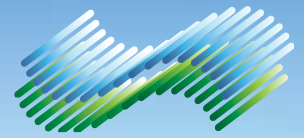


Australian Dairy Farms Group

ASX Code: AHF



2018 ANNUAL REPORT



Australian Dairy Farms Group consisting of

Australian Dairy Farms Limited ABN 36 057 046 607 and
Australian Dairy Farms Trust ARSN 600 601 689



CHIEF EXECUTIVE OFFICER'S LETTER	3
DIRECTORS' REPORT	4
CORPORATE GOVERNANCE STATEMENT	16
AUDITOR'S INDEPENDENCE DECLARATION	17
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	18
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	19
CONSOLIDATED STATEMENT OF CASH FLOWS	20
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	21
NOTES TO THE FINANCIAL STATEMENTS	22
DIRECTORS' DECLARATION	60
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS	61
SHAREHOLDER INFORMATION	66
CORPORATE DIRECTORY	68



The 2018 Financial Year has been one of Transition for the Group as the Board and Management formulated a new strategy for the future and worked actively to commence its implementation. As advised to market on several occasions, the Board mandated that the Group must progressively move away from being a producer of highly price competitive low value products and focus on the production of premium and specialty dairy products with realistic profit margins and established distribution, including development of the Group's own brands.

In July 2017, the Board released its strategy overview setting out the challenges and opportunities available and commenced a detailed feasibility of new opportunities while also making hard decisions about curtailing production of low or no margin commodity products such as conventional white milk for others.

Emphasis was placed on promoting the premium Camperdown Dairy branded premium range milks and other value added opportunities both within, and external to the current product ranges.

A comprehensive assessment of the cost / benefit proposition for converting the Group's high-quality farms to produce more jersey milk and potentially commence conversion to organic milk production was commenced. In March 2018 the Group announced that it was applying to commence the conversion process to organic certification, which would lead to the Group becoming one of the largest producers of organic milk in Australia.

In the interim the management team was actively engaging with new customers in the production and packaging of higher margin premium dairy products. The Board announced a significant new un-named major customer and the execution of a long term processing and packaging contract with attractive margins and cost management protection. That contract has commenced since the end of 2018 financial year with established and highly successful New Zealand based dairy brand The Collective, with its specialty yoghurts and probiotics, being progressively rolled out in Woolworths stores throughout Queensland, New South Wales and Victoria and later to other states. The Collective, which has been successful in New Zealand over many years and followed this with further success in UK and Ireland, expects to repeat that success in Australia via its connection with Camperdown Dairy.

These changes are truly transformational for the Group – both in the production of organic milk and in its utilisation in the production of specialty high value-added products backed by committed distribution of Australia's largest retail supermarket chain.

The expected positive cashflow and profitability from these changes and others that are in the negotiation pipeline set the Group up to be able to actively pursue its expansion aspirations into the Organic Infant and Toddler Formula market and the establishment of powder drying blending and tinning facilities for domestic and export production.

One main theme to be preserved in this progressive development is to maintain the focus on specialised and value-added products with clear differentiation from low value products where ultimately market forces make the only point of differentiation the discounted price.

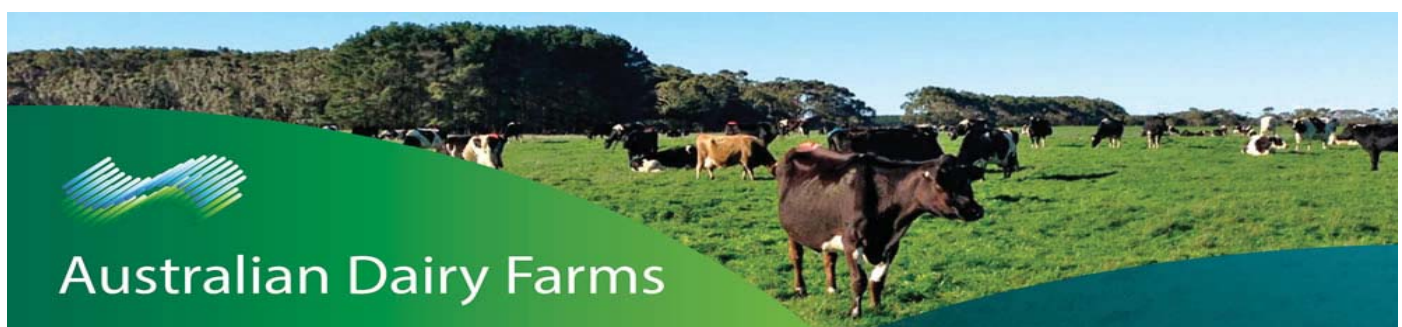
There have been significant head winds in recent times. Only a few years ago Aussie Farmers Direct (AFD) was by far the largest customer of Camperdown Dairy and at one stage exceeded \$20,000,000 per annum in Camperdown Dairy sales, however, AFD sales were declining throughout 2016/17 and the company ceased operations all together in March 2018. Over the last 12 months multiple new customers have been obtained, new business opportunities developed and products introduced.

The financial year 2017/2018 and the first quarter of the 2018/2019 year are periods of transformation for a solid future.

I would like to thank all of our employees and the people involved in the company 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 2018.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- Ownership of dairy farms through the Australian Dairy Farms Trust;
- operation of dairy farms and ownership of dairy livestock through SW Dairy Farms Pty Ltd (SWD) to produce fresh raw milk for sale to an external party and use by Camperdown Dairy Company Pty Ltd (CDC); and
- processing of milk, production and sale of a range of dairy products via CDC.

There has been no significant change in the scale or nature of the Group's activities in the year, other than as discussed in the following paragraphs.

OUR BUSINESS MODEL AND OBJECTIVES

2018 Financial Year – Transition Year

As an inevitable requirement of implementation of significant longer-term strategic changes adopted by the Board, to promote growth in sales and profitability of the Group and to transition from being commodity producer of predominantly bottled white milk to being a successful differentiated dairy producer and marketer with its own valuable brands, several challenging decisions were required to be taken during FY2017 and FY 2018.

It was necessary to cease production of low margin, higher volume commodities and progressively replace them with higher margin, more specialised products. There is a transition period involved which has seen the realisation of a new four-year high-volume yoghurt processing contract, which will first have significant positive financial impact in the December quarter of FY 2019.

The Board recognised that implementing these material changes would adversely impact sales until replacement product manufacturing contracts could be negotiated. Consequently, the process of identifying opportunities and implementing selected ones has taken a high priority during the year.

In July 2017, the Board published its Strategy Overview, which outlined the potentially significant changes that were under consideration to transition the Group away from manufacturing low margin conventional, commodity milk products and to focus on more specialised products with sensible profit margins, while simultaneously investigating the financial and strategic opportunities in becoming a producer and manufacturer of organic milk products – including potentially, high value organic milk powders.

In August 2017, the Group took the first major step in implementing the Strategy Overview and CDC declined to submit matching pricing at discount levels to extend supply contracts with Aussie Farmers Direct, a significant customer in volume terms. This decision was made in the context of progressively withdrawing from the low value / cut price commodity segment of white bottled milk which yielded little or no profit margin.

Negotiations commenced with several prospective new customers resulting in a number of smaller contracts with realistic margins early in FY 2018. Referrals were received from major retailers acknowledging Camperdown Dairy's strong track record of reliable supply; its flexibility in processing different milk supply origins, such as Jersey milk, Organic and Bio-dynamic; and its capability to manage relatively small production runs, which the large processors were unable to undertake.

In late 2017, negotiations commenced with New Zealand based specialty yoghurt manufacturer Epicurean Dairy which produced the highly successful Collective brand of specialty yoghurts in New Zealand United Kingdom and Ireland and exported to several Asian markets. On 23 April 2018, the contract with Epicurean Dairies and the Collective was executed and planning and trials of recipes and manufacturing processes began shortly thereafter under confidentiality agreements.

The confidential negotiations necessary to protect the competitive advantage for an Australian launch of the Collective's specialty products. The Australian launch occurred through Woolworths Supermarkets throughout Queensland, New South Wales and Victoria as recently as 22 August 2018.

During the interim period several other smaller contracts were put in place and new ones with other customers continue to be negotiated and commenced. The combination of these new contracts puts Camperdown Dairy into a very strong position to be able to deliver positive earnings from contract processing commencing in the December quarter FY 2019 and more so in subsequent years as production volumes increase as expected.

In March 2018, the Board published a further comprehensive update of its assessment of entering the organic market and advised that the organic infant formula segment would be included in the feasibility options and advised the decision to convert all the Group's six dairy farms from conventional milk production to organically certified milk production and seek certification.

The year has been a real transition year when difficult decisions were made to confidently set the Group on a clear future path to be a profitable, flexible and significantly diversified participant in the specialized dairy products market.

