and safety of our staff remains our first priority in the management of our response to the pandemic. All areas of the business continue to monitor and implement COVID-19 related procedures to ensure we keep our staff, customers and suppliers safe.

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.

DIRECTORS' REPORT (cont'd)

EVENTS AFTER THE REPORTING PERIOD

- On 15 July 2022, the Group announced the completion of the sale and leaseback for the Brucknell North farm located at 417 Moreys Road, Victoria for $6.425M.
- On 22 August 2022, CDC ceased manufacturing fresh milk at the Manifold Street site in Camperdown.
- On 22 August 2022 and 25 August 2022, the Group announced various issues of securities and the cancellation of options and performance rights to directors, management and the lead manager for a private placement in June 2019.

In the opinion of the directors there are no material matters that have arisen since 30 June 2022 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* (Cth) and is subject to water licensing restrictions under the *Water Act 1989* (Vic). The Group is also subject to the *Environment Protection Act 2017 (Cth) and Water (Regulations) 2021 (Vic)* which regulates effluent disposal from its manufacturing sites.

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 infant formula and dairy nutritional products. This transition shifts the Group's operations to products with return higher margins that are less exposed to competition from other market participants.

As part of this strategy, the Group has transitioned all of its dairy farms to fully certified organic operations. All of the Group farms have A2 only herds of which the Yaringa and Brucknell South farms are certified organic. The Brucknell North farm herd will achieve organic certification in October 2022. At this time, all three farms will be producing certified organic A2 protein milk for use in production of the Ocean Road Dairies Organic A2 infant formula, which will be manufactured at the Group's infant formula plant.

After a significant period of investment in transitioning the farms to organic A2 protein milk production and construction, commissioning and testing of the infant formula plant, the Group will increase its focus on the sale and distribution of its infant formula ranges; Future Gradulac Gentle and Ocean Road Dairies. Both infant formula ranges are expected to be ranged in Chemist Warehouse stores nationally by the end of October 2022.

The Group will focus on establishing and expanding its distribution footprint in selected overseas markets including Asia and the United States.

The Group also continues to maintain its home delivery distribution business has started to implement a customer acquisition program designed to expand the distribution footprint of this business segment in Victoria.

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, infectious disease, 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 and financial performance. This could include increased operational costs, disruption to operations or 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 is currently undertaking the infant formula project which involves the final stages of trialing and testing the infant formula plant and commencement of commercial production. In the future the Group may also undertake new projects to build new facilities and expand existing facilities, which may include installation of an additional dryer or installation of the high-speed canning line. There are risks associated with development projects, including trial and testing delays, cost overruns or may not perform to its designed capacity initially or at all. This may result in delays in anticipated revenues flowing from the developments all of which could have an adverse effect on the Group's revenues and costs.

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.

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 the perspective of 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.

Current And Future Impact Of Covid-19 Or Other Infectious Diseases 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.

Furthermore, the discovery of infectious diseases affecting livestock in Australia may require isolation or even destruction of livestock or, restrictions on movement of livestock both domestically and internationally. This would have significant impact of the Group's farming operations and its raw milk production volumes.

The Group is also exposed to the global dairy market and the availability of export opportunities of milk from Victoria. If country borders are closed or imports or 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 And Access To Capital

In order to support large increases in demand for the Group's products and increase inventory or, to expand the Group's infant formula plant capacity or 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.

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.

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.

DIRECTORS' REPORT (cont'd)

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
Bernard Kavanagh	Director (appointed 21 June 2022)
Peter Skene	Director (retired 21 June 2022) and CEO

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	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 1,500,000 stapled securities at 30 June 2022.

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 (retired 21 June 2022) 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 7,415,385 stapled securities at 30 June 2022. A relevant interest in 7,000,000 loan securities. A relevant interest in 500,000 performance rights at 30 June 2022.

Peter Skene was appointed to the Board on 1 July 2016 and retired from the Board on 21 June 2022. 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 2022. A relevant interest in 500,000 performance rights at 30 June 2022.

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 Portfolio Manager and Equity Strategist within the Watershed Funds Management Investment Team.

Adrian is a specialist in the delivery of Managed Account Solutions with over 15 years' experience managing funds across multiple platforms, structures and asset classes. Adrian is the Portfolio Manager for the Watershed Australian Share SMA and Income SMA and a member of the Asset Allocation, International Share and Emerging Leaders Investment teams.

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 2022. A relevant interest in 500,000 performance rights at 30 June 2022.

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.

Bernard Kavanagh	**Non-Executive Director**
Qualifications	Bachelor of Commerce - Deakin University Fellow of Institute of Company Secretaries and Administrators Fellow of Australian Institute of Company Directors
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 2022

Bernard Kavanagh was appointed to the Board on 21 June 2022. Bernard is a highly skilled director who brings a wealth of dairy and agriculture industry skills and experience. Until 2016 he was a senior executive with Saputo Inc., a top 10 global dairy company holding the positions of Vice-President – Dairy Divisions International and General Manager – Corporate Development. Prior to this he held several senior executive positions over 30 years at Warrnambool Cheese and Butter Co Ltd including Chief Financial Officer, Company Secretary, General Manager – Strategy & Growth and Executive Director. He has significant listed company Executive and Board experience including mergers and acquisitions, capital raising, strategic global supply arrangements as well as strategy development and oversight. More recently he lead the oversubscribed IPO of Ketone airy Corporation (ASX: KTD) on the ASX as Chairman.

DIRECTORS' REPORT (cont'd)

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 1,000,000 stapled securities at 30 June 2022. A relevant interest in 1,000,000 options at 30 June 2022.
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	15	14
Adrian Rowley	15	10
Jason Dong	15	12
Peter Skene	14	14
Bernard Kavanagh	1	1

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2022 (2021: $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 $33,519 (2021: $30,750) 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 2022 there was no payment to external auditors for non-audit services (2021: $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.]
18 November 2019	18 November 2022	11.5 cents	2,500,000[1.]
17 Februry 2021	17 February 2024	9 cents	3,000,000

[1.] Loan Securities

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 2022 has been received and a copy can be found at page 24.

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 10.5%. 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)

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 2022	Balance at 01/07/2021	Granted as Remuneration	Other Changes	Balance at 30/06/2022
Martin Bryant	1,500,000	-	-	1,500,000
Adrian Rowley	1,411,000	-	-	1,411,000
Peter Skene	13,415,385	-	1,000,000	14,415,385
Jason Dong	-	-	-	-
Bernard Kavanagh	-	-	-	-
	16,326,385	**-**	**1,000,000**	**17,326,385**

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.

Loan From KMP

As set out in Note 24(c) of the financial statements, the Group had the following loan from KMP:

On 1 June 2022 the Group established an unsecured 6-month loan facility of $500,000 with M & J Bryant. The loan was at a variable interest rate: RBA official cash rate + 6%. The loan including accrued interest of $5,674 was repaid in full on 29 July 2022.

Changes In Directors And Kmp Subsequent To Year-End

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

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/Rights 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
A Rowley	Director	N/A	-	-	100
J Dong	Director	N/A	-	-	100
B Kavanagh	Director	N/A	-	-	100
P Skene	Group CEO / Director	3 months' notice	-	-	100

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

REMUNERATION REPORT (cont'd)

Remuneration Expense Details For The Year Ended 30 June 2022

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	Annual Leave	Super Contributions	LSL	Termination Benefits	Performance Rights	
	$	$	$	$	$	$	$
M Bryant - 2022 [6]	75,000	-	7,500	-	-	9,000	91,500
M Bryant - 2021	75,000	-	7,125	-	-	-	82,125
A Rowley - 2022 [1]	60,000	-	5,700	-	-	9,000	74,700
A Rowley - 2021	60,000	-	5,700	-	-	-	65,700
J Dong - 2022	60,000	-	6,000	-	-	9,000	75,000
J Dong - 2021 [2]	12,667	-	1,203	-	-	-	13,870
B Kavanagh - 2022 [3]	-	-	-	-	-	-	-
P Skene - 2022	383,744	14,061	25,000	6,699	-	9,000	438,504
P Skene - 2021	383,714	7,796	25,000	16,820	-	110,999	544,329
Former KMP							
M Hackett - 2022	-	-	-	-	-	-	-
M Hackett - 2021 [4]	45,000	-	4,275	-	-	-	49,275
P Morrell- 2022	-	-	-	-	-	-	-
P Morrell- 2021 [5]	50,000	-	4,750	-	-	-	54,750
Total - 2022	**578,744**	**14,061**	**44,200**	**6,699**	**-**	**36,000**	**679,704**
Total - 2021	**626,381**	**7,796**	**48,053**	**16,820**	**-**	**110,999**	**810,049**

1. This amount is paid in accordance with a contract arrangement with Watershed Funds Management Pty Ltd, an entity associated with Adrian Rowley.
2. Jason Dong was appointed as a director on 15 April 2021.
3. Bernard Kavanagh was appointed as a director on 22 June 2022.
4. Michael Hackett retired as a director on 23 March 2021.
5. Paul Morrell retired as a director on 16 April 2021.
6. On 25 August 2022, Martin Bryant elected not to receive the securities to which he was entitled.

