



# Australian Dairy Nutritionals

## INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDING 31 DECEMBER 2022

AUSTRALIAN DAIRY NUTRITIONALS GROUP





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## APPENDIX 4D



AUSTRALIAN DAIRY NUTRITIONALS GROUP (ASX CODE: AHF)

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the half-year ended 31 December 2022

	Change	\$000 December 2022	\$000 December 2021
Revenues from ordinary activities	Down 7%	4,207	4,528
Profit/(loss) from ordinary activities after tax attributable to members	Down 3,784%	(3,168)	86
Profit/(loss) for the period attributable to members	Down 3,778%	(3,163)	86

	December 2022 cents	December 2021 cents
Net tangible asset backing per security	6.2	8.1

#### Dividend Information

	Amount per Share (Cents)	Franked Amount per Share (Cents)	Tax Rate for Franking (%)
Final dividend	Nil	Nil	Nil
Interim dividend	Nil	Nil	Nil
Record date			Not Applicable

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

#### Loss or gain of control over other entities

There has been no loss or gain of control over other entities during the period.

#### Investment in associates and joint ventures

Not applicable.

#### Audit Status

This report has been subject to audit review. There is no dispute or qualification to report.

Refer to the Directors' Report and Interim Financial Report for additional information.



*“The Board is confident the investments made in FY23 in establishing international distribution partnerships, product registrations, marketing and production of export certified inventory will translate to product sales and revenue toward the end of 2HFY23 and into FY24.”*

# DIRECTORS' REPORT

## INFORMATION ON DIRECTORS

The following persons held office as directors of the Company during or since the end of the half-year:

Name	Position
Martin Bryant	Non-Executive Chairman
Adrian Rowley	Non-Executive Director
Jason Dong	Non-Executive Director
Bernard Kavanagh	Non-Executive Director

## OPERATING RESULTS

For the first half of FY23, net profit from continuing operations was \$46k (2021: \$1.01m) and net loss from discontinued operations was \$3.21m (2021:\$925k), giving a total net loss for the period of \$3.17 million (2021:\$86k profit).

The consolidated net profit from continuing operations attributed to members of the Group, after providing for income tax was \$46k (2021: \$1.01 million). This result includes a net profit from the dairy farms segment of \$2.74 million (2021: \$2.36 million) and net losses from the nutritional powders segment of \$1.48 million (2021: \$21k loss) and the consumer direct segment of \$79k (2021: \$27k loss). Corporate costs of \$1.14 million (2021: \$1.30 million) are not included in the segment results.

Total revenue and other income from continuing operations for the half-year ended 31 December 2022 is \$6.50 million (2021: \$7.27 million). This is down 11% against the 2021 comparative period due largely to a decrease in fair value gains of livestock in the dairy farm segment as cattle prices remain relatively flat.

Total expenses from continuing operations for the half-year ended 31 December 2022 were \$6.45 million (2021: \$6.25 million). This is up 3% against the 2021 comparative primarily as a result of the commencement of commercial production of infant formula.

The Group ceased fresh milk processing in Camperdown in late August 2022 and the net loss from discontinued operations for the half-year ended 31 December 2022 was \$3.21 million (2021: 925k). This result includes an impairment expense of \$2.23 million to the carrying value of the fresh dairy processing plant and equipment and right of use assets at the Manifold Street site. The Board have adopted a conservative approach to the value as investigations remain ongoing for a potential sale of the processing equipment and transfer of the site lease. The write-down of the plant and equipment and right of use assets has no impact on the cash position and when the Group sells any of the equipment in the future the proceeds of such sale will be recognised as a gain.

During the half-year ended 31 December 2022, the Group sold the North Brucknell farm resulting in the reversal of prior period fair value movements of \$2.12 million in other comprehensive income and a realised gain on sale of \$1.86

million. In the 2021 comparative, following a change in accounting policy to measure the carrying amount of land and buildings from cost to fair value, there was a fair value gain of \$7.17 million in other comprehensive income.

## FINANCIAL POSITION

The net assets of the Group at 31 December 2022 total \$35,042,941 a decrease of \$4,905,546 from the June 2022 comparative. This is largely attributable to the disposal of the North Brucknell farm and impairment to the carrying value of fresh dairy processing plant and equipment and right of use assets.