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was \$4,157,653 (2017: \$2,179,348). This result is comprised of a net loss from the dairy processing segment of \$1,380,104, net loss from the dairy farm segment of \$245,552 and corporate costs and bank facility finance charges of \$2,531,997.

Total income for the year ended 30 June 2018 is \$19,902,214, down 20% against the 2017 comparative period of \$24,972,709. This is a result of a \$5,124,991 decrease in revenue from the dairy processing segment and a \$54,496 increase from the dairy farm segment.

Total expenses for the year ended 30 June 2018 were \$24,059,867, down 11% against the 2017 comparative period of \$27,152,057. This comprised a \$3,717,967 decrease in expenses from the dairy processing segment, an increase of \$524,618 from the dairy farm segment and an increase of \$101,159 from corporate costs and bank facility finance charges. Included in corporate costs are non-cash equity-settled share-based payments to Key Management Personnel in the year of \$961,538 (2017: \$1,017,661).

REVIEW OF OPERATIONS

Dairy Processing - Camperdown Dairy Company Pty Ltd (CDC)

CDC processes milk with outputs including bottled white milk, yoghurt, butter and cream, under the Group's own Camperdown Dairy branded milks including under pure Jersey and Free-Range labels, as well as for a range of other labels via contract packing. Until 1 July 2018, the company was a participant in a butter manufacturing joint venture with Organic Dairy Farmers of Australia Ltd (ODFA) CDC processed organic milk product received from ODFA into organic butter.

CDC reported a net loss of \$1,380,104 (2017: \$26,920 profit) and EBITDA of (\$907,223) (2017: 615,234 profit) for the year ended 30 June 2018, largely due to the deliberate reduction in sales of commodity products.

Total income for the year is down 32% against the 2017 comparative period, predominantly as a result of the decline in sales of bottled white milk for Aussie Farmers Direct, which ceased in August 2017 and decreased sales of Farmers Own brand which has progressively scaled down during the year.

The joint venture with ODFA was terminated by agreement with effect from 1 July 2018 and Camperdown Dairy retained ownership of the butter equipment and received material compensation for loss of take or pay contract arrangements terminated. These transactions will be accounted for in FY 2019.

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

The Group's dairy farms reported a net loss of \$245,552 (2017: \$224,570 profit) and EBITDA of \$199,475 (2017: \$695,401) for the year ended 30 June 2018.

Total farm milk sales for the year are up 15% against the 2017 comparative period, predominantly because of an increased milk solid price of \$0.70 during the year.

Gain on change in fair value of livestock during the year was \$380,267 (2017: \$1,367,272), this decrease was largely because of a reduction in the carrying amount of livestock following independent valuations in December 2017 and June 2018.

Operating costs have remained materially in line with the 2017 comparative, however there is an impairment to land and buildings carrying values of \$338,075 (2017: \$nil) following an independent valuation in June 2018.

Current Ratio

The Group's bank borrowing is a facility which is due for renewal on 15 April 2019. In accordance with AASB 101, the borrowing is shown as a current liability as the renewal date is under 12 months from balance date and consequently the Group has a net current asset deficiency. The Group's intentions are to renew the facility and a new offer from the lender is expected in the near future.

The financial statements of the Group have been prepared on a going concern basis on assumptions that the bank facilities will be extended beyond 15 April 2019. The financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that would be necessary if the Group could not continue as a going concern.

FINANCIAL POSITION

The net assets of the Group at 30 June 2018 total \$30,474,171, an increase of \$1,809,973 from the 2017 comparative.

The key assets and liabilities in the statement of financial position at 30 June 2018 are:

- cash and cash equivalents of \$2,331,700 (2017: \$1,577,264);
- property, plant and equipment of \$25,834,763 (2017: \$25,973,270);
- intangible assets of \$6,643,045 (2017: \$6,649,168);
- biological assets (livestock) of \$5,205,774 (2017: \$5,426,719); and
- total borrowings of \$10,478,421 (2017: \$10,602,361).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

- In August 2017, the cessation of bottled milk production for Aussie Farmers Direct, the former owner and vendor of CDC;
- In September 2017, the raising of \$5,000,000 in new equity capital (37m securities) from a cornerstone investor with a strong interest in the Group's activities and prospects;
- In November 2017, the completion of the purchase of industrial land at Camperdown for the development of new processing and drying facilities;
- In April 2018, the signing of a significant new multiyear contract processing agreement with an international food company;
- Issue of 8.1m securities as share based payments;
- Issue of 13m options, rights, and loan securities; and
- Forfeit or cancellation of 11.7m 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

Following is a summary of the key events after the reporting period:

- On 2 July 2018 there were 3,000,000 stapled securities issued to Peter Skene for achievement of 2018 performance hurdles;
- On 4 July 2018 the Group announced to the ASX a 2018/19 opening farm gate price of \$6.00/kg of milk solids;
- On 24 August 2018 the Group confirmed to the ASX the identity of the Customer in the commencement of a major new contract with New Zealand based specialist dairy foods company, The Collective. The multi-year contract is expected to generate revenue in the range of \$30m to \$40m over that period;
- On 28 August 2018 the Group announced to the ASX that it will acquire Flahey's Nutritionals Pty Ltd, owners of Flahey's Future, a certified-organic formula. Total consideration for the acquisition is \$1.5m, made up of \$400,000 cash and 6,875,000 AHF stapled securities, in four tranches, based on key milestones and retention of the key executive over a three-year period; and
- On 30 August 2018 the Group announced to the ASX that it has secured the acquisition of a 333 hectare dairy farm in the Nirranda region in Southwest Victoria that is scheduled to become fully certified as an organic farm in October 2019. The farm was contracted for an undisclosed purchase price, subject to several conditions which have now been satisfied. The purchase is due to settle in October 2018 at which time the price can be advised. Livestock on the farm are not included in the purchase as the Group has high quality young stock available from existing farms for relocation to Yaringa. The current lender is providing finance for the purchase and has confirmed availability of funding.

In the opinion of the directors there were no other material matters that have arisen since 30 June 2018 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

ENVIRONMENTAL ISSUES

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

After extensive analysis of the practicalities and implications of transitioning to higher value-added production and processing, including an emphasis on developing the Group's own brands of premium dairy products with high value margins and relative protection from price competition, the Board published its intention to commence the conversion process for its farms to become certified organic milk producers.

It is expected that the transition of the dairy farms to fully certified organic farms will take approximately three years. In the interim, negotiations have commenced with individual dairy farmers who are currently or will soon be producing organic milk and have approached the Group to supply their organic milk production.

The intention is for the Group to focus on development of formula products, nutritionals and specialty dairy products using organic milk. Ultimately, this will be achieved by the Group's expansion of its facilities and installation at the Camperdown Dairy Park on industrial zoned land already owned by the Group.

In the short to medium term, the Group intends to outsource infant formula arrangements to existing Australian producers and develop the Group's new brands and where possible using organic milk produced on the Group's own farms.

During this period, significant concentration will be on generating revenue from contract processing and packaging to support and facilitate the Group's development and transition.

Business Risk

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

Environment

The agricultural and dairy farming industry are largely dependent on the natural outside environmental and weather conditions, including heat, cold, rain and sunshine, all of which directly impact animal health and welfare and productivity. Failure to successfully prepare for and respond to these factors, and to mitigate their impact may adversely effect on farm and business performance.

To mitigate these issues, the Group has progressively improved our farms by installing appropriate drainage, irrigation and water and fodder storage. Stock levels are regularly balanced to meet changing conditions and to prepare for expected changes and the pre-ordering of grain and fodder supplies that are not able to be grown on farms is in place.

The Group also continues to endeavour to play its part in not creating environmental pressures and promoting sustainability and animal welfare.

Financial

The availability of funding and management of capital and liquidity are fundamental to the Group's business operations and growth. In addition, a failure to move away from producing or dealing in low margin commodity products in favour of high value-added products and establishment of the Group's own sought-after brands could continue to adversely impact on business profitability.

To mitigate these issues, the Group has board approved strategies to discontinue and avoid low margin commodity production and has plans for progressive expansion in the range and diversity of products produced. The Group will also need to continue to invest in new technology and recognise which parts of the business can be reduced or outsourced, or assets sold to further improve the overall capital position.

Operational

The Group is subject to operational risk including the availability of high quality and experienced personnel for farms and dairy processing.

To mitigate the issue, the Group has established policies, standards and training in regards to business operations, including people safety, health and wellbeing, food and product safety. We continue to invest in our operational capability across processes, technology and improving our business so that it attracts and retains high calibre personnel.

Compliance

The Group is subject to applicable laws, regulations and contractual arrangements and is exposed to adverse regulatory or legislative changes. Breaches or adverse changes could result in negative impacts on the Group's reputation and profitability and significant fines or other adverse consequences.