REMUNERATION REPORT (cont'd)

Options And Rights Granted As Share-Based Payments

During the year ended 30 June 2022 are as follows:

		Grant Details			Exercised		Forfeited		
	Balance at 01/07/2021	Issue Date	No.	Value ($)	No.	Value ($)	No.	Value ($)	Balance at 30/06/2022
P Skene	8,000,000	20/01/2022	3,000,000	156,500	(1,000,000)	(87,999)	(2,500,000)	(147,500)	7,500,000
M Bryant	-	20/01/2022	1,000,000	38,500	-	-	(500,000)	(29,500)	500,000
A Rowley	-	20/01/2022	1,000,000	38,500	-	-	(500,000)	(29,500)	500,000
J Dong	-	20/01/2022	1,000,000	38,500	-	-	(500,000)	(29,500)	500,000
Total	**8,000,000**		**6,000,000**	**272,000**	**(1,000,000)**	**(87,999)**	**(4,000,000)**	**(236,000)**	**9,000,000**

		Vested	Unvested
	Balance at 30/06/2022	No.	No.
P Skene	7,500,000	7,500,000	-
M Bryant	500,000	500,000	-
A Rowley	500,000	500,000	-
J Dong	500,000	500,000	-

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.

During the year ended 30 June 2021 are as follows:

		Grant Details			Exercised		Forfeited		
	Balance at 01/07/2020	Issue Date	No.	Value ($)	No.	Value ($)	No.	Value ($)	Balance at 30/06/2021
P Skene	7,000,000	17/02/2021	3,000,000	242,998	-	-	(2,000,000)	(154,999)	8,000,000
Total	**7,000,000**		**3,000,000**	**242,998**	**-**	**-**	**(2,000,000)**	**(154,999)**	**8,000,000**

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

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 2022, Watershed Funds Management Pty Ltd was paid $65,700 (2021: $60,225) for the provision of services performed by Adrian Rowley as director. There was $6,023 (2021: $6,023) due at 30 June 2022.

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.

M Bryant

Martin Bryant
Chairman

31 August 2022

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
- Board Skills Matrix

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

AUDITOR'S INDEPENDENCE DECLARATION

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 2022 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 P/L

Nexia Brisbane Audit Pty Ltd

Gavin Ruddell
Director

Date: 31 August 2022

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FINANCIAL STATEMENTS
2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $	2021 $
Revenue	3(a)	15,062,945	21,714,193
Other income	3(b)	2,897,553	1,802,945
Administration costs	3(c)(v)	(652,709)	(754,044)
Employment expenses	3(c)(iv)	(4,563,584)	(6,047,672)
Finance costs	3(c)(i)	(132,478)	(454,849)
Dairy product related costs	3(c)(iii)	(9,573,445)	(12,830,175)
Dairy farm related costs	3(c)(ii)	(4,080,492)	(4,579,477)
Depreciation and amortisation expense		(995,125)	(1,113,469)
Deemed cost of livestock disposed	3(c)(vi)	(2,111,186)	(2,294,548)
Impairment expenses	3(c)(vi)	-	(2,353,741)
Loss before income tax		**(4,148,521)**	**(6,910,837)**
Tax expense	4	-	-
Net loss for the year		**(4,148,521)**	**(6,910,837)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss			
Fair value movement on land and buildings at fair value through other Comprehensive income	13(i)	7,160,545	-
Other comprehensive income for the year		**7,160,545**	**-**
Total comprehensive income / (loss) for the year		**3,012,024**	**(6,910,837)**
Loss is attributable to:			
Company shareholders		(5,389,438)	(6,403,982)
Trust unitholders		1,241,756	(506,855)
Non-controlling interest		(839)	-
		(4,148,521)	**(6,910,837)**
Total comprehensive income / (loss) is attributable to:			
Company shareholders		(5,389,438)	(6,403,982)
Trust unitholders		8,402,301	(506,855)
Non-controlling interest		(839)	-
		3,012,024	**(6,910,837)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	30	(0.81)	(1.62)
Diluted earnings per stapled security (cents)	30	(0.81)	(1.62)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Notes	2022 $	2021 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	2,431,696	6,192,119
Trade and other receivables	6	974,232	1,321,409
Inventories	7	1,398,681	1,038,700
Non-current assets held for sale	8	6,425,000	-
Other assets	9	836,365	151,020
Total Current Assets		**12,065,974**	**8,703,248**
Non-Current Assets			
Biological assets	10	4,416,205	4,795,079
Right of use assets	11	569,654	956,287
Intangible assets	12	547,481	429,173
Property, plant & equipment	13	27,003,288	28,227,815
Total Non-Current Assets		**32,536,628**	**34,408,354**
Total Assets		**44,602,602**	**43,111,602**
LIABILITIES			
Current Liabilities			
Trade and other payables	14	2,837,666	1,969,469
Lease liabilities		242,634	200,079
Provisions	15	630,342	566,887
Borrowings	16	502,770	5,980,506
Total Current Liabilities		**4,213,412**	**8,716,941**
Non-Current Liabilities			
Lease liabilities		345,504	309,468
Provisions	15	95,199	98,228
Total Non-Current Liabilities		**440,703**	**407,696**
Total Liabilities		**4,654,115**	**9,124,637**
Net Assets		**39,948,487**	**33,986,965**
EQUITY			
Issued capital	17(a)	43,563,897	40,562,399
Reserves	18	8,026,909	918,363
Accumulated losses		(35,541,736)	(30,152,297)
Equity attributable to shareholders		**16,049,070**	**11,328,465**
Non-controlling interests			
Issued units	17(a)	30,744,991	30,744,991
Accumulated losses		(6,845,574)	(8,086,491)
Equity attributed to non-controlling interests		**23,899,417**	**22,658,500**
Total Equity		**39,948,487**	**33,986,965**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $	2021 $
Cash Flows from Operating Activities			
Receipts from customers		15,242,346	22,494,337
Payments to suppliers and employees		(18,911,399)	(24,086,291)
Interest received		6,520	15,316
Finance costs		(132,478)	(454,849)
Net operating cash flows	5(b)	**(3,795,011)**	**(2,031,487)**
Cash Flows from Investing Activities			
Payment for property, plant and equipment		(2,576,084)	(4,896,237)
Proceeds from sale of property, plant and equipment		5,886,339	6,148,064
Payment for biological assets	10	(389,640)	(107,423)
Payment for intangible assets	12(a)	(142,072)	(79,107)
Deposit on sale of property, plant and equipment		321,250	-
Net investing cash flows		**3,099,793**	**1,065,297**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs		2,733,999	7,220,203
Repayment of CBA facility		(5,980,506)	(6,073,494)
Proceeds from borrowings - unsecured		652,838	376,734
Repayment of borrowings - unsecured		(652,838)	(404,260)
Proceeds from related party loan		500,000	-
Repayment of hire purchase loans		(179,394)	(195,636)
Repayment of lease principal		(139,304)	(127,059)
Net financing cash flows		**(3,065,205)**	**796,488**
Net increase / (decrease) in cash held		**(3,760,423)**	**(169,702)**
Cash at the beginning of the period		6,192,119	6,361,821
Cash at the end of the financial period	5	**2,431,696**	**6,192,119**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	Issued Capital Ordinary	Asset Revaluation Reserve	Option Reserve	Accumulated Losses	Non-controlling Interests	Total
		$	$	$	$	$	$
Balance at 1 July 2021		**40,562,399**	**-**	**918,363**	**(30,152,297)**	**22,658,500**	**33,986,965**
Comprehensive income for the year							
Profit / (loss) attributable to company shareholders / trust unitholders for the period		-	-	-	(5,389,438)	1,241,756	(4,147,682)
Non-controlling interests		-	-	-	-	(839)	(839)
Other comprehensive income for the period		-	7,160,545	-	-	-	7,160,545
Total comprehensive income / (loss) for the year		**-**	**7,160,545**	**-**	**(5,389,438)**	**1,240,917**	**3,012,024**
Transactions with equity holders in their capacity as equity holders and other transfers:							
Contribution of equity, net of transaction costs	17(iv)	2,733,999	-	-	-	-	2,733,999
Share-based payments - securities	17(i)	92,500	-	-	-	-	92,500
Share-based payments - performance rights	26(b)(i)	-	-	36,000	-	-	36,000
Shares issued on exercise of rights	17(ii)	87,999	-	(87,999)	-	-	-
Share-based payment - supplier	17(iii)	87,000	-	-	-	-	87,000
Total transactions with equity holders		**3,001,498**	**-**	**(51,999)**	**-**	**-**	**2,949,499**
Balance at 30 June 2022		**43,563,897**	**7,160,545**	**866,364**	**(35,541,736)**	**23,899,417**	**39,948,487**

