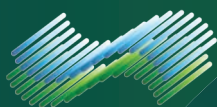


Australian Dairy Farms Group

ASX Code: AHF

2017 ANNUAL REPORT



Australian Dairy Farm Group consisting of:
Australian Dairy Farms Limited ABN: 36 057 046 607 and
Australian Dairy Farms Trust ARSN: 600 601 689

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Despite greatly improved weather conditions on the Group's high quality farming assets, the financial year ended June 2017 continued the prior year's status of being historically challenging for the Australian Dairy Industry. Many dairy farmers experienced ongoing financial stress and the largest dairy company in Australia, which pays one of the lowest prices for milk, is under serious commercial pressure, as are many of the almost 50% of Victorian dairy farmers who supply its raw milk.

Approximately 75% of the Group's funds are employed in the farming of raw milk. However, the Group, as with other farmers, have no ability to influence either the global dairy market, which drives raw milk prices in Victoria, or the environmental conditions. Notwithstanding these circumstances, the Group's farm management team led by its experienced Operations Manager, are doing an excellent job at controlling what is possible to manage and the Group's vertical integration plan to drive more of the milk produced on Group farms into value added CDC "Own Brands" is progressing well.

As previously reported, management is pleased that the minimum farmgate milk price for the Group farms during the 2017-2018 financial year will be \$5.78 per kg of solids. This is one of the highest standard milk prices currently available in the Victorian farm milk market. As CEO, I am also pleased to see the increased percentage volumes of milk solids, reduced feed costs and the significantly increased tonnages of on-farm fodder. In addition, there are the many other positives from the improved performances coming from continued excellent work from our farm personnel.

The non-premium, bottled white milk market has become more highly competitive with numerous examples of competitor's sales at prices which reflect extremely low, sometimes negative margins, being evident in the market. These prices are, unfortunately, at lower prices than those of several years ago. Obviously, this challenges the Group's capacity to hold prices for "commodity" milk produced. Nevertheless, CDC has been able to achieve a 9% increase in sales over the previous year and has also seen encouraging sales of CDC's Own Brand products.

Management and securityholders need to be realistic about how much can be achieved in short time frames, given the current state of the Australian Dairy Industry, its current level of competition and the challenges in introduction of CDC's Own Brand products. CDC must compete by its product differentiation and high quality, and management is pleased to report that good progress is being made in this area.

The Group now has a platform which extends from on-farm production to processing and delivery of high quality Own Brand dairy products into key markets across three key dairy categories (fresh milk, butter and yoghurt). This vertical integration provides opportunity for genuine differentiation of products and services. Value and differentiation are at the core of CDC's strategy as is the production, marketing and sales of high quality natural dairy products.

The Board's corporate focus is on being a market driven company which continually monitors and reviews and hunts for opportunities. New Own Brand products due for launch this year will be consistent with the brand charter and extend our reach to consumer desires. Consumers are now more interested than ever in where their food originates and in natural, wholesome foods without unnecessary additives.

The Board and management continue to work on several new exciting opportunities, some of which are commercially sensitive, and looks forward to sharing these opportunities with securityholders and other stakeholders at the appropriate time. There is no doubt that CDC needs increased scale and scope and the current position is a base from which to work and grow rather than a destination arrived at.

I would like to thank all of our employees and the people involved in the Group for their support and hard work during the year.

I would also like to thank the securityholders for their support during the year and assure them that they are top of mind in all respects. For those of you who are able to make it to the AGM, please introduce yourself and I look forward to meeting you then.

Peter Skene

CHIEF EXECUTIVE OFFICER/ DIRECTOR



Director's Report

The Board of directors of Australian Dairy Farms 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 2017.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- Ownership and operation of dairy farms and dairy livestock in Australian Dairy Farms Trust (ADFT) and SW Dairies Pty Ltd (SWD) for the production of fresh raw milk for conversion to milk and milk products; and
- Processing of dairy products in Camperdown Dairy Company Pty Ltd (CDC) for sale in the domestic market.

In September 2016, CDC ceased exporting fresh milk to China as a precaution amid changes in administration of shelf life policies by Chinese regulators. CDC has not pursued re-exporting at this point as the board formed the view that it is not in the best interests of securityholders to recommence. These processes remain under consideration by the board.

On 1 January 2017, the Group moved its fresh raw milk supply arrangements in SWD from Fonterra to have management and control of the Group's produced milk for its own processing opportunities in CDC.

During the second half of the financial year, CDC commenced the production, processing, packaging and marketing of specialised Jersey Milk and in August 2017, commenced Free Range Milk from segregated milk produced on the Group's farms.

OUR BUSINESS MODEL AND OBJECTIVES

The Group published its Strategy Overview for the next five years (ASX Release Date 11 July 2017), which sets out the Group's plans for the immediate term and the aspirations for the medium term. The board believe that the goals set out in the Strategy Overview are realistic and achievable, however it is also recognised that the Dairy industry is going through significant structure change and cyclical stress that the board will continue to monitor for opportunities and threats.

Additionally the Group has disclosed that confidential negotiations are advanced and proceeding with experienced and financial prospective partners in developing joint venture style partnerships in the construction or acquisition of new plant to fulfil the Group's objective of widening the diversity of its product range and customer base in the domestic and export markets. These initiatives are key planks in the Group's business model for the future.

In the immediate term, the Group is focused on rapidly expanding its production range and distribution of its 'Own Branded' existing milk, cream, yoghurt and soon to be launched flavoured milk drinks in CDC with direct transparency to the Group's farm-produced milk and moving away from commodity production and styles.

This will take time to work through existing contracts and establish new ones and is expected to include the acquisition of established distribution networks. Trials of several new Own Brand products such as the Jersey and Free Range Camperdown Dairy milks in selected Victorian Woolworths stores and independent retailers are showing strong consumer take-up in a good proportion of retail outlets.

Putting in place direct to market distribution channels is also a key focus as CDC, was only a short time ago, was almost solely a contract packer of others' brands in which bulk orders were made and delivered to customer's distribution warehouses. The customers would then range, promote and distribute the products. The conversion from contract packer to Own Brand production and marketing along with the development and roll out of new product is a significant project that will take time to fully develop.

Additionally, while continuing to efficiently produce high quality farm milk, the directors are continuing to investigate opportunities to restructure the ownership of its dairy farm assets to reduce the level of the Group's direct investment capital in farm assets. Capital released would be applied to potentially more profitable investments such as joint venture projects, by introduction of additional synergistic investors in a manner that ensures the Group retains material ownership and offtake arrangements and traceability of milk source.

As part of planning the future, the directors are in active and positive negotiations with several mutually compatible potential partners to establish and fund joint venture developments in extended shelf life products and specialty powders.

These activities aim to provide the basis for the Group to achieve its medium term goals to become a successful and profitable producer and diversified distributor of premium Own Brand and co-branded milk and derivative products in the Australian domestic markets and for multi country export markets with established export country partners. Exports will be only in products which can satisfy the Group's internal low risk framework for achieving the highest standards of product and consumer safety and the regulatory requirements of export countries.

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was \$2,179,348 (2016: \$3,703,625). This result is comprised of a net profit from the dairy processing segment of \$26,920, net profit from the dairy farm segment of \$224,570 and corporate costs and bank facility finance charges of \$2,430,838. Included in corporate costs are non-cash equity-settled share-based payments to KMP in the year of \$1,017,661 (2016: \$Nil). Included in the share-based payments amount is \$294,301 (2016: \$Nil) relating to forfeited performance options and \$569,808 in non-recurring payments as consideration for the renewal and extension of employment agreements.

Total income for the year ended 30 June 2017 is \$24,972,709, up 135% against the 2016 comparative period of \$10,620,150. This is a result of a \$13,061,863 increase in revenue from the dairy processing segment, an increase of \$1,302,208 from the dairy farm segment and an \$11,512 decrease from all other segments.

Total expenses for the year ended 30 June 2017 were \$27,152,057, up 90% against the 2016 comparative period of \$14,323,775, following the acquisition of CDC in April 2016. This is a result of a \$13,071,541 increase in expenses from the dairy processing segment, a decrease of \$1,634,372 from the dairy farm segment and an increase of \$1,391,113 from corporate costs and bank facility finance charges.

REVIEW OF OPERATIONS

Dairy Processing - Camperdown Dairy Company Pty Ltd (CDC)

CDC reported a net profit of \$26,920 and EBITDA of \$615,234 for the year ended 30 June 2017, and most importantly the progress on the repositioning the company from a contact packer of others brand, to a brand owner of high quality well respected products of choice in the market. This required considerable investment in time energy and other resources, while continuing the day to day operations.

This reflects the first full year of operations of the Group with CDC as a subsidiary company, since completion of the acquisition of CDC on 16 April 2016. During that period CDC has focused on maintaining existing sales and customers at the time of completion of the acquisition, while working diligently to expand the customer base and widen the range of products produced and sold.

During the period, substantial progress has been achieved in developing new customer relationships, while also recognising that the Group must focus on production and sales for profit rather than profit and sales for volume. This has caused management to seek out the higher margins that come from Own Branded products rather than commoditised products. As part of this process, long term relationships have had to be reviewed as contracts come up for renewal.

The relatively brief consumer enthusiasm for supporting farmers by avoiding \$1.00 per litre supermarket milk seen Australia wide in mid-2016 rapidly waned as consumers realised that their efforts in paying more did not result in direct advantage to the farmers.

The first year of operation for CDC as a subsidiary has seen several challenges, as is usual for a company in its first year after acquisition, and new owners challenge past management decisions and retiring vendors change direction after selling.

What has been consistent at CDC has been the commitment of its senior management and their support in moving from a milk processor which was established and run primarily to supply its previous parent company, to a processor, which is broadening its scope of operations by the introduction of CDC's Own Branded products plus the marketing, sales and distribution for the new products.

Dairy Farms - Australian Dairy Farms Trust and SW Dairies Pty Ltd

The Group's dairy farms reported a net profit of \$224,570 and EBITDA of \$695,401 for the year ended 30 June 2017, with projected FY2018 EBITDA of approximately \$2M advised to ASX on 25 August 2017.

The farms are physically in the best condition since they were acquired between 2012 and 2014, with capital expenditure on drainage and water conservation as well as paddock, laneway and expansion of storage upgrades all combining to deliver proceeds to the bottom line on a long term basis.

Clearly, in the agricultural industry, as with many industries, nature can change the fundamental inputs at any time, although each input and output has been realistically estimated based on current and forecast conditions with reasonable fall back protections in key cost areas.