To mitigate these issues, the Group has a compliance framework in place and a variety of policies have been established to facilitate legal, regulatory compliance and internal protocols. We liaise with government and regulatory bodies on proposed legal and regulatory changes and the Group Code of Conduct and training programs promote awareness of legal, regulatory and internal policy requirements.

DIRECTORS' REPORT (cont'd)

INFORMATION ON DIRECTORS

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

Name	Position	Appointed/Retired
Michael Hackett	Chairman	
Adrian Rowley	Director	
Peter Skene	Director / Group CEO	
Paul Morrell	Director	Appointed 1 March 2018

Michael Hackett	Chairman (Non-Executive)
Qualifications	Bachelor of Commerce - University of Queensland ACA Financial Planning Specialist
Directorships held in other listed entities in the past 3 years	Trustees Australia Limited – director since June 1986 Jimmy Crow Limited - director since June 1986
Interest in Group securities & options	A relevant interest in 21,921,566 stapled securities at the date of this report. A relevant interest in 2,400,000 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 also the chairman of Trustees Australia Limited (ASX CODE: TAU) and a former director of Jimmy Crow Limited (NSX CODE: JCC). 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 2,400,000 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 9,300,000 stapled securities at the date of this report. A relevant interest in 7,000,000 loan securities 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)

Paul Morrell	Director (Non-Executive)
Qualifications	Trade Qualified - Diesel Mechanic Certificate IV - Business and Management
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities
Interest in Group securities & options	A relevant interest in 37,037,037 stapled securities
Paul Morrell was appointed to the Board on 1 March 2018. Paul's background has a strong emphasis in lead management in complex construction and people management for large scale enterprises and is combined with a sound knowledge of the manufacturing and on time delivery of services and products including exposure to aspects of food manufacturing and speciality powders.	

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
Paul Morrell	6	6

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2018 (2017: \$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 \$40,943 (2017: \$28,828) 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 2018 there was no payment to external auditors for non-audit services (2017: \$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	1 July 2019	27 cents	780,000
12 February 2018	12 February 2021	29 cents	10,000,000
12 February 2018	12 February 2023	12.4 cents	7,000,000*

* Loan Securities

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

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

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 2018 has been received and a copy can be found at page 17.

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 equity 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%. 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.

Directors 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 Incentives to current KMP. The performance-related proportions of remuneration based on the achievement of Total Securityholder Returns are included in the Employment Details of KMP table below. The objective of the Performance Incentives 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
P Morrell	Director	N/A	-	-	100
P Skene	Group CEO / Director	3 year term (3 months notice)	-	26	74

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 2018

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	
	\$	\$	\$	\$	\$	\$	\$
M Hackett - 2018	75,000	-	7,125	-	-	12,720	94,845
M Hackett - 2017	75,000	-	7,125	-	-	100,284	182,409
A Rowley - 2018	50,000	-	4,750	-	-	12,720	67,470
A Rowley - 2017 ¹	50,000	-	4,750	-	-	100,284	155,034
P Skene - 2018	336,737	124,100	19,616	(8,650)	-	902,702	1,374,505
P Skene - 2017	330,384	180,000	19,616	9,687	-	237,885	777,572
P Morrell - 2018 ²	20,000	-	1,900	-	-	-	21,900
P Morell - 2017	-	-	-	-	-	-	-
K Jackson - 2018 ³	-	-	-	-	-	-	-
K Jackson - 2017	12,055	-	1,145	-	-	-	13,200
Total - 2018	481,737	124,100	33,391	(8,650)	-	928,142	1,558,720
Total - 2017	467,439	180,000	32,636	9,687	-	438,453	1,128,215

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

² Paul Morrell was appointed as a director on 01 March 2018.

³ Keith Jackson retired as a director on 25 November 2016.

Securities Received that are not Performance-related

In the 2017 comparative, 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	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
			\$	Note	%	%	%		
M Hackett	Options	12/02/18	34,203	(i)	-	-	100	31/12/19	N/A
A Rowley	Options	12/02/18	34,203	(i)	-	-	100	31/12/19	N/A
P Skene	Performance Rights	12/02/18	300,720	(ii)	100	-	-	30/06/18	N/A
	Loan Securities	12/02/18	442,217	(iii)	100	-	-	12/02/23	N/A

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

(ii) Performance rights were issued as part of the Group's STIP and vested upon achievement of performance hurdles set by the board, and are accounted for as an option.

(iii) Loan securities were issued as part of the Group's LTIP to ensure the continued future service and commitment to the Group of Peter Skene, and are accounted for as an option.

Options and Rights Granted as Remuneration

	Grant Details				Exercised		Forfeit/Cancel	Balance at 30/06/2018
	Balance at 01/07/2017	Issue Date	No.	Value (\$)	No.	Value (\$)	No.	
M Hackett	900,000	29/07/16	-	-	-	-	(900,000)	-
	-	12/02/18	2,400,000	34,203	-	-	-	2,400,000
A Rowley	900,000	29/07/16	-	-	-	-	(900,000)	-
	-	12/02/18	2,400,000	34,203	-	-	-	2,400,000
P Skene	6,560,000	01/07/16	-	-	-	-	(6,560,000)	-
P Skene	-	12/02/2018	10,000,000	742,937	-	-	-	10,000,000
TOTAL	8,360,000		14,800,000	811,343	-	-	(8,360,000)	14,800,000

	Balance at 30/06/2018	Vested	Unvested
		No.	No.
M Hackett	2,400,000	-	2,400,000
A Rowley	2,400,000	-	2,400,000
P Skene ¹	10,000,000	10,000,000	-
	14,800,000	10,000,000	4,800,000

¹ Issued to Peter Skene were 3,000,000 performance rights and 7,000,000 loan securities. The options were exercised on 3 July 2018.

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.

As approved by shareholders at the 12 February 2018 meeting, 3,060,000 options were cancelled and replaced by options issued on that date.

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 at Grant Date	Amount Paid/ Payable by Recipient
				\$	\$	\$
12/02/18	Australian Dairy Farms Limited	1:1	12/02/21	\$0.29	\$0.003	nil
12/02/18	Australian Dairy Farms Limited	1:1	30/06/18	-	\$0.10	nil
12/02/18	Australian Dairy Farms Limited	1:1	12/02/23	\$0.12	\$0.063	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 2018	Balance at 01/07/2017	Granted as Remuneration	Other Changes	Balance at 30/06/2018
Michael Hackett ¹	21,364,952	-	556,614	21,921,566
Adrian Rowley	1,286,000	-	-	1,286,000
Peter Skene	1,010,000	8,000,000	290,000	9,300,000
Paul Morrell	-	-	37,037,037	37,037,037
	23,660,952	8,000,000	37,883,651	69,544,603

¹ The balance includes relevant interests held indirectly.

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

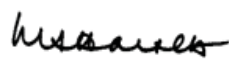
At the date of this report, there have been no loans made to or from any member of KMP.

Other Transactions with KMP and/or their Related Parties

As set out in Note 23(b) of the financial statements, the Group was billed \$172,740 of costs, charged on a reimbursement cost basis for the provision of administrative services, accounting, secretarial and related activities by entities associated with Michael Hackett during the year. These entities do not charge, nor are they reimbursed for Responsible Entity services and as announced to the ASX on 19 June 2018, the Responsible Entity role was internalised within the Group with the appointment of Dairy Funds Management Limited as Resonsible Entity on 22 May 2018.

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 2018

CORPORATE GOVERNANCE STATEMENT

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

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

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

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 2018. 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 2018 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 2018

