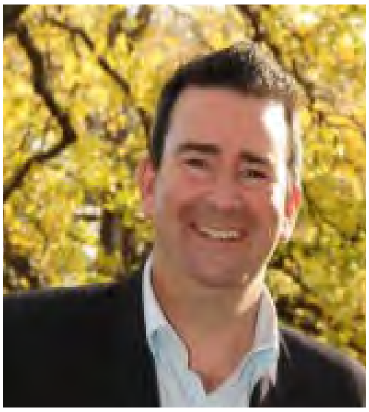
2019
Annual Report

Australian Dairy Nutritionals Group



The 2019 Financial Year has been one of solid progress for the Group as the Board and Management implemented our strategy to move away from being a producer of price competitive, low value products to focus on the production of premium and specialty dairy products with realistic profit margins, including development of the Group's own brands. Of particular note, was the Group securing the purchase of an overseas existing infant formula and nutritionals mixing plant for re-commissioning in Camperdown. This complements the Group's earlier purchase of Flahey's Nutritionals Pty Ltd which included various brands, trademark protected in both Australia and some Asian markets as well as infant formula recipes under development.

The Group's processing operations, Camperdown Dairy Company, continued its turn around with the commencement in July 2018 of the 4-year agreement to manufacture several yoghurt products under 'The Collective' brand ranged in Woolworths stores nationally. Pleasingly, this agreement was extended in February 2019 by a further 2 year period, (taking the term to 6 years) in return for the Group agreeing to invest in additional capacity for pouch based products through the purchase of an automated, high speed pouch machine. The pouch machine is due to be commissioned by December 2019.

The Group made good progress in the conversion of its dairy farms to organic milk, bringing the timeline forward with the purchase of the "Yaringa" farm in November 2019. Conversion of the remaining farms is on track with all farms achieving full conversion during calendar year 2021. There were however, some significant headwinds for the farms through the 2019 Financial year with very high feed costs. Whilst South West Victoria hasn't experienced drought conditions, key grain producing regions across the Eastern seaboard of Australia experienced significant drought conditions resulting in prices of key feed inputs more than doubling over the last 12 months. The season in South West Victoria has gotten off to a great start and therefore, the Group are expecting that its reliance on bought in feed will be much lower this year.

In addition to this, milk prices have opened very strongly and Management have negotiated a new milk supply agreement commencing on 1 July 2019 which the Group expects will have a net benefit over the previous financial year of between $1.1 Mil and $1.3 Mil per annum.

Finally, in June 2019 the Group successfully raised $12 million through a private placement to sophisticated investors. These funds will be used to fund the development of a new building for the infant formula plant and expansion of Camperdown Dairy's operations as well as working capital.

With strong milk prices, an expectation of lower costs at the farm level through better environmental conditions and strong progress on the development of the infant formula plant, the Board is optimistic that financial year 2020 will be a transformational one for the Group.

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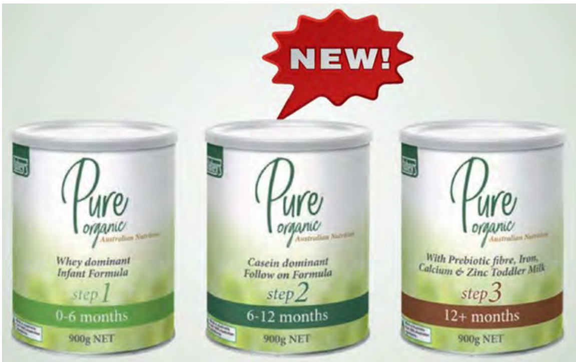

I would like to thank all of our employees and the people involved in the company for their support and hard work during the year. I would also like to thank the securityholders for their support during the year and assure them that they are top of mind in all respects. For those of you who are able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

Peter Skene
CHIEF EXECUTIVE OFFICER

Director's Report

The Board of directors of Australian Dairy Nutritionals Limited (the Company) submits to members the Annual Report of the company and its controlled entities (the Group) for the financial year ended 30 June 2019.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- Operation of the Camperdown Dairy factory at Camperdown Victoria, which processes raw milk from the Group's dairy farms to produce high quality fresh milk, cream, butter and yoghurt products for distribution and sale in Australia under the Camperdown Dairy brand and brand names of customers.
- Development and market launch of new Camperdown Dairy branded dairy products including organics;
- Ownership of dairy farms via the Australian Dairy Farms Trust (the Trust);
- Operation of dairy farms and ownership of dairy livestock through SW Dairy Farms Pty Ltd (SWDF) to produce fresh raw milk for sale to external parties and for use by Camperdown Dairy Company Pty Ltd (CDC); and
- Continued emphasis on implementation of the Group's published Strategy of expanding its Organic focus and aiming for production and ownership of high value added brands and products.

In respect of the Group's continued commitment to conversion of all Group farms to organic milk production and expanded contract processing and packing of customers' branded products, there has been no significant change in the scale or nature of the Group's activities in the year.

The Trust acquired an advanced organic in-conversion farm Yaringa at Nirranda South in South West Victoria, which is expected to be fully certified Organic in November 2019, and also sold a non-milking fodder production farm at Glenfyne for $2.6 million with the net proceeds of the sale after costs, being applied to reduce bank borrowings.

Two separate equity capital raisings were undertaken during the financial year:

- a Stapled Security Purchase Plan on 30 October 2018 accepting 325 applications to raise $2,719,500 in new capital for the Group. The Group issued 20,919,363 new stapled securities at an issue price of $0.13 per security; and
- a Sophisticated Investor Placement of $12 million to new securityholders was made in June 2019, managed by Blue Ocean Equities Sydney and completed in two tranches of $3.9 million (32,657,851 securities) in June and $8.1 million (67,342,149 securities) in August.

The placement was ratified and approved by securityholders at an Extraordinary General Meeting held on 13 August 2019.

In the June quarter of the financial year, the board had an opportunity to acquire an existing entry level infant formula plant. The acquisition completed in late August 2019. The plant has been dismantled and relocated to Camperdown, where it will be reassembled in a purpose built factory to be constructed on the Camperdown Dairy Park land owned by the Group. It is expected that the plant will be in full production in mid-2020 and be producing organic infant formula from organic milk produced on the Group's own farms.

In June 2019, the dairy processors announced significantly higher milk prices for the new season which potentially will result in higher milk revenues in FY2020 based on current production values.

The Board believes the combination of positive changes to the capital structure of the Group, new sales of the Group's Own Brands and those of premium customers and increased milk prices for the Group's farm production combine to place the Group in a strong position to build on this success in FY2020.

BUSINESS MODEL AND OBJECTIVES

2019 Financial Year – Continued Transition, Implementation and Consolidation Year

FY2018 was the commencement of the necessary transition from being a commodity producer of predominantly bottled white milk to being a successful differentiated dairy producer and marketer with its own valuable brands.

The results of these changes showed the first positive financial impact in the December 2018 quarter of FY2019 as expected and foreshadowed in the FY2018 Directors' Report.

BUSINESS MODEL AND OBJECTIVES (cont'd)

In March 2018, the Board advised that the organic infant formula segment would be included in it's strategic objectives and that the Group's remaining conventional milk dairy farms would commence the three year conversion to organic certification. The organic conversion process requires more expensive organic grain and fodder inputs for livestock and the elimination of non-organic supplements and the use of certain chemicals and pesticides. The known initial impact of the conversion is that in the early stages, milk production volumes decrease. However, the rewards are significant once the conversion to organic process is complete and certified.

The 2019 financial year has been another transition year with a focus on the future to confidently set the Group on a realistic path to be a profitable, flexible and significantly diversified participant in the specialised dairy products market.

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was $4,026,025 (2018: $4,157,653). This result is comprised of a net loss from the dairy processing segment of $2,077,510 (2018: $2,811,749) and net loss from the dairy farm segment of $1,948,515 (2018: $1,345,904).

Total income for the year ended 30 June 2019 is $21,940,223 up 10% against the 2018 comparative period of $19,902,214. This is a result of a $2,263,132 increase in revenue from the dairy processing segment, and a $225,123 decrease in revenue from the dairy farm segment.

Total expenses for the year ended 30 June 2019 were $25,966,248, up 8% against the 2018 comparative period of $24,059,867. This comprised a $1,528,893 increase in expenses from the dairy processing segment and an increase of $377,488 from the dairy farm segment.

REVIEW OF OPERATIONS

Strategy Implementation

The Group continues to progress with conversion of its dairy farms to produce organic milk including the acquisition of Yaringa farm, which is expected to be fully converted organically and certified in late 2019. The Group also continues to shift its focus from production of low margin commodity bottled white milk to higher margin processed products and, entering the infant and toddler formula market with the acquisition of Flahey's Nutritionals. Planning for the construction of new processing facilities including installation of the first stage infant formula plant acquired on 27 August 2019 on Camperdown Dairy Park has also commenced.

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 Jersey and Free-Range labels, as well as for a range of other customer labels via contract packing. CDC reported a net loss of $2,077,510 (2018: $2,811,749) and EBITDA of -$1,168,304 (2018: -$1,964,637) for the financial year ended 30 June 2019.

Included in expenses for the year ended 30 June 2019 is a provision of $864,438 in respect of trade receivables owing by Jonesy's Dairy Fresh. On 26 August 2019 the Group announced that it had entered into a joint venture with Jonesy's Dairy Fresh and the trade debtor balance will be fully secured against the existing and future assets of the joint venture (refer Note 7(a)(i)).

Revenue for the year ended 30 June 2019 is $13,391,170 up 20% against the 2018 comparative period of $11,128,038.

A significant sales contribution has been made by The Collective, a New Zealand based brand that has entered the Australian market after strong success over several years in New Zealand and the United Kingdom. Production of The Collective products commenced in late August 2018 and the products are ranged in Woolworths stores nationally. Sale volumes of the The Collective products have increased in line with expectations during 2019, with growth forecast to continue in 2020.

In line with the Group's announced strategy to decrease the focus on low margin commodity milk sales in favour of building higher margin brands and sales, there was an expected decline in sales of bottled white milk compared with the prior comparative period.