The Group is fortunate to have a strong farm management team with committed individual farm managers and on-farm teams. There has been nominal staff turnover, with each farm manager benefiting from strong leadership and training under the lead of the experienced Operation Manager. The strength of the farm operations in specialist milk production with high quality Jersey and Holstein herds and continued improvements will continue to flow on to CDC in the production of high quality, segregated milk which can be sold in the premium milk market. CDC is already becoming well established in processing and marketing the premium priced Jersey and Free Range milks with direct transparency to the production farms.

Continued lower industry-wide milk production levels in Australia and overseas, are expected to maintain milk prices at reasonable levels through the coming season.

FINANCIAL POSITION

The net assets of the Group at 30 June 2017 total \$28,664,198, an increase of \$1,218,017 from the 2016 comparative.

The key assets and liabilities in the statement of financial position at 30 June 2017 are:

- cash and cash equivalents of \$1,577,264 (2016: \$2,472,232);
- property, plant and equipment of \$25,973,270 (2016: \$26,271,715);
- intangible assets of \$6,649,168 (2016: \$6,810,080);
- biological assets (livestock) of \$5,426,719 (2016: \$4,516,400); and
- total borrowings of \$10,602,361 (2016: \$13,113,786)

The reduction in borrowings is predominantly a result of the conversion of 235 convertible notes to fully paid stapled securities as announced to ASX 9 November 2016 and the repayment of Fonterra loans.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 1 January 2017, the Group moved its fresh raw milk supply arrangements from Fonterra to have management and control of the Group's produced milk for its own processing opportunities in CDC.

The Group also issued 16,627,779 stapled securities in the year from convertible notes and KMP securities and 19,380,000 performance options.

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

EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any significant events post 30 June 2017.

ENVIRONMENTAL ISSUES

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

As set out in the Strategy Overview and other market releases, the directors have provided information about the future strategies and plans for the Group which are summarised below:

- To operate existing high quality dairy farms with value growth capability in prime locations and look to add further fresh milk supply via alliances with farmer / owners particularly in specialty milk and related production. Included in this strategy is the potential to undertake a restructure of the ownership of the farm assets by introducing new partners or investors in a way that ensures the Group retains material influence over the operations and long term access to the milk produced;
- To grow revenues and securityholder value by differentiating farm supplied milk, value adding via Own Brands, and extending our participation in the grocery, route and other dairy product markets;
- To invest in high value categories and foster cooperative relationships with initial producers and end sellers including in organic milk production, manufacture and sales; and
- To continue to build the value and diversity of the Own Brand portfolio, targeting strategic markets.

These developments, together with the current strategy of continuous improvement and adherence to quality control are expected to assist in the achievement of the Group's long-term goals and development. The key risks of these strategies relate to weather factors, the changing business environment within the dairy industry, which is also presenting potentially significant opportunities, and business risks generally.

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	Appointed/Retired
Michael Hackett	Chairman	
Adrian Rowley	Director	
Peter Skene	Director / Group CEO	Appointed 1 July 2016
Keith Jackson	Director	Retired 25 November 2016

Michael Hackett	Chairman (Non-Executive)
Qualifications	Bachelor of Commerce - University of Queensland Fellow - Institute of Chartered Accountants in Australia ACA Financial Planning Specialist
Directorships held in other listed entities in the past 3 years	Trustees Australia Limited – director since 1986
Interest in Group securities & options	A relevant interest in 21,364,952 stapled securities at the date of this report. A relevant interest in 900,000 performance options at the date of this report.
<p>Michael Hackett was appointed to the board on 8 May 2009. Michael is a Chartered Accountant who is the Managing Director of Trustees Australia Limited (ASX CODE: TAU). He has a Bachelor of Commerce degree from the University of Queensland. Michael has had considerable experience in managing and operating a wide range of businesses and property developments.</p>	

Adrian Rowley	Director (Non-Executive, Independent)
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 1,286,000 stapled securities at the date of this report. A relevant interest in 900,000 performance options at the date of this report.
<p>Adrian Rowley was appointed to the board on 20 July 2011. Adrian has had a career in financial services spanning 20 years and is currently Head of Equity Strategy at Watershed Funds Management.</p>	

Peter Skene	Director (Group 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 1,010,000 stapled securities at the date of this report. A relevant interest in 6,560,000 performance options at the date of this report.
<p>Peter Skene was appointed to the board on 1 July 2016. Peter's past experience reflects a vertical experience path 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 years experience in the areas of sales, global supply chain, manufacturing, quality management, research and development and general management. Peter has also taken on the role of Group CEO with effective operational responsibility for all aspects of the Group's business.</p>	

INFORMATION ON DIRECTORS (cont'd)

Keith Jackson	Director (Non-Executive, Independent)
Qualifications	Bachelor of Commerce - Otago University (NZ)
Directorships held in other listed entities in the past 3 years	Cooks Global Food Limited (NZ) - director since August 2008 TRS Investments Limited (NZ) - director since August 2001
Interest in Group securities & options	No relevant interest in stapled securities or options at the date of retirement.
Keith Jackson was appointed to the board on 23 October 2014 and retired on 25 November 2016. Keith has an extensive background in management and governance with particular emphasis on the food and dairy industries. He is a director of the vendor company from which the Group acquired the dairy farm at 463 Moreys Road Brucknell and has held director roles in several New Zealand listed and unlisted companies.	

COMPANY SECRETARY

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

Jerome Jones	Company Secretary
Interest in Group securities & options	No relevant interest in stapled securities or options at the date of this report.
Jerome Jones was appointed company secretary on 28 August 2013. Jerome is an experienced financial and management accounting analyst with experience in Australia and the UK. He is CPA qualified with specialist skills and experience in detailed management accounting and procedure implementation in several private and ASX listed businesses.	

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 is at this stage is inappropriate for a Company of this size and structure.

Aside from formally constituted directors' meetings, the directors and chairman are in regular contact regarding the operation of the Company 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
Michael Hackett	12	12
Adrian Rowley	12	12
Peter Skene	12	12
Keith Jackson	3	1

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2017 (2016: \$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 \$28,828 (2016: \$20,784) 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:

- 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 2017 there was no payment to external auditors for non-audit services, (2016: \$nil).

OPTIONS

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
1 July 2016	31 December 2018	25 cents - 27 cents	9,840,000
29 July 2016	31 December 2018	27 cents - 29 cents	2,700,000

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.

For details of options 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 2017 has been received and a copy can be found at page 16.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Australian Dairy Farms 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 long-term incentives based on key performance areas affecting the Group's financial results. 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, who form the remuneration committee due to the current size and nature of the Group's activities. Professional advice is sought from independent external consultants when required.
- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.
- Performance incentives are only paid once predetermined key performance indicators (KPIs) have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the KMP and 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.
- The remuneration committee reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The policy is designed to attract a high calibre 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 required by the government, which is currently 9.5% of the individual's average weekly ordinary time earnings (AWOTE). 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 not exercised before or on the date of termination will lapse.

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

The Board's policy is to remunerate directors at market rates for time, commitment and responsibilities. The remuneration committee 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.

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

Options granted under the LTIP do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary security once the interim or final financial report has been disclosed to the public and is measured using a binomial methodology.

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 Farms Limited securities as collateral in any financial transaction, including margin loan arrangements.

REMUNERATION REPORT (cont'd)

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

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. 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 bi-annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

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.

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 personal and shareholder interests. The Group believes this policy should be effective in increasing shareholder wealth in future years.

Performance Conditions Linked to Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the incorporation of incentive payments based on the achievement of Total Securityholder Returns and continued employment with the Group.

During this financial year, the Group issued Performance Rights to current KMP. The performance-related proportions of remuneration based on the achievement of Total Securityholder Returns are included in the following table. The objective of the Performance Rights is to both reinforce the short and long-term goals of the Group and provide a common interest between management and shareholders.

The satisfaction of the performance conditions is based on a review of the audited financial statements of the Group and publicly available market indices, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with any other measures or factors external to the Group at this time.

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 and the proportion of remuneration received in the form of options.

Name	Position Held	Contract Details	Proportions of Elements of Remuneration Related to Performance (Other than Options Issued)		Proportions of Elements of Remuneration Not Related to Performance
			Non-salary Cash-based Incentives	Securities	Fixed Salary / Fees
			%	%	%
M Hackett	Chairman	N/A	-	-	100
A Rowley	Director	N/A	-	-	100
K Jackson	Director	N/A	-	-	100
P Skene	Group CEO / Director	3 year term (3 months notice)	-	-	100

REMUNERATION REPORT (cont'd)

Changes in Directors and KMP Subsequent to Year-end

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

Remuneration Expense Details for the Year Ended 30 June 2017

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

Key Management Personnel (KMP)	Short Term Benefit		Post Employment	Long-term Benefit	Termination	Equity-settled Share-based Payments	Total
	Salary / Director's Fees	Securities	Super Contributions	Long Service Leave	Termination Benefits	Options ⁴	
	\$	\$	\$	\$	\$	\$	\$
M Hackett - 2017	75,000	-	7,125	-	-	100,284	182,409
M Hackett - 2016	40,000	-	3,800	-	-	-	43,800
A Rowley - 2017 ¹	50,000	-	4,750	-	-	100,284	155,034
A Rowley - 2016	30,000	-	2,850	-	-	-	32,850
K Jackson - 2017 ²	12,055	-	1,145	-	-	-	13,200
K Jackson - 2016	30,000	-	2,850	-	-	-	32,850
Peter Skene - 2017 ³	330,384	180,000	19,616	9,687	-	237,885	777,572
Total - 2017	467,439	180,000	32,636	9,687	-	438,453	1,128,215
Total - 2016	100,000	-	9,500	-	-	-	109,500

¹ This amount is paid in accordance with a contract arrangement with Watershed Funds Management Pty Ltd, an entity associated with Adrian Rowley.

² Keith Jackson retired as a director on 25 November 2016.

³ Peter Skene was appointed as a director on 01 July 2016.

⁴ In accordance with AASB 2, the total amortised value of options issued is included in the above table, however \$80,577 for Mr Hackett and Mr Rowley and \$35,047 for Mr Skene are attributable to forfeited options during the year.

Securities Received that Are Not Performance-related

Peter Skene was issued 1,000,000 stapled securities as consideration for the renewal and extension of his employment agreement for an additional 3 years commencing 1 July 2016. The fair value of securities granted was determined by reference to market price of \$0.18, totalling \$180,000.

