Australian Dairy Nutritionals Group

2020 Annual Report

On behalf of the Board of Directors (Board) of Australian Dairy Nutritionals Group, I am pleased to present to members the Annual Report of the company and its controlled entities (Group) for the financial year ended 30 June 2020 (FY20).

FY20 has been a significant challenge for our industry and, of course, the second half year's challenges caused by the COVID-19 pandemic have required the Group to continually adapt to an ever-changing environment and market. The underlying net loss (excluding interest, depreciation, amortisation and impairment costs) for FY20 was $1.5M and, while it is an improvement on the FY19 loss of $1.9M, it is disappointing and reflects somewhat the impact of a volatile dairy industry and the pandemic.

Despite the challenges of FY20, the Group has maintained its strategy of focusing on the production of premium and specialty dairy products with healthy profit margins, including development of the Group's own brands. During FY20 the Group began construction on the new plant to house the recently purchased infant formula and nutritionals mixing plant. In addition, the Group purchased the right to manufacture, distribute and sell The Collective products allowing the Group to improve and realise efficiencies in the current supply chain and give greater control over margins.

The Collective product sales did not reach the volume levels that we expected to produce through the Camperdown factory in FY20. We expect an improvement in FY21, buoyed by the recent notification from Woolworths that they have broadened the range and volume of The Collective products to be sold at their stores from October 2020. Also, our new Ecklin South brand A2 yoghurt will be distributed through Coles nationally and we are optimistic about the potential for this new brand.

As stated previously, we are seeking a partnership with a distributor into the Asian market that will assist the Group in selling its future output of organic infant formula. During FY20, we were in advanced negotiations with a business that is a significant supplier of infant formula into Asia, however these have been suspended due to current market conditions including the impact of the COVID-19 pandemic. We will continue to pursue strategic partners to access international markets for our organic dairy products.

While the COVID-19 pandemic has been difficult to manage, it has provided an opportunity to expand our home delivery business. We have invested in additional resources, expanded the regional distribution footprint and improved the product range to meet the growing demand for this service.

The conversion of the Group's dairy farms to an organic certification continues, with the first farm certification occurring in FY20 with the expectation of the remaining farms being converted by the end of the 2021 calendar year. Despite the challenges and expense of developing the organic farms, without the certification to sell the milk at organic price levels, the farms contributed a net profit of $23K in FY20 compared with a loss of $1.9M in FY2019. The farms remain integral to the vertical integration strategy being employed by the Group.

The results include a non-cash impairment of the goodwill incurred on the purchase, in April 2016 of the Camperdown Dairy Company (CDC). The Board adopted a conservative approach to the Australian Accounting Standards in adopting the impairment of $4.26M, taking into account the current uncertain conditions impacting both the Australian and global economies. The writedown of the goodwill to $2.35M has no impact on the cash position of CDC's business or its future operations. The Board is of the opinion that there is significant value in the CDC plant operations and the portfolio of brand names not recognised in the statement of financial position.

FY20 has seen a consolidation of the Group's management structure, processes and systems that will ensure the Group successfully executes its strategy to achieve profitable growth. While adherence to our strategy has been at the forefront of our operations, there has also been a focus on governance and improving the management team capability. The recent addition of a new Chief Financial Officer and General Manager of Sales & Marketing, both very experienced and skilled managers, has ensured that the Group's operations are managed by a highly skilled, experienced and energetic executive team.

I would like to acknowledge the efforts of all our employees during FY20, especially their attention to the health and safety rules protecting the business and their health in the pandemic. I am happy to say that, to date, we have had no employee who has contracted the COVID-19 virus. Our executive management team have worked incredibly hard during this last year to not only manage the business but to also ensure the safety and wellbeing of all employees, and the Board is proud of their efforts.

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

Martin Bryant - Chairman

Australian Dairy Nutritionals Group

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 2020.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

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

In August 2019 the Group acquired an introductory infant formula and nutritionals mixing plant, a significant step in its infant formula strategy. The plant was transported from overseas to Camperdown in September 2019. After an extensive planning and development process, construction of the purpose built building to house the infant formula plant commenced in June 2020 and is expected to be completed in early 2021 after which installation and commissioning works will commence. The quoted construction cost of the building is $2.7M subject to agreed variations under the contract.

In October 2019, the Group entered into a joint venture with the founders of the Jonesy's Dairy Fresh milk distribution business. The joint venture known as Jonesy's Distribution provides a platform for distribution of the Group's products beyond the major supermarkets and into the foodservice segment (cafes and restaurants) and small niche retailers.

In November 2019 the first of the Group's dairy farms, Yaringa, located in Nirrandha South achieved full organic certification.

In April 2020 the Group expanded its manufacturing arrangement with New Zealand based dairy brand, The Collective to include the exclusive right to manufacture, distribute and sell The Collective's products in Australia. To facilitate this change with minimal disruption to customers and suppliers, the Group acquired The Collective's Australian operating subsidiary, Epicurean Dairy Pty Ltd.

BUSINESS MODEL AND OBJECTIVES

FY20 represented a further step in the Group's progression toward becoming a vertically integrated dairy farmer and manufacturer of differentiated dairy products under its own brands and other premium brands.

At the farm level, the first of the Group's dairy farms, Yaringa, achieved full organic certification in late November 2019. All other farms remain on track to achieve organic certification in calendar year 2021. In addition, in the third quarter of FY20, the Group converted one of its farms to cows producing only A2 beta casein protein in readiness for introduction of its new Ecklin South yoghurt product.

The manufacturing segment had a difficult year, although there were positive signs in the final quarter of FY20. The white milk and yoghurt categories remain highly competitive, with bi-annual supermarket range reviews. Acquiring the right to distribute and sell The Collective products (in addition to the manufacturing rights), is expected to realise efficiencies in the current supply chain and give greater control over margins. In addition, in May 2020, the Group obtained confirmation of ranging of it's own brand, Ecklin South A2 Greek Style yoghurt in Coles supermarkets nationally.

In October 2019, the Group entered into a joint venture arrangement in relation to milk distribution business, Jonesy's Dairy Fresh. Establishment of the joint venture provides a platform for distribution of Camperdown Dairy's range of milks to the hospitality and niche retailer distribution channels in the foodservice segment.

The other key pillar of the Group's strategy is the establishment of the nutritional powder and infant formula plant on the Camperdown Dairy Park site. The introductory infant formula plant was acquired from overseas in August 2019 and transported to Camperdown in September 2019. After a comprehensive development and planning process, construction of the building commenced in June 2020. Construction of the plant is expected to be completed in early 2021, followed by an installation and commissioning period. The Group is also well progressed in the development of differentiated nutritional and infant formula formulations and is progressing ranging and strategic distribution discussions.

FY20 set the initial foundations for this project and the Group will be strongly focussed on the execution and successful delivery of the building and plant in FY21.

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was $7,496,088 (2019: $4,026,025). This result is comprised of a net loss from the dairy processing segment of $7,520,018 (2019: $2,077,510) and net profit from the dairy farm segment of $23,930 (2019: $1,948,515 loss).

Total income for FY20 is $24,089,076 up 10% against the FY19 comparative period of $21,940,223. This is a result of a $678,789 increase in revenue from the dairy processing segment and a $1,470,064 increase from the dairy farm segment.

Total expenses for FY20 were $31,585,164 up 22% against the FY19 comparative period of $25,966,248. This comprised a $6,121,297 increase in expenses from the dairy processing segment and a decrease of $502,381 from the dairy farm segment.

Included in total expenses is a non-cash impairment of $4,262,652 for FY20 relating to the carrying value of goodwill in the dairy processing segment. The Group has taken a conservative approach to the underlying calculations for goodwill, including the discount rate, and has taken into account the uncertain conditions impacting the Australian economy as a result of the COVID-19 pandemic.

The writedown has no impact on the cash position of the business or its future operations and the Group believe there is significant value in the Camperdown plant operations and brand portfolio. The Group remains optimistic about the prospects of the dairy processing segment, including positive changes to the range of The Collective yoghurts sold in Woolworths stores from October 2020, introduction of the new Ecklin South yoghurt in Coles stores nationally and growth in its home delivery distribution channel.

FINANCIAL POSITION

The net assets of the Group at 30 June 2020 total $33,376,879, an increase of $362,218 from the June 2019 comparative.

The key assets and liabilities in the statement of financial position at 30 June 2020 are:

- cash and cash equivalents of $6,361,821 (June 2019: $3,748,550);
- property, plant and equipment of $29,757,034 (June 2019: $29,190,439);
- intangible assets of $2,753,218 (June 2019: $6,974,236);
- biological assets (livestock) of $5,368,015 (June 2019: $4,928,422); and
- total borrowings of $12,081,526 (June 2019: $12,695,402).

CURRENT RATIO

The Group's bank borrowing is a facility with the Commonwealth Bank of Australia Limited (CBA), which was established in April 2016, and is due for renewal on 4 October 2021 (refer Note 16(c)). Not withstanding that the CBA facility matures on 4 October 2021, under the terms of the facility, the Group may not have an unconditional right to defer settlement beyond 12 months from the current balance date.

As a result, in accordance with the provisions of the Australian Accounting Standards (AASB 101: Presentation of Financial Statements) and prudent disclosure practices, the Group has re-classified the existing CBA facility from a non-current liability at 30 June 2019, to a current liability at 30 June 2020. Consequently, this presents as a net current asset deficiency at 30 June 2020.

All obligations under the loan agreement have been met in accordance with the terms of the facility and at the balance date the Group has cash and cash equivalents of $6,361,821. The directors are confident of restructuring or refinancing the facility prior to maturity date. Accordingly, on this basis the financial statements of the Group have been prepared on a going concern basis and the financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary if the Group could not continue as a going concern.

REVIEW OF OPERATIONS

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

High farmgate milk prices and favourable weather conditions for dairy farming in South Western Victoria saw improved performance in the Group's farming operations in FY20 versus FY19.