Flahey's Nutritionals Acquisition

The business, brands, formulations and trademarks of Flahey's Nutritionals were acquired and settled in December 2018. As part of the same transaction the brand's founder, Christopher Flahey, commenced employment as the Group's Sales and Marketing Director charged with the task of expanding sales of the existing products and the development of new formula brands (refer note 3).

REVIEW OF OPERATIONS (cont'd)

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

The Group's dairy farms reported a net loss of $1,948,515 (2018: $1,345,904) and EBITDA of -$750,814 of (2018: -$857,048) for the year ended 30 June 2019.

Total farm milk sales for the year of $7,395,306 are 2% down on the 2018 comparative period. There has been an increase of $0.21 per kilogram in the net milk solids price from $5.87 to $6.08 during the year, offset by a 5% decrease in milk solids production arising from the the conversion to organic.

Gain on change in fair value of livestock during the year was $538,552 (2018: $380,267). Livestock carrying values remained steady for the year ended 30 June 2019 compared to a reduction in the carrying value of livestock following independent valuations in 30 June 2018.

Operating costs in the year ended 30 June 2019 have increased $377,488 from the 2018 comparative. This is largely attributable to increased heifer rearing costs and costs associated with the commencement of milking on the new Yaringa farm. The Yaringa Farm at Nirranda South was acquired in October 2018 and is expected to become fully certified as an organic dairy farm in late 2019. This will be a significant cornerstone in the process of focusing on higher value added organic products including organic infant formula.

Capital Raisings

The Group completed a Stapled Security Purchase Plan (SPP) on 30 October 2018 accepting 325 applications to raise $2,719,500 in new capital for the Group. The Group issued 20,919,363 new stapled securities at an issue price of $0.13 per security.

A Sophisticated Investor Placement of $12 million to new securityholders was made in June 2019, managed by Blue Ocean Equities Sydney and completed in two tranches of $3.9 million (32,657,851 securities) in June and $8.1 million (67,342,149 securities) in August.

Name change

At the 2018 AGM held in Melbourne on 29 November 2018, securityholders voted to approve a resolution to change the name of the Group from Australian Dairy Farms Limited to Australian Dairy Nutritionals Limited to better reflect the primary focus of the Group going forward to concentrate on milk powders and dairy nutritionals including the production of organic infant formula. The name change was implemented on 24 December 2018 and the same change was adopted in the name of the Australian Dairy Nutritionals Group.

FINANCIAL POSITION

The net assets of the Group at 30 June 2019 total $33,014,661, an increase of $2,540,490 from the June 2018 comparative.

The key assets and liabilities in the statement of financial position at 30 June 2019 are:

- cash and cash equivalents of $3,748,550 (June 2018: $2,331,700);
- property, plant and equipment of $29,190,439 (June 2018: $25,834,763);
- intangible assets of $6,974,236 (June 2018: $6,643,045);
- biological assets (livestock) of $4,928,422 (June 2018: $5,205,774); and
- total borrowings of $12,695,402 (June 2018: $10,478,421).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group in the year include capital raisings and the acquisition of Flahey's Nutritionals.

In the opinion of the directors, 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 20 August 2019, the Group announced to the ASX the completion of tranche 2 of its placement with the issue of 67,342,149 stapled securities, raising $8.1m. Managing Broker, Blue Ocean Equities, which acted as lead manager to the placement, were also issued 2,500,000 options;
- On 26 August 2019 the Group announced to the ASX it has entered into a joint venture in relation to the Jonesy's Dairy Fresh (JDF) milk distribution business (Business). Under the terms of the joint venture, the assets of the Business will be transferred to a new trading company, Jonesy's Distribution Pty Ltd (JD). In addition, the outstanding trade debtor balance between the Business and Camperdown Dairy Company (CDC) will be transferred to JD and CDC will advance JD up to an additional $100,000 for working capital.

  The trade debtor balance as well as any working capital advanced by CDC to JD will be fully secured against the existing and future assets of JD. The parent company currently owns 100% of the share capital in JD but on completion of the joint venture transaction, the parent company will own 50% of the shares in JD and the founders of JDF will own the other 50% of the shares. The Group sees the joint venture as a strategic platform to expand its position in the hospitality and niche retail distribution market. In addition, the directors are of the view that the security which CDC will have over the new joint venture entity (JD), provide a potential opportunity for CDC to recover some or all of the trade debtor balance owed by the Business (refer Note 7(a)(i)).
- On 27 August 2019 the acquisition of the infant formula and nutritionals mixing plant announced on 4 April 2019 completed (refer Note 18(c)(i). The plant has obtained full customs and AQIS clearance and has now been re-located to Camperdown, Victoria.

In the opinion of the directors there were no other material matters that have arisen since 30 June 2019 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

ENVIRONMENTAL ISSUES

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

The Group considers itself to be in compliance with its environmental obligations.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

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.

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 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. However, planning and building applications are in progress to commence construction of a new factory facility on the Camperdown Dairy Park land owned by the Group, to accommodate the acquired infant formula plant referred to in Note 18(c)(i) and other dairy processing plant. 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 there impact may adversely effect on farm and business performance.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES (cont'd)

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.

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
Michael Hackett	Chairman
Adrian Rowley	Director
Peter Skene	Director / Group CEO
Paul Morrell	Director

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	Cashwerkz Limited (formerly Trustees Australia Limited) – director since June 1986 Jimmy Crow Limited - retired August 2018
Interest in Group securities & options	A relevant interest in 22,632,221 stapled securities at 30 June 2019. A relevant interest in 2,400,000 performance options at 30 June 2019.
Michael Hackett was appointed to the board on 8 May 2009. Michael is a qualified 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.	

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 30 June 2019. A relevant interest in 2,400,000 performance options at 30 June 2019.
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.	

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 12,515,385 stapled securities at 30 June 2019. A relevant interest in 7,000,000 loan securities at 30 June 2019.
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.	

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 37,152,422 stapled securities at 30 June 2019.
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:

Kate Palthorpe	**Company Secretary and General Counsel**
Interest in Group securities & options	No relevant interest in stapled securities or options at 30 June 2019.
Kate was appointed to this role in September 2018. She is an experienced legal and governance professional with a strong understanding of the food and dairy industry and experienced in negotiating and documenting complex procurement and supply agreements. Kate has previously held positions with Minter Ellison, Aesop and Aussie Farmers Direct (prior to acquisition by the Group).	

Jerome Jones	**Company Secretary**
Interest in Group securities & options	No relevant interest in stapled securities or options at 30 June 2019.
Jerome Jones retired as company secretary in September 2018.	

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	14	14
Adrian Rowley	14	14
Peter Skene	14	14
Paul Morrell	14	14

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2019 (2018: $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 (2018: $35,150) 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 2019 there was no payment to external auditors for non-audit services (2018: $nil).

OPTIONS

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
24 December 2018	31 August 2021	nil	6,250,000
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.

On 3 July 2018, 3,000,000 securities were issued on the exercise of employee options granted on 12 February 2018 with a nil exercise price.

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 2019 has been received and a copy can be found at page 18.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Australian Dairy Nutritionals Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific 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 non-executive 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 Nutritionals Limited securities as collateral in any financial transaction, including margin loan arrangements.

No KMP receive securities that are not performance based as part of their remuneration.

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 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 did not issue 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.

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

REMUNERATION REPORT (cont'd)

Changes in Directors and KMP Subsequent to Year-end

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

Remuneration Expense Details for the Year Ended 30 June 2019

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 - 2019	75,000	-	7,125	-	-	5,265	87,390
M Hackett - 2018	75,000	-	7,125	-	-	12,720	94,845
A Rowley - 2019	50,000	-	4,750	-	-	5,265	60,015
A Rowley - 2018 [1]	50,000	-	4,750	-	-	12,720	67,470
P Skene - 2019	329,469	-	20,531	14,435	-	-	364,435
P Skene - 2018	336,737	124,100	19,616	(8,650)	-	902,702	1,374,505
P Morrell - 2019	60,000	-	5,700	-	-	-	65,700
P Morrell - 2018 [2]	20,000	-	1,900	-	-	-	21,900
Total - 2019	**514,469**	**-**	**38,106**	**14,435**	**-**	**10,530**	**577,540**
Total - 2018	**481,737**	**124,100**	**33,391**	**(8,650)**	**-**	**928,142**	**1,558,720**

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.

Options and Rights Granted as Share-based Payments

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

The terms and conditions relating to performance options granted as remuneration to KMP during the 2018 comaparative are as follows:

Name	Remuneration Type	Grant Date	Grant Value $	Reason for Grant Note	Percentage Vested / Paid during Year %	Percentage Forfeited during Year %	Percentage Remaining as Unvested %	Expiry Date for Vesting or Payment	Range of Possible Values Relating to Future Payments
M Hackett	Options	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.

REMUNERATION REPORT (cont'd)

Options and Rights Granted as Remuneration

		Grant Details			Exercised		Forfeit/ Cancel	
	Balance at 01/07/2018	Issue Date	No.	Value ($)	No.	Value ($)	No.	Balance at 30/06/2019
M Hackett	2,400,000	12/02/2018	2,400,000	34,203	-	-	-	2,400,000
A Rowley	2,400,000	12/02/2018	2,400,000	34,203	-	-	-	2,400,000
P Skene	7,000,000	12/02/2018	7,000,000	442,217	-	-	-	7,000,000
P Skene [1.]	3,000,000	12/02/2018	3,000,000	300,720	(3,000,000)	(300,720)	-	-
TOTAL	**14,800,000**		**14,800,000**	**811,343**	**(3,000,000)**	**(300,720)**	**-**	**11,800,000**

[1.] Peter Skene exercised 3,000,000 performance rights on 3 July 2018.

		Vested	Unvested	
	Balance at 30/06/2019	No.	No.	
M Hackett	2,400,000	-	2,400,000	*expires 31 December 2019
A Rowley	2,400,000	-	2,400,000	*expires 31 December 2019
P Skene[1.]	7,000,000	7,000,000	-	
	11,800,000	**10,000,000**	**4,800,000**	

[1.] Peter Skene holds 7,000,000 loan securities.

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.

Description of Options/Rights Issued as Remuneration

There were no options or rights issued as remuneration during the year.