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

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
Revenue	3(a)	19,521,947	23,605,437
Other income	3(b)	380,267	1,367,272
Administration and non-dairy related costs	3(c)(v)	(699,738)	(706,425)
Employment expenses	3(c)(iv)	(5,483,975)	(5,568,530)
Finance costs	3(c)(i)	(451,458)	(503,436)
Dairy related costs	3(c)(ii)	(5,870,719)	(5,742,304)
Dairy processing related costs	3(c)(iii)	(9,394,166)	(12,714,691)
Depreciation and amortisation expense		(884,510)	(975,271)
Deemed cost of livestock disposed	3(c)(vi)	(937,226)	(941,400)
Impairment of property, plant and equipment	3(c)(vi)	(338,075)	-
Loss before income tax		(4,157,653)	(2,179,348)
Tax expense	4	-	-
Net loss for the year		(4,157,653)	(2,179,348)
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		(4,157,653)	(2,179,348)
Loss is attributable to:			
Company shareholders		(3,047,440)	(1,318,569)
Trust unitholders		(1,110,213)	(860,779)
		(4,157,653)	(2,179,348)
Total comprehensive loss is attributable to:			
Company shareholders		(3,047,440)	(1,318,569)
Trust unitholders		(1,110,213)	(860,779)
		(4,157,653)	(2,179,348)
Earnings per stapled security:			
Basic earnings per stapled security (cents)	29	(1.80)	(1.14)
Diluted earnings per stapled security (cents)	29	(1.80)	(1.14)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	2,331,700	1,577,264
Trade and other receivables	6	2,397,522	2,428,048
Inventories	7	625,509	785,199
Other current assets	8	182,183	213,738
Total Current Assets		5,536,914	5,004,249
Non-Current Assets			
Biological assets	9	5,205,774	5,426,719
Intangible assets	10	6,643,045	6,649,168
Property, plant & equipment	11	25,834,763	25,973,270
Total Non-Current Assets		37,683,582	38,049,157
Total Assets		43,220,496	43,053,406
LIABILITIES			
Current Liabilities			
Trade and other payables	12	1,897,724	3,442,405
Provisions	13	260,816	237,710
Borrowings	14	10,177,445	184,083
Total Current Liabilities		12,335,985	3,864,198
Non-Current Liabilities			
Provisions	13	109,364	106,732
Borrowings	14	300,976	10,418,278
Total Non-Current Liabilities		410,340	10,525,010
Total Liabilities		12,746,325	14,389,208
Net Assets		30,474,171	28,664,198
EQUITY			
Issued capital	15(a)	18,760,113	17,379,491
Reserves	16	761,279	363,360
Accumulated losses		(13,031,720)	(10,423,799)
Equity attributable to shareholders		6,489,672	7,319,052
Non-controlling interests			
Issued units	15(a)	30,744,991	26,995,425
Accumulated losses		(6,760,492)	(5,650,279)
Equity attributed to non-controlling interests		23,984,499	21,345,146
Total Equity		30,474,171	28,664,198

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
Cash Flows from Operating Activities			
Receipts from customers		21,487,802	26,046,862
Payments to suppliers and employees		(23,673,376)	(25,304,245)
Interest received		18,108	8,970
Finance costs		(451,458)	(445,225)
Net operating cash flows	5(b)	(2,618,924)	306,362
Cash Flows from Investing Activities			
Payment for property, plant and equipment	11	(1,052,562)	(585,003)
Proceeds from sale of property, plant and equipment		56,364	58,051
Payment for biological assets	9	(336,014)	(484,447)
Payment for intangible assets		(34,645)	-
Net investing cash flows		(1,366,857)	(1,011,399)
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	15(a)	4,986,087	-
Net repayment of loans - unsecured		(21,846)	(74,416)
Repayment of loan - Fonterra	14(b)	-	(200,000)
Net proceeds / (repayment) from / (of) bank hire purchase loans		(224,024)	84,485
Net financing cash flows		4,740,217	(189,931)
Net increase / (decrease) in cash held		754,436	(894,968)
Cash at the beginning of the period		1,577,264	2,472,232
Cash at the end of the financial period	5	2,331,700	1,577,264

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

		Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non- controlling Interest (Trust)	Total
	Note	\$	\$	\$	\$	\$
Balance at 1 July 2017		17,379,491	363,360	(10,423,799)	21,345,146	28,664,198
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(3,047,440)	(1,110,213)	(4,157,653)
Total comprehensive loss for the year		-	-	(3,047,440)	(1,110,213)	(4,157,653)
Transactions with equityholders in their capacity as equity holders:						
Contributions of equity, net of transaction costs	15(a)	1,380,622	-	-	3,749,566	5,130,188
Option reserve - KMP options	25	-	837,438	-	-	837,438
Transfer to retained earnings		-	(439,519)	439,519	-	-
Total transactions with equity holders		1,380,622	397,919	439,519	3,749,566	5,967,626
Balance at 30 June 2018		18,760,113	761,279	13,031,720	23,984,499	30,474,171

		Issued Capital Ordinary	Financial Asset Revaluation 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(a)	1,032,146	-	-	2,016,439	3,048,585
Conversion of convertible notes	15(a)	-	-	-	(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

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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. The Responsible Entity is governed by the terms and conditions specified in the constitution. Trustees Australia Limited retired as Responsible Entity on 20 May 2018, and Dairy Fund Management Limited was appointed, both of which are domiciled in Australia.

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

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

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

(a) Current Ratio

The Group’s bank borrowing is a facility which is due for renewal on 15 April 2019 (refer Note 14(a)). In accordance with AASB 101, the borrowing is shown as a current liability as the renewal date is under 12 months from balance date and consequently the Group has a net current asset deficiency. The Group’s intentions are to renew the facility and a new offer from the lender is expected in the near future.

The financial statements of the Group have been prepared on a going concern basis on assumptions that the bank facilities will be extended beyond 15 April 2019. The financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that would be necessary if the Group could not continue as a going concern.

(b) 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.

The financial statements were authorised for issue by the Board of Directors on 31 August 2018.

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.

(c) 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

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

(c) Principles of consolidation (cont'd)

- (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.

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.

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)

(c) 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.

(d) 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)

(d) 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.

(e) 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.

(f) 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)

(g) 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.

(h) 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. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

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)

(h) 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.

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. At the end of each reporting period the Group assessed whether there is any objective evidence that a financial asset or group of financial assets is impaired (other than financial assets classified as at fair value through profit or loss).

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.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

(i) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value 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(m) 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.

Depreciation

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

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

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

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

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

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

(j) 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.

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

(k) Employee Benefits

Short-term employee benefits

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

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

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

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

Equity-settled payments

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

(l) Provisions

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

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(m) 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.

(n) Intangibles other than Goodwill

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

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

(p) 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(h) for further discussion on the determination of impairment losses.

(q) 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.

(r) 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.

(s) 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.

(t) 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)

(u) 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;
- Share based payments, refer Note 25; 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.

(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.

The directors are in the process of completing an impact assessment on the adoption of AASB 9. Based on the preliminary assessment performed, the effects of AASB 9 are not expected to have a material impact on the Group.

- 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

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

The directors are in the process of completing an impact assessment on the adoption of AASB 15. Based on the preliminary assessment performed, the effects of AASB 15 are not expected to have a material impact on the Group.

- 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 assessing the adoption of AASB 16 and at this stage it is not expected to have a material effect on the Group.

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.

	2018	2017
	\$	\$
Statement of Financial Position		
Assets		
Current assets	1,038,826	383,477
Non-current assets	11,320,503	10,935,360
Total assets	12,359,329	11,318,837
Liabilities		
Current liabilities	5,139,509	4,256,565
Non-current Liabilities	40,462	-
Total liabilities	5,179,971	4,256,565
Equity		
Issued capital	18,760,113	17,379,491
Reserves	761,279	363,360
Retained earnings	(12,342,034)	(10,680,579)
Total Equity	7,179,358	7,062,272
Statement of Profit or Loss and Other Comprehensive Income		
Total loss	(2,100,974)	(2,091,246)
Total comprehensive loss	(2,100,974)	(2,091,246)

Contingent liabilities and guarantees

The Company does not have any contingent liabilities or guarantees in place for the year ended 30 June 2018, other than in respect of CBA borrowings, refer Note 14.

Contractual commitments

At 30 June 2018, the parent company had not entered into any contractual commitments (2017: \$nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 3: REVENUE AND EXPENSES

(a) Revenue	2018	2017
Revenue	\$	\$
Dairy farm milk sales	7,559,316	6,601,516
Dairy processing sales	11,026,859	16,137,298
Livestock sales	537,082	706,678
Other revenue	380,582	150,975
	19,503,839	23,596,467
Other revenue		
Interest received - other persons	18,108	8,970
Total Revenue	19,521,947	23,605,437
(b) Other Income		
Gain on change in fair value of livestock (refer Note 9)	380,267	1,367,272
(c) Expenses		
(i) Finance costs		
CBA facility	413,000	414,860
Loans - unsecured	13,602	7,236
Other	242	432
Finance charges payable under finance leases	24,614	22,697
Interest on convertible notes (related parties)	-	58,211
	451,458	503,436
(ii) Dairy related costs		
Feed costs	3,339,270	3,086,093
Repairs, maintenance and vehicle costs	364,132	328,521
Animal health costs	144,261	156,286
Land holding and lease costs	121,809	111,081
Breeding and herd testing expenses	201,454	196,578
Dairy shed expenses	120,078	116,290
Electricity	170,590	165,442
Other dairy related costs	1,409,125	1,582,013
	5,870,719	5,742,304
(iii) Dairy processing related costs		
Cost of goods sold	7,078,355	10,100,158
Freight costs	695,930	1,160,288
Property and lease costs	383,850	304,662
Other dairy processing related costs	1,236,031	1,149,583
	9,394,166	12,714,691
(iv) Employment benefits expense		
Employee and director remuneration costs	4,522,437	4,550,869
Equity settled share based payment costs	961,538	1,017,661
	5,483,975	5,568,530