REMUNERATION REPORT (cont'd)

Options and Rights Granted as Share-based Payments

The terms and conditions relating to performance options granted as remuneration during the year to KMP are as follows

Name	Remuneration Type	Grant Date	Grant Value \$	Reason for Grant Note	Percentage Vested / Paid during Year %	Percentage Forfeited during Year %	Percentage Remaining as Unvested %	Expiry Date for Vesting or Payment	Range of Possible Values Relating to Future Payments
M Hackett	Options	29/07/16	55,165	(i)	-	100	-	31/12/16	N/A
	Options	29/07/16	25,412	(i)	-	100	-	30/06/17	N/A
	Options	29/07/16	21,600	(i)	-	-	100	31/12/17	N/A
	Options	29/07/16	14,913	(i)	-	-	100	31/12/18	N/A
A Rowley	Options	29/07/16	55,615	(i)	-	100	-	31/12/16	N/A
	Options	29/07/16	25,412	(i)	-	100	-	30/06/17	N/A
	Options	29/07/16	21,600	(i)	-	-	100	31/12/17	N/A
	Options	29/07/16	14,913	(i)	-	-	100	31/12/18	N/A
P Skene	Options	01/07/16	139,879	(ii)	100	-	-	01/07/16	N/A
	Options	01/07/16	35,047	(i)	-	100	-	30/06/17	N/A
	Options	01/07/16	38,005	(i)	-	-	100	31/12/17	N/A
	Options	01/07/16	40,922	(i)	-	-	100	30/06/18	N/A
	Options	01/07/16	42,840	(i)	-	-	100	31/12/18	N/A

(i) Options were issued as part of the Group's LTIP with vesting milestones based on Total Securityholder Returns.

(ii) Options were issued as consideration for the renewal and extension of Peter Skene's employment agreement for an additional 3 years commencing 1 July 2016.

Options and Rights Granted as Remuneration

	Grant Details				Exercised		Forfeited	
	Balance at 01/07/2016	Issue Date	No.	Value (\$)	No.	Value (\$)	No.	Balance at 30/06/2017
M Hackett	-	29/07/16	2,400,000	117,090	-	-	1,500,000	900,000
A Rowley	-	29/07/16	2,400,000	117,090	-	-	1,500,000	900,000
P Skene	-	01/07/16	8,120,000	296,693	-	-	1,560,000	6,560,000
TOTAL	-		12,920,000	530,873	-	-	4,560,000	8,360,000

	Balance at 30/06/2017	Vested		Unvested	
		No.	No.	No.	No.
M Hackett	900,000	-	900,000	-	900,000
A Rowley	900,000	-	900,000	-	900,000
P Skene	6,560,000	1,880,000	4,680,000	-	-
	8,360,000	1,880,000	6,480,000		

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

The forfeited options were all granted in this financial year.

REMUNERATION REPORT (cont'd)

Description of Options/Rights Issued as Remuneration

Details of the options granted as remuneration to those KMP listed in the previous table are as follows:

Grant Date	Issuer	Entitlement on Exercise	Dates Exercisable	Exercise Price	Value per Option at Grant Date	Amount Paid/ Payable by Recipient
				\$	\$	\$
29/07/16	Australian Dairy Farms Limited	1:1	29/07/21	\$0.23 - \$0.29	\$0.04 - \$0.06	nil
01/07/16	Australian Dairy Farms Limited	1:1	01/07/18	\$0.25	\$0.07	nil
01/07/16	Australian Dairy Farms Limited	1:1	26/05/19	\$0.27	\$0.02 - \$0.03	nil

Option values at grant date were determined using a binomial method.

Details relating to performance criteria required for vesting have been provided in the Options and Rights Granted as Share-based Payments table.

KMP Securityholdings

The number of ordinary securities held by each KMP of the Group during the financial year is as follows:

30 June 2017	Balance at 01/07/2016	Granted as Remuneration	Issued on Conversion of Notes ²	Other Changes	Balance at 30/06/2017
Michael Hackett ¹	6,675,871	-	14,439,081	250,000	21,364,952
Adrian Rowley	786,000	-	-	500,000	1,286,000
Keith Jackson	-	-	-	-	-
Peter Skene	-	1,000,000	-	10,000	1,010,000
	7,461,871	1,000,000	14,439,081	760,000	23,660,952

¹ The balance includes relevant interests held by Mr Hackett, including Trustees Australia Limited.

² On 9 November 2016, relevant interests of Michael Hackett holding 232 unlisted convertible notes converted to fully paid stapled securities.

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 securityholdings.

Loans to KMP

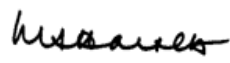
At the date of this report, there have been no loans made to or from any member of KMP.

Other Transactions with KMP and/or their Related Parties

As set out in note 23(b) of the financial statements, the Group was billed \$275,000 of costs, charged on a reimbursement cost basis for the provision of administrative services, accounting, secretarial, farm director costs and related activities, plus \$58,211 interest on convertible notes by Trustees Australia Limited during the year. Trustees Australia Limited does not charge, nor is it reimbursed for Responsible Entity services other than ASIC lodgement fees for Australian Dairy Farms Trust.

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 favourable 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.



Michael Leslie Hackett
Chairman
Brisbane
31 August 2017

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 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.

Unless disclosed, as per ASX Listing rule 4.10.3 all the recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2017. The Group has generally adopted the Corporate Governance Statement to comply with the ASX's revised Corporate Governance Principles and Recommendations third edition which became effective on or after 1 July 2014. The Corporate Governance Statement which was lodged with this Annual Report, discloses the extent to which the Company will follow the recommendations taking into account that the relatively small size of the company requires that the cost and benefits of adoption need to be taken into account in determining the extent of practical implementation.

The principal governance related policies and practices are as follows:

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

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

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE
CORPORATIONS ACT 2001****TO THE DIRECTORS OF AUSTRALIAN DAIRY FARMS LIMITED AND CONTROLLED
ENTITIES**

As lead auditor for the audit of Australian Dairy Farms Limited I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 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 Farms Limited and the entities it controlled during the year.

**Nexia Brisbane Audit Pty Ltd**

N D Bamford
Director

Date: 31 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$	2016 \$
Revenue	3(a)	23,605,437	9,844,465
Other income	3(b)	1,367,272	775,685
Administration and non-dairy related costs	3(c)(v)	(706,425)	(814,519)
Employment expenses	3(c)(iv)	(5,568,530)	(1,840,396)
Finance costs	3(c)(i)	(503,436)	(343,322)
Dairy related costs	3(c)(ii)	(5,742,304)	(4,935,072)
Dairy processing related costs	3(c)(iii)	(12,714,691)	(2,477,168)
Depreciation and amortisation expense		(975,271)	(753,449)
Deemed cost of livestock disposed	3(c)(vi)	(941,400)	(1,350,450)
Impairment of property, plant and equipment	3(c)(vi)	-	(1,809,399)
Loss before income tax		(2,179,348)	(3,703,625)
Tax expense	4	-	-
Net loss for the year		(2,179,348)	(3,703,625)
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		-	-
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(2,179,348)	(3,703,625)
Loss is attributable to:			
Company shareholders		(1,318,569)	(1,003,181)
Trust unitholders		(860,779)	(2,700,444)
		(2,179,348)	(3,703,625)
Company shareholders		(1,318,569)	(1,003,181)
Trust unitholders		(860,779)	(2,700,444)
		(2,179,348)	(3,703,625)
Earnings per stapled security:			
Basic earnings per stapled security (cents)	29	(1.14)	(2.25)
Diluted earnings per stapled security (cents)	29	(1.14)	(2.25)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	2017 \$	2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,577,264	2,472,232
Trade and other receivables	6	2,428,048	3,607,626
Inventories	7	785,199	559,324
Other current assets	8	213,738	457,346
Total Current Assets		5,004,249	7,096,528
Non-Current Assets			
Biological assets	9	5,426,719	4,516,400
Intangible assets	10	6,649,168	6,810,080
Property, plant & equipment	11	25,973,270	26,271,715
Total Non-Current Assets		38,049,157	37,598,195
Total Assets		43,053,406	44,694,723
LIABILITIES			
Current Liabilities			
Trade and other payables	12	3,442,405	3,896,351
Provisions	13	237,710	165,780
Borrowings	14	184,083	2,733,413
Total Current Liabilities		3,864,198	6,795,544
Non-Current Liabilities			
Provisions	13	106,732	72,625
Borrowings	14	10,418,278	10,380,373
Total Non-Current Liabilities		10,525,010	10,452,998
Total Liabilities		14,389,208	17,248,542
Net Assets		28,664,198	27,446,181
EQUITY			
Issued capital	15	17,379,491	16,347,345
Reserves	16	363,360	-
Accumulated losses		(10,423,799)	(9,399,531)
Equity attributable to shareholders		7,319,052	6,947,814
Non-controlling interests			
Issued units		26,995,425	24,978,986
Convertible notes		-	308,881
Accumulated losses		(5,650,279)	(4,789,500)
Equity attributed to non-controlling interests		21,345,146	20,498,367
Total Equity		28,664,198	27,446,181

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$	2016 \$
Cash Flows from Operating Activities			
Receipts from customers		26,046,862	9,187,802
Payments to suppliers and employees		(25,304,245)	(9,612,566)
Interest received		8,970	74,710
Finance costs		(445,225)	(171,288)
Net operating cash flows	5(b)	306,362	(521,342)
Cash Flows from Investing Activities			
Payment for property, plant and equipment	11	(585,003)	(10,533,867)
Proceeds from sale of property, plant and equipment		58,051	95,122
Proceeds from sale of non-current assets held for sale		-	22,256
Payment for biological assets	9	(484,447)	(2,755,800)
Payment for Camperdown Dairy Company Pty Ltd		-	(10,921,449)
Net investing cash flows		(1,011,399)	(24,093,738)
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	15	-	6,031,529
Net proceeds from / (repayment of) loans - unsecured		(74,416)	87,620
Proceeds from CBA facility	14(c)	-	6,000,000
Repayment of loan - Fonterra	14(b)	(200,000)	(60,000)
Net proceeds from bank hire purchase loans		84,485	157,103
Net financing cash flows		(189,931)	12,216,252
Net increase / (decrease) in cash held		(894,968)	(12,398,828)
Cash at the beginning of the period		2,472,232	14,871,060
Cash at the end of the financial period		1,577,264	2,472,232