Details of the options granted as remuneration to those KMP listed in the previous table in the 2018 comparative 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 Nutritionals Limited	1:1	12/02/21	$0.29	$0.003	nil
12/02/18	Australian Dairy Nutritionals Limited	1:1	30/06/18	-	$0.10	nil
12/02/18	Australian Dairy Nutritionals 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.

REMUNERATION REPORT (cont'd)

KMP Securityholdings

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

30 June 2019	Balance at 01/07/2018	Granted as Remuneration	Other Changes	Balance at 30/06/2019
Michael Hackett[1]	21,921,566	-	710,655	22,632,221
Adrian Rowley	1,286,000	-	-	1,286,000
Peter Skene	9,300,000	3,000,000	215,385	12,515,385
Paul Morrell	37,037,037	-	115,385	37,152,422
	69,544,603	**3,000,000**	**1,041,425**	**73,586,028**

[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 24(b) of the financial statements, the Group had the following transactions with KMP:

(i) Jimmy Crow Limited

Michael Hackett is a director of Jimmy Crow Limited. During the year ended 30 June 2019, Jimmy Crow Limited was paid $93,372 (2018: $172,740) on a reimbursement basis, for the provision of administrative services, accounting, secretarial, and related activities. There was $9,391 (2018: $18,480) due at 30 June 2019.

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

30 August 2019

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

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

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

The 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.

Nexia Australia

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF AUSTRALIAN DAIRY NUTRITIONALS LIMITED

As lead auditor for the audit of Australian Dairy Nutritionals Limited I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been no contraventions of:

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

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

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

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Nigel Bamford

N D Bamford
Director

Date: 30 August 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
Revenue	4(a)	21,373,358	19,521,947
Other income	4(b)	566,865	380,267
Administration costs	4(c)(v)	(830,733)	(699,738)
Employment expenses	4(c)(iv)	(5,788,552)	(5,483,975)
Finance costs	4(c)(i)	(638,223)	(451,458)
Dairy product related costs	4(c)(iii)	(10,232,587)	(9,394,166)
Dairy farm related costs	4(c)(ii)	(6,138,396)	(5,870,719)
Depreciation and amortisation expense		(1,468,232)	(884,510)
Deemed cost of livestock disposed	4(c)(vi)	(869,525)	(937,226)
Impairment of property, plant and equipment	4(c)(vi)	-	(338,075)
Loss before income tax		**(4,026,025)**	**(4,157,653)**
Tax expense	5	-	-
Net loss for the year		**(4,026,025)**	**(4,157,653)**
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		**(4,026,025)**	**(4,157,653)**
Loss is attributable to:			
Company shareholders		(3,254,207)	(3,047,440)
Trust unitholders		(771,818)	(1,110,213)
		(4,026,025)	**(4,157,653)**
Total comprehensive loss is attributable to:			
Company shareholders		(3,254,207)	(3,047,440)
Trust unitholders		(771,818)	(1,110,213)
		(4,026,025)	**(4,157,653)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	30	(1.55)	(1.80)
Diluted earnings per stapled security (cents)	30	(1.55)	(1.80)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	2019 $	2018 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	3,748,550	2,331,700
Trade and other receivables	7	2,477,116	2,397,522
Inventories	8	995,718	625,509
Other current assets	9	216,416	182,183
Total Current Assets		**7,437,800**	**5,536,914**
Non-Current Assets			
Biological assets	10	4,928,422	5,205,774
Intangible assets	11	6,974,236	6,643,045
Property, plant & equipment	12	29,190,439	25,834,763
Total Non-Current Assets		**41,093,097**	**37,683,582**
Total Assets		**48,530,897**	**43,220,496**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	2,370,950	1,897,724
Provisions	14	314,797	260,816
Borrowings	15	264,363	10,177,445
Total Current Liabilities		**2,950,110**	**12,335,985**
Non-Current Liabilities			
Provisions	14	135,087	109,364
Borrowings	15	12,431,039	300,976
Total Non-Current Liabilities		**12,566,126**	**410,340**
Total Liabilities		**15,516,236**	**12,746,325**
Net Assets		**33,014,661**	**30,474,171**
EQUITY			
Issued capital	16(a)	25,474,856	18,760,113
Reserves	17	591,634	761,279
Accumulated losses		(16,264,510)	(13,031,720)
Equity attributable to shareholders		**9,801,980**	**6,489,672**
Non-controlling interests			
Issued units	16(a)	30,744,991	30,744,991
Accumulated losses		(7,532,310)	(6,760,492)
Equity attributed to non-controlling interests		**23,212,681**	**23,984,499**
Total Equity		**33,014,661**	**30,474,171**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	,2019 $	2018 $
Cash Flows from Operating Activities			
Receipts from customers		22,012,465	21,487,802
Payments to suppliers and employees		(23,867,690)	(23,673,376)
Interest received		5,486	18,108
Finance costs		(638,223)	(451,458)
Net operating cash flows	6(b)	**(2,487,962)**	**(2,618,924)**
Cash Flows from Investing Activities			
Payment for property, plant and equipment	12	(6,579,734)	(1,052,562)
Proceeds from sale of property, plant and equipment		2,743,343	56,364
Payment for biological assets	10	(53,621)	(336,014)
Payment for intangible assets	11(c)	(20,598)	(34,645)
Payment for Flahey's Nutiritionals Pty Ltd	3	(270,260)	-
Net investing cash flows		**(4,180,870)**	**(1,366,857)**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	16(a)	6,354,208	4,986,087
Net repayment of loans - unsecured		-	(21,846)
Net proceeds from CBA facility	15(b)	2,054,000	-
Repayment of hire purchase loans		(322,526)	(224,024)
Net financing cash flows		**8,085,682**	**4,740,217**
Net increase / (decrease) in cash held		**1,416,850**	**754,436**
Cash at the beginning of the period		2,331,700	1,577,264
Cash at the end of the financial period	6	**3,748,550**	**2,331,700**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non-controlling Interest (Trust)	Total
		$	$	$	$	$
Balance at 1 July 2018		**18,760,113**	**761,279**	**(13,031,720)**	**23,984,499**	**30,474,171**
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(3,254,207)	(771,818)	(4,026,025)
Total comprehensive loss for the year		**-**	**-**	**(3,254,207)**	**(771,818)**	**(4,026,025)**
Transactions with equityholders in their capacity as equity holders:						
Contributions of equity, net of transaction costs	16(a)	6,414,023	-	-	-	6,414,023
Option reserve	26	-	152,492	-	-	152,492
Transfer of retained earnings (options)		-	(21,417)	21,417	-	-
Transfer to issued capital (options)		300,720	(300,720)	-	-	-
Total transactions with equity holders		**6,714,743**	**(169,645)**	**21,417**	**-**	**6,566,515**
Balance at 30 June 2019		**25,474,856**	**591,634**	**(16,264,510)**	**23,212,681**	**33,014,661**

	Note	Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non-controlling Interest (Trust)	Total
		$	$	$	$	$
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	16(a)	1,380,622	-	-	3,749,566	5,130,188
Option reserve - KMP options	26	-	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**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Trust is a registered managed investment scheme under the Corporations Act 2001. The Responsible Entity 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) Basis of Preparation

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

The financial statements were authorised for issue by the Board of Directors on 30 August 2019.

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

(b) Principles of Consolidation

Stapling

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

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

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

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

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

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

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

(b) Principles of consolidation (cont'd)

Subsidiaries

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

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

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

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in Note 22 to the consolidated financial statements.

Business combinations

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

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

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

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

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

Goodwill

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

(i) the consideration transferred;

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

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

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

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

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

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

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

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

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

(b) Principles of consolidation (cont'd)

Goodwill (cont'd)

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

(c) Income tax

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

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

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

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

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

Tax consolidation

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

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

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

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

Tax funding arrangements and tax sharing arrangements

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

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

(c) Income tax (cont'd)

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

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

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

(d) Fair value of assets and liabilities

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

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

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

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

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

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

(e) Inventories

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

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

(f) Biological Assets

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

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

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

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

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

(g) Financial instruments

Initial recognition and measurement

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

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

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

Classification and subsequent measurement

Financial liabilities

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

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

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

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

A financial liability cannot be reclassified.

Financial assets

Financial assets are subsequently measured at:

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

Measurement is on the basis of the two primary criteria:

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

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

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

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

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

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

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

(g) Financial instruments (cont'd)

Derecognition

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

Derecognition of financial liabilities

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment

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

- financial assets that are measured at amortised cost;

Loss allowance is not recognised for:

- financial assets measured at fair value.

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

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

Simplified approach

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

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

Recognition of expected credit losses in financial statements

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

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

FOR THE YEAR ENDED 30 JUNE 2019

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

(h) Property, Plant and Equipment

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

Basis of measurement of carrying amount

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

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

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

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

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.

(i) Leases

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

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

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

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

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

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

(j) Employee Benefits

Short-term employee benefits

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

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

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

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

Equity-settled payments

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

(k) Provisions

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

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

(l) Impairment of Assets

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

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

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

(m) Intangibles other than Goodwill

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

(n) Cash and cash equivalents

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

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

(o) Trade and other receivables

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

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

(p) Trade and other payables

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

(q) Borrowing costs

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

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

(r) Goods and services tax (GST)

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

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

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

(s) Revenue and Other Income

The Group has applied new accounting standard AASB 15: Revenue from contracts, with customers, with effect from 1 July 2018. Application of the standard has not impacted amounts recognised as revenue (refer note 1(v)(b)). Revenue recognition policies are as follows:

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

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

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

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

Dairy cattle sales are recognised when:

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

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

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

(t) Critical Accounting Estimates and Judgments

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

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

- Carrying value determination of land and buildings, refer Note 12;
- Carrying value determination of goodwill and intangibles, refer Note 11;
- Fair value determination of livestock, refer Note 10;
- Classification of debt, refer Note 15;
- Share based payments, refer Note 26; and
- Income tax and other taxes, refer Note 5.

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(u) Comparative figures

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

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

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

(a) Initial Application of AASB 9: Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Most of the changes are not relevant to the Group, however there was a new impairment model introduced in AASB 9 which requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under AASB 139.