The key assets and liabilities in the statement of financial position at 31 December 2022 are:

- cash and cash equivalents of \$3,572,658 (June 2022: \$2,431,696);
- inventories of \$2,332,017 (June 2022: \$1,398,681);
- property, plant and equipment of \$25,164,274 (June 2022: \$27,003,288);
- biological assets (livestock) of \$4,669,688 (June 2022: \$4,416,205); and
- borrowings of \$393,143 (June 2022: \$502,770).

## REVIEW OF OPERATIONS

### CONTINUING OPERATIONS

#### DAIRY FARMS SEGMENT

##### *Regen Properties Pty Ltd (land owner) and SW Dairy Farms Pty Ltd (farm operator)*

##### (i) Dairy farm ownership restructure

In 2022 the Group commenced the process of restructuring its dairy farm portfolio to enable it to unstaple the shares in Australian Dairy Nutritionals Limited (ADNL) from the units in the Australian Dairy Farms Trust (ADFT). As part of this process, ownership of the Group's three dairy farm properties were transferred from the Australian Dairy Farms Trust to a new wholly owned subsidiary of ADNL, Regen Properties Pty Ltd. No changes were made to the entity responsible for the dairy farm operations which remains SW Dairy Farms Pty Ltd.

On 28 July 2022 the Group sold the Brucknell North farm for \$6.425 million. The sale did not include the A2 herd grazing on that property. The farm was immediately leased back by the Group for a term of 3 years plus an option for a further 12 months. At any time during the term of the Brucknell North lease, the Group may elect to terminate by providing the landlord with 3 months' written notice. This provides significant flexibility to the Group in determining the optimal strategy for procurement of its raw milk requirements.

## DIRECTORS' REPORT (cont'd)

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### (ii) Dairy farm segment performance

For the third year in a row, seasonal conditions in South West Victoria have been favourable for dairy farming. Combined with strong conventional and organic milk prices, this has delivered strong financial performance from the dairy farm segment. The segment net profit for the half-year ended 31 December 2022 was \$2.74 million (2021: \$2.36 million), which includes a gain on sale of the Brucknell North farm of \$1.86 million (2021: \$1.56 million from the sale of the Ecklin South farm).

Livestock values remained strong during the period, with results including a gain on change in fair value of livestock of \$429k (2021: \$1.18 million).

Late rain periods in December 2022 delayed silage production, however good levels were cut in early 2023 which will supplement feed as pastures dry off during the dry season, typically from January through to April each year.

### (iii) Farmgate milk price outlook

Whilst it is still early in 2023, indications are that milk prices will remain strong in FY24 due to continued strong demand for organic milk.

## NUTRITIONAL POWDERS SEGMENT

### (i) Commercial production at the Depot Road manufacturing facility

The Group achieved a major milestone during the period with its infant formula plant achieving commercial production of all three stages of the Ocean Road Dairies infant formula range. The range has been available in Chemist Warehouse stores nationally since November 2022. Since this time, we have continued to build inventory of the Ocean Road Dairies range for the domestic market.

The Group successfully obtained export certification from the Department of Agriculture, Fisheries and Forestry (DAFF) for its infant formula manufacturing facility in early February 2023. The export certification means infant formula and other dried milk and milk powder products manufactured at the Group's manufacturing facility can be exported from Australia to international markets, subject to local requirements for importation of these products into each market.

All Ocean Road Dairies Organic A2 protein infant formula now produced at the facility will be eligible for export through the Chinese cross-border e-commerce channel (CBEC) and into other key markets, provided the products are registered for import into that market. This is a critical step in expanding the Group's international distribution footprint for its products.

### (ii) Infant formula and nutritionals

In addition to the Ocean Road Dairies infant formula range, the Group also manufactures (via a third party) and sells the future Gradulac Gentle infant formula range (Future). This range has been available in Chemist Warehouse stores nationally since May 2022.

As with any new products, the Group expects it will take time for consumers to become aware of and trust its infant formula brands and products, particularly in a highly brand loyal category such as infant formula, so both brands and product ranges are being supported by targeted marketing activities to build brand awareness, create consumer interest and drive sales conversion.

The Group is heavily focussed on building distribution of both ranges domestically and in key international markets. The infant formula category underwent significant change due to the impact of Covid-19 both domestically and internationally, so we continue to adapt our distribution strategy to account for these structural changes as well as prevailing marketing conditions. The recent extended lockdowns across China have delayed the recovery of this market but we are optimistic that it will improve now that the Chinese government appears to be relaxing its zero COVID-19 policy.