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

		Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non- controlling Interest (Trust)	Total
	Note	\$	\$	\$	\$	\$
Balance at 1 July 2016		16,347,345	-	(9,399,531)	20,498,367	27,446,181
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(1,318,569)	(860,779)	(2,179,348)
Total comprehensive loss for the year		-	-	(1,318,569)	(860,779)	(2,179,348)
Transactions with equityholders in their capacity as equity holders:						
Contributions of equity, net of transaction costs	15	1,032,146	-	-	2,016,439	3,048,585
Conversion of convertible notes	15	-	-	-	(308,881)	(308,881)
Option reserve - KMP options	25	-	657,661	-	-	657,661
Transfer to retained earnings		-	(294,301)	294,301	-	-
Total transactions with equity holders		1,032,146	363,360	294,301	1,707,558	3,397,365
Balance at 30 June 2017		17,379,491	363,360	(10,423,799)	21,345,146	28,664,198

		Issued Capital Ordinary	Financial Asset Revaluation Reserve	Accumulated Losses	Non- controlling Interest (Trust)	Total
	Note	\$	\$	\$	\$	\$
Balance at 1 July 2015		14,830,305	5,056	(8,396,350)	18,647,667	25,086,678
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(1,003,181)	(2,700,444)	(3,703,625)
Total comprehensive loss for the year		-	-	(1,003,181)	(2,700,444)	(3,703,625)
Transactions with equityholders in their capacity as equity holders:						
Contributions of equity, net of transaction costs	15	1,517,040	-	-	4,551,144	6,068,184
Total transactions with equity holders		1,517,040	-	-	4,551,144	6,068,184
Other						
De-recognition of revaluation increment on disposal of OHPL shares		-	(5,056)	-	-	(5,056)
Total other		-	(5,056)	-	-	(5,056)
Balance at 30 June 2016		16,347,345	-	(9,399,531)	20,498,367	27,446,181

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Australian Dairy Farms Group (“the Group”) was formed by the stapling of Australian Dairy Farms 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. Trustees Australia Limited is the Responsible Entity of the Trust and is incorporated and domiciled in Australia. The Responsible Entity is governed by the terms and conditions specified in the constitution.

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.

The principal accounting policies adopted in the preparation of the financial report are set out below.

(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 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.

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

(b) Principles of Consolidation

Stapling

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

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

- (1) no goodwill is recognised on acquisition of the Trust because no direct ownership interest was acquired by the Company in the Trust;
- (2) the equity issued by the Company to unitholders to give effect to the transaction is recognised at the dollar value of the consideration payable by the unitholders. This is because the issue of shares by the Company was administrative in nature rather than for the purposes of the Company acquiring an ownership interest in the Trust; and
- (3) the issued units of the Trust are not owned by the Company and are presented as non-controlling interests in the Group notwithstanding that the unitholders are also the shareholders by virtue of the stapling arrangement. Accordingly, the equity in the net assets of the Trust and the profit / (loss) arising from these net assets have been separately identified in the statement of comprehensive income and statement of financial position.

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

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

(b) Principles of consolidation (cont'd)

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of 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.

The acquisition method of accounting is used to account for the business combinations by the Company. 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 21 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.

Fair value remeasurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

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

(b) Principles of consolidation (cont'd)

Goodwill (cont'd)

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. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups 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.

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.

(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 Farms 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.

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

(c) Income tax (cont'd)

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 consolidated 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.

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.

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

(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.

(g) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to 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 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.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

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

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

i. Financial assets at fair value through profit or loss

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

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

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

(g) Financial instruments (cont'd)

iii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Impairment

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

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

(h) Property, Plant and Equipment

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

Basis of measurement of carrying amount

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

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

In the event the carrying amount of property, plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present (refer to note 1(l) for details of impairment).

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 in the financial period in which they are incurred.

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

(h) Property, Plant and Equipment (cont'd)

Depreciation

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

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

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

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

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.

(i) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

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

(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.

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

(j) Employee Benefits (cont'd)

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 compensation

The Group operates an employee share ownership plan. 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 the option reserve. The fair value of options is determined using a binomial pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(k) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(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

Contractual agreements

Contractual agreements are recognised at fair value. They have a finite life and are carried at fair value less any accumulated amortisation and any impairment losses. Contractual agreements 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, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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

(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 from the sale of milk, after taking into account dairy levies and volume charges, is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Dairy cattle fair value adjustments are determined at the end of each reporting date (refer note 9). 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 risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the cattle to the customer);
- no further work or processing is required;
- the quantity and quality of the cattle has been determined; and
- the price is fixed and generally title has passed.

Revenue from the sale of dairy processing products is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

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

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

(t) Critical Accounting Estimates and Judgments

The preparation of the financial statements requires directors to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. The director's continually evaluate their judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Judgements and estimates are based on historical experience and on other various factors they believe are reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

The following accounting policies for which significant judgements, estimates and assumptions have been made:

- Carrying value determination of land and buildings, refer note 11;
- Carrying value determination of goodwill, refer note 10;
- Fair value determination of livestock, refer note 9; 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.

(u) Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognised at fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

(v) 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.

(w) New Accounting Standards for Applicable in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the company when adopted in future periods, are discussed below:

- AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 July 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments.

Although, the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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

(w) New Accounting Standards for Applicable in Future Periods (cont'd)

- AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 July 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles based model. The core principle of this Standard is to recognise revenue that reflects consideration to which the Group expects to be entitled.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

The directors are assessing the adoption of AASB 15 and at this stage it is impracticable to judge the impact on the Group's financial statements.

- AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 July 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The directors are satisfied the adoption of AASB 16 will not have a material impact on the Group's financial statements.

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 Accounting Standards.

	2017	2016
	\$	\$
Statement of Financial Position		
Assets		
Current assets	383,477	2,509,697
Non-current assets	10,935,360	10,936,592
Total assets	11,318,837	13,446,289
Liabilities		
Current liabilities	4,256,565	5,982,578
Total liabilities	4,256,565	5,982,578
Equity		
Issued capital	17,379,491	15,347,345
Reserves	363,360	-
Retained earnings	(10,680,579)	(8,883,634)
Total Equity	7,062,272	7,463,711
Statement of Profit or Loss and Other Comprehensive Income		
Total loss	(2,091,246)	(809,498)
Total comprehensive loss	(2,091,246)	(809,498)

Contingent liabilities and guarantees

The company does not have any contingent liabilities or guarantees in place for the year ended 30 June 2017, other than in respect of CBA borrowings, refer note 14.

Contractual commitments

As announced to ASX on 19 December 2016, the company has conditionally contracted to purchase industrial zoned land for \$260,000 (2016: \$nil) through its subsidiary Camperdown Dairy Park Trust.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3: REVENUE AND EXPENSES

(a) Revenue	2017	2016
Revenue	\$	\$
Dairy farm milk sales	6,601,516	5,571,670
Dairy processing sales	16,137,298	3,162,751
Livestock sales	706,678	801,542
Other revenue	150,975	233,792
	23,596,467	9,769,755
Other revenue		
Interest received - other persons	8,970	74,710
Total Revenue	23,605,437	9,844,465
(b) Other Income		
Gain on disposal of other financial assets	-	11,512
Gain on change in fair value of livestock (refer note 9)	1,367,272	741,550
Gain on disposal of property, plant and equipment	-	22,623
	1,367,272	775,685
(c) Expenses		
(i) Finance costs		
CBA facility	414,860	155,520
Loans - unsecured	7,236	4,712
Loans - Fonterra	-	334
Other	432	5
Finance charges payable under finance leases	22,697	10,717
Interest on convertible notes (related parties)	58,211	172,034
	503,436	343,322
(ii) Dairy related costs		
Feed costs	3,086,093	3,439,257
Repairs, maintenance and vehicle costs	328,521	270,867
Animal health costs	156,286	214,307
Land holding and lease costs	111,081	78,312
Breeding and herd testing expenses	196,578	156,483
Dairy shed expenses	116,290	91,181
Electricity	165,442	129,083
Other dairy related costs	1,582,013	555,582
	5,742,304	4,935,072
(iii) Dairy processing related costs		
Cost of goods sold	10,100,158	1,999,998
Freight costs	1,160,288	223,181
Property and lease costs	304,662	131,294
Other dairy processing related costs	1,149,583	122,695
	12,714,691	2,477,168
(iv) Employment benefits expense		
Wages and salaries costs	3,955,127	1,545,599
Director fees	150,075	109,500
Equity settled share based payment costs	1,017,661	-
Superannuation	339,630	132,725
Employee benefits provisions	106,037	52,572
	5,568,530	1,840,396

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3: REVENUE AND EXPENSES (con't)

	2017	2016
	\$	\$
(v) Administration and non-dairy related costs		
Administration costs	241,434	238,709
Professional costs	464,991	468,668
CDC acquisition costs	-	107,142
	<u>706,425</u>	<u>814,519</u>
(vi) Other significant items		
Deemed cost of livestock sold (refer note 9)	941,400	1,350,450
Impairment of land and buildings (refer note 11)	-	1,809,399

NOTE 4: INCOME TAX EXPENSE

	2017	2016
	\$	\$
(a) The components of tax expense / (benefit) comprise		
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
(b) The prima facie tax on profit before income tax is reconciled to the income tax as follows		
Prima facie tax payable / (benefit) on profit / (loss) from ordinary activities before income tax at 30% (2016: 30%):	(653,804)	(1,111,088)
Add /(less)		
Tax effect of:		
- trust loss not recognised	375,542	619,251
- current period tax losses not recognised	153,079	108,589
- net amount of expenses not currently deductible	535,365	609,166
- other income not included in assessable income	(410,182)	(225,918)
Income tax expense / (benefit) attributable to entity	<u>-</u>	<u>-</u>
Applicable weighted average effective tax rates are as follows:	N/A	N/A

(c) 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 dependant on compliance with conditions of deductibility imposed by law.

Temporary differences	30,230	212,023
Tax losses	3,581,235	3,052,614
Net unbooked deferred tax assets	<u>3,611,465</u>	<u>3,264,637</u>

These amounts are measured at a 30% tax rate, if legislated changes in tax rates to 27.5% apply to the Group then the total re-stated deferred tax asset approximates \$3.3M.