	Notes	Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non-controlling Interest	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(vii),(viii)	7,145,590	-	-	-	7,145,590
Option expense		-	220,955	-	-	220,955
Supplier securities issued	17(vi)	131,759				131,759
Employee and consultant performance securities issued	17(v),(ix)	94,000	-	-	-	94,000
Transfer to retained earnings (options)		-	(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**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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

(h) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are carried at their fair value (being the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated impairment losses and accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(l) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

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

(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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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

(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.

(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.

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

(s) Revenue and Other Income (cont'd)

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.

(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(a);
- Carrying value determination of property, plant and equipment, refer Note 13(b);
- Carrying value determination of intangibles, refer Note 12;
- Carrying value determination of right of use assets, refer Note 11(a);
- Fair value determination of livestock, refer Note 10;
- Share-based payments, refer Note 26; and
- Income tax and other taxes, refer Note 4;

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.

Capital Management

The Board is continually monitoring the cash position of the Group and has a number of short, medium and long term strategies for management of the Group's cash position to ensure operations are well funded as the Group nears the completion of its 5-year transformation strategy to become a fully vertically integrated manufacturer of premium organic dairy nutritional products.

The Group has cash and cash equivalents of $6.1m at the date of this report and just under $1 million inventory of the future Gradulac Gentle infant formula range to support ongoing development of its distribution network. Fresh milk processing at the Camperdown Dairy Manifold Street ceased on the 22 August 2022 and is expected to deliver an estimated $1m EBITDA improvement to the Group based on the position at closure.

In addition to the above, as a listed entity, the Group also has capital raising opportunities available to it from existing shareholders as well as sophisticated investors with strong alignment to the Group's strategy and future objectives.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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.

	2022 $	2021 $
Statement of Financial Position		
Assets		
Current assets	17,842,525	15,341,454
Non-current assets	12,751,769	12,562,305
Total assets	**30,594,294**	**27,903,759**
Liabilities		
Current liabilities	7,226,740	5,084,304
Non-current Liabilities	125,816	920
Total liabilities	**7,352,556**	**5,085,224**
Equity		
Issued capital	43,563,896	40,562,398
Reserves	857,364	918,363
Non-controlling interest	(839)	-
Retained earnings	(21,178,683)	(18,662,226)
Total Equity	**23,241,738**	**22,818,535**
Statement of Profit or Loss and Other Comprehensive Income		
Total loss	(2,525,458)	(2,923,679)
Total comprehensive loss	(2,525,458)	(2,923,679)

Contingent liabilities and guarantees

The Company does not have any contingent liabilities or guarantees for the year ended 30 June 2022.

In the 2021 comparative, the Company had a contingent liability for payment of royalties in respect of Epicurean Dairy Products commencing April 2022, however this agreement ended prior to the commencement of the royalties and guarantees in respect of CBA borrowings that have subsequently been repaid (refer Note 16(b)).

Contractual commitments

At 30 June 2022, the parent company had not entered into any contractual commitments.

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 3: REVENUE AND EXPENSES

	Notes	2022 $	2021 $
(a) Revenue			
Revenue from contracts with customers	(i)	14,852,359	21,301,894
Other sources of revenue	(ii)	210,586	412,299
Total revenue		**15,062,945**	**21,714,193**
(i) Revenue disaggregation			
The revenue is disaggregated by service line and timing of revenue recognition.			
Service lines:			
- Dairy processing		9,244,276	13,609,650
- Dairy farms		5,608,083	7,692,244
		14,852,359	**21,301,894**
Timing of revenue recognition			
Services transferred to customers:			
- at a point in time		14,852,359	21,301,894
(ii) Other sources of revenue			
Interest		6,520	15,316
Farm costs recoveries		30,071	37,897
Government grants - Cashflow Boost subsidy		-	323,393
Fuel rebate and other revenue		173,995	35,693
		210,586	**412,299**
(b) Other Income			
Gain on change in fair value of livestock (refer Note 10)		1,342,672	1,614,189
Gain on disposal of property, plant and equipment		1,554,881	188,756
		2,897,553	**1,802,945**
(c) Expenses			
(i) Finance costs			
CBA facility		60,905	389,196
Loans - unsecured		28,052	23,838
Loan - related party		2,770	-
Right of use assets		19,801	20,937
Finance charges payable under finance leases		20,950	20,878
		132,478	**454,849**
(ii) Dairy related costs			
Feed costs		1,632,353	1,741,843
Repairs, maintenance and vehicle costs		406,538	450,610
Animal health costs		38,923	69,641
Land holding and lease costs		44,381	64,844
Breeding and herd testing expenses		111,010	222,373
Dairy shed expenses		102,368	110,881
Electricity		167,456	234,203
Other dairy related costs		1,577,463	1,685,082
		4,080,492	**4,579,477**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 3: REVENUE AND EXPENSES (cont'd)

	2022 $	2021 $
(iii) Dairy processing related costs		
Cost of goods sold	6,970,612	9,282,333
Freight costs	932,750	1,669,919
Property and lease costs	250,773	229,289
Loss allowance on receivables	(26,429)	72,816
Other dairy processing related costs	1,445,739	1,575,818
	9,573,445	**12,830,175**
(iv) Employment benefits expense		
Employee and director remuneration costs	4,435,084	5,807,332
Equity settled remuneration costs	128,500	180,340
	4,563,584	**5,987,672**
(v) Administration and non-dairy related costs		
Administration costs	382,793	432,131
Professional costs	244,940	381,913
Property costs	24,976	-
	652,709	**814,044**
(vi) Other significant items		
Deemed cost of livestock sold (refer Note 10)	2,111,186	2,294,548
Impairment of goodwill[1]	-	2,353,741

[1] Goodwill relates to the dairy processing segment cash-generating-unit. In the 2021 comparative year, the Board fully impaired the goodwill, resulting in a $2,353,741 impairment expense.

NOTE 4: INCOME TAX EXPENSE

(a) The prima facie tax on profit before income tax is reconciled to the income tax as follows

	2022 $	2021 $
Prima facie tax payable / (benefit) on loss from ordinary activities before income tax at 25% (2021: 26%):	(1,037,130)	(1,796,818)
Add /(less)		
Tax effect of:		
- trust (profit) / loss not recognised	(314,106)	132,089
- current period tax losses not recognised	1,466,737	1,860,605
- net amount of expenses not currently deductible	(896,830)	991,656
- other income not included in assessable income	781,329	(1,187,532)
Income tax expense / (benefit) attributable to entity	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 4: 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.