The season commenced with good rainfall in May 2019 which continued through the winter months. Pasture growth was favourable and good silage levels were harvested in late 2019 for use during the drier periods in the final quarter of FY20, resulting in lower external feed requirements. Total milk production was 12.7M litres, a decrease of 3.1M litres on the prior year. The decrease in production was attributable to the conversion of all farms to organic.

REVIEW OF OPERATIONS (cont'd)

Farm revenues were $10,019,117, up $1,470,064 on FY19. This increase was underpinned by a 9 cent per litre increase to the milk price in FY20 and gains on the change in value of livestock, with sustained strong cattle prices throughout the year.

Total farm milk sales for FY20 of $7,118,208 were 4% down on the FY19 comparative period. This was due to an increase of $1.14 per kilogram in the net milk solids price from $6.04 to $7.22 during the year, offset by a 20% decrease in milk solids production arising from the conversion to organic.

Gain on change in fair value of livestock during the year was $1,574,300 (2019: $538,552). Livestock carrying values increased throughout FY20 with strong cattle prices in the open market.

Total expenses for FY20 were $9,995,187, down $502,381 on FY19. This was largely driven by a decrease of $723K in feed costs, offset by increases to pasture renovation and employment costs.

Registered valuers Preston Rowe Paterson completed an independent valuation of all farms for the year ended 30 June 2020. The basis of the valuation was 'As Is and In Use' with vacant possession and the combined fair value of all properties was $23,550,000, giving rise to a reversal of prior period impairment charges of $614,664. The Drumborg and Yarringa farms fair values exceed historical written down value by $271,824 and $363,645, however these are unbooked gains under the cost method adopted by the Group under AASB 116.

Manufacturing - Camperdown Dairy Company Pty Ltd

Camperdown Dairy Company (CDC) produced a range milks, cream, butter and yoghurt during FY20 for distribution in the major supermarkets and niche retailers, hospitality businesses and home delivery.

Dairy processing revenue for FY20 was $14,069,959, up $678,789 on FY19. This increase was largely driven by increased revenue from yoghurt sales to The Collective.

Total expenses for FY20 were $21,589,977, up $6,121,297 on FY19. This was largely driven by an increase in raw material costs from higher farmgate milk prices, additional costs from the acquisition of Jonesy's Distribution and Epicurean Dairy and a non-cash impairment of the acquisition goodwill for CDC of $4,262,652 (refer to Note 12).

The Group has taken a conservative approach to the underlying calculations for goodwill, including the discount rate, and has taken into account the uncertain conditions impacting the Australian economy as a result of the COVID-19 pandemic.

The writedown has no impact on the cash position of the business or its future operations and the Group believe there is significant value in the Camperdown plant operations and brand portfolio. The Group remains optimistic about the prospects of the dairy processing segment, including positive changes to the range of The Collective yoghurts sold in Woolworths stores from October 2020, introduction of the new Ecklin South yoghurt in Coles stores nationally and growth in its home delivery distribution channel.

In May 2020, former joint venture partner Organic Dairy Farmers of Australia Limited (ODFA) appointed voluntary administrators. The Group has an outstanding receivable of $193,774 with ODFA for deferred settlement on the joint venture split, that is due for payment in instalments to July 2022. Given the uncertainty around the future of ODFA and recoverability of the outstanding amount, a bad debt provision has been made for the full amount.

CDC had a challenging FY20 due to the impact of high farmgate milk prices and lower than anticipated sales of The Collective yoghurts, particularly in the second half of FY20 as the impact of changes at the Woolworths October 2019 range review were felt.

However, effective 1 May 2020, the Group's licence with The Collective was expanded to include distribution and sales of its products in addition to the right to manufacture. It is anticipated that this change will allow the Group to realise efficiencies in the current supply chain and give greater control over margins. The Group also expanded its sales and marketing expertise through the transition of experienced sales staff as part of The Collective acquisition.

On 7 October 2019, the Group entered into a joint venture arrangement in relation to milk distribution business, Jonesy's Dairy Fresh. The joint venture, Jonesy's Distribution Pty Ltd (Jonesy's Distribution) acquired the brand, customer base and ordering system of Jonesy's Dairy Fresh and is 75% owned by ADNL and 25% owned by the founders of Jonesy's Dairy Fresh. Camperdown Dairy Company has a fully secured loan over all of the assets of Jonesy's Distribution giving it the ability to potentially recover previous trade debtors owed to the Group by Jonesy's Dairy Fresh.

Establishment of the joint venture provided a platform for distribution of the Camperdown Dairy range of milks to the foodservice and niche retailer distribution channels. Camperdown Dairy manufactures milk, cream, butter and yoghurt products for Jonesy's Distribution. In addition to the Jonesy's Dairy Fresh milk range Jonesy's Distribution now ranges the full suite of the Camperdown Dairy milk and cream products and alternate milks (soy, almond and rice).

In January 2020 CDC successfully commissioned its new high speed pouch machine at its existing facility and the machine is currently being utilised in the production of yoghurt pouch products for The Collective.

In April 2020 the Group also obtained confirmation that its Ecklin South A2 Greek Style yoghurt product would be ranged in Coles stores nationally and sales commenced in late July 2020.

REVIEW OF OPERATIONS (cont'd)

Distribution

(i) Major supermarkets

Camperdown Dairy's 2L whole milk and skim milk products were ranged in over 300 Woolworths stores in Victoria in FY20. Whole milk sales volumes recorded an increase of 34% compared to FY19, a very strong result. As noted above, sales of The Collective yoghurts in Woolworths were impacted by the October 2019 range review changes, however management have worked closely with Woolworths to implement range changes in October 2020 to increase volumes and improve sales. A range of The Collective yoghurt products also commenced ranging in select IGA stores through the Metcash network in late April 2020.

(ii) Foodservice and niche retailers

The Group participates in the foodservice and niche retailer segment through the Jonesy's Distribution business. Since its acquisition in October 2019, significant work has been undertaken in improving the operations of this business, reducing costs and improving customer service. As much of the customer base is made up of cafes and other hospitality businesses, sales were initially impacted by the restrictions implemented by the Government in response to the COVID-19 pandemic. Despite this, sales in this segment have not been impacted as much as expected and, in the period through March to the end of the financial year Jonesy's Distribution sales showed a steady month on month increase.

(iii) Home delivery

In the second half FY20, the Group reviewed the performance of its home delivery channel and invested in additional resources to grow its customer base. This, along with the increase in demand for home delivery services as a result of the COVID-19 restrictions saw good improvements in the financial performance of this channel in the second half of FY20.

Infant Formula Plant

The Group completed the acquisition of the introductory infant formula and nutritionals mixing plant in August 2019. The plant was transported from overseas to Camperdown in September 2019. After a comprehensive planning and development process, construction of the purpose built building to house the infant formula plant commenced in June 2020. The building is expected to be completed in early 2021 (weather and COVID-19 restrictions permitting), after which plant installation and commissioning works will commence. Under the terms of the Construction Agreement, the quoted construction cost is $2.7 million, subject to agreed variations under the contract.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group in the year included the acquisition of the infant formula and nutritionals mixing plant and commencement of construction of a building to house the plant on the Group's Camperdown Dairy Park site. In addition, the Group completed the second tranche of the capital raising announced in June 2019, established the Jonesy's Distribution joint venture and acquired Epicurean Dairy Pty Ltd through the change to its licensing arrangement with The Collective.

With the escalation of the COVID-19 pandemic in March 2020 and associated Government mandated restrictions, the Group acted decisively, with the first priority being to protect the health and safety of our staff. For the corporate office, there was a seamless transition to remote working that had a minimal impact on the business. At the farms and the Camperdown manufacturing facility, measures were implemented in line with recommended practises to limit unnecessary contact and promote social distancing. Jonesy's Distribution and Victorian Farmers Direct delivery drivers implemented contactless delivery processes, again with minimal impact to customers.

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

All entities in the Group are eligible for the cash flow boost incentive implemented by the Government in response to the pandemic. The Group has recognised a total of $100,000 in government assistance from the cash flow boost in the consolidated statement of comprehensive income for the year ended 30 June 2020. Refer Note 4(a)(ii). None of the Group entities have qualified for the JobKeeper allowance.

On 20 August 2019, the Group finalised the second tranche of the placement to sophisticated investors announced to the ASX in June 2019. Following shareholder approval at the extraordinary general meeting held on 13 August 2019, the Group issued a further 67,342,149 stapled securities to raise $8.1 million. The Lead Manager for the placement, Blue Ocean Equities was also issued 2,500,000 options.

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

EVENTS AFTER THE REPORTING PERIOD

The impact of the COVID-19 pandemic is ongoing and while it has not materially impacted the Group on the signing of this report, it is not practical to estimate the potential impact, positive or negative, after the reporting date. As is evident from the implementation of Stage 4 restrictions in Victoria from 13 August 2020, the situation continues to develop rapidly and is dependent on measures imposed by the Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and economic stimulus. The Group will continue to assess any impact of COVID-19 on the business and ways to mitigate risks to the Group in relation to it.

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

ENVIRONMENTAL ISSUES

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

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

As part of this strategy, the Group is transitioning its dairy farms to fully certified organic operations. The first farm, Yaringa, achieved organic certification in November 2019 and the remaining farms are on track to achieve organic certification in calendar year 2021. In addition, in April 2020, the Group converted one of its farms to A2 beta casein only producing cows.

The Group continues to progress a number of innovation and product development opportunities as well as contract manufacturing arrangements with other premium brands. The Group also continues to invest in its hospitality and home delivery distribution businesses to extend distribution of its own brands and licensed brands beyond the major Australian supermarkets.

FY21 will see significant focus on the construction and commissioning of the Group's infant formula plant at the Camperdown Dairy Park site. Due to current uncertainty around COVID-19 restrictions, construction and commissioning of the plant is expected to take most of calendar year 2021, with the operational and financial benefits to be realised in the second half of FY22.

The Group will continue to identify and progress potential distribution partners both domestically and internationally and review and advance its infant formula strategy including the stage 2 expansion at the appropriate time.