The Group has revenue losses of \$11,937,451 (2016: \$10,175,380). These losses comprise \$6,157,144 of Group losses and \$5,780,307 of transferred in losses "pre-stapling". The transferred in losses can be carried forward and may be utilised against taxable income in future years provided the Same Business Test is satisfied. The Group is of the view that it satisfies the necessary criteria for these losses to be made available against future taxable profit, however the ATO will not rule on the availability to carry forward the losses at a point in time, they will only rule on the ability to utilise the losses at the date of utilisation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5: CASH AND CASH EQUIVALENTS

	2017	2016
	\$	\$
Current		
Cash at bank and in hand	1,577,264	2,472,232
Total cash and cash equivalents	1,577,264	2,472,232

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

The fair value of cash, cash equivalents and overdrafts is \$1,577,264 (2016: \$2,472,232).

(a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash and cash equivalents comprising the following at 30 June 2017:

	2017	2016
	\$	\$
Cash at bank and in hand	1,577,264	2,472,232
	1,577,264	2,472,232

A floating charge over cash and cash equivalents has been provided to the CBA as part of security arrangements for current facilities. For further details refer to Note 14: Borrowings.

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

	2017	2016
	\$	\$
Net loss after income tax	(2,179,348)	(3,703,625)
Adjustment of non cash items		
Amortisation and depreciation	975,271	753,449
Deemed cost of livestock disposed	(1,367,272)	1,350,450
Fair value adjustment of biological assets	941,400	(741,550)
Impairment of property, plant and equipment	-	1,809,399
Loss / (gain) on disposal of property, plant and equipment	11,038	(22,623)
Interest accrual on convertible notes - related party	58,211	172,034
Gain on disposal of financial assets	-	(11,512)
Equity settled share based payments	1,017,661	-
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	1,179,578	(1,053,563)
(Increase) / decrease in other assets	243,608	(226,005)
(Increase) / decrease in inventories	(225,875)	1,864
Increase / (decrease) in trade and other payables	(453,947)	1,076,768
Increase / (decrease) in provisions	106,037	52,572
Net operating cash flows	306,362	521,342

Significant non-cash financing activities in the period are:

- Convertible note conversion of \$2,688,586 (refer note 14(a)) and share based payments \$360,000 (refer note 15(b)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6: TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
Current		
Trade debtors	2,417,126	3,114,806
Other receivables	10,922	492,820
Total current trade and other receivables	2,428,048	3,607,626

(a) Provision For Impairment of Receivables

Current trade and other receivables are non-interest bearing and generally on 14-60 day terms. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. There are no balances within trade and other receivables that contain assets that are impaired.

CREDIT RISK — TRADE AND OTHER RECEIVABLES

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 6. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the Group.

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

The following table details the Group’s trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as ‘past due’ when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of good credit quality.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			1-30	31-60	61-90	>90	
2017	\$	\$	\$	\$	\$	\$	\$
Trade and term receivables	2,417,126	-	67,552	39,748	4,204	12,688	2,292,934
Other receivables	10,922	-	-	-	-	-	10,922
Total	2,428,048		67,552	39,748	4,204	12,688	2,303,856

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired. Trade receivables include \$2,185,553 due from the Group’s 3 main customers.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			31-60	31-60	61-90	>90	
2016	\$	\$	\$	\$	\$	\$	\$
Trade and term receivables	3,114,806	-	234,935	33,001	37,980	142,171	2,666,719
Other receivables	492,820	-	-	-	-	-	492,820
Total	3,607,626	-	234,935	33,001	37,980	142,171	3,159,539

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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

(b) Financial assets classified as loans and receivables

	Notes	2017 \$	2016 \$
Trade and other receivables			
Total current		2,428,048	3,607,626
Financial assets	27	2,428,048	3,607,626

(c) Collateral pledged

A floating charge over some trade receivables has been provided for certain debt. For further details refer to Note 14: Borrowings.

NOTE 7: INVENTORIES

	2017 \$	2016 \$
Current		
Packaging	336,300	353,473
Raw materials, finished goods and chemicals	131,371	110,811
Feedstock, hay and silage	317,528	95,040
Total inventories (at cost)	785,199	559,324

NOTE 8: OTHER ASSETS

	2017 \$	2016 \$
Current		
Prepayments	81,383	138,173
GST receivables	53,667	265,481
Bonds and deposits	78,688	53,692
Total other assets	213,738	457,346

NOTE 9: BIOLOGICAL ASSETS

	Notes	2017 \$	2016 \$
Non-current			
Dairy livestock	(a)	5,426,719	4,516,400
Total biological assets		5,426,719	4,516,400
Movements during the year:			
Opening carrying amount		4,516,400	2,369,500
Purchases of livestock		484,447	2,755,800
Deemed cost of livestock disposed		(941,400)	(1,350,450)
Fair value adjustment of biological assets		1,367,272	741,550
Closing carrying amount		5,426,719	4,516,400

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9: BIOLOGICAL ASSETS (cont'd)

Movements during the year (herd numbers):

	2017	2016
	No.	No.
Opening balance	3,302	1,625
Purchases	353	1,765
Natural increase and attrition	1,446	1,672
Sales	(1,597)	(1,760)
Closing balance	3,504	3,302

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2017 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.

NOTE 10: INTANGIBLE ASSETS

	Notes	2017	2016
		\$	\$
Goodwill			
- at cost	(a)	6,616,393	6,616,393
		6,616,393	6,616,393
Contractual agreements			
- at fair value	21(b)	225,000	225,000
Less accumulated amortisation		(192,225)	(31,313)
		32,775	193,687
Total intangible assets		6,649,168	6,810,080

(a) On 15 April 2016 the Group acquired Camperdown Dairy Company Pty Ltd (CDC). In accordance with *AASB 3 Business Combinations*, the purchase price was allocated to the fair value of the net identifiable assets of CDC and the remaining amount is allocated to goodwill. Refer note 21(b) for further details.

As part of the annual review of holding values of all intangibles the directors have reviewed the carrying value of goodwill and contractual agreements and have adopted the current carrying values at 30 June 2017.

Impairment Disclosures

Goodwill is allocated to cash-generating units (CGU) which are based on the Group's internal reporting segments. Goodwill relates to the acquisition of CDC and the recoverable amount of this goodwill has been assessed using "value in use" calculations for the dairy processing segment.

Key Assumptions Used For 'Value-In-Use' Calculations

Value-in-Use

The impairment test for the dairy processing segment is based on 'value-in-use' calculations, applying 5-year discounted cash flow projections that have been approved by the board.

Key assumptions

The key assumptions are based on historical results combined with expectations of future market activity and opportunities, and include revenue growth, gross margins, discount rates and terminal growth rate.

Sensitivity to change in assumptions

Revenue growth – Revenue projections are based on the 2018 budget and forward-looking plans using current sales levels and pipeline growth. Growth rates of 3.1% have been used, reflecting a conservative approach in a changing marketplace.

Gross margins – Gross margins are based on the most recent actual results, the 2018 budget and conservative estimates for future year's raw material and direct overhead costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10: INTANGIBLE ASSETS (cont'd)

Sensitivity to change in assumptions (cont')

Discount rates – Discount rates used reflect pre-tax rates and are adjusted to incorporate risk premiums associated with the industry sector and specific business risk assessments. A pre-tax discount rate of 7.77% has been used in calculations.

Terminal growth rate - A terminal growth rate of 2.2% has been used for future cash flow growth beyond the 5-year forecast period. This is a conservative rate when compared with annual growth rates during the forecast period.

Impairment

At 30 June 2017, the recoverable amount of the CGU exceeded the carrying value and no impairment has been recorded for intangible assets in the dairy processing segment.

Impact of possible changes in key assumptions

Sensitivity analysis indicated that given current industry conditions no reasonably possible changes in any of the key assumptions would cause the recoverable amount of the CGU to be less than its carrying value.

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Notes	2017 \$	2016 \$
Land, buildings and improvements			
- at cost		22,461,351	22,428,442
Less accumulated depreciation		(556,693)	(472,186)
Less accumulated impairment	(b)	(2,447,564)	(2,447,564)
	(a)	19,457,094	19,508,692
Plant and equipment - owned			
- at cost		6,808,552	6,541,085
Less accumulated depreciation		(976,143)	(314,938)
		5,832,409	6,226,147
Plant and equipment - leased			
- at cost		783,803	578,207
Less accumulated depreciation		(100,036)	(41,331)
		683,767	536,876
Total property, plant and equipment		25,973,270	26,271,715

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

Farm name	Acquisition date	Carrying value
Brucknell No 1	22 October 2014	4,126,837
Brucknell No 2	22 October 2014	4,379,991
Ignatios	14 January 2015	2,220,304
Brucknell No 3	6 March 2015	2,283,370
Missens Road	9 July 2015	1,551,872
Drumborg	16 September 2015	4,894,720
Total		19,457,094

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

- (b) With effective date at 30 June 2016 registered valuer Mr Roger Cussen provided an independent valuation of all farms in light of recent sales evidence, assessing the fair value of the combined properties at \$19,508,692. Adjusting the carrying cost on the basis of the independent valuation resulted in an impairment of \$1,809,399 for the year ended 30 June 2016. The directors have adopted the same valuation for the year ended 30 June 2017, less depreciation.

Movements in the Carrying Amounts

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

	Land, Buildings & Improvements	Plant & Equipment - Owned	Plant & Equipment - Leased	Total
2017	\$	\$	\$	\$
Balance beginning of the financial year	19,508,692	6,226,147	536,876	26,271,715
Additions	32,908	346,499	205,596	585,003
Disposals	-	(69,089)	-	(69,089)
Depreciation expense	(84,506)	(671,148)	(58,705)	(814,359)
Balance at end of financial year	19,457,094	5,832,409	683,767	25,973,270

	Land, Buildings & Improvements	Plant & Equipment - Owned	Plant & Equipment - Leased	Total
2016	\$	\$	\$	\$
Balance beginning of the financial year	13,312,349	835,691	358,923	14,506,963
Additions	8,412,283	5,748,720	209,146	14,370,149
Disposals	-	(73,862)	-	(73,862)
Depreciation expense	(406,541)	(284,402)	(31,193)	(722,136)
Impairment expense	(1,809,399)	-	-	(1,809,399)
Balance at end of financial year	19,508,692	6,226,147	536,876	26,271,715

NOTE 12: TRADE AND OTHER PAYABLES

	Notes	2017 \$	2016 \$
Current			
Trade creditors		2,329,731	2,273,087
Sundry creditors and accrued expenses		1,112,674	1,623,264
Total trade and other payables		3,442,405	3,896,351
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		3,442,405	3,896,351
Financial liabilities as trade and other payables	27	3,442,405	3,896,351

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: PROVISIONS

	2017 \$	2016 \$
Current		
Employee benefits	237,710	165,780
Total current provisions	237,710	165,780
Non-current		
Employee benefits	106,732	72,625
Total non-current provisions	106,732	72,625
Total provisions	344,442	238,405
Movement in provisions:		
Opening balance	238,045	12,102
Provisions assumed on acquisition of CDC	-	173,731
Additional provision	265,088	94,036
Amounts used	(158,691)	(41,464)
Closing balance	344,442	238,405

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 to this report.