	2022 $	2021 $
Temporary differences	323,116	156,823
Tax losses	11,267,610	10,276,345
Capital losses	-	243,233
Net unbooked deferred tax assets	**11,590,726**	**10,676,401**

The Group has significant carry forward tax losses and will only be able to utilise these losses subject to it satisfying certain carry forward rules and other taxation legislation such as the Same Business Test and/or the Continuity of Ownership Test. Due to the changes that have occurred within the Group since these losses commenced accumulating, there is uncertainty as to the likelihood of the Group being able to utilise these losses. The Group has previously endeavoured to obtain a private ruling as to the status of its carry forward losses from the Australian Taxation Office (ATO) only to be advised that the ATO will not rule on the applicability of carry forward tax losses until such time as the Group endeavours to utilise those losses.

NOTE 5: CASH AND CASH EQUIVALENTS

	Note	2022 $	2021 $
Current			
Cash at bank and in hand		2,431,696	6,192,119
Total cash and cash equivalents	28	**2,431,696**	**6,192,119**

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 2022:

	2022 $	2021 $
Cash at bank and in hand	2,431,696	6,192,119
	2,431,696	**6,192,119**

A floating charge over cash and cash equivalents was provided to the CBA as part of security arrangements for facilities in the 2021 comparative period. For further details refer to Note 16(b).

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 5: CASH AND CASH EQUIVALENTS (cont'd)

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

	2022 $	2021 $
Net loss after income tax	(4,148,521)	(6,910,837)
Adjustment of non-cash items		
Amortisation and depreciation	995,125	1,113,469
Deemed cost of livestock disposed	2,111,186	2,294,548
Fair value adjustment of biological assets	(1,342,672)	(1,614,189)
Impairment expenses	-	2,353,741
Gain on disposal of property, plant and equipment	(1,554,881)	(188,756)
Bad debts and impairment provision	(26,429)	72,815
Finance costs - loan from related party	2,770	-
Equity settled share-based payments	215,500	240,340
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	185,921	553,995
(Increase) / decrease in other assets	(685,345)	13,929
(Increase) / decrease in inventories	(359,981)	219,207
Increase / (decrease) in trade and other payables	751,890	(164,865)
Increase / (decrease) in provisions	60,426	(14,884)
Net operating cash flows	**(3,795,011)**	**(2,031,487)**

(c) Changes in liabilities arising from Financing Activities:

	1 July 2021 $	Cash flows $	Non-cash Movements	30 June 2022 $
CBA Facility	5,980,506	(5,980,506)	-	-
Loan - related party	-	500,000	2,770	502,770
Lease liabilities	509,548	(318,697)	397,287	588,138
Total	**6,490,054**	**(5,799,203)**	**400,057**	**1,090,908**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 6: TRADE AND OTHER RECEIVABLES

	Note	2022 $	2021 $
Current			
Trade receivables		775,211	1,169,649
Other receivables		199,021	170,763
Provision for impairment		-	(19,003)
Total current trade and other receivables	28	**974,232**	**1,321,409**

(a) Lifetime Expected Credit Loss Credit Impaired

	Opening balance	Net measurement of loss allowance	Amounts written off	Total
	$	$	$	$
Trade receivables	19,003	(14,818)	(4,185)	-

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 2022 is determined as follows; the expected credit losses also incorporate forward-looking information.

2022	Current	>30 days past due	>60 days past due	>90 days past due	Total
	$	$	$	$	$
Expected loss rate	0%	0%	0%	0%	
Gross carrying amount	896,446	63,889	5,143	8,754	**974,232**
Loss allowance provision	-	-	-	-	**-**

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 allowance provision	-	-	-	19,003	**19,003**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 6: TRADE AND OTHER RECEIVABLES (cont'd)

Credit risk

The Group has a significant concentration of credit risk with two key customers totaling $381,822 (2021: $449,288) or 39% (2021: 34%) 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	2022 $	2021 $
Trade and other receivables			
Total current		974,232	1,321,409
Total financial assets measured at amortised cost	28	**974,232**	**1,321,409**

(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 7: INVENTORIES

	2022 $	2021 $
Current		
Packaging	202,627	383,920
Raw materials, finished goods and chemicals	997,008	178,771
Feedstock, hay and silage	199,046	476,009
Total inventories (at cost)	**1,398,681**	**1,038,700**

NOTE 8: NON-CURRENT ASSETS HELD FOR SALE

On 9 June 2022 the Group announced to the ASX that it had entered into an unconditional contract of sale and leaseback for the Brucknell North farm located at 417 Moreys Road, Victoria for $6.425M. The sale was completed after balance date on 15 July 2022.

In accordance with AASB 5: Non-current Assets Held for Sale, the Group has reclassified the assets of the Brucknell North farm in the proposed sale as held for sale.

Following is a detailed breakdown of the assets held for sale on 30 June 2022:

	2022 $	2021 $
Non-current assets		
Property, plant & equipment	6,425,000	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 9: OTHER ASSETS

	2022 $	2021 $
Current		
Prepayments	778,567	114,995
Bonds and deposits	57,798	36,025
Total other assets	**836,365**	**151,020**

NOTE 10: BIOLOGICAL ASSETS

	Notes	2022 $	2021 $
Non-current			
Dairy livestock	(a)	4,416,205	4,795,079
Total biological assets		**4,416,205**	**4,795,079**

Movements during the year:	2022 $	2021 $
Opening carrying amount	4,795,079	5,368,015
Purchases of livestock	389,640	107,423
Deemed cost of livestock disposed	(2,111,186)	(2,294,548)
Gain from changes to fair value	1,342,672	1,614,189
Closing carrying amount	**4,416,205**	**4,795,079**

Movements during the year (herd numbers):	2022 No.	2021 No.
Opening balance	2,900	3,662
Purchases	164	58
Natural increase and attrition	725	1,177
Sales	(1,562)	(1,997)
Closing balance	**2,227**	**2,900**

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2022, 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 $1,342,672 (2021: $1,614,189) has been recognised in profit and loss at 30 June 2022, 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 2022, the Group produced 6.8 million litres (2021: 10.6 million litres) of raw milk. The average number of cows milked during the year was 1,154 (2021: 1,655).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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 lease on 368 acres of land on Cooramook Road, Grassmere, Victoria, with an expiry date of 24 December 2024.

  The land lease was an initial 3 year and 2 month lease with a 3-year option, which provided the Group opportunities to manage the lease in order to align with business strategies. The 3-year extension option was exercised by the Group on 25 December 2021 and as such the option has now been capitalised and included in the calculation of the lease liability.

In the 2021 comparative, the Group also had leases for plant and equipment that have been repaid in 2022 and transferred to property, plant and equipment.

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

Right of use assets	**Notes**	**2022 $**	**2021 $**
Leased land and buildings		1,153,344	918,924
Accumulated depreciation		(583,690)	(611,580)
	(i)	**569,654**	**307,344**
Leased plant and equipment		-	996,959
Accumulated depreciation		-	(348,016)
	(i)	**-**	**648,943**
Total right of use assets		**569,654**	**956,287**

(i) Movement in carrying amounts:

	2022 $	**2021 $**
Leased land and building:		
Opening balance	307,344	434,221
Additions	402,869	-
Depreciation expense	(140,559)	(126,877)
Net carrying amount [1]	**569,654**	**307,344**

[1] The net carrying amount on factory premises at 325 Manifold Street, Camperdown is $206,381. Subsequent to ceasing fresh milk processing at the factory on 22 August 2022, the Group continues to use the site for storage and is also in negotiations for a third party to assume the lease in conjunction with a sale of CDC plant and equipment as outlined in Note 13(b). On this basis the Board is satisfied there is no impairment required to the right of use asset.