BUSINESS RISK

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

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

Milk Prices

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

Operating Risks

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

Environmental Risks

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

BUSINESS RISK (cont'd)

Development Projects

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

Consumption Trends

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

Customer / supplier contract security

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

Food safety / quality

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

Regulatory / compliance risk

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

Current and future impact of COVID-19 and Export risks

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

Stage 2 Infant Formula Plant funding

In order to implement the Group's stage 2 strategy regarding milk drying facilities, further capital will need to be raised. There is no guarantee that those funds will be able to be raised, or if they are raised, raised at a cost which is acceptable to the Group. Further, any equity capital raising may dilute existing securityholders in the Group.

Global climate conditions risk

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

INFORMATION ON DIRECTORS

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

Name	Position
Martin Bryant	Chairman (appointed director 11 November 2019 and chairman 23 December 2019)
Michael Hackett	Director (retired as chairman 23 December 2019)
Adrian Rowley	Director
Peter Skene	Director / Group CEO
Paul Morrell	Director

Martin Bryant	**Non-Executive Chairman**
Qualifications	Bachelor of Business - University of Western Australia Member of Australian Institute of Company Directors
Directorships held in other listed entities in the past 3 years	BCI Minerals Limited – retired November 2018 Sime Darby Industrial Holdings Sun Bhd (Malaysian listed) - retired December 2017
Interest in Group securities & options	A relevant interest in 1,000,000 stapled securities at 30 June 2020.

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

Peter Skene	**Executive Director and CEO**
Qualifications	Bachelor of Applied Science - Melbourne University Bachelor of Commerce - Deakin University Associate Diploma in Dairy Technology - VCAH
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 12,515,385 stapled securities at 30 June 2020. A relevant interest in 7,000,000 loan securities at 30 June 2020.

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

INFORMATION ON DIRECTORS (cont'd)

Michael Hackett	**Non-Executive Director**
Qualifications	Bachelor of Commerce - University of Queensland
Directorships held in other listed entities in the past 3 years	Cashwerkz Limited – director since June 1986 Australian Adventure Tourism Group Limited - retired August 2018
Interest in Group securities & options	A relevant interest in 23,298,887 stapled securities at 30 June 2020.

Michael Hackett was appointed to the Board on 8 May 2009 and served as chairman until 23 December 2019. Michael is a qualified Chartered Accountant who is a director of Cashwerkz Limited (ASX CODE: CWZ) and a former director of Australian Adventure Tourism Group Limited (NSX CODE: AAT). Michael has considerable experience in managing and operating a wide range of businesses and property developments.

Adrian Rowley	**Non-Executive Director**
Qualifications	Certified Financial Planner
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 911,000 stapled securities at 30 June 2020.

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.

Paul Morrell	**Non-Executive Director**
Qualifications	Trade Qualified - Diesel Mechanic Certificate IV - Business and Management
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	No relevant interest in stapled securities or options at 30 June 2020.

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 Palethorpe	**Company Secretary and General Counsel**
Interest in Group securities & options	No relevant interest in stapled securities or options at 30 June 2020.

Kate Palethorpe was appointed to this role in September 2018. Kate is an experienced legal and governance professional with both domestic and international businesses. She holds a Bachelor of Science and Law and is admitted to the Victorian Supreme Court and High Court of Australia. She also has a strong background in food manufacturing and FMCG, including direct experience in product development, procurement and logistics.

MEETINGS OF DIRECTORS

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

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

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

Directors	Meetings eligible to attend	Meetings attended
Martin Bryant	14	13
Michael Hackett	21	19
Adrian Rowley	21	18
Peter Skene	21	21
Paul Morrell	21	18

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2020 (2019: $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 $45,833 (2019: $40,943) 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 2020 there was no payment to external auditors for non-audit services (2019: $nil).

OPTIONS / PERFORMANCE SECURITIES

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
12 February 2018	12 February 2023	12.4 cents	7,000,000*
19 August 2019	19 August 2022	18 cents	2,500,000
18 November 2019	18 November 2022	11.5 cents	2,500,000*

* 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.

In the current year, no stapled securities have been issued in respect of options and 1,000,000 stapled securities were issued as remuneration to employees. A summary of movements in options and other performance securities is set out in Note 26. In the comparative 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 and performance securities issued to directors and executives as remuneration, refer to the Remuneration Report.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2020 has been received and a copy can be found at page 19.

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 caliber of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive, at a minimum, a superannuation guarantee contribution 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.

REMUNERATION REPORT (cont'd)

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.

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.

REMUNERATION REPORT (cont'd)

Employment Details of Members of Key Management Personnel

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

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

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

Changes in Directors and KMP Subsequent to Year-end

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

Remuneration Expense Details for the Year Ended 30 June 2020

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 - 2020	68,750	-	6,531	-	-	-	75,281
M Hackett - 2019	75,000	-	7,125	-	-	5,265	87,390
A Rowley - 2020 [1]	55,000	-	5,225	-	-	-	60,225
A Rowley - 2019	50,000	-	4,750	-	-	5,265	60,015
P Skene - 2020	376,942	-	23,441	25,059	-	-	425,442
P Skene - 2019	329,469	-	20,531	14,435	-	-	364,435
P Morrell - 2020	60,000	-	5,700	-	-	-	65,700
P Morrell - 2019	60,000	-	5,700	-	-	-	65,700
M Bryant - 2020 [2]	45,833	-	4,354	-	-	-	50,187
Total - 2020	**606,525**	**-**	**45,251**	**25,059**	**-**	**-**	**676,835**
Total - 2019	**514,469**	**-**	**38,106**	**14,435**	**-**	**10,530**	**577,540**

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

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

REMUNERATION REPORT (cont'd)

Options and Rights Granted as Share-based Payments

There were no options or rights granted as share-based payments to KMP during the year (2019: nil).

Options and Rights Granted as Remuneration (prior years)

		Grant Details			Exercised		Forfeit/ Cancel	
	Balance at 01/07/2019	Issue Date	No.	Value ($)	No.	Value ($)	No.	Balance at 30/06/2020
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
TOTAL	**11,800,000**		**11,800,000**	**510,623**	**-**	**-**	**(4,800,000)**	**7,000,000**

		Vested	Unvested
	Balance at 30/06/2020	No.	No.
P Skene[1.]	7,000,000	7,000,000	-
	7,000,000	**7,000,000**	**-**

[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 was 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 (2019: nil). On 29 November 2019, securityholders approved the issue of 6,000,000 performance rights to directors, subject to achievement of specific performance hurdles. At the date of this report, the performance rights have not been issued.

KMP Securityholdings

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

30 June 2020	Balance at 01/07/2019	Granted as Remuneration	Other Changes	Balance at 30/06/2020
Martin Bryant	-	-	1,000,000	1,000,000
Michael Hackett[1]	22,632,221	-	666,666	23,298,887
Adrian Rowley	1,286,000	-	(375,000)	911,000
Peter Skene	12,515,385	-	-	12,515,385
Paul Morrell	37,152,422	-	(37,152,422)	-
	73,586,028	**-**	**(35,860,756)**	**37,725,272**

[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 security holdings.

Loans to KMP

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

REMUNERATION REPORT (cont'd)

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) Australian Adventure Tourism Group Limited (AATG) - director related entity

Michael Hackett is a former director of AATG. During the year ended 30 June 2020, AATG was paid $33,472 (2019: $93,372) on a reimbursement basis, for the provision of administrative services, accounting and related activities. There was $2,970 (2019: $9,391) due at 30 June 2020.

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

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2020, Watershed Funds Management Pty Ltd was paid $60,225 (2019: $54,750) for the provision of Adrian Rowley as director. There was $6,023 (2019: $5,019) due at 30 June 2020.

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.

Martin Bryant
Chairman

31 August 2020

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

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

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

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

The principal governance related policies and practices are as follows:

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

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

Nexia Australia

Auditor's Independence Declaration
Under S307C of the Corporations Act 2001

To the Directors of Australian Dairy Nutritionals Limited

As the lead auditor for the audit of Australian Dairy Nutritionals Limited I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020 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: 31 August 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $	2019 $
Revenue	4(a)	22,467,336	21,373,358
Other income	4(b)	1,621,740	566,865
Administration costs	4(c)(v)	(805,349)	(830,733)
Employment expenses	4(c)(iv)	(6,262,998)	(5,788,552)
Finance costs	4(c)(i)	(527,359)	(638,223)
Dairy product related costs	4(c)(iii)	(11,863,680)	(10,232,587)
Dairy farm related costs	4(c)(ii)	(5,552,223)	(6,138,396)
Depreciation and amortisation expense		(1,781,871)	(1,468,232)
Deemed cost of livestock disposed	4(c)(vi)	(1,143,695)	(869,525)
Impairment expenses	4(c)(vi)	(3,647,988)	-
Loss before income tax		**(7,496,088)**	**(4,026,025)**
Tax expense	5	-	-
Net loss for the year		**(7,496,088)**	**(4,026,025)**
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		**(7,496,088)**	**(4,026,025)**
Loss is attributable to:			
Company shareholders		(7,448,762)	(3,254,207)
Trust unitholders		(47,326)	(771,818)
		(7,496,088)	**(4,026,025)**
Total comprehensive loss is attributable to:			
Company shareholders		(7,448,762)	(3,254,207)
Trust unitholders		(47,326)	(771,818)
		(7,496,088)	**(4,026,025)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	30	(2.08)	(1.55)
Diluted earnings per stapled security (cents)	30	(2.08)	(1.55)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	2020 $	2019 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	6,361,821	3,748,550
Trade and other receivables	7	2,152,392	2,477,116
Inventories	8	1,257,907	995,718
Other current assets	9	164,949	216,416
Total Current Assets		**9,937,069**	**7,437,800**
Non-Current Assets			
Biological assets	10	5,368,015	4,928,422
Right of use assets	11	1,368,635	-
Intangible assets	12	2,753,218	6,974,236
Property, plant & equipment	13	29,757,034	29,190,439
Total Non-Current Assets		**39,246,902**	**41,093,097**
Total Assets		**49,183,971**	**48,530,897**
LIABILITIES			
Current Liabilities			
Trade and other payables	14	2,213,785	2,370,950
Lease liabilities		307,650	-
Provisions	15	565,064	314,797
Borrowings	16	12,081,526	264,363
Total Current Liabilities		**15,168,025**	**2,950,110**
Non-Current Liabilities			
Lease liabilities		524,132	-
Provisions	15	114,935	135,087
Borrowings	16	-	12,431,039
Total Non-Current Liabilities		**639,067**	**12,566,126**
Total Liabilities		**15,807,092**	**15,516,236**
Net Assets		**33,376,879**	**33,014,661**
EQUITY			
Issued capital	17(a)	33,191,050	25,474,856
Reserves	18	720,408	591,634
Accumulated losses		(23,699,934)	(16,264,510)
Equity attributable to shareholders		**10,211,524**	**9,801,980**
Non-controlling interests			
Issued units	17(a)	30,744,991	30,744,991
Accumulated losses		(7,579,636)	(7,532,310)
Equity attributed to non-controlling interests		**23,165,355**	**23,212,681**
Total Equity		**33,376,879**	**33,014,661**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 $	2019 $
Cash Flows from Operating Activities			
Receipts from customers		25,334,445	22,012,465
R&D tax incentive		299,516	-
Payments to suppliers and employees		(27,430,492)	(23,867,690)
Interest received		77,679	5,486
Finance costs		(527,359)	(638,223)
Net operating cash flows	6(b)	**(2,246,211)**	**(2,487,962)**
Cash Flows from Investing Activities			
Payment for property, plant and equipment	13	(1,260,456)	(6,579,734)
Proceeds from sale of property, plant and equipment		-	2,743,343
Payment for biological assets	10	(8,988)	(53,621)
Payment for intangible assets	12(c)	(56,485)	(20,598)
Payment for acquisition of Organic Nutritionals Pty Ltd	3(i)	(1,235,013)	-
Payment for Flahey's Nutritionals Pty Ltd	3(iii)	-	(270,260)
Cash on acquisition of Epicurean Dairy	3(iv)	106,947	-
Net investing cash flows		**(2,453,995)**	**(4,180,870)**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	17(a)	7,677,005	6,354,208
Net proceeds from CBA facility	16	-	2,054,000
Proceeds from borrowings - unsecured		355,818	-
Repayment of borrowings - unsecured		(328,292)	-
Repayment of hire purchase loans		(266,372)	(322,526)
Repayment of lease principal		(124,682)	-
Net financing cash flows		**7,313,477**	**8,085,682**
Net increase / (decrease) in cash held		**2,613,271**	**1,416,850**
Cash at the beginning of the period		3,748,550	2,331,700
Cash at the end of the financial period	6	**6,361,821**	**3,748,550**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non-controlling Interest (Trust)	Total
		$	$	$	$	$
Balance at 1 July 2019		25,474,856	591,634	(16,264,510)	23,212,681	33,014,661
AASB16 adjustment		-	-	(20,865)	-	(20,865)
Balance at 1 July 2019		**25,474,856**	**591,634**	**(16,285,375)**	**23,212,681**	**32,993,796**
Comprehensive income for the year						
Loss attributable to company shareholders / trust unitholders		-	-	(7,448,762)	(47,326)	(7,496,088)
Total comprehensive loss for the year		**-**	**-**	**(7,448,762)**	**(47,326)**	**(7,496,088)**
Transactions with equity holders in their capacity as equity holders and other transfers:						
Contributions of equity, net of transaction costs	17(a)	7,596,194	-	-	-	7,596,194
Option expense	26(d)	-	162,977	-	-	162,977
Employee performance securities issued	17(ii)	120,000	-	-	-	120,000
Transfer to retained earnings (options)	26(c)(ii)	-	(34,203)	34,203	-	-
Total transactions with equity holders		**7,716,194**	**128,774**	**34,203**	**-**	**7,879,171**
Balance at 30 June 2020		**33,191,050**	**720,408**	**(23,699,934)**	**23,165,355**	**33,376,879**

	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 equity holders in their capacity as equity holders:						
Contributions of equity, net of transaction costs	17(a)	6,414,023	-	-	-	6,414,023
Option expense	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**

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

(a) Basis of Preparation

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

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

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

(b) Principles of Consolidation

Stapling

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

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

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

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

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

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

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

(b) Principles of consolidation (cont'd)

Subsidiaries

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

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

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

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

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

Business combinations

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

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

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

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

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

Goodwill

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

(i) the consideration transferred;

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

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

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

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

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

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

Goodwill on acquisition of subsidiaries is included in intangible assets.

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

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

(b) Principles of consolidation (cont'd)

Goodwill (cont'd)

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

(c) Income tax

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

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

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

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

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

Tax consolidation

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

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

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

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

Tax funding arrangements and tax sharing arrangements

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

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

(c) Income tax (cont'd)

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

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

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

(d) Fair value of assets and liabilities

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

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

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

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

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

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

(e) Inventories

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

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

(f) Biological Assets

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

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

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

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

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

(g) Financial instruments

Initial recognition and measurement

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

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

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

Classification and subsequent measurement

Financial liabilities

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

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

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

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

A financial liability cannot be reclassified.

Financial assets

Financial assets are subsequently measured at:

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

Measurement is on the basis of the two primary criteria:

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

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

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

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

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

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

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

(g) Financial instruments (cont'd)

Derecognition

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

Derecognition of financial liabilities

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment

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

- financial assets that are measured at amortised cost;

Loss allowance is not recognised for:

- financial assets measured at fair value.

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

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

Simplified approach

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

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

Recognition of expected credit losses in financial statements

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

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

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

(h) Property, Plant and Equipment

Basis of measurement of carrying amount

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

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

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

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

Depreciation

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

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

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

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

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

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

(i) Leases (the Group as lessee)

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

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

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

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

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

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

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

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

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

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

(j) Employee Benefits

Short-term employee benefits

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

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

Other long-term employee benefits

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

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

Equity-settled payments

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

(k) Provisions

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

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

(l) Impairment of Assets

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

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

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

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

(m) Intangibles other than Goodwill

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

(n) Cash and cash equivalents

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

(o) Trade and other receivables

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

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

(p) Trade and other payables

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

(q) Borrowing costs

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

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

(r) Goods and services tax (GST)

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

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

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

(s) Revenue and Other Income

Revenue recognition policies are as follows:

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

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

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

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

Dairy cattle sales are recognised when:

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

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

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

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

(t) Critical Accounting Estimates and Judgments

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

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

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

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

(u) Comparative figures

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

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

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

Initial Application of AASB 16: Leases

The Group has adopted AASB 16: *Leases* retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated as permitted under specific transition provisions in the standard.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117: *Leases* where the Group is the lessee.

Lease liabilities are measured at the present value of the remaining lease payments. The Group's weighted average incremental borrowing rate of 4.25% as at 1 July 2019 was used to discount the lease payments.

The right-of-use assets for the lease have been measured and recognised in the statement of financial position as at 1 July 2019 by taking into consideration the lease liability and the prepaid and accrued lease payments previously recognised as at 1 July 2019 (that are related to the lease).

The following practical expedients have been used by the Group in applying AASB 16 for the first time:

- Leases that have a remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short term leases;

- The use of hindsight to determine lease terms on contracts that have options to extend or terminate;

- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. The Group did not have any onerous contracts as at 1 July 2019.

The difference between the undiscounted amount of operating lease commitments at 30 June 2019 and the discounted operating lease commitments as at 1 July 2019 was $139,616. This difference is attributable to discounting the operating lease commitments at the Group's incremental borrowing rate by $119,033 and $20,583 for the remaining lease commitments on the Docklands premises treated as a short-term lease in accordance with the practical expedient available.

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.

	2020 $	2019 $
Statement of Financial Position		
Assets		
Current assets	10,136,695	5,622,851
Non-current assets	12,889,053	11,657,658
Total assets	**23,025,748**	**17,280,509**
Liabilities		
Current liabilities	4,885,559	5,189,441
Non-current Liabilities	277	54,897
Total liabilities	**4,885,836**	**5,244,338**
Equity		
Issued capital	33,191,051	25,474,856
Reserves	720,408	591,634
Retained earnings	(15,761,547)	(14,030,319)
Total Equity	**18,149,912**	**12,036,171**
Statement of Profit or Loss and Other Comprehensive Income		
Total loss	(1,765,431)	(1,709,702)
Total comprehensive loss	(1,765,431)	(1,709,702)

Contingent liabilities and guarantees

The Company does not have any contingent liabilities or guarantees in place for the year ended 30 June 2020, other than in respect of CBA borrowings, refer Note 16.

Contractual commitments

At 30 June 2020, the parent company had not entered into any contractual commitments.

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FOR THE YEAR ENDED 30 JUNE 2020

NOTE 3: BUSINESS COMBINATIONS

(i) Organic Nutritionals Pty Ltd

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

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

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

There have been no operational transactions in Organic Nutritionals from acquisition date to 30 June 2020.

(ii) Jonesy's Distribution Pty Ltd

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

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

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

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

[1.] The Group has assessed the fair value of the Jonesy's Dairy Fresh brand and customer list and whilst there is an underlying value in both, it has adopted a conservative approach in not bringing these to account at 30 June 2020 due to current and prior period trading losses in the business.

The Group is providing working capital funding to Jonesy's Distribution through a loan facility with its wholly owned subsidiary, Camperdown Dairy Company Pty Ltd (CDC). The facility is fully secured against the existing and future assets of Jonesy's Distribution and includes all trade payables owed to CDC by Jonesy's Dairy Fresh on establishment of the joint venture. The trade payables and subsequent assumed liabilities transferred to Jonesy's Distribution on 7 October 2019 were $1,008,095 and the balance of the facility, including accrued interest at 30 June 2020 is $1,119,758.

As disclosed above, Jonesy's Distribution has assumed liabilities of $1,008,095 through a loan facility with CDC. As the debtor in CDC has been fully provided for this financial year and prior periods up to completion, there is no impact for the assumed liability on consolidation. The loan in CDC will continue to be impaired until Jonesy's Distribution is in a positive trading position and has the cash flow to commence repayments.