NOTE 14: BORROWINGS

	Notes	2017 \$	2016 \$
Current			
Loans - unsecured		21,846	96,263
Bank hire purchase loans - secured		162,237	115,656
Convertible notes	(a)	-	2,321,494
Loan - Fonterra	(b)	-	200,000
Total current borrowings		184,083	2,733,413
Non-current			
Bank hire purchase loans - secured		418,278	380,373
CBA facility	(c)	10,000,000	10,000,000
Total non-current borrowings		10,418,278	10,380,373
Total borrowings		10,602,361	13,113,786

(a) On 9 November 2016, the holders of the 235 unlisted convertible notes converted to fully paid stapled securities. The value of the convertible notes plus accrued interest at the date of conversion was \$2,688,586, which included accrued interest of \$58,211 for the year and \$308,881 classified as the equity component of the convertible notes on initial recognition. 14,627,779 stapled securities were issued in consideration.

(b) The Group repaid \$200,000 in interest free advances from Fonterra Milk Australia Pty Ltd on 31 October 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14: BORROWINGS (cont'd)

(c) At 30 June 2017 the Group has banking facilities with the Commonwealth Bank of Australia Limited (CBA) secured by registered mortgages and charges over all farms. The facility is a three year redrawable loan facility of \$10,000,000 which has a maturity date of 15 April 2019. The facility is subject to compliance with predetermined covenants and an annual review. The directors have classified the facility as a non-current liability in its entirety based on the facility not maturing until 15 April 2019, the Group's intentions to retain the facility prior to maturity date and meeting all covenants during the period and subsequent to balance date. The facility is drawn to \$10,000,000 at 30 June 2017 (2016:\$10,000,000).

Collateral Provided:

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

Lease liabilities are secured by the underlying leased assets.

The carrying amounts of assets pledged as security are:

	2017	2016
	\$	\$
First mortgage over land and buildings at market value	19,457,093	19,508,692
General security interest over all assets of ADFT	11,973,647	13,837,243
First registered charge over leased equipment	683,767	536,876
Negative pledge and guarantee over all other Group assets	10,938,899	-
Total assets pledged as security	43,053,406	33,882,811

NOTE 15: ISSUED CAPITAL

	2017	2016
	\$	\$
Contributed equity of the Group	44,374,916	41,635,212

a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price \$	Shareholders \$	Unitholders \$	Stapled Entity \$
01 July 2016	Opening Balance	181,005,330		16,347,345	25,287,867	41,635,212
19 Sept 2016	KPI performance rights (i)	2,000,000	0.18	360,000	-	360,000
09 Nov 2016	Convertible note conversion (ii)	14,627,779	0.1838	672,146	1,707,558	2,379,704
30 June 2017		197,633,109		17,379,491	26,995,425	44,374,916
01 Jul 2015	Opening balance	156,126,217		14,830,305	20,736,722	35,567,027
31 Mar 2016	Loyalty options exercised	19,279,259	0.25	1,204,953	3,614,862	4,819,815
08 Apr 2016	Loyalty options exercised	5,599,854	0.25	349,991	1,049,972	1,399,963
	Transaction costs	-	-	(37,904)	(113,689)	(151,593)
30 June 2016		181,005,330		16,347,345	25,287,867	41,635,212

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) See note 15(b).

(ii) See note 15(d).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 15: ISSUED CAPITAL (cont'd)

(b) 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.

On 1 July 2016 there was 2,000,000 stapled securities granted to management personnel as share-based payments. The fair value of securities granted, determined by reference to market price, was \$360,000, refer note 25.

(c) Options

During the 2016 comparative financial year loyalty option holders exercised 19,279,259 options and the balance of 5,599,854 was fully underwritten by Bell Potter Securities and exercised in accordance with the underwriting agreement.

(d) Convertible Notes

On 9 November 2016, the holders of the 235 unlisted convertible notes converted to fully paid stapled securities. The value of the convertible notes plus accrued interest at the date of conversion was \$2,688,586, which included accrued interest of \$58,211 for the year and \$308,881 classified as the equity component of the convertible notes on initial recognition. 14,627,779 stapled securities were issued in consideration.

(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, convertible notes 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 2017 and 30 June 2016 are as follows:

	Notes	2017 \$	2016 \$
Total borrowings	14	10,602,361	13,113,786
Less cash and cash equivalents	5	(1,577,264)	(2,472,232)
Net debt		9,025,097	10,641,554
Total equity		28,664,198	27,446,181
Total capital		37,689,295	38,087,735
Gearing ratio		24%	28%

NOTE 16: RESERVES

Nature and purpose of reserves

The option reserve records items recognised as expenses on valuation of employee share options.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17: CAPITAL AND LEASING COMMITMENTS

(a) Finance lease commitments:

	2017	2016
	\$	\$
Payable - minimum lease payments		
Not later than 12 months	184,969	132,372
Between 12 months and 5 years	466,471	429,127
Greater than 5 years	-	-
Minimum lease payments	651,440	561,499
Less future finance charges	(70,924)	(65,470)
Present value of minimum lease payments	580,516	496,029

(b) Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2017	2016
	\$	\$
Payable - minimum lease payments		
Not later than 12 months	194,359	187,800
Between 12 months and 5 years	172,353	366,712
Greater than 5 years	-	-
Present value of minimum lease payments	366,712	554,512

(c) Capital Expenditure Commitments

As announced to ASX on 19 December 2016, the company has conditionally contracted to purchase industrial zoned land for \$260,000 (2016: \$nil) through its subsidiary Camperdown Dairy Park Trust.

NOTE 18: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities for the year ended 30 June 2017.

NOTE 19: 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 2017.

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

	2017	2016
	\$	\$
Short term	647,439	100,000
Post employment	32,636	9,500
Other long-term	9,687	-
Termination benefits	-	-
Share-based payments	438,453	-
	1,128,215	109,500

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

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 estimated 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

During the year, stapled securities and performance options were issued to employees and key management personnel under the ADFG employee Long Term Incentive Plan (LTIP).

These amounts represent the expense related to the participation of KMP in the ADFG employee Long Term Incentive Plan (LTIP), 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 20: AUDITORS' REMUNERATION

Remuneration of the auditor for:

	2017	2016
	\$	\$
Audit and review of the financial statements	62,325	62,976

NOTE 21: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2017 Percentage Owned	2016 Percentage Owned
Parent Entity:			%	%
Australian Dairy Farms Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd		ordinary	100	100
Dairy Fund Management Limited		ordinary	100	100
DFI Operations Pty Ltd (dormant)		ordinary	100	100
Camperdown Dairy Company Pty Ltd	(b)	ordinary	100	100
Camperdown Dairy Park Trust	(c)	units	100	-
Other Controlled Entities			%	%
Australian Dairy Farms Trust	(d)(e)	units	-	-

The financial year of all controlled entities is the same as that of the holding company and all controlled entities are incorporated in Australia. All entities principal place of business and country of incorporation is Australia. All ownership interests are directly held and have equal voting rights. Other than for borrowings as detailed in note 14, 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 Farms Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21: CONTROLLED ENTITIES (cont'd)

(b) Acquisition of subsidiary

On 15 April 2016 Australian Dairy Farms Limited acquired 100% of the issued capital and control of Camperdown Dairy Company Pty Ltd (CDC) for a net cash purchase consideration of \$10,927,665. This acquisition formed part of the Group's overall strategy to become the ASX's first vertically integrated dairy entity as a milk farmer, processor, manufacturer and exporter of dairy products.

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

	\$
Purchase consideration:	
- Cash	10,927,665
Less:	
Cash and cash equivalents	6,216
Trade and other receivables	1,801,985
Inventories	515,285
Other assets	124,102
Property, plant and equipment ¹	3,834,921
Intangible assets ²	225,000
Trade and other payables	(2,022,506)
Provisions	(173,731)
Identifiable assets acquired and liabilities assumed	4,311,272
Goodwill³	6,616,393

1. Property, plant and equipment was independently valued by Henley Valuers on a fair value (going concern) basis.
2. In accordance with *AASB 3: Business Combinations* the acquirer is required to recognise separately from Goodwill the identifiable intangible assets of CDC on acquisition. Under the accounting standard, an intangible asset is considered identifiable if it meets the Contractual Legal Criterion. Customer supply agreements meet the Contractual Legal Criterion and in accordance with this requirement the Group has attributed \$225,000 to material supply agreements that are required to be amortised over the life of the agreements.
3. Goodwill is attributable to the significant time and costs to setup and establish the factory and business at Camperdown, including the establishment of the current workforce, management team and brand.

Total income of CDC included in the consolidated revenue of the Group since the acquisition date on 15 April 2016 amounted to \$3,191,166 and net profit of \$36,598 was included in consolidated profit of the Group since the acquisition date.

c) Gain of control over other entities

On 15 December 2016 the Group established the Camperdown Dairy Park Trust with Dairy Fund Management Limited as trustee.

(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 15.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21: CONTROLLED ENTITIES (cont'd)

(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:

	2017	2016
	\$	\$
Summarised Financial Position		
Current assets	10,831,615	12,660,367
Non-current assets	20,599,127	20,685,568
Current liabilities	85,596	2,847,568
Non-current liabilities	10,000,000	10,000,000
Net Assets	21,345,146	20,498,367
Carrying amount of non-controlling interests	21,345,146	20,498,367
Summarised Financial Performance		
Revenue	35,715	205,378
Loss after tax	(860,779)	(2,700,444)
Other comprehensive income after tax	-	-
Total comprehensive loss	(860,779)	(2,700,444)
Loss attributable to non-controlling interests	(860,779)	(2,700,444)
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	(642,111)	7,174
Net cash from / (used in) investing activities	704,287	(10,574,474)
Net cash from / (used in) financing activities	-	10,551,145
Net cash increase / (decrease) in cash and cash equivalents	62,176	(16,155)

NOTE 22: ASSOCIATES AND JOINT ARRANGEMENTS

Information on Joint Ventures

Set out below are the details of the joint venture the Group acquired an ownership interest in as part of the acquisition of Camperdown Dairy Company Pty Ltd. The share capital of Camperdown Cheese & Butter Factory Pty Ltd consists solely of ordinary shares and the proportion of ordinary shares held by the Group equals the voting rights held by the Group.