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 3: REVENUE AND EXPENSES (cont'd)

	2018	2017
	\$	\$
(v) Administration and non-dairy related costs		
Administration costs	312,596	241,434
Professional costs	387,142	464,991
	699,738	706,425
(vi) Other significant items		
Deemed cost of livestock sold (refer Note 9)	937,226	941,400
Impairment of land and buildings (refer Note 11)	338,075	-

NOTE 4: INCOME TAX EXPENSE

	2018	2017
	\$	\$
(a) The components of tax expense / (benefit) comprise		
Current tax	-	-
Deferred tax	-	-
	-	-

(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% (2017: 30%):	(1,247,296)	(653,804)
---	-------------	-----------

Add /(less)

Tax effect of:

- trust loss not recognised	337,992	375,542
- current period tax losses not recognised	1,201,463	852,509
- net amount of expenses not currently deductible	(178,079)	(164,065)
- other income not included in assessable income	(114,080)	(410,182)
Income tax expense / (benefit) attributable to entity	-	-

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

(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	1,309,853	729,660
Tax losses	6,646,509	5,107,053
Net unbooked deferred tax assets	7,956,362	5,836,713

The Group has revenue losses of \$22,155,029 (2017: \$17,023,511). These losses comprise \$16,374,722 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.

Prior year carry forward loss amounts have been re-stated to agree to tax returns as lodged based on amendments to 2015 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5: CASH AND CASH EQUIVALENTS

	2018 \$	2017 \$
Current		
Cash at bank and in hand	2,331,700	1,577,264
Total cash and cash equivalents	2,331,700	1,577,264

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

The fair value of cash and cash equivalents is \$2,331,700 (2017: \$1,577,264).

(a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash and cash equivalents comprising the following at 30 June 2018:

	2018 \$	2017 \$
Cash at bank and in hand	2,331,700	1,577,264
	2,331,700	1,577,264

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

	2018 \$	2017 \$
Net loss after income tax	(4,157,653)	(2,179,348)
Adjustment of non cash items		
Amortisation and depreciation	884,510	975,271
Deemed cost of livestock disposed	937,226	941,400
Fair value adjustment of biological assets	(380,267)	(1,367,272)
Impairment of property, plant and equipment	338,075	-
Loss on disposal of property, plant and equipment	94,818	11,038
Interest accrual on convertible notes - related party	-	58,211
Equity settled share based payments	961,539	1,017,661
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	30,526	1,179,578
(Increase) / decrease in other assets	31,555	243,608
(Increase) / decrease in inventories	159,690	(225,875)
Increase / (decrease) in trade and other payables	(1,544,681)	(453,947)
Increase / (decrease) in provisions	25,738	106,037
Net operating cash flows	(2,618,924)	306,362

(c) Changes in liabilities arising from Financing Activities:

	1 July 2017	Cashflows	Non-cash changes	30 June 2018
Unsecured loans	21,846	(21,846)	-	-
Hire/ purchase loans	580,515	(224,024)	121,930	478,421
Total	602,361	(245,870)	121,930	478,421

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

Significant non-cash financing and investing activities in the period are:

- Share based payments of \$20,000 as part settlement of land purchase (refer Note 15(a)(i)).
- Acquisition of leased plant and equipment \$121,731.

NOTE 6: TRADE AND OTHER RECEIVABLES

	2018	2017
	\$	\$
Current		
Trade debtors	2,031,393	2,417,126
Other receivables	366,129	10,922
Total current trade and other receivables	2,397,522	2,428,048

(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	
2018	\$	\$	\$	\$	\$	\$	\$
Trade and term receivables	2,031,393	-	152,850	34,269	2,622	25,752	1,815,900
Other receivables	366,129	-	-	-	-	-	366,129
Total	2,397,522	-	152,850	34,269	2,622	25,752	2,182,029

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 \$1,639,134 (2017: \$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
			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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

(b) Financial assets classified as loans and receivables

	Notes	2018 \$	2017 \$
Trade and other receivables			
Total current		2,397,522	2,428,048
Financial assets	27	2,397,522	2,428,048

(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

	2018 \$	2017 \$
Current		
Packaging	231,643	336,300
Raw materials, finished goods and chemicals	71,742	131,371
Feedstock, hay and silage	322,124	317,528
Total inventories (at cost)	625,509	785,199

NOTE 8: OTHER ASSETS

	2018 \$	2017 \$
Current		
Prepayments	62,821	81,383
GST receivables	89,362	53,667
Bonds and deposits	30,000	78,688
Total other assets	182,183	213,738

NOTE 9: BIOLOGICAL ASSETS

	Notes	2018 \$	2017 \$
Non-current			
Dairy livestock	(a)	5,205,744	5,426,719
Total biological assets		5,205,744	5,426,719
Movements during the year:			
Opening carrying amount		5,426,719	4,516,400
Purchases of livestock		336,014	484,447
Deemed cost of livestock disposed		(937,226)	(941,400)
Fair value adjustment of biological assets		380,267	1,367,272
Closing carrying amount		5,205,774	5,426,719

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 9: BIOLOGICAL ASSETS (cont'd)

Movements during the year (herd numbers):

	2018 No.	2017 No.
Opening balance	3,504	3,302
Purchases	231	353
Natural increase and attrition	1663	1,446
Sales	(1,586)	(1,597)
Closing balance	3,812	3,504

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2018, the livestock has been valued at fair value, by independent stock agents, based on the prices in the open cattle market in the locality of the dairy operations. A fair value gain of \$380,267 (2017: \$1,367,272) has been recognised in profit and loss at 30 June 2018, and represents price movements, natural increase and the movement in ages of young stock.

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

NOTE 10: INTANGIBLE ASSETS

	Notes	2018 \$	2017 \$
Goodwill			
- at cost	(a)	6,616,393	6,616,393
		6,616,393	6,616,393
Contractual agreements			
- at fair value		-	225,000
New product development - at cost		34,645	-
Less accumulated amortisation		(7,993)	(192,225)
		26,652	32,775
Total intangible assets		6,643,045	6,649,168

(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 was allocated to goodwill.

As part of the annual review of holding values of all intangibles the directors have reviewed the carrying value of goodwill and have adopted the current carrying value at 30 June 2018.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 10: INTANGIBLE ASSETS (cont'd)

Sensitivity to change in assumptions

Revenue growth – Revenue projections are based on the 2019 budget and forward-looking plans using current and contracted 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 2019 budget and reflect current actuals and estimates of contracted sales margins.

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 8.01% has been used in calculations, reflecting the Group's estimated WACC which takes into account debt and equity.

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 2018, 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

The dairy industry has been experiencing significant change in recent years, and the Group has responded to this through strategic changes in product mix and customer base. Revenue and margin projections are based primarily on contracts in place at balance date, and are therefore considered reasonably based estimates.

Sensitivity analysis indicated that given current industry conditions and status of the Group, 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.

The movement in carrying amount of other intangibles comprises:

	2018	2017
	\$	\$
Opening balance	32,775	193,687
Additions in year	34,645	-
Amortisation	(40,768)	(160,912)
Closing balance	26,652	32,775

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	2018	2017
Notes	\$	\$
Land, buildings and improvements		
- at cost	23,097,490	22,461,351
Less accumulated depreciation	(653,541)	(556,693)
Less accumulated impairment	(b) (2,785,638)	(2,447,564)
	(a) 19,658,311	19,457,094
Plant and equipment - owned		
- at cost	7,057,687	6,808,552
Less accumulated depreciation	(1,613,877)	(976,143)
	5,443,810	5,832,409
Plant and equipment - leased		
- at cost	905,733	783,803
Less accumulated depreciation	(173,091)	(100,036)
	732,642	683,767
Total property, plant and equipment	25,834,763	25,973,270

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

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

Farm name	Acquisition date	Carrying value
Brucknell No 1	22 October 2014	4,101,688
Brucknell No 2	22 October 2014	4,010,256
Ignatios	14 January 2015	2,370,220
Brucknell No 3	6 March 2015	2,246,211
Missens Road	9 July 2015	1,513,044
Drumborg	16 September 2015	5,143,918
Depot & Old Geelong Road (Camperdown) - Land ¹	17 November 2017	272,974
Total (at director's valuation)		19,658,311

¹ As announced to ASX on 17 November 2017, the Group acquired Camperdown Dairy Park land for the development of a new 'end to end' dairy product facility.

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

(b) Registered valuers Preston Rowe Paterson completed an independent valuation of all farms for the year ended 30 June 2018. The basis of the valuation was 'As Is and In Use' with vacant possession and the combined fair value of all properties was \$19,050,000. Adjusting the carrying value of all farms on the basis of the independent valuation resulted in an impairment of \$338,075 for the year ended 30 June 2018. There was no independent valuation on the land at Depot and Old Geelong Road and the total carrying value of farms includes \$335,337 in capitalised costs for the conversion of farms to organic.