	$
Results contributed by the acquired entity since acquisition date:	
Revenue	897,570
Loss before income tax	(222,717)

NOTE 3: BUSINESS COMBINATIONS (cont'd)

(iii) Flahey's Nutritionals Pty Ltd (31 December 2018 acquisition)

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 formed part of the Group's overall strategy to expand its dairy processing business and was 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 was 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	**1,095,260**

[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. In the year ended 30 June 2020, Christopher Flahey resigned from the Group and $126,273 has been written back into profit for previously accrued share based payments on the basis that no securities will be issued and remaining consideration securities have been cancelled.

NOTE 3: BUSINESS COMBINATIONS (cont'd)

(iv) Epicurean Dairy Pty Ltd

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

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

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

	$
Purchase consideration	**-**
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	106,947
Trade and other receivables[1.]	979,320
Inventories	132,692
Other assets	36,939
Property plant and equipment	41,399
Trade and other payables	(1,202,593)
Provisions	(51,764)
Net identifiable assets acquired and liabilities assumed[2.]	**42,940**

[1.] Included in trade and other receivables is a $606,636 receivable from the vendor for the working capital adjustment on acquisition. This is a preliminary amount as the Group and the vendor are still in the process of agreeing the final calculation. On finalisation, the acquisition receivable will be reassessed under AASB 3: *Business Combinations*.

[2.] The Group has assessed the fair value of the customer list and contracts of Epicurean Dairy and whilst there is an underlying value in both, the Group has adopted a conservative approach in not bringing these to account at 30 June 2020 due to current and prior period trading losses in the business. Under AASB 3: *Business Combinations*, the acquisition identifiable assets can be reassessed for a 12 month period following acquisition. The Group will monitor the trading position and reassess the fair value of the customer list and contracts in accordance with results.

	$
Results contributed by the acquired entity since acquisition date:	
Revenue	817,752
Loss before income tax	(274,987)

NOTE 4: REVENUE AND EXPENSES

	Note	2020 $	2019 $
(a) Revenue			
Revenue from contracts with customers	(i)	21,892,308	21,285,117
Other sources of revenue	(ii)	575,028	88,241
Total revenue		**22,467,336**	**21,373,358**
(i) Revenue disaggregation			
The revenue is disaggregated by service line and timing of revenue recognition.			
Service lines:			
- Dairy processing		13,893,084	13,391,171
- Dairy farms		7,999,224	7,893,946
		21,892,308	21,285,117
Timing of revenue recognition			
Services transferred to customers:			
- at a point in time		21,892,308	21,285,117
(ii) Other sources of revenue			
Interest		77,679	5,486
Farm costs recoveries		55,669	52,389
R&D tax incentive		299,516	-
Government grants - Cashflow Boost subsidy		100,000	-
Fuel rebate and other revenue		42,164	30,366
		575,028	88,241
(b) Other Income			
Gain on change in fair value of livestock (refer Note 10)		1,574,300	538,552
Gain on acquisition of property, plant and equipment (refer Note 3(ii),(iv))		47,440	-
Gain on disposal of property, plant and equipment		-	28,313
		1,621,740	**566,865**
(c) Expenses			
(i) Finance costs			
CBA facility		467,433	604,592
Loans - unsecured		6,533	3,276
Finance costs - right of use assets		23,388	-
Finance charges payable under finance leases		30,005	30,355
		527,359	**638,223**
(ii) Dairy related costs			
Feed costs		2,532,373	3,255,608
Repairs, maintenance and vehicle costs		459,880	406,141
Animal health costs		63,683	94,140
Land holding and lease costs		(59,514)	152,947
Breeding and herd testing expenses		168,642	211,969
Dairy shed expenses		131,850	143,129
Electricity		279,556	175,562
Other dairy related costs		1,975,753	1,698,900
		5,552,223	**6,138,396**

FOR THE YEAR ENDED 30 JUNE 2020

NOTE 4: REVENUE AND EXPENSES (cont'd)

	2020 $	2019 $
(iii) Dairy processing related costs		
Cost of goods sold	9,188,136	7,473,221
Freight costs	910,654	423,830
Property and lease costs	248,124	411,691
Loss allowance on receivables	371,856	873,765
Other dairy processing related costs	1,144,910	1,050,080
	11,863,680	**10,232,587**
(iv) Employment benefits expense		
Employee and director remuneration costs	6,100,021	5,636,060
Equity settled remuneration costs	162,977	152,492
	6,262,998	**5,788,552**
(v) Administration and non-dairy related costs		
Administration costs	474,550	335,780
Professional costs	330,799	494,953
	805,349	**830,733**
(vi) Other significant items		
Deemed cost of livestock sold (refer Note 10)	1,143,695	869,525
Impairment of goodwill (refer Note 12)	4,262,652	
Impairment reversal - land and buildings (refer Note 13)	(614,664)	-

NOTE 5: INCOME TAX EXPENSE

	2020 $	2019 $
(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% (2019: 27.5%):	(2,061,424)	(1,107,157)
Add /(less)		
Tax effect of:		
- trust loss not recognised	188,337	212,250
- current period tax losses not recognised	1,520,065	1,069,733
- net amount of expenses not currently deductible	799,001	(26,724)
- other income not included in assessable income	(445,979)	(148,102)
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 dependent on compliance with conditions of deductibility imposed by law.

	2020 $	2019 $
Temporary differences	400,817	1,189,890
Tax losses	8,845,716	7,137,314
Net unbooked deferred tax assets	**9,246,533**	**8,327,204**

The Group has revenue losses of $32,166,239 (2019: $25,953,868). These losses comprise $26,385,932 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.

NOTE 6: CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Current		
Cash at bank and in hand	6,361,821	3,748,550
Total cash and cash equivalents	**6,361,821**	**3,748,550**

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 2020:

	2020 $	2019 $
Cash at bank and in hand	6,361,821	3,748,550
	6,361,821	**3,748,550**

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

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

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

	2020	2019
	$	$
Net loss after income tax	(7,496,088)	(4,026,025)
Adjustment of non-cash items		
Amortisation and depreciation	1,781,871	1,468,232
Deemed cost of livestock disposed	1,143,695	869,525
Fair value adjustment of biological assets	(1,574,300)	(538,552)
Impairment expenses	3,647,988	-
Loss / (gain) on disposal of property, plant and equipment	-	(28,313)
Bad debts and impairment provision	371,856	873,765
Distribution from termination of Camperdown Cheese and Butter Factory joint venture	-	(681,543)
Gain on acquisition of property, plant and equipment	(47,440)	-
Equity settled share-based payments	162,977	152,492
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	947,070	(671,816)
(Increase) / decrease in other assets	88,406	5,189
(Increase) / decrease in inventories	(129,499)	(370,209)
Increase / (decrease) in trade and other payables	(1,321,099)	379,589
Increase / (decrease) in provisions	178,352	79,704
Net operating cash flows	**(2,246,211)**	**(2,487,962)**

(c) Changes in liabilities arising from Financing Activities:

	1 July 2019	Cash flows	Acquisition	Non-cash Initial application of AASB 16	Non-cash Accrual	30 June 2020
	$	$	$	$		$
CBA Facility	12,054,000	-	-	-	-	12,054,000
Loans - unsecured	-	(328,292)	355,818	-	-	27,526
Lease liabilities	641,402	(391,054)	-	581,964	(530)	831,782
Total	**12,695,402**	**(719,346)**	**355,818**	**581,964**	**(530)**	**12,913,308**

(d) Non-cash financing and investing - comparative year

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 prior 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. These acquisitions are not reflected in the statement of cashflows.

NOTE 7: TRADE AND OTHER RECEIVABLES

	Note	2020 $	2019 $
Current			
Trade receivables		1,345,544	2,839,564
Provision for impairment	(a)	-	(864,438)
Other receivables		1,000,622	501,990
Provision for impairment		(193,774)	-
Total current trade and other receivables		**2,152,392**	**2,477,116**

(a) Lifetime Expected Credit Loss Credit Impaired

	Opening balance $	Net measurement of loss allowance $	Amounts written off $	Total $
Trade receivables	864,438	178,082	(1,042,520)	-
Other receivables	-	193,774	-	193,774
Current trade receivables	864,438	371,856	(1,042,520)	193,774

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision for all receivables as at 30 June 2020 is determined as follows; the expected credit losses also incorporate forward-looking information.

2020	Current $	>30 days past due $	>60 days past due $	>90 days past due $	Total $
Expected loss rate	9%	0%	0%	0%	
Gross carrying amount	2,185,749	73,124	67,966	19,327	**2,346,166**
Loss allowing provision (i)	193,774	-	-	-	**193,774**

(i) In May 2020, former joint venture partner Organic Dairy Farmers of Australia Limited (ODFA) appointed voluntary administrators. The Group has an outstanding receivable of $193,774 with ODFA for deferred settlement on the joint venture due in instalments to July 2022. Given the uncertainty around the future of ODFA and recoverability of the outstanding amount, a bad debt provision has been made for the full amount.