The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes to the Group's accounting policies. No opening adjustment was necessary as a result of the adoption of AASB 9. Financial assets in terms of AASB 9 need to be measured subsequently at either amortised cost or fair value on the basis of the Group's business model and the cash flow characteristics of the financial assets. There were no financial liabilities impacted by the adoption of AASB 9.

Impairment of financial assets

As per AASB, an expected credit loss model is applied, not an incurred credit loss model as per the previous Standard applicable (AASB 139). To reflect changes in credit risk, this expected credit loss model requires the Group to account for expected credit loss since initial recognition.

The Group has one type of financial asset that is subject to AASB 9's new expected credit loss model:

- trade receivables for sales of dairy farm and dairy processing segment products.

The Group was required to review its impairment methodology under AASB 9 for each of these classes of assets and no adjustment was required.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on credit risk characteristics and the days past due. There was no material difference between the expected credit loss calculated under AASB 9 and AASB 139.

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

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

(b) Initial Application of AASB 15: Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers which resulted in changes in accounting policies and required no retrospective adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in AASB 15, the Group has adopted the new standard with the modified retrospective method and has determined the application of AASB 15 to have an immaterial impact on the Group's financial statements.

Accounting policy changes

- *Accounting for dairy farm and dairy processing segment products.*

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

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

This represents a change in revenue recognition accounting policy of the Group from previous recognition when the significant risks and rewards of ownership of the goods have passed to the buyer at the time of dispatch of the goods to customer - as stated above the accounting policy change has an immaterial impact on the Group financials.

(w) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, some of which are relevant to the group. The directors have decided not to early-adopt any of the new and amended pronouncements. The following sets out their assessment of the pronouncements that are relevant to the Group but applicable in future reporting periods.

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

The Group has chosen not to early-adopt AASB 16. However, the Group has conducted a preliminary assessment of the impact of this new Standard, as follows.

A core change resulting from applying AASB 16 is that most leases will be recognised on the balance sheet by lessees as the standard no longer differentiates between operating and finance leases. An asset and a financial liability are recognised in accordance to this new Standard. There are, however, two exceptions allowed: short-term and low-value leases.

Basis of preparation

The accounting for the Group's operating leases will be primarily affected by this new Standard.

AASB 16 will be applied by the Group from its mandatory adoption date of 1 July 2019. The comparative amounts for the year prior to first adoption will not be restated, as the Group has chosen to apply AASB 16 retrospectively with cumulative effect. While the right-of-use assets for property leases will be measured on transition as if the new rules had always been applied, all other right-of-use assets will be measured at the amount of the lease liability on adoption (after adjustments for any prepaid or accrued lease expenses).

The Group's non-cancellable operating lease commitments amount to $218,230 as at the reporting date.

The Group has performed a preliminary impact assessment and has estimated that on 1 July 2019, the Group expects to recognise the right-of-use assets of approximately $204,000 and lease liabilities of approximately $210,000 (after adjusting for prepayments and accrued lease payments recognised as at 30 June 2019).

Following the adoption of this new Standard, the Group's net profit after tax is expected to decrease by approximately $6,000 in 2020. The repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, thus increasing operating cash flows and decreasing financing cash flows by approximately $136,000.

FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2: PARENT INFORMATION

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

	2019	2018
	$	$
Statement of Financial Position		
Assets		
Current assets	5,622,851	1,038,826
Non-current assets	11,657,658	11,320,503
Total assets	**17,280,509**	**12,359,329**
Liabilities		
Current liabilities	5,189,441	5,139,509
Non-current Liabilities	54,897	40,462
Total liabilities	**5,244,338**	**5,179,971**
Equity		
Issued capital	25,474,856	18,760,113
Reserves	591,634	761,279
Retained earnings	(14,030,319)	(12,342,034)
Total Equity	**12,036,171**	**7,179,358**
Statement of Profit or Loss and Other Comprehensive Income		
Total loss	(1,709,702)	(2,100,974)
Total comprehensive loss	(1,709,702)	(2,100,974)

Contingent liabilities and guarantees

The Company does not have any contingent liabilities or guarantees in place for the year ended 30 June 2019, other than in respect of CBA borrowings, refer Note 15.

Contractual commitments

(i) On 4 April 2019, the parent company announced to the ASX it had executed an agreement to purchase an existing offshore infant formula plant comprising a dryer together with compatible evaporator and nutritionals blending equipment. The purchase settled on 27 August 2019, with the Company acquiring 100% of the financing vehicle, Organic Nutritionals Pty Ltd for $1,302,014. Included in the acquisition price is a $122,490 deposit for a high-speed pouch machine to further advance production capabilities and capacity for The Collective contract. The Group is committed to the final balance of $277,753 which is payable on delivery of the machine expected to be late in 2019.

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NOTE 3: BUSINESS COMBINATIONS

On 24 December 2018, Australian Dairy Nutritionals Limited acquired 100% of the issued capital and control of Flahey's Nutritionals Pty Ltd (Flahey's) for a total purchase consideration of $1,095,260. This acquisition forms part of the Group's overall strategy to expand its dairy processing business and is a key step in entering the infant / toddler formula market. Additionally, Christopher Flahey, the founder of Flahey's Nutritionals and an experienced sales executive in the infant formula sector, joined the Group as its Sales and Marketing executive.

	$
Purchase consideration:	
Cash	400,000
Completion price adjustment	(129,740)
Stapled securities[1.]	75,000
Performance consideration[2.]	750,000
Total purchase consideration	**1,095,260**

[1.] On 24 December 2018, 625,000 stapled securities were issued at the market price of 12 cents.

[2.] On 24 December 2018, 6,250,000 consideration securities were issued and valued using both the binomial option pricing model and Black-Scholes model. The consideration securities are subject to various performance milestones and Christopher Flahey remaining employed with the company on a conversion date. The consideration securities are forfeited if performance hurdles are not satisfied and the conversion dates are as follows:

- 31 August 2019 - 1,875,000 consideration securities will be available to be converted to 1,875,000 stapled securities;
- 30 August 2020 - 1,875,000 consideration securities will be available to be converted to 1,875,000 stapled securities; and
- 31 August 2021 - 2,500,000 consideration securities will be available to be converted to 2,500,000 stapled securities.

The independent valuation resulted in a price of 12 cents per consideration security under both models.

For financial accounting purposes (Under AASB 3 Business Combinations) the performance consideration is accounted for as follows:

	$
Recognised as cost of acquisition (i)	345,260
Amortised as performance consideration through profit and loss (ii)	750,000
	1,095,260

(i) Fair value of assets acquired and liabilities assumed:	
Other current assets	20,260
Intangible assets[3.]	322,140
Property, plant and equipment	2,860
Net identifiable assets acquired and liabilities assumed	**345,260**

[3.] In accordance with AASB 3: Business Combinations the acquirer is required to recognise separately from Goodwill the identifiable intangible assets of Flahey's on acquisition. Under the accounting standard, an intangible asset is considered identifiable if it meets the Contractual Legal Criterion. Flahey's uses a range of recipes, formulations and patents which meet the Contractual Legal Criterion and in accordance with this requirement the Group has attributed $322,140 to the fair value of identifiable intangible assets acquired.

(ii) Performance consideration is amortised over 3 years, with a charge to profit and loss to reflect the actual number of securities which issue.

	$
Results contributed by the acquired entity since acquisition date:	
Revenue	-
Loss before income tax	(24,788)

Costs of acquisition totalling $9,213 were expensed during the year.

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NOTE 4: REVENUE AND EXPENSES

	Note	2019 $	2018 $
(a) Revenue			
Revenue from contracts with customers	(i)	21,285,117	19,224,209
Other sources of revenue	(ii)	88,241	297,738
Total revenue		**21,373,358**	**19,521,947**

(i) Revenue disaggregation

The revenue is disaggregated by service line and timing of revenue recognition.

	2019	2018
Service lines:		
- Dairy processing	13,391,171	11,127,811
- Dairy farms	7,893,946	8,096,398
	21,285,117	19,224,209
Timing of revenue recognition		
Services transferred to customers:		
- at a point in time	21,285,117	19,224,209
- over time	-	-
	21,285,117	**19,224,209**

(ii) Other sources of revenue

	2019	2018
Interest	5,486	18,108
Farm costs recoveries	52,389	36,914
Insurance recovery	-	160,392
Fuel rebate	30,366	82,324
	88,241	297,738

(b) Other Income

	2019	2018
Gain on change in fair value of livestock (refer Note 10)	538,552	380,267
Gain on disposal of property, plant and equipment	28,313	-
	566,865	**380,267**

(c) Expenses

(i) Finance costs

	2019	2018
CBA facility	604,592	413,000
Loans - unsecured	3,276	13,602
Other	-	242
Finance charges payable under finance leases	30,355	24,614
	638,223	**451,458**

(ii) Dairy related costs

	2019	2018
Feed costs	3,255,608	3,339,270
Repairs, maintenance and vehicle costs	406,141	364,132
Animal health costs	94,140	144,261
Land holding and lease costs	152,947	121,809
Breeding and herd testing expenses	211,969	201,454
Dairy shed expenses	143,129	120,078
Electricity	175,562	170,590
Other dairy related costs	1,698,900	1,409,125
	6,138,396	**5,870,719**

NOTE 4: REVENUE AND EXPENSES (cont'd)

	2019	2018
	$	$
(iii) Dairy processing related costs		
Cost of goods sold	7,473,221	7,078,355
Freight costs	423,830	695,930
Property and lease costs	411,691	383,850
Loss allowance on receivables	873,765	-
Other dairy processing related costs	1,050,080	1,236,031
	10,232,587	**9,394,166**
(iv) Employment benefits expense		
Employee and director remuneration costs	5,636,060	4,522,437
Equity settled share based payment costs	152,492	961,538
	5,788,552	**5,483,975**
(v) Administration and non-dariy related costs		
Administration costs	335,780	312,596
Professional costs	494,953	387,142
	830,733	**699,738**
(vi) Other significant items		
Deemed cost of livestock sold (refer Note 10)	869,525	937,226
Impairment of land and buildings (refer Note 12)	-	338,075

NOTE 5: INCOME TAX EXPENSE

	2019	2018
	$	$
(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 27.5% (2018: 27.5%):	(1,107,157)	(1,143,355)
Add /(less)		
Tax effect of:		
- trust loss not recognised	225,708	309,827
- current period tax losses not recognised	855,524	957,892
- net amount of expenses not currently deductible	219,102	(19,791)
- other income not included in assessable income	(193,177)	(104,573)
Income tax expense / (benefit) attributable to entity	-	-

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

NOTE 5: INCOME TAX EXPENSE (cont'd)

(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.