Domestically, whilst it is still very early to gauge sales performance for the Ocean Road Dairies range, sales of the Future range have been slower to pick up than anticipated. As a result, the Group is carefully monitoring inventory holdings and working closely with Brand Solutions, Chemist Warehouse and other domestic distributors/retailers to improve sales of the Future products.

For international markets, apart from China's CBEC, the timing of market entry is contingent on product registration requirements which, where required, typically take between 2-10 months depending on the specific market. Infant formula products for the Chinese cross border e-commerce channel (CBEC) must be packed in a CNCA (Certification and Accreditation Administration of the People's Republic of China) approved facility but do not require a formal product registration.

Prior to the end of 2022, the Group had representatives attend two significant trade shows in Asia where there was good interest from potential distributors, particularly for the Ocean Road Dairies range.

During February 2023 the Group appointed a distributor for the Future branded products in Malaysia and are working through the infant formula product registration process in that market. First shipment of products to Malaysia is anticipated in June 2023, subject to completion of the product registration process.

The Group has also appointed a distributor in China to establish the Ocean Road Dairies flagship store on e-commerce platform JD.com/JD.HK. Products sold



## DIRECTORS' REPORT (cont'd)

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through this platform need to be manufactured in a CNCA registered facility (which ours is) but do not need to be registered in China. The Group anticipates first shipment of products to this distributor in May 2023.

Discussions are ongoing with potential distributors in other international markets, several in advanced negotiations. The Group anticipates appointing another two international distributors by the end of FY23.

### CONSUMER DIRECT SEGMENT

The consumer direct segment comprises the Group's Victorian Farmers Direct business, an online platform which delivers fresh milk, dairy, meat and other groceries directly to consumers' doorsteps.

The business operates in Victoria only and contributed \$963k (2021: \$1.23 million) in revenue to the Group for the half-year ended 31 December 2022 and a net loss of \$79k (2021: \$27k). With the closure of the Group's fresh milk processing and focus on dairy nutritional products, the future of this segment is currently under review.

### DISCONTINUED OPERATIONS

#### DAIRY PROCESSING SEGMENT

##### (i) Closure of Fresh Processing

During the period, the Group made the decision to close its fresh milk processing at the Manifold Street site in Camperdown. Whilst a difficult decision, the closure allowed the Group to sharpen its focus on its new manufacturing plant and infant formula brands and, transfer a number of its experienced dairy processing staff to the new manufacturing plant.

Fresh milk processing ceased at the end of August 2022 allowing the Group to wind down operations at the site so that residual operating expenses are minimised.

Investigations are ongoing for a potential sale of the processing equipment and transfer of the site lease however, the Board have adopted a conservative approach and written down the carrying value of the fresh dairy processing plant and equipment and right of use assets at the Manifold Street site. This has resulted in an impairment expense of \$2.23 million in the half-year period.

The write-down of the plant and equipment and right of use assets has no impact on the cash position and if the Group sells any of the equipment in the future then the proceeds of such sale will be recognised as a gain.

#### COVID-19

The Group is continually monitoring the different areas of its business and the ongoing impact which COVID-19 may have on its operations. Sustained lock downs in the Chinese market throughout large parts of 1HFY23 materially impacted the infant formula market in China however we are anticipating this to slowly improve now that restrictions appear to be easing.

### CAPITAL MANAGEMENT

After a period of significant capital expenditure to bring the Group's infant formula manufacturing facility to commercial production, the Group's ongoing capital position is heavily reliant on consumer awareness and adoption of its infant formula products domestically as well as the Group's ability to access new markets. Export certification of the Depot Road manufacturing facility was a critical step in accessing these new markets, however the next step typically requires successful registration of the infant formula products in that market in accordance with local regulatory requirements.

The time to achieve these local registrations varies across the various markets but can take between 2 -10 months. As such, forecasting the timing of market entry and corresponding revenue generation can be very difficult.

In light of this, the Board is continually monitoring the cash position of the Group and has a number of short, medium and long-term strategies for management of the Group's cash position to ensure operations are well funded.

At the date of this report the Group has a cash balance of \$2.3 million and is largely debt free with no security over its assets. Current inventory holdings of the Group's infant formula products (domestic only for Ocean Road Dairies) are sufficient to support ongoing development of our distribution network.