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	70,826	66,498	-	727,114	**864,438**

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

Credit risk

The Group has a significant concentration of credit risk with four key customers totalling $1,741,060 (2019: $2,189,865) or 74% (2019: 65%) of receivables at balance date. Of this amount, $193,774 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 receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(b) Financial assets Measured at Amortised Cost

	Note	2020 $	2019 $
Trade and other receivables			
Total current		2,152,392	2,477,116
Total financial assets measured at amortised cost	28	**2,152,392**	**2,477,116**

(c) Collateral pledged

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

NOTE 8: INVENTORIES

	2020 $	2019 $
Current		
Packaging	357,973	341,876
Raw materials, finished goods and chemicals	555,992	268,690
Feedstock, hay and silage	343,943	385,152
Total inventories (at cost)	**1,257,907**	**995,718**

NOTE 9: OTHER ASSETS

	2020 $	2019 $
Current		
Prepayments	125,060	165,474
Bonds and deposits	39,889	50,942
Total other assets	**164,949**	**216,416**

NOTE 10: BIOLOGICAL ASSETS

	Notes	2020 $	2019 $
Non-current			
Dairy livestock	(a)	5,368,015	4,928,422
Total biological assets		**5,368,015**	**4,928,422**

NOTE 10: BIOLOGICAL ASSETS (cont'd)

Movements during the year:

	2020	2019
	$	$
Opening carrying amount	4,928,422	5,205,774
Purchases of livestock	8,988	53,621
Deemed cost of livestock disposed	(1,143,695)	(869,525)
Gain from changes to fair value	1,574,300	538,552
Closing carrying amount	**5,368,015**	**4,928,422**

Movements during the year (herd numbers):	**2020**	**2019**
	No.	**No.**
Opening balance	3,939	3,812
Purchases	5	65
Natural increase and attrition	1,530	1,610
Sales	(1,812)	(1,548)
Closing balance	**3,662**	**3,939**

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2020, the livestock has been valued at fair value, by independent stock agents, based on the prices in the open cattle market in the locality of the dairy operations. A fair value gain of $1,574,300 (2019: $538,522) has been recognised in profit and loss at 30 June 2020, and represents price movements, natural increase and the movement in ages of young stock.

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

(c) During the year ended 30 June 2020, the Group produced 12.7 million litres (2019: 15.8 million litres) of raw milk. The average number of cows milked during the year was 1,908 (2019: 2,111).

NOTE 11: RIGHT OF USE ASSETS

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

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

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

The Group also has leases for plant and equipment.

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

	2020
	$
Right of use assets	
Leased land and building	918,924
Accumulated depreciation	(484,703)
	434,221
Leased plant and equipment	1,295,290
Accumulated depreciation	(360,876)
	934,414
Total right of use assets	**1,368,635**

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

	2020 $
Movement in carrying amounts:	
Leased land and building:	
Recognised on initial application of AASB 16 (previously classified as operating leases under AASB 117)	561,100
Depreciation expense	(126,879)
Net carrying amount	**434,221**
Leased plant and equipment:	
Opening balance transferred from property plant and equipment on initial application of AASB 16	1,103,560
Transfer to owned plant and equipment	(54,009)
Depreciation expense	(115,137)
Net carrying amount	**934,414**

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

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

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

Total cash outflows for leases	391,055

NOTE 12: INTANGIBLE ASSETS

	Notes	2020 $	2019 $
Goodwill			
- at cost		6,616,393	6,616,393
Less impairment expense		(4,262,652)	-
	(a)	**2,353,741**	**6,616,393**
Recipes, formulations and patents			
- at cost	(b)	346,846	336,220
		346,846	**336,220**
Product development			
- at cost		87,021	41,163
Less accumulated amortisation		(34,390)	(19,540)
	(c)	**52,631**	**21,623**
Total intangible assets		**2,753,218**	**6,974,236**

NOTE 12: INTANGIBLE ASSETS (cont'd)

(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.

Impairment Disclosures

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

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

Value-in-Use

The impairment test for the dairy processing segment is based on 'value-in-use' calculations, applying discounted cash flow projections that have been approved by the Board, covering a 5 year period and a terminal growth rate.

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 and costs, discount rates and terminal growth rate.

Sensitivity to change in assumptions

Revenue growth – Revenue projections are based on the 2021 budget and forward-looking plans using current and contracted sales levels and pipeline growth. Growth rates applied range between 0% and 5% across the product mix, reflecting a conservative approach in a changing marketplace. The projections assume changes in product mix and customer mix based on the existing dairy product range and existing production capability. Overall revenue growth in the 5 year forecast period averages 4.73%.

Gross margins – Gross margins are based on the 2021 budget and reflect current actuals and estimates of contracted sales margins, or Group estimates of future production costs (primarily milk, labour and manufacturing costs). Average margin growth in the 5 year forecast period averages 4.42%.

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

On the basis of the Group review of the carrying value of goodwill in CDC, it has recorded an impairment of $4,262,652 at 30 June 2020, reducing the goodwill to $2,353,741.

The Group has taken a conservative approach to the underlying calculations, including revenue growth, and has taken into account the uncertain conditions impacting the Australian economy as a result of the COVID-19 pandemic.

Impact of possible changes in key assumptions

- A movement in average revenue growth percentage of 10% (up / down) would impact the recoverable value of goodwill by $339,643; and
- A movement in average margin growth percentage of 10% (up / down) due to changes in cost assumptions would impact the recoverable value of goodwill by $266,147.

These sensitivities are currently the key material inputs to the value-in-use calculations assessed by the Group.

(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:

	2020 $	2019 $
Opening balance	6,974,236	6,643,045
Additions in year	56,485	20,598
Acquisition of Flahey's Nutritionals (refer Note 3 (iii))	-	322,140
Impairment expense	(4,262,652)	
Amortisation	(14,851)	(11,547)
Closing balance	**2,753,218**	**6,974,236**

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Notes	2020 $	2019 $
Land, buildings and improvements			
- at cost		27,238,326	26,560,020
Less accumulated depreciation		(2,060,038)	(1,240,622)
Less accumulated impairment	(b)	(2,209,810)	(2,824,473)
	(a)	**22,968,478**	**22,494,925**
Plant and equipment - owned			
- at cost		9,683,794	7,767,241
Less accumulated depreciation		(2,895,238)	(2,175,287)
		6,788,556	**5,591,954**
Plant and equipment - leased			
- at cost		-	1,366,521
Less accumulated depreciation		-	(262,961)
		-	**1,103,560**
Total property, plant and equipment		**29,757,034**	**29,190,439**

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

Property name	Acquisition date	Carrying value 2020	Carrying value 2019
Brucknell No 1	22 October 2014	4,069,408	4,172,733
Brucknell No 2	22 October 2014	4,148,805	4,133,816
Brucknell No 3	6 March 2015	2,298,239	2,290,333
Missens Road	9 July 2015	1,488,798	1,520,110
Drumborg	16 September 2015	5,298,432	5,200,361
Yarring - Nirranda South	4 October 2018	4,744,426	4,904,598
Depot & Old Geelong Road (Camperdown) - Land	17 November 2017	272,974	272,974
Infant Formula Plant Project	in progress	647,396	-
Total		**22,968,478**	**22,494,925**

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 2020. The basis of the valuation was ‘As Is and In Use’ with vacant possession and the combined fair value of all properties was $23,550,000, giving rise to a reversal of prior period impairment charges of $614,664. The Drumborg and Yarringa farms fair values exceed historical written down value by $271,824 and $363,645, however these are unbooked gains under the cost method adopted by the Group under AASB 116.

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

Movements in the Carrying Amounts

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

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

	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**

NOTE 14: TRADE AND OTHER PAYABLES

	Notes	2020 $	2019 $
Current			
Trade creditors		1,532,857	1,579,109
Sundry creditors and accrued expenses		680,928	791,841
Total trade and other payables		**2,213,785**	**2,370,950**
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		2,213,785	2,370,950
Financial liabilities as trade and other payables	28	**2,213,785**	**2,370,950**

NOTE 15: PROVISIONS

	2020	2019
	$	$
Current		
Employee benefits	565,064	314,797
Total current provisions	**565,064**	**314,797**
Non-current		
Employee benefits	114,935	135,087
Total non-current provisions	**114,935**	**135,087**
Total provisions	**679,999**	**449,884**
Movement in provisions:		
Opening balance	449,884	370,180
Additional provision	405,907	263,352
Amounts used	(175,792)	(183,648)
Closing balance	**679,999**	**449,884**

Provision for employee benefits

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

NOTE 16: BORROWINGS

	Notes	2020	2019
		$	$
Current			
Bank hire purchase loans - secured	(a)	-	264,363
Loans - unsecured	(b)	27,526	-
CBA facility - secured	(c)	12,054,000	-
Total current borrowings		**12,081,526**	**264,363**
Non-current			
Bank hire purchase loans - secured	(a)	-	377,039
CBA facility - secured	(c)	-	12,054,000
Total non-current borrowings		**-**	**12,431,039**
Total borrowings		**12,081,526**	**12,695,402**

(a) Bank hire purchase loans have been transferred to lease liabilities on initial application of AASB 16.

(b) The Group has unsecured short-term loans for payment of the Group's insurance policies.

(c) The Group established borrowing facilities with the Commonwealth Bank of Australia Limited (CBA) in April 2016, as a three year re-drawable loan facility of $10,000,000 to assist with the acquisition of Camperdown Dairy Company. Since that time, the term and principal amount has been varied and at 30 June 2020 the principle amount is $12,054,000 with a facility maturity date of 4 October 2021. The facility is subject to compliance with predetermined covenants and at least annual reviews.

Despite the CBA facility maturity date of 4 October 2021 and meeting all obligations in accordance with the terms of the facility, under the terms of the facility, the Group may not have an unconditional right to defer settlement beyond 12 months from the current balance date. As a result, in accordance with the provisions of the Australian Accounting Standards (AASB 101: Presentation of Financial Statements) and prudent disclosure practices, the Group has re-classified the existing CBA facility from a non-current liability at 30 June 2019, to a current liability at 30 June 2020. The directors are confident of restructuring or refinancing the facility prior to maturity date.

NOTE 16: BORROWINGS (cont'd)

(d) In the comparative year, 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.

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:

	2020 $	2019 $
First mortgage over land and buildings	22,968,478	22,494,924
General security interest over all assets of ADFT	12,284,453	12,877,664
First registered charge over leased equipment	421,908	1,103,560
Negative pledge and guarantee over all other Group assets	13,509,132	12,054,748
Total assets pledged as security	**49,183,971**	**48,530,896**

NOTE 17: ISSUED CAPITAL

	2020 $	2019 $
Contributed equity of the Group	63,936,041	56,219,847

(a) Movement in stapled securities:

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

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 (iv)	3,000,000	0.10	300,720	-	300,720
30 Oct 2018	Stapled Security Purchase Plan(v)	20,919,363	0.13	2,719,500	-	2,719,500
24 Dec 2018	Purchase of Flahey's Nutritionals Pty Ltd (vi)	625,000	0.12	75,000	-	75,000
28 Jun 2019	Placement - Tranche 1 (vii)	32,657,851	0.12	3,918,942	-	3,918,942
28 June 2019	Ultima Capital Consultancy (viii)	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**

NOTE 17: ISSUED CAPITAL (cont'd)

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

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

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

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

(iv) On 2 July 2018, there was 3,000,000 stapled securities granted to Peter Skene as a share-based payment. The fair value of securities issued, determined by independent valuation, was $300,720 (being the amount of the options granted).