	2019 $	2018 $
Temporary differences	989,139	1,118,055
Tax losses	7,030,416	5,949,184
Net unbooked deferred tax assets	**8,019,555**	**7,643,383**

The Group has revenue losses of $25,565,148 (2018: $21,633,395). These losses comprise $19,784,841 of Group losses and $5,780,307 of transferred in losses "pre-stapling". The transferred in losses can be carried forward and may be utilised against taxable income in future years provided the Same Business Test is satisfied. The Group is of the view that it satisfies the necessary criteria for these losses to be made available against future taxable profit, however the ATO will not rule on the availability to carry forward the losses at a point in time, they will only rule on the ability to utilise the losses at the date of utilisation.

The 2018 year carry forward loss amounts have been re-stated to agree to tax returns as lodged and to reflect a tax rate of 27.5% (previously reported at 30%).

NOTE 6: CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Current		
Cash at bank and in hand	3,748,550	2,331,700
Total cash and cash equivalents	**3,748,550**	**2,331,700**

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

(a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash and cash equivalents comprising the following at 30 June 2019:

	2019 $	2018 $
Cash at bank and in hand	3,748,550	2,331,700
	3,748,550	**2,331,700**

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 15: Borrowings.

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

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

	2019	2018
	$	$
Net loss after income tax	(4,026,025)	(4,157,653)
Adjustment of non cash items		
Amortisation and depreciation	1,468,232	884,510
Deemed cost of livestock disposed	869,525	937,226
Fair value adjustment of biological assets	(538,552)	(380,267)
Impairment of property, plant and equipment	-	338,075
Loss / (gain) on disposal of property, plant and equipment	(28,313)	94,818
Bad debts and impairment provision	873,765	-
Distribution from termination of Camperdown Cheese and Butter Factory joint venture	(681,543)	-
Equity settled share based payments	152,492	961,539
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	(671,816)	30,526
(Increase) / decrease in other assets	5,189	31,555
(Increase) / decrease in inventories	(370,209)	159,690
Increase / (decrease) in trade and other payables	379,589	(1,544,681)
Increase / (decrease) in provisions	79,704	25,738
Net operating cash flows	**(2,487,962)**	**(2,618,924)**

(c) Changes in liabilities arising from Financing Activities:

	1 July 2018	Cashflows	Non-cash changes[1.]	30 June 2019
Hire purchase loans[1.]	478,421	(322,526)	485,507	641,402
CBA facility[2]	10,000,000	2,054,000	-	12,054,000
Total	**10,478,421**	**2,054,000**		**12,695,402**

[1.] Leases entered into in the current year.

[2..] CBA facility cashflows:	$
New facility drawn down	4,550,000
New facility paid down	(2,496,000)
	2,054,000

(d) Non-cash financing and investing (refer note 16(a))

A total of 625,000 stapled securities were issued with a value of $75,000 as consideration for the acquisition of Flahey's Nutritionals.

A total of 150,031 stapled securities were issued with a value of $24,005 as consideration for equipment acquisition advisory services.

A total of 3,000,000 stapled securities were issued with a value of $300,720 on exercise of performance rights issued in the prior year.

During the year the Group acquired plant and equipment with an aggregate value of $485,507 by means of finance leases and $402,863 in a distribution from the CDC joint venture (refer Note 23). These acquisitions are not reflected in the statement of cashflows.

NOTE 7: TRADE AND OTHER RECEIVABLES

	Note	2019 $	2018 $
Current			
Trade receivables		2,839,564	2,031,393
Provision for impairment	(a)	(864,438)	-
Other receivables		501,990	366,129
Total current trade and other receivables		**2,477,116**	**2,397,522**

(a) Lifetime Expected Credit Loss Credit Impaired

	Opening balance under AASB 139	Adjustment for AASB 9	Net measurement of loss allowance	Amounts written off	Total
	$	$	$	$	$
Current trade receivables	-	-	864,438	-	**864,438**

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 30 June 2019 is determined as follows; the expected credit losses also incorporate forward-looking information.

2019	Current	>30 days past due	>60 days past due	>90 days past due	Total
	$	$	$	$	$
Expected loss rate	3%	55%	0%	98%	
Gross carrying amount	2,473,946	121,823	869	744,916	**3,341,554**
Loss allowing provision (i)	70,826	66,498	-	727,114	**864,438**

(i) On 26 August 2019 the Group announced to the ASX it has entered into a joint venture in relation to the Jonesy's Dairy Fresh (JDF) milk distribution business (Business). Under the terms of the joint venture, the assets of the Business will be transferred to a new trading company, Jonesy's Distribution Pty Ltd (JD). The parent company currently owns 100% of the share capital in JD but on completion of the joint venture transaction, the parent company will own 50% of the shares in JD and the founders of JDF will own the other 50% of the shares. As part of the joint venture transaction, the outstanding trade debtor balance between the Business and Camperdown Dairy Company (CDC) will be transferred to JD and CDC will advance JD up to an additional $100,000 for working capital. The trade debtor balance as well as any working capital advanced by CDC to JD will be fully secured against the existing and future assets of JD. Whilst the security held by CDC over the assets of JD affords CDC the opportunity to collect some or all of the outstanding trade debtor balance, the directors have provided for the full $864,438 of the JDF outstanding balance to Camperdown Dairy at 30 June 2019.

2018	Current	>30 days past due	>60 days past due	>90 days past due	Total
	$	$	$	$	$
Expected loss rate	0%	0%	0%	0%	
Gross carrying amount	2,334,879	34,269	2,622	25,752	**2,397,522**
Loss allowing provision	-	-	-	-	**-**

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

Credit risk

The Group has a significant concentration of credit risk with three key customers totalling $2,189,865 or 65% of receivables at balance date. Of this amount, $864,438 is impaired. The class of assets described as "trade and other receivables" is considered to be the main source of credit risk to the Group.

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

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

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

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery; for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

(b) Financial assets Measured at Amortised Cost

	Note	2019 $	2018 $
Trade and other receivables			
Total current		2,477,116	2,397,522
Total financial assets measured at amortised cost	28	**2,477,116**	**2,397,522**

(c) Collateral pledged

A floating charge over some trade receivables has been provided for certain debt. For futher details refer to Note 15: Borrowings.

NOTE 8: INVENTORIES

	2019 $	2018 $
Current		
Packaging	341,876	231,643
Raw materials, finished goods and chemicals	268,690	71,742
Feedstock, hay and silage	385,152	322,124
Total inventories (at cost)	**995,718**	**625,509**

NOTE 9: OTHER ASSETS

	2019 $	2018 $
Current		
Prepayments	165,474	152,183
Bonds and deposits	50,942	30,000
Total other assets	**216,416**	**182,183**

NOTE 10: BIOLOGICAL ASSETS

	Notes	2019 $	2018 $
Non-current			
Dairy livestock	(a)	4,928,422	5,205,744
Total biological assets		**4,928,422**	**5,205,744**

NOTE 10: BIOLOGICAL ASSETS (cont'd)

Movements during the year:		
Opening carrying amount	5,205,774	5,426,719
Purchases of livestock	53,621	336,014
Deemed cost of livestock disposed	(869,525)	(937,226)
Gain from changes to fair value	538,552	380,267
Closing carrying amount	**4,928,422**	**5,205,774**

Movements during the year (herd numbers):	**2019**	**2018**
	No.	**No.**
Opening balance	3,812	3,504
Purchases	65	231
Natural increase and attrition	1,610	1,663
Sales	(1,548)	(1,586)
Closing balance	**3,939**	**3,812**

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2019, 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 $538,552 (2018: $380,267) has been recognised in profit and loss at 30 June 2019, 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.

(c) During the year ended 30 June 2019, the Group produced 15.8 million litres (2018: 16.7 million litres) of raw milk. The average number of cows milked during the year was 2,111 (2018: 2,041).

NOTE 11: INTANGIBLE ASSETS

	Notes	**2019**	**2018**
		$	**$**
Goodwill			
- at cost	(a)	6,616,393	6,616,393
		6,616,393	**6,616,393**
Recipes, formulations and patents			
- at cost	(b)	336,220	-
		336,220	**-**
Product development			
- at cost		41,163	34,645
Less accumulated amortisation		(19,540)	(7,993)
	(c)	**21,623**	**26,652**
Total intangible assets		**6,974,236**	**6,643,045**

(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 2019.

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.

NOTE 11: INTANGIBLE ASSETS (cont'd)

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.

Sensitivity to change in assumptions

Revenue growth – Revenue projections are based on the 2020 budget and forward-looking plans using current and contracted sales levels and pipeline growth. Growth rates of 3% have been used, reflecting a conservative approach in a changing marketplace.

Gross margins – Gross margins are based on the 2020 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 2019, 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.

(b) Recipes, formulations and patents relate to the acquisition of Flahey's Nutritionals Pty Ltd on 24 December 2018 (refer note 3).