The Group has designated the joint venture in accordance with *AASB 11: Joint Arrangement* and accounted for the joint venture using the "equity" method of accounting. The joint venture is operated on a break-even basis with issued capital of \$200 and as such the Group will carry the investment as nil in accordance with *AASB 128 Investments in Associates and Joint Ventures*.

Name	Principal Activities	Country of Incorp.	Type	Ownership Interest		Carrying amount of investment	
				2017	2016	2016	2015
				%	%	\$	\$
Unlisted:							
Camperdown Cheese & Butter Factory Pty Ltd (CCB)	Manufacture of butter & cream	Aust	Shares	50.00	50.00	-	-

CCB is a private entity that manufactures butter for the shareholders of the joint venture. The Group's interest in the company represents a strategic investment with the joint venture operated on a break-even basis and is not material to the Group.

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 23: 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 Farms 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 19 and the remuneration report.

(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 favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

(i) Michael Hackett and associated entities, including Trustees Australia Limited (TAU) of which Mr Hackett is a director.

During the year ended 30 June 2017, Michael Hackett associated entities had the following transactions with the Group:

- Recovery costs charged on a reimbursement basis for the provision of administrative services, accounting, secretarial, farm director costs and related activities of \$275,000 (2016: \$338,900). There was \$444,450 (2016: \$338,900) due to TAU at 30 June 2017. Trustees Australia Limited does not charge nor is it reimbursed for Responsible Entity services other than ASIC lodgement fees for Australian Dairy Farms Trust.
- On 9 November 2016, 235 unlisted convertible notes converted to fully paid stapled securities. The value of the convertible notes plus accrued interest at the date of conversion was \$2,688,586, which included accrued interest of \$58,211 (2016: \$172,034) for the year and \$308,881 classified as the equity component of the convertible notes on initial recognition. 14,627,779 stapled securities were issued in consideration. (refer note 15(d)).

(ii) Watershed Funds Management Pty Ltd

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2017 Watershed Funds Management Pty Ltd was paid \$54,750 (2016: \$32,850) for the provision of Adrian Rowley as director.

(iii) Jackson and Associates Ltd

Keith Jackson is a director of Jackson and Associates Ltd. During the year ended 30 June 2017 Jackson and Associates Ltd was paid \$13,200 (2016: \$32,850) for the provision of Keith Jackson as director.

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

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

Until the acquisition of Camperdown Dairy Company Pty Ltd (CDC) on 15 April 2016 management determined the Group operated in one reportable segment. Following the acquisition of CDC another segment was established and the financial results have been allocated and reported on this basis.

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

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

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

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

Types of products and services by segment

Dairy Farms

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

Dairy Processing

The dairy processing segment includes the processing and sale of dairy products to domestic and export markets from 15 April 2016.

All other segments

Other income from the gain on disposal of non-current assets held for sale has been disclosed in this segment.

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.

Segment assets

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

Segment liabilities

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

Amounts not included in segment result but reviewed by the Board

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- corporate charges
- finance costs - bank facility

There are no intersegment sales.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: SEGMENT REPORTING (cont'd)

(i) Segment Performance	Dairy Farm	Dairy Processing	Total
30 June 2017			
Revenue	\$	\$	\$
External sales	7,343,908	16,252,559	23,596,467
Other income	1,367,272	-	1,367,272
Interest revenue	8,500	470	8,970
Total segment revenue	8,719,680	16,253,029	24,972,709
Total group revenue			24,972,709
Segment net profit / (loss) before tax	224,570	26,920	251,490
Reconciliation of segment result to group net profit/(loss) before tax			
(i) Amounts not included in segment result but reviewed by the Board			
Corporate charges			(2,015,978)
Finance costs - bank facility			(414,860)
Net profit before tax			(2,179,348)

	Dairy Farm	Dairy Processing	All Other Segments	Total
30 June 2016				
Revenue	\$	\$		\$
External sales	6,578,589	3,191,166	-	9,769,755
Other income	764,173	-	11,512	775,685
Interest revenue	74,710	-	-	74,710
Total segment revenue	7,417,472	3,191,166	11,512	10,620,150
Total group revenue				10,620,150
Segment net profit / (loss) before tax	(2,712,010)	36,598	11,512	(2,663,900)
Reconciliation of segment result to group net profit/(loss) before tax				
(i) Amounts not included in segment result but reviewed by the Board				
Corporate charges				(884,205)
Finance costs - bank facility				(155,520)
Net profit before tax				(3,703,625)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: SEGMENT REPORTING (cont'd)

	Dairy Farms	Dairy Processing	Total
(ii) Segment Assets			
As at 30 June 2017	\$	\$	\$
Segment assets	29,725,105	13,328,301	43,053,406
Segment assets include:			
Additions to non-current assets	892,066	177,384	1,069,450
Total group assets			43,053,406

	Dairy Farms	Dairy Processing	Total
As at 30 June 2016	\$	\$	\$
Segment assets	23,376,929	15,317,794	44,694,723
Segment assets include:			
Additions to non-current assets	13,279,538	10,925,047	24,204,585
Total group assets			44,694,723

(iii) Segment Liabilities

As at 30 June 2017			
Segment liabilities	2,052,699	2,336,239	4,389,208

Reconciliation of segment liabilities to group liabilities

Unallocated liabilities			
CBA facility (refer note 14)			10,000,000
Total group liabilities			14,389,208

As at 30 June 2016			
Segment liabilities	4,246,694	3,001,848	7,248,542

Reconciliation of segment liabilities to group liabilities

Unallocated liabilities			
CBA facility (refer note 14)			10,000,000
Total group liabilities			17,248,542

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: SEGMENT REPORTING (cont'd)

(iv) Revenue by geographic region

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

	2017 \$	2016 \$
Australia	24,972,709	10,620,150
Other countries	-	-
Total revenue	24,972,709	10,620,150

(v) Assets by geographic region

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

	2017 \$	2016 \$
Australia	43,053,406	44,694,723
Other countries	-	-
Total assets	43,053,406	44,694,723

NOTE 25: SHARE BASED PAYMENTS

During the year ended 30 June 2017, stapled securities and performance options were issued to employees and key management personnel under the ADFG employee Long Term Incentive Plan (LTIP).

(i) The following performance options were granted to employees and key management personnel to take up ordinary securities:

Grant Date	Number	Exercise Price	Vesting Date	Exercisable on or before
1 July 2016	2,820,000	\$0.25	1 July 2016	1 July 2018
1 July 2016	2,340,000	\$0.27	30 June 2017	26 May 2019
1 July 2016	2,340,000	\$0.27	31 December 2017	26 May 2019
1 July 2016	2,340,000	\$0.27	30 June 2018	26 May 2019
1 July 2016	2,340,000	\$0.27	31 December 2018	26 May 2019
29 July 2016	3,000,000	\$0.23	31 December 2016	29 July 2021
29 July 2016	1,500,000	\$0.25	30 June 2017	29 July 2021
29 July 2016	1,500,000	\$0.27	31 December 2017	29 July 2021
29 July 2016	1,200,000	\$0.29	31 December 2018	29 July 2021
	19,380,000			

The weighted average exercise price of performance options is \$0.26 each and the options hold no voting or dividend rights and are not transferable.

The options vest over a two and a half year period with a percentage of options vesting on grant date. Vesting subsequent to grant date is also subject to key management personnel meeting specified performance criteria. No other options have been issued as at the end of the reporting period or to the date of this report.

(ii) The Group established the LTIP to motivate executives to strive to improve group performance and shareholder return. The options are issued for no consideration and carry no entitlements to voting rights or dividends of the Group. The number available to be granted is determined by the Board and is based on various performance measures.

Options 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 2017, 6,840,000 performance options were forfeited as the performance hurdle was not satisfied and \$294,301 has been transferred from the equity reserve to retained earnings.

No other options have lapsed or been cancelled during or since the end of the period.

(iii) The weighted average remaining contractual life of 12,540,000 options outstanding at period-end was 1.4 years. The weighted average exercise price of outstanding shares at the end of the reporting period was \$0.27. The fair value of the options granted to employees is considered to represent the value of the employee services received over the vesting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 25: SHARE BASED PAYMENTS (cont'd)

The fair value of options granted during the period was \$657,661 (30 June 2016: \$Nil). These values were calculated using a binomial option pricing model applying the following inputs:

Weighted average exercise price:	\$0.26
Weighted average life of the option:	1.7 years
Expected share price volatility:	95.5%
Weighted average risk-free interest rate:	1.62%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Options exercisable at period end total 2,820,000.

(iv) Stapled securities granted to employees and key management personnel as share-based payments are as follows:

Grant Date	Number
1 July 2016	1,000,000
1 July 2016	1,000,000
	<u>2,000,000</u>

The fair value of securities granted, determined by reference to market price, was \$360,000, refer note 15.

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

(v) Included under employee benefits expense in the statement of profit or loss is \$1,017,661 (2016: \$Nil), which relates to equity-settled share-based payment transactions - securities and options.

NOTE 26: EVENTS AFTER THE BALANCE DATE

The directors are not aware of any significant events post 30 June 2017.