Leased plant and equipment:		
Opening balance	648,943	934,414
Disposals	-	(182,412)
Transfer to owned plant and equipment	(648,943)	-
Depreciation expense	-	(103,059)
Net carrying amount	**-**	**648,943**

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

Depreciation charge related to right of use assets	98,987	229,936
Interest expense on lease liabilities (included in finance costs)	40,751	41,815

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

Total cash outflows for leases	318,698	322,695

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 12: INTANGIBLE ASSETS

	Notes	2022 $	2021 $
Recipes, formulations and patents			
- at cost		346,846	346,846
		346,846	**346,846**
Product development			
- at cost		305,970	163,898
Less accumulated amortisation		(105,335)	(81,571)
		200,635	**82,327**
Total intangible assets	(a)	**547,481**	**429,173**

(a) The movement in carrying amounts of intangibles comprises:	2022 $	2021 $
Opening balance	429,173	2,753,218
Additions in year	142,072	79,107
Impairment expense	-	(2,353,741)
Amortisation	(23,764)	(49,411)
Closing balance	**547,481**	**429,173**

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Notes	2022 $	2021 $
Land, buildings and improvements			
- at cost[1]		-	22,433,563
- at fair value[1]		19,767,915	-
Less accumulated depreciation		(408,617)	(1,290,995)
	(a)	**19,359,298**	**21,142,568**

[1] Fully depreciated pasture improvements at cost and the associated accumulated depreciation of $849,997 has been removed from the balances.

	Notes	2022 $	2021 $
Plant and equipment - owned			
- at cost		11,532,228	10,482,036
Less accumulated depreciation		(3,888,238)	(3,396,790)
	(b)	**7,643,990**	**7,085,246**
Total property, plant and equipment		**27,003,288**	**28,227,815**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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

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

Property name	Note	Acquisition date	2022	2021
Brucknell No 2	(i)	22 October 2014	6,423,625	4,124,416
Yarringa - Nirranda South	(i)	4 October 2018	7,642,992	4,727,862
Brucknell No 3 (ii)	(ii)	6 March 2015	-	2,288,819
Missens Road (ii)	(ii)	9 July 2015	-	1,481,499
Brucknell No 1	(iii)	22 October 2014	-	4,056,706
Depot & Old Geelong Road (Camperdown) - Land	(iv)	17 November 2017	272,974	272,974
Infant Formula Plant Project	(iv)	in progress	5,019,707	4,190,292
Total			**19,359,298**	**21,142,568**

(i) Registered valuers Preston Rowe Paterson completed an independent valuation of all farms on 3 February 2022. 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 Project and Depot & Old Geelong Road Land) was $20,475,000. The carrying amounts at 30 June 2022 for the Brucknell South and Yaringa farms are the independent valuations from February 2022 plus capitalised costs from the valuation date, less depreciation. The Brucknell North farm is held as an asset for sale based on the agreed purchase price of $6.425 million (refer note (iii) below). The combined value of the Group's farm portfolio (including the non-current asset held for sale) is $20,491,617, up 59% on FY21 for the same 3 farms. A fair value gain of $7,160,545 is reflected in other comprehensive income.

(ii) On 30 September 2021, the Group announced to the ASX that it had sold its farm property located at 300-350 Missens Road (Brucknell No 3 and Missens Road) for $5,625,000. A gain on disposal of $1,555,342 has been recorded in other income.

(iii) On 9 June 2022 the Group announced to the ASX that it had entered into an unconditional contract of sale and leaseback for the Brucknell North farm located at 417 Moreys Road, Victoria for $6.425M (refer Note 8).

(iii) At 30 June 2022, the Infant Formula Plant Project was in the final stage of completion. On full completion and at an appropriate time, the directors will engage an independent valuer to assess the fair value of the infant formula plant and associated land. The directors have assessed the fair value of the infant formula plant and associated land at 30 June 2022 and the carrying amount is representative of its current replacement cost.

(b) On 9 August 2022, the Group announced to the ASX that it would cease fresh milk processing at its Camperdown Dairy Manifold Street site and on the 22 August 2022, processing formally ceased.

Select processing equipment will be transitioned to the Infant Formula site, with the majority remaining at the Manifold Street site to allow it to be sold, with or without the site lease. The Group is currently in discussions with third parties interested in purchasing the processing equipment and/or taking over the site and these opportunities are progressing.

The written down value of the property, plant and equipment at 30 June 2022 is $2,479,386. The Board is of the view this is indicative of the fair value less costs of disposal. Based on current negotiations, which remain commercial in confidence, the Board is satisfied there is no impairment required.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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:

2022	Land, Buildings & Improvements $	Plant & Equipment - Owned $	Total $
Balance beginning of the financial year	21,142,568	7,085,247	28,227,815
Additions	924,425	1,651,659	2,576,084
Disposals	(3,741,848)	(612,449)	(4,354,297)
Transfer between classes	410,695	(410,695)	-
Fair value adjustments	7,160,545	-	7,160,545
Transfer to non-current assets held for sale	(6,425,000)	-	(6,425,000)
Transfer from right of use assets	-	648,943	648,943
Depreciation expense	(112,087)	(718,715)	(830,802)
Balance at end of financial year	**19,359,298**	**7,643,990**	**27,003,288**

2021	Land, Buildings & Improvements $	Plant & Equipment - Owned $	Total $
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**

NOTE 14: TRADE AND OTHER PAYABLES

	Notes	2022 $	2021 $
Current			
Trade creditors		1,757,126	1,267,623
Sundry creditors and accrued expenses		1,080,540	701,846
Total trade and other payables		**2,837,666**	**1,969,469**
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		2,837,666	1,969,469
Financial liabilities as trade and other payables	28	**2,837,666**	**1,969,469**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 15: PROVISIONS

	2022 $	2021 $
Current		
Employee benefits	630,342	566,887
Total current provisions	**630,342**	**566,887**
Non-current		
Employee benefits	95,199	98,228
Total non-current provisions	**95,199**	**98,228**
Total provisions	**725,541**	**665,115**
Movement in provisions:		
Opening balance	665,115	679,999
Additional provision	250,955	269,429
Amounts used	(190,529)	(284,313)
Closing balance	**725,541**	**665,115**

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	2022 $	2021 $
Current			
Loan - related party	(a)	502,770	-
CBA facility - secured	(b)	-	5,980,506
Total current borrowings		**502,770**	**5,980,506**

(a) On 1 June 2022 the Group established an unsecured 6-month loan facility of $500,000 with M & J Bryant. The loan was at a variable interest rate: RBA official cash rate + 6%. The loan including accrued interest of $5,674 was repaid in full on 29 July 2022. Securityholder approval for the related party loan was not required under the *Corporations Act 2001 (Cth)* as the terms of the loan from M & J Bryant were more favourable to the Group than the terms the Group would have obtained from a third party financier acting at arms' length.

(b) The Group established borrowing facilities with the Commonwealth Bank of Australia Limited (CBA) in April 2016, as a 3-year re-drawable loan facility of $10,000,000. Since that time, the term and principal amount has varied and at 30 June 2021 the principle amount was $5,980,506 with a facility maturity date of 4 October 2021. The facility was repaid in full on 30 September 2021.

2021 Comparative - Collateral Provided

In the 2021 comparative, the CBA facility was 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 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 were secured by the underlying leased assets.