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

	2019	2018
	$	$
Opening balance	6,643,045	6,649,168
Additions in year	20,598	34,645
Acquisition of Flahey's Nutritionals (refer Note 3)	322,140	-
Amortisation	(11,547)	(40,768)
Closing balance	**6,974,236**	**6,643,045**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Notes	2019 $	2018 $
Land, buildings and improvements			
- at cost		26,560,020	23,097,490
Less accumulated depreciation		(1,240,622)	(653,541)
Less accumulated impairment	(b)	(2,824,473)	(2,785,638)
	(a)	**22,494,925**	**19,658,311**
Plant and equipment - owned			
- at cost		7,767,241	7,057,687
Less accumulated depreciation		(2,175,287)	(1,613,877)
		5,591,954	**5,443,810**
Plant and equipment - leased			
- at cost		1,366,521	905,733
Less accumulated depreciation		(262,961)	(173,091)
		1,103,560	**732,642**
Total property, plant and equipment		**29,190,439**	**25,834,763**

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

Farm name	Acquisition date	Carrying value 2019	Carrying value 2018
Brucknell No 1	22 October 2014	4,172,733	4,101,688
Brucknell No 2	22 October 2014	4,133,816	4,010,256
Ignatios	14 January 2015	-	2,370,220
Brucknell No 3	6 March 2015	2,290,333	2,246,211
Missens Road	9 July 2015	1,520,110	1,513,040
Drumborg	16 September 2015	5,200,361	5,143,918
Depot & Old Geelong Road (Camperdown) - Land	17 November 2017	272,974	272,974
Yarringa - Nirranda South[1.]	4 October 2018	4,904,598	-
Total (at director's valuation)		**22,494,925**	**19,658,311**

1. As announced to ASX on 5 October 2018, the Group acquired the Yaringa farm at Nirranda South. The farm is NASAA certified and set for full organic certification in October 2019. Yaringa is an important cornerstone in the Group's strategy to focus its milk processing business on value-added premium dairy products and brand building.

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, which gave rise to an impairment charge of $338,075 in that year,

(c) On 3 June 2019, the Group announced to ASX the completion of the Ignatios Farm (4 Maddens Bridge Road) sale for $2,600,000 with the net proceeds of the sale used to pay down CBA borrowings.

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (cont'd)

Movements in the Carrying Amounts

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

	Land, Buildings & Improvements	Plant & Equipment - Owned	Plant & Equipment - Leased	Total
2019	**$**	**$**	**$**	**$**
Balance beginning of the financial year	19,658,311	5,443,810	732,642	**25,834,763**
Additions	5,906,230	1,076,367	485,507	**7,468,104**
Disposals	(2,374,841)	(256,182)	(24,719)	**(2,655,742)**
Depreciation expense	(694,775)	(672,041)	(89,870)	**(1,456,686)**
Balance at end of financial year	**22,494,925**	**5,591,954**	**1,103,560**	**29,190,439**

	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**

NOTE 13: TRADE AND OTHER PAYABLES

	Notes	2019 $	2018 $
Current			
Trade creditors		1,579,109	1,161,205
Sundry creditors and accrued expenses		791,841	736,519
Total trade and other payables		**2,370,950**	**1,897,724**
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		2,370,950	1,897,724
Financial liabilities as trade and other payables	28	**2,370,950**	**1,897,724**

NOTE 14: PROVISIONS

	2019 $	2018 $
Current		
Employee benefits	314,797	260,816
Total current provisions	**314,797**	**260,816**
Non-current		
Employee benefits	135,087	109,364
Total non-current provisions	**135,087**	**109,364**
Total provisions	**449,884**	**370,180**
Movement in provisions:		
Opening balance	370,180	344,442
Additional provision	263,352	172,442
Amounts used	(183,648)	(145,704)
Closing balance	**449,884**	**370,180**

Provision for employee benefits

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

NOTE 15: BORROWINGS

	Notes	2019 $	2018 $
Current			
Bank hire purchase loans - secured		264,363	177,445
CBA facility - secured		-	10,000,000
Total current borrowings		**264,363**	**10,177,445**
Non-current			
Bank hire purchase loans - secured		377,039	300,976
CBA facility - secured	(a)	12,054,000	-
Total non-current borrowings		**12,431,039**	**300,976**
Total borrowings		**12,695,402**	**10,478,421**

(a) At 30 June 2019, the Group has banking facilities with the Commonwealth Bank of Australia Limited (CBA). The facility is a three year redrawable loan facility of $12,054,000 which has a maturity date of 4 October 2021. The facility is subject to compliance with predetermined covenants and an annual review. The directors have classified the facility as a non-current liability in its entirety based on the facility not maturing until 4 October 2021, the Group's intentions to retain the facility prior to maturity date and meeting all covenants during the period and subsequent to balance date.

(b) On 13 May 2019, the CBA approved a short-term overdraft facility of $1,000,000 for the Group. The facility remained undrawn and was subsequently closed on 15 July 2019.

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NOTE 15: BORROWINGS (cont'd)

Collateral Provided:

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

Lease liabilities are secured by the underlying leased assets.

The carrying amounts of assets pledged as security are:

	2019 $	2018 $
First mortgage over land and buildings	22,494,924	19,050,000
General security interest over all assets of ADFT	12,877,664	14,999,743
First registered charge over leased equipment	1,103,560	732,642
Negative pledge and guarantee over all other Group assets	12,054,748	8,438,111
Total assets pledged as security	**48,530,896**	**43,220,496**

NOTE 16: ISSUED CAPITAL

	2019 $	2018 $
Contributed equity of the Group	56,219,847	49,505,104

(a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2018	Opening balance	242,792,046	-	18,760,113	30,744,991	49,505,104
02 Jul 2018	KPI performance rights (i)	3,000,000	0.10	300,720	-	300,720
30 Oct 2018	Stapled Security Purchase Plan(ii)	20,919,363	0.13	2,719,500	-	2,719,500
24 Dec 2018	Purchase of Flahey's Nutritionals Pty Ltd (iii)	625,000	0.12	75,000	-	75,000
28 Jun 2019	Placement - Tranche 1 (iv)	32,657,851	0.12	3,918,942	-	3,918,942
28 June 2019	Ultima Capital Consultancy (v)	150,031	0.16	24,005	-	24,005
	Transaction costs	-	-	(323,424)	-	(323,424)
30 June 2019		**300,144,291**		**25,474,856**	**30,744,991**	**56,219,847**

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	121,900	0.164	10,000	10,000	20,000
12 Feb 2018	KPI performance rights	1,000,000	0.1241	124,100	-	124,100
12 Feb 2018	Loan securities	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**

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NOTE 16: ISSUED CAPITAL (cont'd)

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

(i) On 2 July 2018, there was 3,000,000 stapled securities issued to Peter Skene on exercise of performance options. The fair value of securities granted, determined by independent valuation, was $300,720 (being the amount of the options granted).

(ii) On 30 October 2018, there was 20,919,363 stapled securities issued to eligible securityholders under the Group's Stapled Security Purchase Plan at a price of $0.13 per security. The fair value of securities granted, determined by reference to the offer issue price, was $2,719,500.

(iii) On 24 December 2018, 625,000 stapled securities were issued as part of the acquisition of Flahey's Nutritionals. The fair value of securities issued, determined by reference to market price, was $75,000 (refer note 3).

(iv) On 28 June 2019, there was 32,657,851 stapled securities issued on completion of a placement being conducted in two tranches. The fair value of securities granted in tranche 1, determined by reference to the placement price of $0.12 per security, was $3,918,942. Tranche 2 of the placement was susequently completed on 20 August 2019 with the issue of 67,342,149 stapled securities.

(v) On 28 June 2019, there was also 150,031 stapled securities issued to Ultima Capital Partners for consultancy services in relation to the Group's infant formula project. The fair value of securities issued, determined by reference to market price, was $24,005.

(b) Performance Options

There are 16,250,000 (2018: 13,780,000) performance options on issue at 30 June 2019 (refer note 26).

(c) Loan Securities

There are 7,000,000 (2018: 7,000,000) loan securities on issue at 30 June 2019 (refer note 26).

(d) Stapled Securities

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

(e) Capital management

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

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

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

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

This strategy, consistent with the prior year, is to ensure that the Group's gearing ratio remains below 35%. The gearing ratios for the years ended 30 June 2019 and 30 June 2018 are as follows:

	Notes	2019 $	2018 $
Total borrowings	15	12,695,402	10,478,421
Less cash and cash equivalents	6	(3,748,550)	(2,331,700)
Net debt		8,946,852	8,146,721
Total equity		33,014,661	30,474,171
Total capital		41,961,513	38,620,892
Gearing ratio		21%	21%

NOTE 17: 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 18: CAPITAL AND LEASING COMMITMENTS

(a) Finance lease commitments:

	2019	2018
	$	$
Payable - minimum lease payments		
Not later than 12 months	293,867	201,523
Between 12 months and 5 years	424,369	329,534
Greater than 5 years	-	-
Minimum lease payments	**718,236**	**531,057**
Less future finance charges	(76,834)	(52,636)
Present value of minimum lease payments	**641,402**	**478,421**

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

	2019	2018
	$	$
Payable - minimum lease payments		
Not later than 12 months	135,430	86,500
Between 12 months and 5 years	82,800	64,875
Greater than 5 years	-	-
Present value of minimum lease payments	**218,230**	**151,375**

(c) Capital Expenditure Commitments

(i) On 4 April 2019, the parent company announced to the ASX it had executed an agreement to purchase an existing offshore infant formula plant comprising a dryer together with compatible evaporator and nutritionals blending equipment. The purchase settled on 27 August 2019, with the Company acquiring 100% of the financing vehicle, Organic Nutritionals Pty Ltd for $1,302,014. Included in the acquisition price is a $122,490 deposit for a high-speed pouch machine to further advance production capabilities and capacity for The Collective contract. The Group is committed to the final balance of $277,753 which is payable on delivery of the machine expected to be late in 2019.

NOTE 19: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities for the year ended 30 June 2019 (2018: nil).

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NOTE 20: 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 2019.