(v) 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 issued, determined by reference to the offer issue price, was $2,719,500.

(vi) 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).

(vii) On 28 June 2019, there were 32,657,851 stapled securities issued on completion of a placement being conducted in two tranches (refer (i)). The fair value of securities issued in tranche 1, determined by reference to the placement price of $0.12 per security, was $3,918,942.

(viii) On 28 June 2019, there was 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 2,500,000 (2019: 16,250,000) performance options on issue at 30 June 2020 (refer Note 26).

(c) Loan Securities

There are 9,500,000 (2019: 7,000,000) loan securities on issue at 30 June 2020 (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.

NOTE 17: ISSUED CAPITAL (cont'd)

This strategy, consistent with the prior year, is to ensure that the Group's gearing ratio remains below 35%. The gearing ratios for the years ended 30 June 2020 and 30 June 2019 are as follows:

	Notes	2020 $	2019 $
Total borrowings	16	12,081,527	12,695,402
Less cash and cash equivalents	6	(6,361,821)	(3,748,550)
Net debt		5,719,706	8,946,852
Total equity		33,376,878	33,014,661
Total capital		39,096,584	41,961,513
Gearing Ratio		15%	21%

NOTE 18: RESERVES

Nature and purpose of reserves

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

NOTE 19: CAPITAL AND LEASING COMMITMENTS

(a) Finance lease commitments:

	2020 $	2019 $
Payable - minimum lease payments		
Not later than 12 months	-	293,867
Between 12 months and 5 years	-	424,369
Greater than 5 years	-	-
Minimum lease payments	**-**	**718,236**
Less future finance charges	-	(76,834)
Present value of minimum lease payments	**-**	**641,402**

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

	2020 $	2019 $
Payable - minimum lease payments		
Not later than 12 months	-	135,430
Between 12 months and 5 years	-	82,800
Greater than 5 years	-	-
Present value of minimum lease payments	**-**	**218,230**

Non-cancellable operating lease commitments have been accounted for in accordance with AASB 16 Leases from 1 July 2019.

(c) Capital Expenditure Commitments

In June 2020, after a comprehensive planning and development process, the Group entered into a construction agreement to construct the infant formula plant on the Group's Camperdown Dairy park site. The agreement commenced on 19 June 2020 and the construction cost is quoted as $2.7M subject to agreed variations under the contract. The build is expected to be completed in early 2021, after which a period of installation and commissioning will take place (under a separate agreement which has not been finalised).

NOTE 20: CONTINGENT LIABILITIES

As set out in Note 3(iv), the Group has a contingent liability for payment of royalties in respect of Epicurean Dairy Products commencing April 2022. The Group does not have any other contingent liabilities for the year ended 30 June 2020 (2019: nil).

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2020.

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

	2020	2019
	$	$
Short term	606,525	514,469
Post employment	45,251	38,106
Other long-term	25,059	14,435
Share-based payments	-	10,530
	676,835	**577,540**

Short-term employee benefits

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

Post-employment benefits

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

Other long-term benefits

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

Share-based payments

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

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

NOTE 22: AUDITORS' REMUNERATION

Remuneration of the auditor for:

	2020	2019
	$	$
Audit and review of the financial statements	71,852	64,566

NOTE 23: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2020 Percentage Owned	2019 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
Organic Nutritionals Pty Ltd		ordinary	100	-
Jonesy's Distribution Pty Ltd		ordinary	75	-
Epicurean Dairy 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 16, there are no significant restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

(a) Ultimate Controlling Entity

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

(b) Transactions with Non-controlling interests in ADFT

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

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

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

	2020	2019
	$	$
Summarised Financial Position		
Current assets	12,338,399	12,938,737
Non-current assets	22,914,532	22,433,852
Current liabilities	(12,087,576)	(105,908)
Non-current liabilities	-	(12,054,000)
Net Assets	**23,165,355**	**23,212,681**
Carrying amount of non-controlling interests	23,165,355	23,212,681
Summarised Financial Performance		
Revenue	55,669	220,232
Loss after tax	(47,326)	(771,818)
Other comprehensive income after tax	-	-
Total comprehensive loss	**(47,326)**	**(771,818)**
Loss attributable to non-controlling interests	(47,326)	(771,818)

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NOTE 23: 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:

	2020	2019
	$	$
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	(555,795)	(570,388)
Net cash from / (used in) investing activities	(32,316)	(2,572,079)
Net cash from / (used in) financing activities	556,645	1,491,091
Net cash increase / (decrease) in cash and cash equivalents	**(31,465)**	**1,651,376**

NOTE 24: RELATED PARTY TRANSACTIONS

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

(i) Entities exercising control over the Group:

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

(ii) Key management personnel:

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

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

(iii) Other related parties:

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

(b) Transactions with related parties:

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

The following transactions occurred with related parties:

(i) Australian Adventure Tourism Group Limited (AATG) - director related entity

Michael Hackett is a former director of AATG. During the year ended 30 June 2020, AATG was paid $33,472 (2019: $93,372) on a reimbursement basis, for the provision of administrative services, accounting and related activities. There was $2,970 (2019: $9,391) due at 30 June 2020.

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

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2020, Watershed Funds Management Pty Ltd was paid $60,225 (2019: $54,750) for the provision of Adrian Rowley as director. There was $6,023 (2019: $5,019) due at 30 June 2020.

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

NOTE 25: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

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

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

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

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

Types of products and services by segment

Dairy Farms

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

Dairy Processing

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

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

There are no intersegment sales.

Segment assets

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

Segment liabilities

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

NOTE 25: SEGMENT REPORTING (cont'd)

(i) Segment Performance

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

(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)**

(ii) Segment Assets	**Dairy Farms**	**Dairy Processing**	**Total**
As at 30 June 2020	**$**	**$**	**$**
Segment assets	34,847,737	14,336,234	49,183,971
Segment assets include:			
Additions to non-current assets	50,205	2,541,757	2,591,962

(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)

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

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

(iv) Revenue by geographic region

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

	2020	**2019**
	$	**$**
Australia	24,089,076	21,940,223
Other countries	-	-
Total revenue	**24,089,076**	**21,940,223**

(v) Assets by geographic region

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

	2020	**2019**
	$	**$**
Australia	49,183,971	48,530,897
Other countries	-	-
Total assets	**49,183,971**	**48,530,897**

NOTE 26: SHARE BASED PAYMENTS

(a) Stapled securities granted to employees under the Group Incentive Plan as share-based payments during the year ended 30 June 2020 are as follows:

Grant Date	Number
18 November 2019	1,000,000

The fair value of securities granted, determined by reference to market price, was $120,000.

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

(b) Loan securities granted to employees as share-based payments during the year ended 30 June 2020 are as follows:

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

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

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

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

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

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

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

	2020	2019
Opening balance	**7,000,000**	**7,000,000**
Granted	2,500,000	-
Closing balance (exercisable)	**9,500,000**	**7,000,000**

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

	2020	2019
Opening balance	**16,250,000**	**13,780,000**
Granted (i)	2,500,000	6,250,000
Forfeited (ii)	(16,250,000)	(780,000)
Exercised (iii)	-	(3,000,000)
Closing balance	**2,500,000**	**16,250,000**

(i) Granted options

On 19 August 2019 the Group issued 2,500,000 lead manager options to L39 Pty Ltd, representing 1% of the total proceeds of the placement completed on that date ($12 million, total of tranche 1 and tranche 2).

The issue price of the options was 4.8 cents calculated using the Black-Scholes method, the expiry date is 19 August 2022 and the options will vest when the stapled security price is $0.18 or more for a period of 5 consecutive trading days.

The fair value of the options issued is $120,000 based on the total proceeds of the placement.

FOR THE YEAR ENDED 30 JUNE 2020

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. On 31 December 2019, 10,000,000 performance options were forfeited as the performance hurdle was not satisfied and $34,203 has been transferred from the equity reserve to retained earnings.

On 24 December 2018, 6,250,000 consideration securities were issued to Christopher Flahey as part of the acquisition of Flahey's Nutritionals Pty Ltd (refer Note 3(iii)). The consideration securities were subject to various performance milestones and Christopher Flahey remaining employed with the Group on a conversion date. The consideration securities are forfeited if performance hurdles are not satisfied. In the year ended 30 June 2020, Christopher Flahey resigned from the company and $126,273 has been written back into profit for previously accrued share based payments and the consideration securities have been cancelled.

(iii) Exercised performance options

During the year ended 30 June 2020 there were no performance options exercised.

(iv) Performance options approved but not issued

On 29 November 2019, securityholders approved the issue of 6,000,000 performance rights to directors, subject to achievement of specific performance hurdles. At the date of this report, the performance rights have not been issued.

(d) Included under employee benefits expense in the statement of profit or loss is $162,977 (2019: $152,492), which relates to equity-settled share-based payment transactions - securities and options.

NOTE 27: EVENTS AFTER THE BALANCE DATE

The impact of the COVID-19 pandemic is ongoing and while it has not materially impacted the Group on the signing of this report, it is not practical to estimate the potential impact, positive or negative, after the reporting date. As is evident from the implementation of Stage 4 restrictions in Victoria from 13 August 2020, the situation continues to develop rapidly and is dependent on measures imposed by the Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and economic stimulus. The Group will continue to assess any impact of COVID-19 on the business and ways to mitigate risks to the Group in relation to it.