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
2018	\$	\$	\$	\$
Balance beginning of the financial year	19,457,094	5,832,409	683,767	25,973,270
Additions	636,140	436,421	121,931	1,194,492
Disposals	-	(151,182)	-	(151,182)
Impairment expense	(338,075)	-	-	(338,075)
Depreciation expense	(96,848)	(673,838)	(73,056)	(843,742)
Balance at end of financial year	19,658,311	5,443,810	732,642	25,834,763

	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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: TRADE AND OTHER PAYABLES

	Notes	2018 \$	2017 \$
Current			
Trade creditors		1,161,205	2,329,731
Sundry creditors and accrued expenses		736,519	1,112,674
Total trade and other payables		1,897,724	3,442,405
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		1,897,724	3,442,405
Financial liabilities as trade and other payables	27	1,897,724	3,442,405

NOTE 13: PROVISIONS

		2018 \$	2017 \$
Current			
Employee benefits		260,816	237,710
Total current provisions		260,816	237,710
Non-current			
Employee benefits		109,364	106,732
Total non-current provisions		109,364	106,732
Total provisions		370,180	344,442
Movement in provisions:			
Opening balance		344,442	238,045
Additional provision		172,442	265,088
Amounts used		(145,704)	(158,691)
Closing balance		370,180	344,442

Provision for employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: BORROWINGS

	Notes	2018 \$	2017 \$
Current			
Loans - unsecured		-	21,846
Bank hire purchase loans - secured		177,445	162,237
CBA Facility	(a)	10,000,000	-
Total current borrowings		10,177,445	184,083
Non-current			
Bank hire purchase loans - secured		300,976	418,278
CBA Facility		-	10,000,000
Total non-current borrowings		300,976	10,418,278
Total borrowings		10,478,421	10,602,361

(a) At 30 June 2018 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 3 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. In accordance with AASB 101, the borrowing is shown as a current liability as the renewal date is under 12 months from balance date. The Group's intentions are to renew the facility and a new offer from the lender is expected in the near future. The facility is drawn to \$10,000,000 at 30 June 2018 (2017:\$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:

	2018 \$	2017 \$
First mortgage over land and buildings at market value	19,050,000	19,457,093
General security interest over all assets of ADFT	14,999,743	11,973,647
First registered charge over leased equipment	732,642	683,767
Negative pledge and guarantee over all other Group assets	8,438,111	10,938,899
Total assets pledged as security	43,220,496	43,053,406

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: ISSUED CAPITAL

	2018	2017
	\$	\$
Contributed equity of the Group	49,505,104	44,374,916

(a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price \$	Shareholders \$	Unitholders \$	Stapled Entity \$
01 Jul 2017	Opening balance	197,633,109		17,379,491	26,995,425	44,374,916
07 Sep 2017	Placement	37,037,037	0.135	1,250,000	3,750,000	5,000,000
17 Nov 2017	Purchase of CDPT land (i)	121,900	0.164	10,000	10,000	20,000
12 Feb 2018	KPI performance rights (ii)	1,000,000	0.1241	124,100	-	124,100
12 Feb 2018	Loan securities (iii)	7,000,000	-	-	-	-
	Transaction costs			(3,478)	(10,434)	(13,912)
30 June 2018		242,792,046		18,760,113	30,744,991	49,505,104
01 Jul 2016	Opening balance	181,005,330		16,347,345	25,287,867	41,635,212
19 Sep 2016	KPI performance rights (iv)	2,000,000	0.18	360,000	-	360,000
09 Nov 2016	Convertible note conversion (v)	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

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

- (i) On 17 November 2017, Camperdown Dairy Park land was acquired for total consideration of \$260,000, comprising cash of \$240,000 and a non-cash \$20,000 component of stapled securities.
- (ii) On 12 February 2018 there was 1,000,000 stapled securities granted to Peter Skene as a share-based payment. The fair value of securities granted, determined by reference to market price, was \$124,100. Refer Note 25.
- (iii) On 12 February 2018, 7,000,000 loan securities granted to Peter Skene as a share-based payment. Refer Note 25.
- (iv) On 1 July 2016, 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.
- (v) 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) Performance Options

There are 13,780,000 (2017: 12,540,000) performance options on issue at 30 June 2018.

(c) Loan Securities

There are 7,000,000 (2017: nil) loan securities on issue at 30 June 2018.

(d) Stapled Securities

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: ISSUED CAPITAL (cont'd)

(e) Capital management

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

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

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

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

This strategy, consistent with the prior year, is to ensure that the Group's gearing ratio remains below 35%. The gearing ratios for the years ended 30 June 2018 and 30 June 2017 are as follows:

	Notes	2018 \$	2017 \$
Total borrowings	14	10,478,421	10,602,361
Less cash and cash equivalents	5	(2,331,700)	(1,577,264)
Net debt		8,146,721	9,025,097
Total equity		30,474,171	28,664,198
Total capital		38,620,892	37,689,295
Gearing ratio		21%	24%

NOTE 16: RESERVES

Nature and purpose of reserves

The option reserve records items recognised as expenses on valuation of employee share based payments (options and securities).

NOTE 17: CAPITAL AND LEASING COMMITMENTS

(a) Finance lease commitments:

	2018 \$	2017 \$
Payable - minimum lease payments		
Not later than 12 months	201,523	184,969
Between 12 months and 5 years	329,534	466,471
Greater than 5 years	-	-
Minimum lease payments	531,057	651,440
Less future finance charges	(52,636)	(70,924)
Present value of minimum lease payments	478,421	580,516

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

	2018 \$	2017 \$
Payable - minimum lease payments		
Not later than 12 months	86,500	194,359
Between 12 months and 5 years	64,875	172,353
Greater than 5 years	-	-
Present value of minimum lease payments	151,375	366,712

(c) Capital Expenditure Commitments

At 30 June 2018, the Group had not entered into any contractual commitments for the acquisition of property, plant and equipment (2017: \$260,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities for the year ended 30 June 2018 (2017: nil).

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 2018.

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

	2018	2017
	\$	\$
Short term	605,837	647,439
Post employment	33,391	32,636
Other long-term	(8,650)	9,687
Termination benefits	-	-
Share-based payments	928,142	438,453
	<u>1,558,720</u>	<u>1,128,215</u>

Short-term employee benefits

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

Post-employment benefits

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

Other long-term benefits

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

Share-based payments

During the year, stapled securities, loan 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:

	2018	2017
	\$	\$
Audit and review of the financial statements	76,560	62,325

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 21: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2018	2017
			Percentage Owned	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		ordinary	100	100
Victorian Farmers Direct Pty Ltd (dormant)		ordinary	100	-
Camperdown Dairy Park Trust	(b)	units	100	100
Other Controlled Entities			%	%
Australian Dairy Farms Trust	(c)(d)	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.

b) Acquisition of controlled entity

The Group established Victorian Farmers Direct Pty Ltd as a Camperdown Dairy Pty Ltd subsidiary in April 2018.

(c) 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 2018

NOTE 21: CONTROLLED ENTITIES (cont'd)

(d) 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:

	2018	2017
	\$	\$
Summarised Financial Position		
Current assets	14,039,911	10,831,615
Non-current assets	20,009,833	20,599,127
Current liabilities	10,065,245	85,596
Non-current liabilities	-	10,000,000
Net Assets	23,984,499	21,345,146
Carrying amount of non-controlling interests	23,984,499	21,345,146
Summarised Financial Performance		
Revenue	214,733	35,715
Loss after tax	(1,110,213)	(860,779)
Other comprehensive income after tax	-	-
Total comprehensive loss	(1,110,213)	(860,779)
Loss attributable to non-controlling interests	(1,110,213)	(860,779)
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	(480,109)	(642,111)
Net cash from / (used in) investing activities	(40,810)	704,287
Net cash from / (used in) financing activities	2,131,023	-
Net cash increase / (decrease) in cash and cash equivalents	1,610,104	62,176

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	
				2018	2017	2018	2017
				%	%	\$	\$
Unlisted:							
Camperdown Cheese & Butter Factory Pty Ltd (CCB)	Manufacture of butter & cream	Aust	Shares	50	50	-	-

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. As announced to the ASX 3 July 2018, the joint venture was terminated on 2 July 2018 with CDC taking sole ownership of the joint venture butter plant. Refer Note 26 for further details.

FOR THE YEAR ENDED 30 JUNE 2018

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 of which Mr Hackett is a director.