The Group is also investigating the sale of residual fresh dairy processing equipment as part of the closure of the Manifold Street site in Camperdown and, although not a preferred strategy for funding, our farming operations carry \$1.7 million in young livestock that are non-milking but are reared to replace ageing livestock in the current herd. An alternative strategy could be that replacement cattle are purchased as required in the open dairy cattle market.

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

### DESTAPLING OF COMPANY SHARES AND TRUST UNITS

At the Annual General Meeting of the Group on 24 November 2022, shareholders approved the destapling of the shares in the Company and units in the Trust (refer Note 1(a)).



**Martin Bryant**  
Chairman

28 February 2023

# AUDITOR'S INDEPENDENCE DECLARATION



## Auditor's Independence Declaration under s307C of the *Corporations Act 2001*

### To the Directors of Australian Dairy Nutritionals Limited

As lead auditor for the review of the financial report of Australian Dairy Nutritionals Group which comprises Australian Dairy Nutritionals Limited and the entities it controlled at the end of the period or from time to time during the period for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. any applicable code of professional conduct in relation to the review.

*Nexia Brisbane Audit Pty Ltd*

**Nexia Brisbane Audit Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Gavin Ruddell'.

**Gavin Ruddell**  
**Director**

Date: 28 February 2023

#### **Nexia Brisbane Audit Pty Ltd**

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# FINANCIAL STATEMENTS

FOR THE HALF YEAR  
ENDING 31 DECEMBER 2022



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

		DECEMBER 2022	DECEMBER 2021
	Notes	\$	\$
<b>Continuing Operations</b>			
Revenue	2(a)	4,206,822	4,527,583
Other income	2(b)	2,289,418	2,738,513
Administration related costs	2(c)(vi)	(479,930)	(415,717)
Employment expenses	2(c)(v)	(1,712,404)	(1,334,841)
Finance costs	2(c)(i)	(32,971)	(84,420)
Dairy farm related costs	2(c)(ii)	(1,607,133)	(1,802,307)
Nutritional powders product related costs	2(c)(iii)	(1,186,493)	(27,579)
Consumer direct product related costs	2(c)(iv)	(949,678)	(1,192,566)
Depreciation and amortisation expense		(306,543)	(206,969)
Deemed cost of livestock disposed		(175,061)	(1,190,433)
<b>Profit before income tax</b>		<b>46,027</b>	<b>1,011,264</b>
Income tax expense	2(d)	-	-
<b>Net profit from continuing operations</b>		<b>46,027</b>	<b>1,011,264</b>
<b>Discontinued operations</b>			
Loss from discontinued operations	3	(3,213,941)	(924,951)
<b>Net profit / (loss) for the period</b>		<b>(3,167,914)</b>	<b>86,313</b>
<b>Other comprehensive income</b>			
<b>Items that will be reclassified subsequently to profit or loss</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Fair value movement on land and buildings at fair value through other comprehensive income		(2,117,570)	7,174,988
<b>Other comprehensive income / (loss) for the period</b>		<b>(2,117,570)</b>	<b>7,174,988</b>
<b>Total comprehensive income / (loss) for the period</b>		<b>(5,285,484)</b>	<b>7,261,301</b>
<b>Profit / (loss) is attributable to:</b>			
Company shareholders		(3,162,941)	(1,282,903)
Trust unitholders		-	1,369,216
Non-controlling interest		(4,973)	-
		<b>(3,167,914)</b>	<b>86,313</b>
<b>Total comprehensive income / (loss) is attributable to:</b>			
Company shareholders		(5,280,511)	(1,282,903)
Trust unitholders		-	8,544,204
Non-controlling interest		(4,973)	-
		<b>(5,285,484)</b>	<b>7,261,301</b>
<b>Earnings per share from continuing and discontinued operations:</b>			
Basic earnings per share (cents)	12	(0.57)	0.02
Diluted earnings per share (cents)	12	(0.57)	0.02