The carrying amounts of assets pledged as security were:	2022 $	2021 $
First mortgage over land and buildings	-	21,142,568
General security interest over all assets of ADFT	-	7,525,760
First registered charge over leased equipment	-	204,704
Negative pledge and guarantee over all other Group assets	-	14,238,569
Total assets pledged as security	**-**	**43,111,601**

NOTE 17: ISSUED CAPITAL

	2022 $	2021 $
Contributed equity of the Group	74,308,888	71,307,390

(a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2021	Opening balance	501,698,361		40,562,399	30,744,991	71,307,390
08 Sep 2021	Employee performance securities (i)	1,850,000	0.050	92,500	-	92,500
08 Sep 2021	Performance rights exercised (ii)	1,000,000	0.088	87,999	-	87,999
10 Nov 2021	Supplier securities (iii)	1,500,000	0.058	87,000	-	87,000
30 Mar 2022	Placement - tranche 1 (iv)	15,455,951	0.065	1,000,000	-	1,000,000
02 May 2022	Placement - tranche 2 (iv)	7,727,975	0.065	500,000	-	500,000
03 Jun 2022	Placement - tranche 3 (iv)	19,319,938	0.065	1,250,000	-	1,250,000
	Transaction costs			(16,001)	-	(16,001)
30 June 2022		**548,552,225**		**43,563,897**	**30,744,991**	**74,308,888**

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 (v)	500,000	0.068	34,000	-	34,000
21 Dec 2020	Supplier securities (vi)	450,068	0.063	28,354	-	28,354
21 Dec 2020	Placement - tranche 1 (vii)	55,272,898	0.06	3,316,374	-	3,316,374
17 Feb 2021	SPP - external (viii)	16,706,011	0.06	1,002,362	-	1,002,362
25 Feb 2021	Placement - tranche 2 (vii)	53,060,436	0.06	3,183,626	-	3,183,626
9 Mar 2021	Supplier securities (vi)	1,472,509	0.07	103,405	-	103,405
9 Mar 2021	SPP - directors (viii)	2,249,999	0.06	135,000	-	135,000
9 Mar 2021	Consulting services (ix)	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**

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 8 September 2021, there were 1,850,000 stapled securities issued as a share-based payment under the AHF Long Term Incentive Plan at a price of $0.050 per security. The fair value of securities issued, determined by reference to the market price, was $92,500.

(ii) On 8 September 2021, there were 1,000,000 stapled securities issued at a price of $0.088 per security upon vesting of employee performance rights.

(iii) On 10 November 2021, there were 1,500,000 stapled securities issued as a share-based payment for consulting services under the AHF Long Term Incentive Plan at a price of $0.058 per security. The fair value of securities issued, determined by reference to the market price, was $87,000.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 17: ISSUED CAPITAL (cont'd)

(iv) Between 30 March 2022 and 03 June 2022 there were 42,503,684 stapled securities issued to IJ Funds Management for a placement conducted in three tranches. The fair value of securities issued in the 3 tranches, determined by reference to the placement price of $0.065 per security, was $2,750,000, with transaction costs of $16,001.

(v) 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.

(vi) 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.

(vii) 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, with transaction costs of $221,366. The second tranche of 53,060,436 were issued on 25 February 2021 raising an additional $3,183,626.

(viii) 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.

(ix) 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.

(b) Options and Rights

There are 11,500,000 (2021: 10,500,000) options or rights on issue at 30 June 2022 (refer Note 26(c)).

(c) Loan Securities

There are 9,500,000 (2021: 9,500,000) loan securities on issue at 30 June 2022 (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.

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 2022 and 30 June 2021 are as follows:

	Notes	2022 $	2021 $
Total borrowings	16	502,771	5,980,506
Less cash and cash equivalents	6	(2,431,696)	(6,192,119)
Net debt		(1,928,925)	(211,613)
Total equity		40,085,257	33,986,965
Total capital		**38,156,332**	**33,775,352**
Gearing Ratio		N/A	N/A

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 18: RESERVES

Nature and purpose of reserves

Option reserve

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

Asset revaluation reserve

The asset revaluation reserve records revaluation of land and buildings.

NOTE 19: COMMITMENTS

In conjunction with the placement to IJ Funds Management (refer Note 17(iv)), the Group has engaged IJ Funds Management to provide consultancy services in relation to the expansion of the Group's business in Asia, as well as marketing and networking activities in the region. The consultancy services fee is $45,833 per month, for a period of 6 months commencing 1 July 2022.

There are no capital expenditure commitments contracted for the year ended 30 June 2022.

NOTE 20: CONTINGENT LIABILITIES

As set out in Note 2, in the 2021 comparative, the Group had a contingent liability for payment of royalties in respect of Epicurean Dairy Products commencing April 2022, however this agreement ended prior to the commencement of the royalties.

The Group does not have any other contingent liabilities for the year ended 30 June 2022 (2021: 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 2022.

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

	2022	2021
	$	$
Short term	592,805	634,177
Post-employment	44,200	48,053
Other long-term	6,699	16,820
Share-based payments	36,000	110,999
	679,704	**810,049**

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:

	2022	2021
	$	$
Audit and review of the financial statements	74,946	78,970

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 23: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2022 Percentage Owned	2021 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
Camperdown Dairy Company Pty Ltd		ordinary	100	100
Victorian Farmers Direct Pty Ltd		ordinary	100	100
Organic Nutritionals Pty Ltd		ordinary	100	100
Jonesy's Distribution Pty Ltd		ordinary	100	100
Camperdown Brand Manufacturing Pty Ltd		ordinary	100	100
Regen Properties Pty Ltd	(b)	ordinary	100	-
Regen Farms Pty Ltd	(b)	ordinary	100	-
Regen Operations Pty Ltd	(b)	ordinary	100	-
Camperdown Dairy Park Trust		units	100	100
Other Controlled Entities				
Ocean Dairy Pty Ltd	(c)	ordinary	50	-
Australian Dairy Farms Trust	(d)(e)	units	-	-

All controlled entities have the same financial year end 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. 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) Wholly Owned Controlled Entities - Additions

The Group undertook an internal restructure of its farm properties in FY22 and established three new subsidiaries. The Brucknell North and Bucknell South farm properties were transferred from Australian Dairy Farms Trust to subsidiary, Regen Properties Pty Ltd (RGP). The Yaringa farm is also in the process of being transferred to RGP and this is anticipated to occur in September 2022.

(c) Other Controlled Entities - Ocean Dairy Pty Ltd (Ocean Dairy)

The Ocean Dairy joint venture with Wellnex Life Ltd (ASX: WLL) was established to distribute the Ocean Road Dairies Organic A2 infant formula range within Australia. Ocean Dairy is jointly owned by the Company and WLL and draws on the strengths of both partners. The Group is responsible for the manufacture of the Ocean Road Dairies infant formula range at its infant formula plant using organic A2 protein milk from its farms. WLL will be responsible for the sale of the new range in the Australian retail and pharmacy channel, including in Chemist Warehouse stores nationally. At the time of writing, the Ocean Road Dairies range is expected to be available in Chemist Warehouse stores nationally in October 2022.

The Group will have the exclusive right to distribute the organic A2 infant formula range internationally, including through cross border e-commerce channels in China. The Group will pay Ocean Dairy a royalty on sales through the overseas cross boarder e-commerce channel and also has the option to purchase WLL's shares (based on an independent valuation) in Ocean Dairy at any time within 2 to 5 years after it commences supply of the Ocean Road Dairies range.

There were immaterial transactions in Ocean Dairies for the year ended 30 June 2022, resulting in a loss of $1,678 in the joint venture.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 23: CONTROLLED ENTITIES (cont'd)

(d) 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.

(e) 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:

	2022	2021
	$	$
Summarised Financial Position		
Current assets	19,155,734	11,403,165
Non-current assets	7,642,991	17,265,164
Current liabilities	(9,229)	(6,009,829)
Non-current liabilities	-	-
Net Assets	**26,789,496**	**22,658,500**
Carrying amount of non-controlling interests	26,789,496	22,658,500
Summarised Financial Performance		
Revenue	1,600,483	217,580
Profit / (loss) after tax	1,241,755	(506,855)
Other comprehensive income after tax	2,889,241	-
Total comprehensive income / (loss)	**4,130,996**	**(506,855)**
Profit / (loss) attributable to non-controlling interests	4,130,996	(506,855)
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	(207,096)	(539,742)
Net cash from / (used in) investing activities	5,463,178	5,865,647
Net cash from / (used in) financing activities	(5,332,923)	(5,284,235)
Net cash increase / (decrease) in cash and cash equivalents	**(76,841)**	**41,670**

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

NOTE 24: RELATED PARTY TRANSACTIONS (cont'd)

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2022, Watershed Funds Management Pty Ltd was paid $65,700 (2021: $65,700) for the provision of services by Adrian Rowley as director. There was $6,023 (2021: $6,023) due at 30 June 2022.