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

	2019	2018
	$	$
Short term	514,469	605,837
Post employment	38,106	33,391
Other long-term	14,435	(8,650)
Share-based payments	10,530	928,142
	577,540	**1,558,720**

Short-term employee benefits

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

Post-employment benefits

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

Other long-term benefits

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

Share-based payments

These amounts represent the expense related to the participation of KMP in the ADNG 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 21: AUDITORS' REMUNERATION

Remuneration of the auditor for:

	2019	2018
	$	$
Audit and review of the financial statements	64,566	76,560

NOTE 22: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2019 Percentage Owned	2018 Percentage Owned
Parent Entity:			%	%
Australian Dairy Nutritionals Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd		ordinary	100	100
Dairy Fund Management Limited		ordinary	100	100
DFI Operations Pty Ltd (dormant)		ordinary	100	100
Camperdown Dairy Company Pty Ltd		ordinary	100	100
Victorian Farmers Direct Pty Ltd		ordinary	100	100
Flahey's Nutritionals Pty Ltd		ordinary	100	-
Camperdown Dairy Park Trust		units	100	100
Other Controlled Entities			%	%
Australian Dairy Farms Trust	(b)(c)	units	-	-

The financial year of all controlled entities is the same as that of the holding company and all controlled entities are incorporated in Australia. All entities principal place of business and country of incorporation is Australia. All ownership interests are directly held and have equal voting rights. Other than for borrowings as detailed in Note 15, there are no significant restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

(a) Ultimate Controlling Entity

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

(b) Transactions with Non-controlling interests in ADFT

As set out in Note 1, ADFT is a controlled entity. Transactions with non-controlling interests in ADFT in the year comprised equity as set out in Note 16.

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

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

	2019	2018
	$	$
Summarised Financial Position		
Current assets	12,938,737	14,039,911
Non-current assets	22,433,852	20,009,833
Current liabilities	(105,908)	(10,065,245)
Non-current liabilities	(12,054,000)	-
Net Assets	**23,212,681**	**23,984,499**
Carrying amount of non-controlling interests	23,212,681	23,984,499
Summarised Financial Performance		
Revenue	220,232	214,733
Loss after tax	(771,818)	(1,110,213)
Other comprehensive income after tax	-	-
Total comprehensive loss	**(771,818)**	**(1,110,213)**
Loss attributable to non-controlling interests	(771,818)	(1,110,213)

NOTE 22: 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:

	2019	2018
	$	$
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	(570,388)	(480,109)
Net cash from / (used in) investing activities	(2,572,079)	(40,810)
Net cash from / (used in) financing activities	1,491,091	2,131,023
Net cash increase / (decrease) in cash and cash equivalents	**1,651,376**	**1,610,104**

NOTE 23: ASSOCIATES AND JOINT ARRANGEMENTS

In prior years the Group has held 50% interest in a joint venture entity - Campwerdown Cheese and Butter Factory Pty Ltd (CCB). CCB was a private entity that manufactures butter for the shareholders of the joint venture. The Group's interest in the company represented a strategic investment with the joint venture operated on a break-even basis and was 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. Included in revenue is $716,543 as a final distribution from termination of the CCB joint venture.

Name	Principal Activities	Country of Incorp.	Type	Ownership Interest		Carrying amount of investment	
				2019	2018	2019	2018
				%	%	$	$
Unlisted:							
Camperdown Cheese & Butter Factory Pty Ltd (CCB)	Manufacture of butter & cream	Aust	Shares	-	50	-	-

NOTE 24: RELATED PARTY TRANSACTIONS

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

(i) Entities exercising control over the Group:

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

(ii) Key management personnel:

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

For details of disclosures relating to key management personnel, refer to Note 20.

(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.

NOTE 24: RELATED PARTY TRANSACTIONS (cont'd)

(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) Jimmy Crow Limited

Michael Hackett is a director of Jimmy Crow Limited. During the year ended 30 June 2019, Jimmy Crow Limited was paid $93,372 (2018: $172,740) on a reimbursement basis, for the provision of administrative services, accounting, secretarial, and related activities. There was $9,391 (2018: $18,480) due at 30 June 2019.

(ii) Watershed Funds Management Pty Ltd

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2019, Watershed Funds Management Pty Ltd was paid $54,750 (2018: $54,750) for the provision of Adrian Rowley as director. There was $5,019 (2018: $5,019) due at 30 June 2019.

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

NOTE 25: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

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

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

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

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

Types of products and services by segment

Dairy Farms

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

Dairy Processing

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

In accordance with AASB 8, corporate costs and KMP remuneration have been allocated to the dairy farm and dairy processing segments on a 50/50 basis, representative of the consumption of this expenditure. Finance costs - banking facility, have been allocated in accordance with historical use of funds. The 30 June 2018 comparative has also been restated to reflect these allocations.

There are no intersegment sales and reporting of segment revenue has not been impacted by the adoption of AASB 15 (refer note 1).

NOTE 25: SEGMENT REPORTING (cont'd)

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.

(i) Segment Performance

30 June 2019	**Dairy Farm**	**Dairy Processing**	**Total**
Revenue	**$**	**$**	**$**
External sales	7,976,702	13,391,170	21,367,872
Other income	566,865	-	566,865
Interest revenue	5,486	-	5,486
Total segment revenue	**8,549,053**	**13,391,170**	**21,940,223**
Total group revenue			**21,940,223**
Segment net loss before tax	**(1,948,515)**	**(2,077,510)**	**(4,026,025)**

30 June 2018	**Dairy Farm**	**Dairy Processing**	**Total**
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	**(1,345,904)**	**(2,811,749)**	**(4,157,653)**

(ii) Segment Assets	**Dairy Farms**	**Dairy Processing**	**Total**
As at 30 June 2019	**$**	**$**	**$**
Segment assets	33,425,001	15,105,896	48,530,897
Segment assets include:			
Additions to non-current assets	6,680,822	1,183,643	7,864,465

NOTE 25: SEGMENT REPORTING (cont'd)

	Dairy Farms	Dairy Processing	Total
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

(iii) Segment Liabilities	Dairy Farms $	Dairy Processing $	Total $
As at 30 June 2019			
Segment liabilities	6,139,679	9,376,557	15,516,236

	Dairy Farms $	Dairy Processing $	Total $
As at 30 June 2018			
Segment liabilities	2,313,671	10,432,654	12,746,325

(iv) Revenue by geographic region

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

	2019 $	2018 $
Australia	21,940,223	19,902,214
Other countries	-	-
Total revenue	**21,940,223**	**19,902,214**

(v) Assets by geographic region

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

	2019 $	2018 $
Australia	48,530,897	43,220,496
Other countries	-	-
Total assets	**48,530,897**	**43,220,496**

NOTE 26: SHARE BASED PAYMENTS

During the year ended 30 June 2019, there were no stapled securities, performance options and loan securities issued to employees and key management personnel under the ADNG employee Long Term Incentive Plan (LTIP).

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.

The following performance options were granted in 2018 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 during the year is as follows

Options outstanding at 1 July 2017	**12,540,000**	
Granted	13,000,000	
Forfeited	(5,620,000)	
Cancelled	(6,140,000)	
Options outstanding at 30 June 2018	**13,780,000**	**(all exercisable)**

The total and fair value of options granted during the 2018 comparative period was $371,261. These values were calculated using a binominal option pricing model applying the following inputs:

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

Vesting subsequent to grant date is subject to key management personnel meeting speficied 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. Historically 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 evenuate in the future.

Options outstanding at 1 July 2018	**13,780,000**	
Granted (i)	6,250,000	
Forfeited (ii)	(780,000)	
Exercised (iii)	(3,000,000)	
Options outstanding at 30 June 2019	**16,250,000**	**(all exercisable)**

(i) Granted options

On 24 December 2018 the Group issued consideration securities for the purchase of Flahey's Nutritionals Pty Ltd (refer note 3).

The weighted average remaining life of these securities at period end is 1.7 years and there is no exercise price.

The fair value of the consideration securities issued was $750,000 based on a weighted average fair value of securities of $0.12 calulated by applying the following inputs:

weighted average exercise price:	nil
weighted average exercise life:	1.7 years
expected share price volatility:	96.28%
weighted average risk-free rate:	1.91%

During the year ended 30 June 2019, $126,273 has been expensed as a share-based payment in regards to the consideration securities.

NOTE 26: SHARE BASED PAYMENTS (cont'd)

(ii) 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 2019, 780,000 (2018: 5,620,000) performance options were forfeited as the performance hurdle was not satisfied and $21,417 (2018: $439,519) has been transferred from the equity reserve to retained earnings.

In the 2018 comparative, 6,140,000 performance options were cancelled and the $36,388 fair value of the cancelled options was offset against the fair value of the new options granted on 12 February 2018.

(iii) Exercised performance options

On 2 July 2018, there were 3,000,000 stapled securities issued to Peter Skene for achievement of 2018 performance hurdles.

(iii) Stapled securities granted to key management personnel as share-based payments in the 2018 comparative 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.

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

(iv) Loan securities granted to key management personnel as share-based payments in the 2018 comparative 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%

(v) Included under employee benefits expense in the statement of profit or loss is $152,492 (2018: $961,538), which relates to equity-settled share-based payment transactions - securities and options.

(vi) Other share based payments (refer note 15).

During the year the Group issued stapled securities as consideration:

- for the purchase of Flahey's Nutritionals Pty Ltd - 625,000 securities.
- for payment of consultancy services - 150,031 securities.
- in the 2018 comparative, for purchase of land - 121,900 securities.

NOTE 27: EVENTS AFTER THE BALANCE DATE

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

- On 20 August 2019, the Group announced to the ASX the completion of tranche 2 of its placement with the issue of 67,342,149 stapled securities, raising $8.1m. Blue Ocean Equities, who acted as lead manager to the placement, were also issued 2,500,000 options;
- On 26 August 2019 the Group announced to the ASX it has entered into a joint venture in relation to the Jonesy's Dairy Fresh (JDF) milk distribution business (Business). Under the terms of the joint venture, the assets of the Business will be transferred to a new trading company, Jonesy's Distribution Pty Ltd (JD). In addition, the outstanding trade debtor balance between the Business and Camperdown Dairy Company (CDC) will be transferred to JD and CDC will advance JD up to an additional $100,000 for working capital. The trade debtor balance as well as any working capital advanced by CDC to JD will be fully secured against the existing and future assets of JD. The parent company currently owns 100% of the share capital in JD but on completion of the joint venture transaction, the parent company will own 50% of the shares in JD and the founders of JDF will own the other 50% of the shares. The Group sees the joint venture as a strategic platform to expand its position in the hospitality and niche retail distribution market. In addition, the directors are of the view that the security which CDC will have over the new joint venture entity (JD), provide a potential opportunity for CDC to recover some or all of the trade debtor balance owed by the Business (refer Note 7(a)(i)).
- On 27 August 2019 the acquisition of the infant formula and nutritionals mixing plant announced on 4 April 2019 completed (refer Note 18(c)(i). The plant has obtained full customs and AQIS clearance and has now been re-located to Camperdown, Victoria.