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

NOTE 28: FINANCIAL RISK MANAGEMENT

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

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

	Notes	2020 $	2019 $
Financial assets			
Financial assets at amortised cost:			
Cash and cash equivalents	6	6,361,821	3,748,550
Trade and other receivables	7	2,152,392	2,477,116
Bonds and deposits	9	39,889	50,942
Total financial assets		**8,554,102**	**6,276,608**
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	14	2,213,785	2,370,950
Borrowings	16	12,081,526	12,695,402
Total financial liabilities		**14,295,311**	**15,066,352**

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

Financial Risk Management Policies

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

Treasury Risk Management

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

Financial Risk Exposures and Management

(a) Credit risk

The Group trades only with parties that it believes to be creditworthy. The maximum exposure to credit risk is equivalent to the financial assets' carrying value. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, 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 following presents contractual maturity of the Group's financial instruments. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates taking into consideration management expectations that Group banking facilities will be extended.

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

Financial liability and financial asset maturity analysis:

	Within 1 year		1 to 5 years		Over 5 years		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Borrowings	(27,526)	(264,363)	(12,054,000)	(12,431,039)	-	-	(12,081,526)	(12,695,402)
Lease liabilities	(307,650)	-	(524,132)	-	-	-	(831,782)	-
Trade & other payables	(2,213,785)	(2,370,950)	-	-	-	-	(2,213,785)	(2,370,950)
Total expected outflows	**(2,548,961)**	**(2,635,313)**	**(12,578,132)**	**(12,431,039)**	**-**	**-**	**(15,127,093)**	**(15,066,352)**
Financial assets - cash flows realisable								
Cash	6,361,821	3,748,550	-	-	-	-	6,361,821	3,748,550
Trade and other receivables	2,152,392	2,477,116	-	-	-	-	2,152,392	2,477,116
Bonds and deposits	-	-	39,889	50,942	-	-	39,889	50,942
Total anticipated inflows	**8,514,213**	**6,225,666**	**39,889**	**50,942**	**-**	**-**	**8,554,102**	**6,276,608**
Net (outflows) / inflows on financial instruments	**5,965,252**	**3,590,353**	**(12,538,243)**	**(12,380,097)**	**-**	**-**	**(6,572,991)**	**(8,789,744)**

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

(c) Market risk

Interest rate risk

The Group at the date of this report has debt exposure through $449,435 in fixed rate facilities, $12,054,000 in variable rate facilities, and $6,361,821 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 2020, 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:

	2020	2019
Change in profit	**$**	**$**
- Increase in interest rate by 1%	(56,922)	(83,054)
- Decrease in interest rate by 1%	56,922	83,054
Change in equity		
- Increase in interest rate by 1%	(56,922)	(83,054)
- Decrease in interest rate by 1%	56,922	83,054

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values

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

		Carrying Amount		Fair Value	
	Footnote	**2020**	**2019**	**2020**	**2019**
		$	**$**	**$**	**$**
Financial assets					
Financial assets at amortised cost:					
Cash and cash equivalents	(i)	6,361,821	3,748,550	6,361,821	3,748,550
Trade and other receivables	(i)	2,152,392	2,477,116	2,152,392	2,477,116
Bonds and deposits	(i)	39,889	50,942	39,889	50,942
Total financial assets		**8,554,102**	**6,276,608**	**8,554,102**	**6,276,608**
Financial liabilities					
Financial liabilities at amortised cost:					
Trade creditors	(i)	2,213,785	2,370,950	2,213,785	2,370,950
Lease liabilities	(ii)	831,782	-	831,782	
Borrowings	(ii)	12,081,526	12,695,402	12,081,526	12,695,402
Total financial liabilities		**15,127,093**	**15,066,352**	**15,127,093**	**15,066,352**

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

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

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

NOTE 29: FAIR VALUE MEASUREMENT

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

- biological assets.

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

(a) Fair Value Hierarchy

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

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

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

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

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

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

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

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

30 June 2020

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

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**

(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 2020 $	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	5,368,015	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	5,368,015		

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

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

(c) Disclosed Fair Value Measurements

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

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

NOTE 30: EARNINGS PER STAPLED SECURITY CALCULATIONS

	2020	2019
	cents	cents
Earnings per stapled security:		
Basic loss per stapled security	(2.08)	(1.55)
Diluted loss per stapled security	(2.08)	(1.55)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(7,496,088)	(4,026,025)

	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	360,603,521	260,204,432
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**360,603,521**	**260,204,432**

All options on issue are considered to be dilutive potential ordinary securities, however they are presently anti-dilutive at 30 June 2020 as the Group is in losses.

NOTE 31: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2020 (2019: $nil) at the date of this report.

Australian Dairy Nutritionals Group

DIRECTORS' DECLARATION

For the year ended 30 June 2020

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

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

(i) give a true and fair view of the Company's and Group's financial position as at 30 June 2020 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 2020.

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

Martin Bryant
Chairman

Brisbane

31 August 2020

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 2020, 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 2020 and of its performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of goodwill Refer Note 12 of the financial report.	
At 30 June 2020 the Group recorded goodwill at cost of $6,616,393 relating to its Dairy Processing segment (the cash generating unit, or CGU). The industry in which the CGU operates has undergone structural change, and the CGU has responded through changes in its strategic direction including customer mix and product mix. The CGU incurred losses in recent years. 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 using a discounted cash flow model. An impairment charge of $4,4262,652 was recognised and allocated against goodwill. The remaining carrying value of goodwill at year end is $2,353,741. We focused on this matter because of the significant judgement involved in estimating the recoverable amount of the CGU, the amount of impairment recognised, 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 on the key assumptions used in the cash flow model; and • we evaluated the adequacy of the disclosures made in the financial report regarding key assumptions and the impairment.
Assessment of impairment of dairy farm assets Refer Notes 10 and 13 of the financial report.	
At 30 June 2020 key assets of the Group included dairy farm properties $22,968,478 and the dairy herd $5,368,015. The dairy industry has undergone structural change, and as a consequence the dairy farms have responded through changes in strategic direction for product mix.	Our procedures included, but were not limited to: • we completed farm site visits and attended herd stocktakes at certain farm properties;

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

The dairy farms earned a small profit in the current year after losses in recent years. Given these circumstances, the Group considered whether there was any impairment of these assets at balance date. The Group assessed the recoverable amounts of its farm properties by obtaining market valuations from an independent property expert. The valuations resulted in a reversal through profit & loss of a prior impairment charge by $614,664. The Group assessed the value of the herd by obtaining market valuations from independent stock agent experts. The valuations resulted in a fair value gain through profit & loss of $1,574,300. We focused on this matter because of the significant judgement involved in estimating the recoverable amounts of the dairy farm assets, the amounts of the recoverable value adjustments recognised, and their materiality to the financial report.	• we assessed the competence and qualifications of the independent property expert, and independent stock agent experts, used by the Group; • we assessed the valuation reports obtained by the Group, with reference to methodology used, prior independent expert valuations, and our knowledge of the dairy farm assets; and • we evaluated the adequacy of the disclosures made in the financial report regarding the assessment of recoverable value of the farm assets.

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 2020, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the financial report

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

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

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

Auditor's responsibility for the audit of the financial report

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

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

- 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.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in pages 13 to 17 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Australian Dairy Nutritionals Limited for the year ended 30 June 2020 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

Nexia Brisbane Audit Pty Ltd

Nigel Bamford

N D Bamford
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 31 August 2020

The following information was extracted from Australian Dairy Nutritional Group's Register of Securityholders on 21 August 2020:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

		Fully Paid Stapled Securities	
		Securities Held	**% of Issued Capital**
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,702,106	18.15
2	CORPORATE SOLUTIONS PTY LTD	15,309,892	4.17
3	PETER AND LYNNE SKENE	12,515,385	3.41
4	SIR RONALD ALFRED BRIERLEY	12,500,000	3.40
5	CITICORP NOMINEES PTY LIMITED	5,657,208	1.54
6	FIDUCIARY NOMINEES PTY LTD	4,872,207	1.33
7	MR JUNLONG LIANG	3,855,000	1.05
8	RATHVALE PTY LIMITED	3,728,885	1.01
9	WAVET FUND NO2 PTY LTD	3,666,512	1.00
10	COSTINE PTY LTD	2,741,788	0.75
11	ONMELL PTY LTD	2,600,000	0.71
12	MYALL RESOURCES PTY LTD	2,600,000	0.71
13	MRS NARELLE MELVILLE	2,500,000	0.68
14	VITAMIN WAREHOUSE AUSTRALIA PTY LTD	2,360,000	0.64
15	MR SHAN RANG	2,089,800	0.57
16	CAROLINE HOUSE SUPERANNUATION FUND PTY LTD	2,000,000	0.54
17	MR ZHONGDE ZHAO	2,000,000	0.54
18	MR CHONG CHE WONG	2,000,000	0.54
19	AM GLORY PTY LTD	1,900,069	0.52
20	BATISTA FAMILY SUPER FUND PTY LTD	1,849,108	0.50
		153,447,960	**41.76**
	Total Securities on issue	**367,486,440**	**100.00**

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	Number of Securityholders	Securities	%
1 - 1000	194	44,046	0.01
1,001 - 5,000	733	2,281,573	0.61
5,001 - 10,000	569	4,789,314	1.29
10,001 - 100,000	1,385	53,013,989	14.27
100,001 or greater	467	311,357,518	83.82
	3,348	**367,486,440**	**100.00**

MARKETABLE PARCELS

On 21 August 2020, using the last traded security price of $0.068 per security, there were 1,105 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 21 August 2020 are:

	Securities Held	% of Voting Power Advised
Ironbark-Vest Pty Ltd	55,440,764	14.94
Michael Hackett and associated entities	23,298,887	6.28

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
19 August 2019	19 August 2022	$0.18	2,500,000

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

RESTRICTED SECURITIES

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

Board of Directors

Martin Bryant
Chairman

Michael Hackett
Director

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
Web:	www.adfl.com.au

Corporate Office

Level 1, 200 Creek Street
Brisbane QLD 4000

GPO Box 6
Brisbane QLD 4001

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

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”.