During the year ended 30 June 2018, 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, and related activities of \$172,740 (2017: \$275,000). There was \$18,480 (2017: \$444,450) due at 30 June 2018. Michael Hackett associated entities do not charge nor are they reimbursed for Responsible Entity services and as announced to the ASX on 19 June 2018, the Responsible Entity role was internalised within the Group with the appointment of Dairy Funds Management Limited as Responsible Entity on 22 May 2018.

(ii) Watershed Funds Management Pty Ltd

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2018, Watershed Funds Management Pty Ltd was paid \$54,750 (2017: \$54,750) for the provision of Adrian Rowley as director (nil owing at balance date).

(iii) Jackson and Associates Ltd

Keith Jackson is a director of Jackson and Associates Ltd. Keith retired from the Group as a director on 25 November 2016. During the comparative year ended 30 June 2017, Jackson and Associates Ltd was paid \$13,200 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 2018

NOTE 24: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

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

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

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

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

Types of products and services by segment

Dairy Farms

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

Dairy Processing

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

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 2018

NOTE 24: SEGMENT REPORTING (cont'd)

(i) Segment Performance	Dairy Farm	Dairy Processing	Total
30 June 2018			
Revenue	\$	\$	\$
External sales	8,376,028	11,127,811	19,503,839
Other income	380,267	-	380,267
Interest revenue	17,881	227	18,108
Total segment revenue	8,774,176	11,128,038	19,902,214
Total group revenue			19,902,214
Segment net loss before tax	(245,552)	(1,380,104)	(1,625,656)
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			(560,277)
KMP Remuneration			(1,558,720)
Finance costs - bank facility			(413,000)
Net loss before tax			(4,157,653)

	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			(887,763)
KMP Remuneration			(1,128,215)
Finance costs - bank facility			(414,860)
Net loss before tax			(2,179,348)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 24: SEGMENT REPORTING (cont'd)

	Dairy Farms	Dairy Processing	Total
(ii) Segment Assets			
As at 30 June 2018	\$	\$	\$
Segment assets	30,990,054	12,230,442	43,220,496
Segment assets include:			
Additions to non-current assets	1,286,601	278,550	1,565,151
Total group assets			43,220,496
	Dairy Farms	Dairy Processing	Total
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
(iii) Segment Liabilities	\$	\$	\$
As at 30 June 2018			
Segment liabilities	1,313,671	1,432,654	2,746,325
Reconciliation of segment liabilities to group liabilities			
Unallocated liabilities			
CBA facility (refer to Note 14)			10,000,000
Total group liabilities			12,746,325
	Dairy Farms	Dairy Processing	Total
As at 30 June 2017	\$	\$	\$
Segment liabilities	2,052,969	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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

	2018 \$	2017 \$
Australia	19,902,214	24,972,709
Other countries	-	-
Total revenue	19,902,214	24,972,709

(v) Assets by geographic region

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

	2018 \$	2017 \$
Australia	43,220,496	43,053,406
Other countries	-	-
Total assets	43,220,496	43,053,406

NOTE 25: SHARE BASED PAYMENTS

During the year ended 30 June 2018, stapled securities, performance options and loan securities were issued to employees and key management personnel under the ADFG employee Long Term Incentive Plan (LTIP). Stapled securities were also issued to settle a property purchase (refer Note 15(a)).

(i) The Group established the LTIP to motivate executives to strive to improve Group performance and securityholder returns. 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.

(ii) 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
12 February 2018	2,400,000	\$0.29	31 December 2019	12 February 2021
12 February 2018	2,400,000	\$0.29	31 December 2019	12 February 2021
12 February 2018	2,400,000	\$0.29	31 December 2019	12 February 2021
12 February 2018	2,800,000	\$0.29	31 December 2019	12 February 2021
12 February 2018	3,000,000	-	30 June 2018	30 June 2018

A summary of movements of all options is as follows:

Balance at 1 July 2016

Granted	19,380,000
Forfeited	(6,840,000)
Balance at 30 June 2017	12,540,000
Granted	13,000,000
Forfeited	(5,620,000)
Cancelled	(6,140,000)
Balance at 30 June 2018	13,780,000

The total fair value of options granted during the period was \$371,261 (2017: \$657,661). These values were calculated using a binomial option pricing model applying the following inputs:

Weighted average exercise price:	\$0.22
Weighted average life of the option:	0.8 years
Expected share price volatility:	71.24%
Weighted average risk-free interest rate:	1.95%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 25: SHARE BASED PAYMENTS (cont'd)

Vesting subsequent to grant date is subject to key management personnel meeting specified performance criteria and the fair value of the options granted to employees is considered to represent the value of the employee services received over the vesting period. 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 13,780,000 (2017: 12,540,000).

The weighted average remaining contractual life of 13,780,000 options outstanding at period end was 0.67 years. The weighted average exercise price of outstanding shares at the end of the reporting period was \$0.23.

(iii) Cancelled and forfeited performance options

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 2018, 5,620,000 (2017: 6,840,000) performance options were forfeited as the performance hurdle was not satisfied and \$439,519 has been transferred from the equity reserve to retained earnings.

6,140,000 (2017: nil) performance options were cancelled and the \$36,388 fair value of the cancelled options has been offset against the fair value of the new options granted on 12 February 2018.

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

Grant Date	Number
12 February 2018	1,000,000

The fair value of securities granted, determined by reference to market price, was \$124,100. Refer Note 15.

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

(v) Loan securities granted to key management personnel as share-based payments are as follows:

Grant Date	Number	Exercise Price	Vesting Date	Exercisable on or before
12 February 2018	7,000,000	\$0.124	12 February 2018	12 February 2023

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

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

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

The fair value of loan securities granted during the period was \$442,217 (2017: \$nil). This value was calculated using a binomial option pricing model applying the following inputs:

Exercise price:	\$0.124
Life of the option:	5 years
Expected share price volatility:	71.24%
Weighted average risk-free interest rate:	2.42%

(vi) Included under employee benefits expense in the statement of profit or loss is \$961,538 (2017: \$1,017,661), which relates to equity-settled share-based payment transactions - securities and options.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: EVENTS AFTER THE BALANCE DATE

Following is a summary of the key events after the reporting period:

- On 2 July 2018 there were 3,000,000 stapled securities issued to Peter Skene for achievement of 2018 performance hurdles;
- On 4 July 2018 the Group announced to the ASX a 2018/19 opening farm gate price of \$6.00/kg of milk solids;
- On 24 August 2018 the Group announced to the ASX the commencement of a major new contract with New Zealand based specialist dairy foods company, The Collective. The multi-year contract is expected to generate revenue in the range of \$30m to \$40m;
- On 28 August 2018 the Group announced to the ASX that it will acquire Flahey's Nutritionals Pty Ltd, owners of Flahey's Future, a certified-organic formula. Total consideration for the acquisition is \$1.5m, made up of \$400,000 cash and 6,875,000 AHF stapled securities, in four tranches, based on key milestones and retention of the key executive over a three year period; and
- On 30 August 2018 the Group announced to the ASX that it has secured the acquisition of a 333 hectare dairy farm in the Nirranda region in Southwest Victoria that is scheduled to become fully certified as an organic farm in October 2019. The farm was contracted for an undisclosed purchase price, subject to several conditions which have now been satisfied. The purchase is due to settle in October 2018 at which time the price can be advised. Livestock on the farm are not included in the purchase as the Group has high quality young stock available from existing farms for relocation to Yaringa. The current lender is providing finance for the purchase and has confirmed availability of funding.

In the opinion of the directors there were no other material matters that have arisen since 30 June 2018 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

NOTE 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	2018 \$	2017 \$
Financial assets			
Cash and cash equivalents	5	2,331,700	1,577,264
Loans and receivables	6	2,397,522	2,428,048
Bonds, deposits and GST receivable	8	119,362	132,355
Total financial assets		4,848,584	4,137,667
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	12	1,897,724	3,442,405
Borrowings	14	10,478,421	10,602,361
Total financial liabilities		12,376,145	14,044,766

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: FINANCIAL RISK MANAGEMENT (cont'd)

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.

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	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Borrowings	(10,177,445)	(184,083)	(300,976)	(10,418,278)	-	-	-(10,478,421)	(10,602,361)
Trade & other payables	(1,897,724)	(3,442,405)	-	-	-	-	-(1,897,724)	(3,442,405)
Total contractual outflows	(12,075,169)	(3,626,488)	(300,976)	(10,418,278)	-	-	-(12,376,145)	(14,044,766)
Total expected outflows	(12,075,169)	(3,626,488)	(300,976)	(10,418,278)	-	-	-(12,376,145)	(14,044,766)
Financial assets - cash flows realisable								
Cash	2,331,700	1,577,264	-	-	-	-	2,331,700	1,577,264
Trade and other receivables	2,397,522	2,428,048	-	-	-	-	2,397,522	2,428,048
Bond, deposits and GST receivable	89,362	53,667	30,000	78,688	-	-	119,362	132,355
Total anticipated inflows	4,818,584	4,058,979	30,000	78,688	-	-	4,848,584	4,137,667
Net (outflows) / inflows on financial instruments	(7,256,585)	432,491	(270,976)	(10,339,590)	-	-	(7,527,561)	(9,907,099)

Refer Note 14 for details of borrowings to be renewed subsequent to balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: FINANCIAL RISK MANAGEMENT (cont'd)

(c) Market risk

Interest rate risk

The Group at the date of this report has debt exposure through \$478,421 in fixed rate facilities, \$10,000,000 in variable rate facilities, and \$2,331,700 in variable rate cash balances.