In the opinion of the directors there were no other material matters that have arisen since 30 June 2019 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

NOTE 28: FINANCIAL RISK MANAGEMENT

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

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

	Notes	2019 $	2018 $
Financial assets			
Financial assets at amortised cost:			
Cash and cash equivalents	6	3,748,550	2,331,700
Trade and other receivables	7	2,477,116	2,397,522
Bonds and deposits	9	50,942	30,000
Total financial assets		**6,276,608**	**4,759,222**
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	13	2,370,950	1,897,724
Borrowings	15	12,695,402	10,478,421
Total financial liabilities		**15,066,352**	**12,376,145**

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.

NOTE 28: 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, however the Group will always have exposure to potential bad debts (see also Note 7).

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

(b) Liquidity risk

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

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

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Borrowings	(264,363)	(10,177,445)	(12,431,039)	(300,976)	-	-	(12,695,402)	(10,478,421)
Trade & other payables	(2,370,950)	(1,897,724)	-	-	-	-	(2,370,950)	(1,897,724)
Total expected outflows	**(2,635,313)**	**(12,075,169)**	**(12,431,039)**	**(300,976)**	**-**	**-**	**(15,066,352)**	**(12,376,145)**
Financial assets - cash flows realisable								
Cash	3,748,550	2,331,700	-	-	-	-	3,748,550	2,331,700
Trade and other receivables	2,477,116	2,397,522	-	-	-	-	2,477,116	2,397,522
Bonds and deposits	-	-	50,942	30,000	-	-	50,942	30,000
Total anticipated inflows	**6,225,666**	**4,729,222**	**50,942**	**30,000**	**-**	**-**	**6,276,608**	**4,759,222**
Net (outflows) / inflows on financial instruments	**3,590,353**	**(7,345,947)**	**(12,380,097)**	**(270,976)**	**-**	**-**	**(8,789,744)**	**(7,616,923)**

- The Groups financial assets are pledged as security for debt (refer note 15).

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

(c) Market risk

Interest rate risk

The Group at the date of this report has debt exposure through $641,402 in fixed rate facilities, $12,054,000 in variable rate facilities, and $3,748,550 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 2019, 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:

	2019	2018
Change in profit	**$**	**$**
- Increase in interest rate by 1%	(83,054)	(76,683)
- Decrease in interest rate by 1%	83,054	76,683
Change in equity		
- Increase in interest rate by 1%	(83,054)	76,683
- Decrease in interest rate by 1%	83,054	(76,683)

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.

		Carrying Amount		Fair Value	
	Footnote	**2019**	**2018**	**2019**	**2018**
		$	**$**	**$**	**$**
Financial assets					
Financial assets at amortised cost:					
Cash and cash equivalents	(i)	3,748,550	2,331,700	3,748,550	2,331,700
Trade and other receivables	(i)	2,477,116	2,397,522	2,477,116	2,397,522
Bonds and deposits	(i)	50,942	30,000	50,942	30,000
Total financial assets		**6,276,608**	**4,759,222**	**6,276,608**	**4,759,222**
Financial liabilities					
Financial liabilities at amortised cost:					
Trade creditors	(i)	2,370,950	1,897,724	2,370,950	1,897,724
Borrowings	(ii)	12,695,402	10,478,421	12,695,402	10,478,421
Total financial liabilities		**15,066,352**	**12,376,145**	**15,066,352**	**12,376,145**

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

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

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

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

NOTE 29: FAIR VALUE MEASUREMENT

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

- biological assets.

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

(a) Fair Value Hierarchy

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

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

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

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

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

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

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

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

30 June 2019

	Note	Level 1 $	Level 2 $	Level 3 $	Total $
Non-financial assets					
Biological assets	10	-	4,928,422	-	4,928,422
Total non-financial assets recognised at fair value on a recurring basis		**-**	**4,928,422**	**-**	**4,928,422**

30 June 2018

	Note	Level 1 $	Level 2 $	Level 3 $	Total $
Non-financial assets					
Biological assets	10	-	5,205,774	-	5,205,774
Total non-financial assets recognised at fair value on a recurring basis		**-**	**5,205,774**	**-**	**5,205,774**

(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 2019 $	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	4,928,422	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	4,928,422		

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

(c) Disclosed Fair Value Measurements

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

Cash;

Trade and other receivables;

Bonds and deposits;

Trade and other payables; and

Borrowings.

NOTE 30: EARNINGS PER STAPLED SECURITY CALCULATIONS

	2019 cents	2018 cents
Earnings per stapled security:		
Basic loss per stapled security	(1.55)	(1.80)
Diluted loss per stapled security	(1.55)	(1.80)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(4,026,025)	(4,157,653)

	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	260,204,432	230,768,425
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**260,204,432**	**230,768,425**

All options on issue are considered to be dilutive potential ordinary securities, however they are presently anti-dilutive at 30 June 2019 as the Group is in losses.

NOTE 31: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2019 (2018: $nil) at the date of this report.

Australian Dairy Nutritionals Group

DIRECTORS' DECLARATION

For the year ended 30 June 2019

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 2019 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 2019.

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

Michael Leslie Hackett
Chairman

Brisbane

30 August 2019

Nexia Australia

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUSTRALIAN DAIRY NUTRITIONALS LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Dairy Nutritionals Limited (("the Company") and its subsidiaries("the Group")), which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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.

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Independent Auditor's Report To The Members Of Australian Dairy Nutritionals Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of goodwill Refer Note 11 of the financial report.	
At 30 June 2019 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. Furthermore, as the CGU contains goodwill, the Group was required by AASB 136 *Impairment of Assets* to perform an assessment of that CGU's recoverable amount. The Group assessed the recoverable amount of the Dairy Processing CGU by determining its value-in-use. 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.	Our procedures included, amongst others: • 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.
Assessment of impairment of dairy farm assets Refer Notes 10 and 12 of the financial report. At 30 June 2019 key assets of the Group included dairy farm properties $22,221,951 and the dairy herd $4,928,422. The dairy industry is experiencing structural change, and as a consequence the dairy farms are experiencing changes in trading conditions. 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.	Our procedures included, but were not limited to: • 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 to count and value the dairy herd; • we assessed the valuation reports obtained by the Group, with reference to methodology, prior valuations and our knowledge of the herd.

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Independent Auditor's Report To The Members Of Australian Dairy Nutritionals Limited (continued)

The Group assessed the recoverable amounts of its farm properties by reference to prior year external valuations, current market conditions and trading prospects. The Group assessed the value of the 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.	• 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 farm properties goodwill to be impaired, and considered the likelihood of such a movement in those key assumptions.

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 2019, 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.

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Independent Auditor's Report To The Members Of Australian Dairy Nutritionals Limited (continued)

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:

- 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.

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Independent Auditor's Report To The Members Of Australian Dairy Nutritionals Limited (continued)

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in pages 12 to 16 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Australian Dairy Farms Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Nexia Brisbane Audit Pty Ltd

N D Bamford
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 30 August 2019

The following information was extracted from Australian Dairy Farms Group's Register of Securityholders on 27 August 2019:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

		Fully Paid Stapled Securities	
		Securities Held	**% of Issued Capital**
1	IRONBARK-VEST PTY LTD	55,440,764	15.09
2	CORPORATE SOLUTIONS PTY LTD	15,309,892	4.17
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,100,209	3.84
4	PETER AND LYNNE SKENE	12,515,385	3.41
5	SIR RONALD ALFRED BRIERLEY	12,500,000	3.40
6	CS FOURTH NOMINEES PTY LIMITED	11,769,979	3.20
7	CITICORP NOMINEES PTY LIMITED	10,423,412	2.84
8	CS THIRD NOMINEES PTY LIMITED	7,396,547	2.01
9	FIDUCIARY NOMINEES PTY LTD	4,872,207	1.33
10	ONE MANAGED INVT FUNDS LTD	4,166,666	1.13
11	MR JUNLONG LIANG	3,855,000	1.05
12	RATHVALE PTY LIMITED	3,460,885	0.94
13	COSTINE PTY LTD	2,741,788	0.75
14	MYALL RESOURCES PTY LTD	2,600,000	0.71
15	VITAMIN WAREHOUSE AUSTRALIA PTY LTD	2,450,000	0.67
16	AM GLORY PTY LTD	2,300,069	0.63
17	MR CHONG CHE WONG	2,000,000	0.54
18	MR ZHONGDE ZHAO	2,000,000	0.54
19	MR ZHAN WANG	1,800,000	0.49
20	MR BINBIN ZHANG	1,709,247	0.47
		173,412,050	**47.19**
	Total Securities on issue	**367,486,440**	**100.00**

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	**Number of Securityholders**	**Securities**	**%**
1 - 1000	187	45,562	5.41
1,001 - 5,000	827	2,598,434	23.92
5,001 - 10,000	594	4,986,791	17.18
10,001 - 100,000	1,418	52,679,408	41.01
100,001 or greater	432	307,176,245	12.48
	3,458	**367,486,440**	**100.00**

MARKETABLE PARCELS

On 27 August 2019, using the last traded security price of $0.125 per security, there were 798 holdings, which were of less than a marketable parcel ($500).

VOTING RIGHTS

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

SUBSTANTIAL SECURITYHOLDERS

The names of the substantial securityholders listed in the Group's register on 27 August 2019 are:

	Securities Held	% of Voting Power Advised
Ironbark-Vest Pty Ltd	55,440,764	15.09
Michael Hackett and associated entities	23,298,887	6.34

UNLISTED OPTIONS OVER ORDINARY SECURITIES

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
24 December 2018	31 August 2021	nil	6,250,000
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

Company Secretary

Kate Palethorpe
Company Secretary

Registered Office

Level 1, 200 Creek Street
Brisbane QLD 4000

Telephone:	(07) 3020 3020
Facsimile:	(07) 3020 3080
Email:	info@adfl.com.au
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Corporate Office

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Brisbane QLD 4001

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

Auditor

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

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

Stock Exchange

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

The ASX Code is “AHF”.