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

(c) Loan from related party:

On 1 June 2022 the Group established an unsecured 6-month loan facility of $500,000 with M & J Bryant. The loan was at a variable interest rate: RBA official cash rate + 6%. The loan including accrued interest of $5,674 was repaid in full on 29 July 2022.

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 and nutritional products to domestic and international 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. Segment liabilities include trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 25: SEGMENT REPORTING (cont'd)

(i) Segment Performance

30 June 2022	Dairy Farm	Dairy Processing	Total
Revenue	**$**	**$**	**$**
External sales	5,668,713	9,387,712	15,056,425
Other income	2,889,416	8,137	2,897,553
Interest revenue	3,260	3,260	6,520
Total segment revenue	**8,561,389**	**9,399,109**	**17,960,498**
Total group revenue			**17,960,498**
Segment net loss before tax	**(221,574)**	**(3,926,947)**	**(4,148,521)**

(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)**

(ii) Segment Assets	Dairy Farms	Dairy Processing	Total
As at 30 June 2022	**$**	**$**	**$**
Segment assets	28,151,504	16,451,098	44,602,602
Segment assets include:			
Additions to non-current assets	1,350,267	1,757,529	3,107,796

(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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 25: SEGMENT REPORTING (cont'd)

(iii) Segment Liabilities	Dairy Farms $	Dairy Processing $	Total $
As at 30 June 2022			
Segment liabilities	1,755,576	2,898,539	4,654,115

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

(iv) Revenue by geographic region

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

	2021 $	2021 $
Australia	17,960,498	23,517,138
Other countries	-	-
Total revenue	**17,960,498**	**23,517,138**

(v) Assets by geographic region

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

	2022 $	2021 $
Australia	44,739,372	43,111,602
Other countries	-	-
Total assets	**44,739,372**	**43,111,602**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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 2022 are as follows:

Grant Date	Number
8 September 2021	1,850,000

The fair value of securities granted, determined by reference to market price, was $92,500.

These securities were issued as compensation to management personnel of the Group.

During the year ended 30 June 2021 are as follows:

Grant Date	Number
7 July 2020	500,000

The fair value of securities granted, determined by reference to market price, was $34,000.

These securities were issued as compensation to management personnel of the Group.

(b) Performance rights granted to employees under the Group Incentive Plan as share-based payments

A summary of movements in performance rights is as follows:

	2022	2021
Opening balance	1,000,000	-
Granted (i)	6,000,000	3,000,000
Forfeited (ii)	(4,000,000)	(2,000,000)
Exercised (iii)	(1,000,000)	-
Closing balance	**2,000,000**	**1,000,000**

(i) Granted performance rights

During the year ended 30 June 2022, the following performance rights were granted:

- On 20 January 2022 the Group issued 2,000,000 performance rights to Directors (TSR hurdle).

  The issue price of the rights was 1.8 cents calculated using the Monte Carlo method, the expiry date was 30 June 2022 and the rights vested when total shareholder return was >25 in a defined period during 1 July 2021 to 30 June 2022. Other Key inputs include volatility of 53.65% and a risk-free rate of 0.84%.

  The fair value of the rights issued was $36,000.

  The performance hurdle was met and 2,000,000 performance rights vested on 30 June 2022.

- On 20 January 2022 the Group issued 2,000,000 performance rights to Directors (EBITDA hurdle).

  The issue price of the rights was 5.9 cents calculated using the Black-Scholes method, the expiry date was 30 June 2022 and the rights vested if the Group's audited operating EBITDA for the second half of the financial year ending 30 June 2022 was break even or above. Other Key inputs include volatility of 53.65% and a risk-free rate of 0.84%.

  The fair value of the rights issued was $118,000.

  The performance hurdle was not met and the 2,000,000 performance rights were forfeited.

- On 20 January 2022 the Group issued 1,000,000 performance rights to Peter Skene.

  The issue price of the rights was 5.9 cents calculated using the Black-Scholes method, the expiry date was 30 June 2022 and the rights vested if successful commercial manufacture and tinning of the Group's organic A2 protein infant formula range (Stages 1-3) was completed by 30 June 2022. Other Key inputs include volatility of 53.65% and a risk-free rate of 0.84%.

  The fair value of the rights issued was $59,000.

  The performance hurdle was not met and the 1,000,000 performance rights were forfeited.

NOTE 26: SHARE-BASED PAYMENTS (cont'd)

- On 20 January 2022 the Group issued 1,000,000 performance rights to Peter Skene.

  The issue price of the rights was 5.9 cents calculated using the Black-Scholes method, the expiry date was 30 June 2022. The rights vested if there was completion or significant progression toward completion during financial year ending 30 June 2022 of an opportunity or transaction that contributes significantly to the achievement of the strategic objectives of the Group or materially improves the financial performance of the Group. Other Key inputs include volatility of 53.65% and a risk-free rate of 0.84%.

  The fair value of the rights issued was $59,000.

  The performance hurdle was not met and the 1,000,000 performance rights were forfeited.

In the June 2021 comparative, the following performance rights were granted:

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

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

  The fair value of the rights issued was $242,998. 1,000,000 of the performance rights vested on 30 June 2021.

(ii) Cancelled and forfeited performance rights

Performance 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.

During the year ended 30 June 2022, 2,000,000 performance rights issued to Directors (EBITDA hurdle) and 2,000,000 performance rights issued to Peter Skene were forfeited as performance hurdles were not met.

Martin Bryant was entitled to 500,000 director performance rights (TSR hurdle) at 30 June 2022. As announced to the ASX on 25 August 2022, he has subsequently elected not to receive the securities to which he is entitled and these have been cancelled.

In the June 2021 comparative, 2,000,000 performance rights issued to Peter Skene were forfeited as performance hurdles were not met.

(iii) Exercised performance rights

During the year ended 30 June 2022, 1,000,000 stapled securities were issued to Peter Skene on exercise of performance rights (refer Note 17(ii)).

In the June 2021 comparative there were no performance rights exercised.

(c) Options

A summary of movements in options is as follows:

	2022	2021
Opening balance	9,500,000	2,500,000
Granted (i)	-	7,000,000
Closing balance	**9,500,000**	**9,500,000**

(i) Granted options

During the year ended 30 June 2022 there were no options granted.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

NOTE 26: SHARE-BASED PAYMENTS (cont'd)

In the June 2021 comparative, the following options were granted:

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

  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 was $35,341.

- 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 was $74,615.

(ii) There were no options cancelled, forfeited or exercised during the year ended 30 June 2022 (June 2021: nil).

(d) Loan securities

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

	2022	2021
Opening balance	9,500,000	9,500,000
Closing balance (exercisable)	**9,500,000**	**9,500,000**

There were no loan securities issued, cancelled, forfeited or exercised during the year ended 30 June 2022 (2021: nil).

(e) Other share-based payments

During the year ended 30 June 2022, there were 1,500,000 stapled securities issued as a share-based payment for consulting services under the AHF Long Term Incentive Plan at a price of $0.058 per security. The fair value of securities issued, determined by reference to the market price, was $87,000.

In the June 2021 comparative, 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.

(f) Total expenses arising from share-based transactions recognised during the year

	Note	2022 $	2021 $
Equity settled share-based payments - employment benefit costs	3(iv)	128,500	180,340
Equity settled share-based payment - professional costs		87,000	60,000

NOTE 27: EVENTS AFTER THE BALANCE DATE

- On 15 July 2022, the Group announced the completion of the sale and leaseback for the Brucknell North farm located at 417 Moreys Road, Victoria for $6.425M.
- On 22 August 2022, CDC ceased manufacturing fresh milk at the Manifold Street site in Camperdown.
- On 22 August 2022 and 25 August 2022, the Group announced various issues of securities and the cancellation of options and performance rights to directors, management and the lead manager for a private placement in June 2019.