*The accompanying notes form part of these financial statements.*



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	DECEMBER 2022 \$	JUNE 2022 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,572,658	2,431,696
Trade and other receivables		794,991	974,232
Inventories		2,332,017	1,398,681
Non-current assets held for sale		-	6,425,000
Other assets		744,916	836,365
<b>Total Current Assets</b>		<b>7,444,582</b>	<b>12,065,974</b>
<b>Non-Current Assets</b>			
Biological assets	4	4,669,688	4,416,205
Right of use assets		902,261	569,654
Intangible assets	5	610,311	547,481
Property, plant & equipment	6	25,164,274	27,003,288
<b>Total Non-Current Assets</b>		<b>31,346,534</b>	<b>32,536,628</b>
<b>Total Assets</b>		<b>38,791,116</b>	<b>44,602,602</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		1,569,982	2,837,666
Lease liabilities		502,586	242,634
Provisions		626,146	630,342
Borrowings	7	393,143	502,770
<b>Total Current Liabilities</b>		<b>3,091,857</b>	<b>4,213,412</b>
<b>Non-Current Liabilities</b>			
Lease liabilities		586,583	345,504
Provisions		69,735	95,199
<b>Total Non-Current Liabilities</b>		<b>656,318</b>	<b>440,703</b>
<b>Total Liabilities</b>		<b>3,748,175</b>	<b>4,654,115</b>
<b>Net Assets</b>		<b>35,042,941</b>	<b>39,948,487</b>
<b>EQUITY</b>			
Issued capital	8	74,656,988	43,563,897
Reserves		5,775,998	8,026,909
Retained earnings		(45,384,233)	(35,541,736)
<b>Equity attributable to shareholders</b>		<b>35,048,753</b>	<b>16,049,070</b>
<b>Non-controlling interests</b>			
Issued units	8	-	30,744,991
Retained earnings		(5,812)	(6,845,574)
<b>Equity attributed to non-controlling interests</b>		<b>(5,812)</b>	<b>23,899,417</b>
<b>Total Equity</b>		<b>35,042,941</b>	<b>39,948,487</b>

*The accompanying notes form part of these financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

	DECEMBER 2022	DECEMBER 2021
Notes	\$	\$
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	5,413,238	8,574,452
Payments to suppliers and employees	(9,261,562)	(10,679,680)
Interest received	1,035	2,924
Finance costs	(45,058)	(93,737)
<b>Net operating cash flows</b>	<b>(3,892,347)</b>	<b>(2,196,041)</b>
<b>Cash Flows from Investing Activities</b>		
Payment for property, plant & equipment	(665,673)	(1,364,261)
Proceeds from sale of non-current assets held for sale	6,093,919	5,521,339
Payment for biological assets	-	(45,504)
Payment for intangible assets	(62,829)	(60,445)
<b>Net investing cash flows</b>	<b>5,365,417</b>	<b>4,051,129</b>
<b>Cash Flows from Financing Activities</b>		
Repayment of CBA facility	-	(5,980,506)
Proceeds from borrowings - unsecured	630,555	312,237
Repayment of borrowings - unsecured	(237,412)	(124,897)
Repayment of related party loan	7(ii) (500,000)	-
Repayment of hire purchase loans	-	(179,394)
Repayment of lease principal	(225,251)	(62,693)
<b>Net financing cash flows</b>	<b>(332,108)</b>	<b>(6,035,253)</b>
<b>Net increase / (decrease) in cash held</b>	<b>1,140,962</b>	<b>(4,180,165)</b>
Cash at the beginning of the period	2,431,696	6,192,119
<b>Cash at the end of the financial period</b>	<b>3,572,658</b>	<b>2,011,954</b>