NOTE 27: 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 139 as detailed in the accounting policies to these financial statements, are as follows:

	Notes	2017 \$	2016 \$
Financial assets			
Cash and cash equivalents	5	1,577,264	2,472,232
Trade and other receivables	6	2,428,048	3,607,626
Bonds, deposits and GST receivable	8	132,355	319,173
Total financial assets		<u>4,137,667</u>	<u>6,399,031</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 27: FINANCIAL RISK MANAGEMENT (cont'd)

	Notes	2017 \$	2016 \$
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	12	3,442,405	3,896,351
Borrowings	14	10,602,361	13,113,786
Total financial liabilities		14,044,766	17,010,137

Financial Risk Management Policies

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 with the result that the Group's exposure to bad debts is not significant. (see also note 6).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets and 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 27: FINANCIAL RISK MANAGEMENT (cont'd)

The table below presents 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	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Borrowings*	(184,083)	(3,042,294)	(10,418,278)	(10,380,373)	-	-	(10,602,361)	(13,422,667)
Trade & other payables	(3,442,405)	(3,896,351)	-	-	-	-	(3,442,405)	(3,896,351)
Total contractual outflows	(3,626,488)	(6,938,645)	(10,418,278)	(10,380,373)	-	-	(14,044,766)	(17,319,018)
Total expected outflows	(3,626,488)	(6,938,645)	(10,418,278)	(10,380,373)	-	-	(14,044,766)	(17,319,018)
Financial assets - cash flows realisable								
Cash	1,577,264	2,472,232	-	-	-	-	1,577,264	2,472,232
Trade and other receivables	2,428,048	3,607,626	-	-	-	-	2,428,048	3,607,626
Bond, deposits and GST receivable	53,667	265,481	78,688	53,692	-	-	132,355	319,173
Total anticipated inflows	4,058,979	6,345,339	78,688	53,692	-	-	4,137,667	6,399,031
Net (outflows) / inflows on financial instruments	432,491	(593,306)	(10,339,590)	(10,326,681)	-	-	(9,907,099)	(10,919,987)

* Included above in the within 1 year borrowings in the 2016 comparative is \$308,881 that was classified as equity on the issue of the convertible notes. Refer note 14(a).

(c) Market risk

Interest rate risk

The Group at the date of this report has debt exposure through \$602,361 in fixed rate facilities and \$10,000,000 in variable rate facilities.

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 2017, 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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 27: FINANCIAL RISK MANAGEMENT (cont'd)

	2017	2016
	\$	\$
Change in profit		
- Increase in interest rate by 1%	(84,227)	(101,581)
- Decrease in interest rate by 1%	84,227	101,581
Change in equity		
- Increase in interest rate by 1%	(84,227)	(101,581)
- Decrease in interest rate by 1%	84,227	101,581

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	
		2017	2016	2017	2016
		\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	(i)	1,577,264	2,472,232	1,577,264	2,472,232
Trade and other receivables	(i)	2,428,048	3,607,626	2,428,048	3,607,626
Bonds, deposits and GST receivable	(i)	132,355	319,173	132,355	319,173
Total financial assets		4,137,667	6,399,031	4,137,667	6,399,031
Financial liabilities					
Trade creditors	(i)	3,442,405	3,896,351	3,442,405	3,896,351
Borrowings	(ii)	10,602,361	13,113,786	10,602,361	13,113,786
Total financial liabilities		14,044,766	17,010,137	14,044,766	17,010,137

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, deposits and GST receivable and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- (ii) Fair values on borrowings are determined using a discounted cash flow model incorporating current commercial borrowing rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 28: FAIR VALUE MEASUREMENT

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

- financial assets; and
- biological assets

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

(a) Fair Value Hierarchy

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

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

The fair values of assets 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 is included in Level 2.

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

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

30 June 2017

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Non-financial assets					
Biological assets	9	-	5,426,719	-	5,426,719
Total non-financial assets recognised at fair value on a recurring basis		-	5,426,719	-	5,426,719

30 June 2016

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Non-financial assets					
Biological assets	9	-	4,516,400	-	4,516,400
Total non-financial assets recognised at fair value on a recurring basis		-	4,516,400	-	4,516,400

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 28: FAIR VALUE MEASUREMENT (cont'd)

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

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

Description	Fair Value at 30 June 2017 \$	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	5,426,719	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	5,426,719		

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

Farm properties were measured on a non-recurring basis at fair value at 30 June 2016, as set out in note 11(b).

(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 equate to their carrying values:

Trade and other receivables;
Inventories;
Other current assets;
Plant and equipment;
Trade and other payables;
Provisions; and
Borrowings.

NOTE 29: EARNINGS PER STAPLED SECURITY CALCULATIONS

	2017 cents	2016 cents
Earnings per stapled security:		
Basic loss per stapled security	(1.14)	(2.25)
Diluted loss per stapled security	(1.14)	(2.25)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(2,179,348)	(3,703,625)
	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	191,899,227	164,474,789
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	191,899,227	164,474,789

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 29: EARNINGS PER STAPLED SECURITY CALCULATIONS (cont'd)

Employee and KMP options are considered to be dilutive potential ordinary securities however they are presently anti-dilutive as the Group is in losses.

In the 2016 Comparative, convertible notes were considered to be dilutive potential ordinary securities however they were anti-dilutive as the Group was in losses and the ASX market price for AHF stapled securities was below the 18.38 cent conversion price of the convertible notes.

NOTE 30: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2017 (2016: \$nil) at the date of this report.



Australian Dairy Farms

DIRECTORS' DECLARATION

For the year ended 30 June 2017

In the opinion of the directors of Australian Dairy Farms 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 2017 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 2017.

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

Michael Leslie Hackett
Chairman

Brisbane

31 August 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUSTRALIAN DAIRY FARMS LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Dairy Farms Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, 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 Australian Dairy Farms Limited 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 2017 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. 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* (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 FARMS LIMITED (continued)

Key audit matter

How our audit addressed the key audit matter

Assessment of impairment for non-current assets

Refer to notes 10 and 11 of the financial report.

At 30 June 2017 the Group held \$25.9 million of property, plant and equipment and \$6.6 million of intangible assets. The Group considered whether there were any indicators of impairment for each of its two cash generating units (CGUs).

As the carrying amount of the net assets of the Group exceeded the Group's market capitalisation at 30 June 2017, the Group considered that there was an impairment indicator and performed an impairment assessment. Furthermore, as the Dairy Processing CGU contains goodwill, the Group was required by AASB 136 *Impairment of Assets* to perform an assessment of that CGU's recoverable amount.

The Group assessed the recoverable amounts of its Dairy Farms and Dairy Processing CGUs by determining their value-in-use.

We focused on this matter because of the significant judgement involved in estimating the recoverable amount of the CGUs and the potentially material impact on the financial report.

Our procedures included but were not limited to:

- we assessed the identification of CGUs, including the allocation of goodwill and property, plant and equipment and the associated identification and allocation of cash flows to those CGUs;
- we checked the mathematical accuracy of the cash flow models, agreed forecast cash flows to the latest Board approved forecasts and tested the key assumptions used in the Group's forecasts;
- we assessed the discount rate used for each CGU by comparing it to our view of an acceptable range based on market data and comparable companies;
- we performed sensitivity analyses around the key drivers of growth rates used in the cash flow forecasts and the discount rate used; and
- we assessed management's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such a movement in those key assumptions arising.

Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2017, 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUSTRALIAN DAIRY FARMS LIMITED (continued)

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.

Directors' responsibility 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 skepticism throughout the audit. We also:

- 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.

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF AUSTRALIAN DAIRY FARMS LIMITED (continued)**

- 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, related safeguards.

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.

Report on the Remuneration Report***Opinion on the Remuneration Report***

We have audited the remuneration report included in pages 10 to 14 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Australian Dairy Farms Limited for the year ended 30 June 2017 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 Pty Ltd****N D Bamford**
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 31 August 2017

SHAREHOLDER INFORMATION

The following information was extracted from Australian Dairy Farms Group's Register of Securityholders on 22 August 2017:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

	Fully Paid Stapled Securities	
	Securities Held	% of Issued Capital
1 Jimmy Crow Limited	15,194,507	7.69
2 Jimmy Thomas and Ivy Ponniah	9,200,866	4.66
3 HSBC Custody Nomiees	5,937,300	3.00
4 Fiduciary Nominees Pty Ltd	4,590,156	2.32
5 Citicorp Nominees Pty Limited	3,601,263	1.82
6 Xuelin Xie	2,898,018	1.47
7 Zhongde Zhao	2,750,000	1.39
8 Vitamin Warehouse Australia Pty Ltd	2,537,125	1.28
9 Maree Makrillos	2,377,542	1.20
10 Fang Yin Super Pty Ltd	1,918,182	0.97
11 Wenqing Fan	1,778,391	0.90
12 Xinguang Wang and Jun Yin	1,625,230	0.82
13 Michael Janssen and Scott Janssen	1,610,000	0.81
14 Costine Pty Ltd	1,580,289	0.80
15 Songs Investment (Aust) Pty Ltd	1,500,000	0.76
16 Irene Makrillos	1,493,103	0.76
17 Citicorp Nominees Pty Ltd	1,228,348	0.62
18 Muhlbauer Investments Pty Ltd	1,190,141	0.60
19 Bay Optical Company Pty Ltd	1,400,000	0.58
20 Peter Mulally	1,120,000	0.57
Total of Top Twenty Securityholdings	65,270,461	33.03
Total Securities on issue	197,633,109	100.00

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	Number of Securityholders	Securities	%
1 - 1000	194	53,335	0.03
1,001 - 5,000	898	2,669,260	1.35
5,001 - 10,000	630	5,345,541	2.70
10,001 - 100,000	1,478	53,088,174	26.86
100,001 or greater	289	136,476,799	69.06
	3,489	197,633,109	100.00

MARKETABLE PARCELS

On 22 August 2017, using the last traded security price of \$0.125 per security, there were 825 holdings, which were of less than a marketable parcel (\$500).

VOTING RIGHTS

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

SUBSTANTIAL SECURITYHOLDERS

The names of the substantial securityholders listed in the Group's register on 22 August 2017 are:

	Securities Held	% of Voting Power Advised
Michael Hackett and associated entities	21,364,952	10.81

UNLISTED OPTIONS OVER ORDINARY SECURITIES

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
1 July 2016	31 December 2018	25 cents - 27 cents	9,840,000
29 July 2016	31 December 2018	27 cents - 29 cents	2,700,000

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 no restricted securities on issue at the date of this report.

Board of Directors

Michael Hackett
Chairman

Adrian Rowley
Director

Peter Skene
Director / Group CEO

Registered Office

Level 3, 140 Ann Street
Brisbane QLD 4000

Telephone: (07) 3020 3020
Facsimile: (07) 3020 3080
Email: info@adfl.com.au
Web: www.adfl.com.au

Share Register

Link Market Services Limited
Level 15
324 Queens Street
Brisbane QLD 4000

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

Stock Exchange

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

The ASX Code is "AHF".

Company Secretary

Jerome Jones
Company Secretary

Corporate Office

Level 3, 140 Ann Street
Brisbane QLD 4000

GPO Box 6
Brisbane QLD 4001

Telephone: (07) 3020 3020
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Auditor

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

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