In the opinion of the directors there are no material matters that have arisen since 30 June 2022 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	2022 $	2021 $
Financial assets			
Financial assets at amortised cost:			
Cash and cash equivalents	5	2,431,696	6,192,119
Trade and other receivables	6	974,232	1,321,409
Bonds and deposits	9	57,798	36,025
Total financial assets		**3,463,726**	**7,549,553**
Financial Risk Management Policies			
Financial liabilities			
Financial liabilities at amortised cost:			
Lease liabilities		588,138	509,548
Trade and other payables	14	2,837,666	1,969,469
Borrowings	16	502,770	5,980,506
Total financial liabilities		**3,928,574**	**8,459,523**

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 6).

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		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Borrowings	(502,770)	(5,980,506)	-	-	-	-	(502,770)	(5,980,506)
Lease liabilities	(242,634)	(200,079)	(345,504)	(309,468)	-	-	(588,138)	(509,547)
Trade & other payables	(2,837,666)	(1,969,469)	-	-	-	-	(2,837,666)	(1,969,469)
Total expected outflows	**(3,583,070)**	**(8,150,054)**	**(345,504)**	**(309,468)**	**-**	**-**	**(3,928,574)**	**(8,459,522)**
Financial assets - cash flows realisable								
Cash	2,431,696	6,192,119	-	-	-	-	2,431,696	6,192,119
Trade and other receivables	974,232	1,321,409	-	-	-	-	974,232	1,321,409
Bonds and deposits	-	-	57,798	36,025	-	-	57,798	36,025
Total anticipated inflows	**3,405,928**	**7,513,528**	**57,798**	**36,025**	**-**	**-**	**3,463,726**	**7,549,553**
Net (outflows) / inflows on financial instruments	**(177,142)**	**(636,526)**	**(287,706)**	**273,443**	**-**	**-**	**(464,848)**	**(909,969)**

- The Groups financial assets were pledged as security for debt in the 2021 comparative (refer Note 16).

(c) Market risk

Interest rate risk

The Group at the date of this report has debt exposure through $502,770 in a variable rate facility, and $2,431,696 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 2022, 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:

	2022	2021
Change in profit	$	$
- Increase in interest rate by 1%	19,289	2,116
- Decrease in interest rate by 1%	(19,289)	(2,116)
Change in equity		
- Increase in interest rate by 1%	19,289	2,116
- Decrease in interest rate by 1%	(19,289)	(2,116)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30 JUNE 2022

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	
		2022 $	2021 $	2022 $	2021 $
Financial assets					
Financial assets at amortised cost:					
Cash and cash equivalents	(i)	2,431,696	6,192,119	2,431,696	6,192,119
Trade and other receivables	(i)	974,232	1,321,409	974,232	1,321,409
Bonds and deposits	(i)	57,798	36,025	57,798	36,025
Total financial assets		**3,463,726**	**7,549,553**	**3,463,726**	**7,549,553**
Financial liabilities					
Financial liabilities at amortised cost:					
Trade creditors	(i)	2,837,666	1,969,469	2,837,666	1,969,469
Lease liabilities	(ii)	588,138	509,547	588,138	509,547
Borrowings	(ii)	502,770	5,980,506	502,770	5,980,506
Total financial liabilities		**3,928,574**	**8,459,522**	**3,928,574**	**8,459,522**

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
- Land and buildings

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:

	Note	Level 1	Level 2	Level 3	Total
30 June 2022		**$**	**$**	**$**	**$**
Non-financial assets					
Biological assets	10	-	4,416,205	-	4,416,205
Land and buildings	13	-	19,359,298	-	19,359,298
Total non-financial assets recognised at fair value on a recurring basis		**-**	**23,775,503**	**-**	**23,775,503**
30 June 2021					
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**

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

In the absence of an active market for an identical asset, the Group selects and uses one or more valuation techniques to measure the fair value of the asset. 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 being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach uses prices and other relevant information generated by market transactions for identical or similar assets.
- Income approach converts estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach reflects the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset, 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 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.

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

Description	Fair Value at 30 June 2022 $	Valuation Technique(s)	Input Used
Non-financial assets			
Land and buildings	19,359,298	Market approach using recent observable comparable sales evidence	Price per hectare, improvements value, current replacement cost
Biological assets	4,416,204	Market approach using recent observable industry market data for dairy cattle	Breed, weight, condition
	23,775,503		

(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; and
- Borrowings.

NOTE 30: EARNINGS PER STAPLED SECURITY CALCULATION

	2022 cents	2021 cents
Earnings per stapled security:		
Basic loss per stapled security	(0.81)	(1.62)
Diluted loss per stapled security	(0.81)	(1.62)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(4,148,521)	(6,910,837)

	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	511,529,282	426,356,807
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**511,529,282**	**426,356,807**

All options on issue are considered to be dilutive potential ordinary securities, however they are presently anti-dilutive at 30 June 2022 as the Group is in losses.

NOTE 31: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2022 (2021: $nil) at the date of this report.

Australian Dairy Nutritionals

DIRECTORS' DECLARATION

For the year ended 30 June 2022

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 2022 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 2022.

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

M Bryant

Martin Bryant
Chairman

31 August 2022

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 2022, 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 2022 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.

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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 2022 key assets of the Group included land buildings and improvements of $19,359,298 and plant and equipment of $7,643,990. During the year the Group continued to record operating losses and cash outflows from operating activities of $3.80m (2020: outflow $2.03m). 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 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; and • We evaluated the adequacy of the disclosures made in the financial report regarding the assessment of the carrying value of the Groups property, plant and equipment.

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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 2022, 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 18 to 22 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Australian Dairy Nutritionals Limited for the year ended 30 June 2022 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 2022

SHAREHOLDER INFORMATION

The following information was extracted from Australian Dairy Nutritional Group's Register of Securityholders on 25 August 2022:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

		Fully Paid Stapled Securities	
		Securities Held	**% of Issued Capital**
1	WE SAY GO PTY LIMITED	55,440,764	10.02
2	IJ FUNDS MANAGEMENT PTY LTD	42,503,864	7.68
3	MR JIMMY THOMAS & MS IVY RUTH PONNIAH	23,483,671	4.24
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	18,821,401	3.40
5	CORPORATE SOLUTIONS PTY LTD	15,309,892	2.77
6	BARADNIL PTY LIMITED	12,500,000	2.26
7	COSTINE PTY LTD	7,696,324	1.39
8	PETER JOHN SKENE & LYNNE NICOLE SKENE	7,000,000	1.27
9	MRS QIUMEI DING	6,939,845	1.25
10	CITICORP NOMINEES PTY LIMITED	6,555,369	1.18
11	SHAREHOLDERS MUTUAL ALLIANCE PTY LTD	6,000,000	1.08
12	RATHVALE PTY LIMITED	5,853,885	1.06
13	FIDUCIARY NOMINEES PTY LTD	5,205,540	0.94
14	MR PETER JOHN SKENE & MRS LYNNE NICOLE SKENE	4,875,385	0.88
15	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	4,335,311	0.78
16	MOWSAN PTY LTD	4,122,872	0.75
17	MRS LINDA YE & MR DAVID XIAO DONG YE	4,004,000	0.72
18	MR PATRICK JOHN BRADY	4,000,000	0.72
19	MR JUNLONG LIANG	3,855,000	0.70
20	MR ZHONGDE ZHAO	3,412,796	0.62
		241,915,919	**43.72**
	Total Securities on issue	**553,282,225**	**100.00**

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	Number of Securityholders	Securities	%
1 - 1000	210	47,837	0.01
1,001 - 5,000	586	1,784,479	0.32
5,001 - 10,000	555	4,713,146	0.85
10,001 - 100,000	1,413	55,306,120	10.00
100,001 or greater	595	491,430,643	88.82
	3,359	**553,282,225**	**100.00**

MARKETABLE PARCELS

On 25 August 2022, using the last traded security price of $0.068 per security, there were 987 holdings totalling 2,759,887 securities, 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.

SHAREHOLDER INFORMATION (cont'd)

SUBSTANTIAL SECURITYHOLDERS

The names of the substantial securityholders listed in the Group's register on 25 August 2022 are:

	Securities Held	% of Voting Power
We Say Go Pty Limited	55,440,764	10.02
IJ Funds Management Pty Ltd	42,503,864	7.68

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
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.

Australian Dairy Nutritionals

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