Sensitivity Analysis

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

Interest rate sensitivity analysis

At 30 June 2018, 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:

	2018	2017
	\$	\$
Change in profit		
- Increase in interest rate by 1%	(76,683)	(84,227)
- Decrease in interest rate by 1%	76,683	84,227
Change in equity		
- Increase in interest rate by 1%	76,683	(84,227)
- Decrease in interest rate by 1%	(76,683)	84,227

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	
		2018	2017	2018	2017
		\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	(i)	2,331,700	1,577,264	2,331,700	1,577,264
Trade and other receivables	(i)	2,397,522	2,428,048	2,397,522	2,428,048
Bonds, deposits and GST receivable	(i)	119,362	132,355	119,362	132,355
Total financial assets		4,848,584	4,137,667	4,848,584	4,137,667
Financial liabilities					
Trade creditors	(i)	1,897,724	3,442,405	1,897,724	3,442,405
Borrowings	(ii)	10,478,421	10,602,361	10,478,421	10,602,361
Total financial liabilities		12,376,145	14,044,766	12,376,145	14,044,766

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 2018

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

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

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

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

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

30 June 2018

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Non-financial assets					
Biological assets	9	-	5,205,774	-	5,205,774
Total non-financial assets recognised at fair value on a recurring basis		-	5,205,774	-	5,205,774

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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 2018 \$	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	5,205,774	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	5,205,774		

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 2018, 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

	2018 cents	2017 cents
Earnings per stapled security:		
Basic loss per stapled security	(1.80)	(1.14)
Diluted loss per stapled security	(1.80)	(1.14)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(4,157,653)	(2,179,348)
	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	230,768,425	191,899,227
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	230,768,425	191,899,227

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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.

NOTE 30: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2018 (2017: \$nil) at the date of this report.



Australian Dairy Farms

DIRECTORS' DECLARATION

For the year ended 30 June 2018

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 2018 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 2018.

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

Michael Leslie Hackett
Chairman

Brisbane

31 August 2018



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 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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**Independent Auditor's Report To The Members Of Australasian Dairy Farms Limited
(continued)**

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of impairment of goodwill</p> <p>Refer Note 11 of the financial report.</p> <p>At 30 June 2018 the Group recorded goodwill of \$6,616,393 relating to its Dairy Processing segment (cash generating unit, or CGU). The industry in which the CGU operates is experiencing structural change, and the CGU is consequently experiencing changes in its strategic direction including customer mix and product mix. The CGU incurred a loss in the year. Given these circumstances, the Group considered whether there was any impairment of the CGU at balance date.</p> <p>Furthermore, as the CGU contains goodwill, the Group was required by AASB 136 <i>Impairment of Assets</i> to perform an assessment of that CGU's recoverable amount.</p> <p>The Group assessed the recoverable amount of the Dairy Processing CGU by determining its value-in-use.</p> <p>We focused on this matter because of the significant judgement involved in estimating the recoverable amount of the CGU, and any impairment of goodwill, and the materiality of the CGU on the financial report.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • we assessed the identification of the CGU, including the allocation of goodwill and other assets, and the associated identification and allocation of cash flows to the CGU; • we checked the mathematical accuracy of the Group's value in use model, 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 by comparing it to our view of an acceptable range based on market data and comparable companies; • we performed sensitivity analyses around the key assumptions used in the cash flow forecasts; and • we assessed management's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for the CGU and its goodwill to be impaired, and considered the likelihood of such a movement in those key assumptions.
<p>Assessment of impairment of dairy farm assets</p> <p>Refer Notes 9 and 11 of the financial report.</p> <p>At 30 June 2018 key assets of the Group included dairy farm properties \$19,050,000 and the dairy herd \$5,205,774. The dairy farm industry is experiencing structural change, and as a consequence the dairy farms are experiencing changes in customer mix and product mix. The dairy farms incurred a loss in the year. Given these circumstances, the Group considered whether there was any impairment of these assets at balance date.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • we completed farm site visits and attended herd stocktakes at certain farm properties; • we assessed the competence and qualifications of the independent experts used by the Group; • we assessed the valuation reports obtained by the Group with reference to methodology, prior valuations obtained by the Group, and our knowledge of the herd and the properties.



Independent Auditor's Report To The Members Of Australasian Dairy Farms Limited (continued)

The Group assessed the recoverable amounts of its farm properties and herd by reference to fair values determined by independent experts.

We focused on this matter because of the significant judgement involved in estimating the recoverable amount of the dairy farm assets, and their materiality to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report, for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

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 scepticism throughout the audit. We also:



Independent Auditor's Report To The Members Of Australasian Dairy Farms Limited (continued)

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

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

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



**Independent Auditor's Report To The Members Of Australasian Dairy Farms Limited
(continued)**

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in pages 11 to 15 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Australian Dairy Farms Limited for the year ended 30 June 2018 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.

A handwritten signature in cursive script that reads 'Nexia Brisbane Audit Pty Ltd'.

Nexia Brisbane Audit Pty Ltd

A handwritten signature in cursive script that reads 'Nigel Bamford'.

Nigel Bamford
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date 31 August 2018

SHAREHOLDER INFORMATION

The following information was extracted from Australian Dairy Farms Group's Register of Securityholders on 24 August 2018:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

	Fully Paid Stapled Securities	
	Securities Held	% of Issued Capital
1 IRONBARK-VEST PTY LTD	37,037,037	15.07
2 JIMMY CROW LIMITED	15,194,507	6.18
3 PETER JOHN SKENE & LYNNE NICOLE SKENE	7,000,000	2.85
4 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,874,215	2.39
5 MR PETER JOHN SKENE & MRS LYNNE NICOLE SKENE	4,640,000	1.89
6 FIDUCIARY NOMINEES PTY LTD	4,590,156	1.87
7 MR JUNLONG LIANG	3,855,000	1.57
8 CITICORP NOMINEES PTY LIMITED	3,661,585	1.49
9 MR YI LOU	2,800,000	1.14
10 VITAMIN WAREHOUSE AUSTRALIA PTY LTD	2,537,125	1.03
11 COSTINE PTY LTD	2,256,903	0.92
12 MR BINBIN ZHANG	2,221,862	0.90
13 MR ZHONGDE ZHAO	2,000,000	0.81
14 MR MICHAEL ANTONY JANSSEN & MR SCOTT WARNER JANSSEN	1,610,000	0.66
15 MR CHONG CHE WONG	1,600,000	0.65
16 FANG YIN SUPER PTY LTD	1,579,620	0.64
17 SONGS INVESTMENTS (AUST) PTY LTD	1,500,000	0.61
18 STANLEY BORD INVESTMENTS PTY LTD	1,316,791	0.54
19 ASHLAW PTY LIMITED	1,250,000	0.51
20 RATHVALE PTY LIMITED	1,205,500	0.49
Total of Top Twenty Securityholdings	103,730,301	42.20
Total Securities on issue	245,792,046	100.00

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	Number of Securityholders	Securities	%
1 - 1000	198	49,243	0.02
1,001 - 5,000	899	2,807,179	1.14
5,001 - 10,000	620	5,242,629	2.13
10,001 - 100,000	1,422	51,734,670	21.05
100,001 or greater	312	185,958,325	75.66
	3,451	245,792,046	100.00

MARKETABLE PARCELS

On 24 August 2018, using the last traded security price of \$0.16 per security, there were 709 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.

SHAREHOLDER INFORMATION (cont'd)

SUBSTANTIAL SECURITYHOLDERS

The names of the substantial securityholders listed in the Group's register on 24 August 2018 are:

	Securities Held	% of Voting Power Advised
Ironbark-Vest Pty Ltd	37,037,037	15.07
Michael Hackett and associated entities	21,921,526	8.92

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	1 July 2019	27 cents	780,000
12 February 2018	12 February 2021	29 cents	10,000,000

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

RESTRICTED SECURITIES

There are 7,000,000 restricted loan securities on issue at the date of this report.

Board of Directors

Michael Hackett
Chairman

Adrian Rowley
Director

Paul Morrell
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 21
10 Eagle Street
Brisbane QLD 4000

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

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

Auditor

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

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