*The accompanying notes form part of these financial statements.*



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

	Issued Capital	Asset Revaluation	Option Reserve	Non-controlling Interests	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2022</b>	<b>43,563,897</b>	<b>7,160,545</b>	<b>866,364</b>	<b>23,900,256</b>	<b>(35,541,736)</b>	<b>39,949,326</b>
<b>Comprehensive income</b>						
Profit / (loss) attributable to company shareholders / trust unitholders for the period	-	-	-	(20,482)	(3,142,459)	(3,162,941)
Non-controlling interests	-	-	-	(4,973)	-	(4,973)
Other comprehensive income / (loss) for the period	-	(2,117,570)	-	-	-	(2,117,570)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(2,117,570)</b>	<b>-</b>	<b>(25,456)</b>	<b>(3,142,459)</b>	<b>(5,285,484)</b>
<b>Transactions with equity holders in their capacity as equity holders and other transfers:</b>						
Director performance rights	-	-	58,000	-	-	58,000
Share-based payments 8(i),(v)	231,100	-	-	-	-	231,100
Share-based payment - supplier 8(iv)	90,000	-	-	-	-	90,000
Transfer to retained earnings (options)	-	-	(322,532)	-	322,532	-
Transfer from NCI on destapling 8(iii)	30,744,991	-	-	(23,880,612)	(6,864,379)	-
Shares issued on exercise of rights	27,000	-	(27,000)	-	-	-
<b>Total transactions with owners and other transfers</b>	<b>31,093,091</b>	<b>-</b>	<b>(133,341)</b>	<b>(23,880,612)</b>	<b>(6,700,038)</b>	<b>379,100</b>
<b>Balance at 31 December 2022</b>	<b>74,656,988</b>	<b>5,042,975</b>	<b>733,023</b>	<b>(5,812)</b>	<b>(45,384,233)</b>	<b>35,042,941</b>
<b>Balance at 1 July 2021</b>	<b>40,562,399</b>	<b>-</b>	<b>918,363</b>	<b>22,658,500</b>	<b>(30,152,297)</b>	<b>33,986,965</b>
<b>Comprehensive income</b>						
Profit / (loss) attributable to company shareholders / trust unitholders for the period	-	-	-	1,369,216	(1,282,903)	86,313
Other comprehensive income for the period	-	7,174,988	-	-	-	7,174,988
<b>Total comprehensive income / (loss) for the period</b>	<b>-</b>	<b>7,174,988</b>	<b>-</b>	<b>1,369,216</b>	<b>(1,282,903)</b>	<b>7,261,301</b>
<b>Transactions with equity holders in their capacity as equity holders and other transfers:</b>						
Share-based payments	92,500	-	-	-	-	92,500
Shares issued on exercise of rights	87,999	-	(87,999)	-	-	-
Share-based payment - supplier	87,000	-	-	-	-	87,000
<b>Total transactions with equity holders</b>	<b>267,499</b>	<b>-</b>	<b>(87,999)</b>	<b>-</b>	<b>-</b>	<b>179,500</b>
<b>Balance at 31 December 2021</b>	<b>40,829,898</b>	<b>7,174,988</b>	<b>830,364</b>	<b>24,027,716</b>	<b>(31,435,200)</b>	<b>41,427,766</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

Australian Dairy Nutritionals Group ("the Group") was formed by the stapling of Australian Dairy Nutritionals Limited, previously named Australian Dairy Farms Limited ("the Company") and its controlled entities, and Australian Dairy Farms Trust ("the Trust"). The Financial Reports of the Group and the Trust have been presented jointly in accordance with ASIC Class Order 13/1050 relating to combining accounts under stapling and for the purpose of fulfilling the requirements of the Australian Securities Exchange up until the 30 June 2022 comparative.

On 5 December 2022, the shares in the Company were destapled from the units in the Trust. The consolidated financial statements for the half-year ended 31 December 2022 are presented as a continuation of the existing Group with the Company as the accounting parent entity. The destapling constitutes a transaction amongst owners, where previously they held their interest through the Company and Trust (the non-controlling interest), and after the destapling they hold all of their interest directly through the Company. The impact of the destapling has been recognised in equity whereby the issued units of the Trust have been transferred to issued capital in the Company and the retained earnings in the Trust have been transferred to retained earnings in the Company.

These general purpose interim financial statements for half-year reporting period ended 31 December 2022 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Australian Dairy Nutritionals Limited and its controlled entities (referred to as the "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2022, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on the date of signing the directors' declaration.

### (b) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except for those as described in Note 1(c) below.

### (c) New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period but determined that their application to the financial statements is either not relevant or not material.

### (d) Capital Management

After a period of significant capital expenditure to bring the Group's infant formula manufacturing facility to commercial production, the Group's ongoing capital position is heavily reliant on consumer awareness and adoption of its infant formula products domestically as well as the Group's ability to access new markets. Export certification of the Depot Road manufacturing facility was a critical step in accessing these new markets, however the next step typically requires successful registration of the infant formula products in that market in accordance with local regulatory requirements.

The time to achieve these local registrations varies across the various markets but can take between 2 -10 months. As such, forecasting the timing of market entry and corresponding revenue generation can be very difficult.

In light of this, the Board is continually monitoring the cash position of the Group and has a number of short, medium and long-term strategies for management of the Group's cash position to ensure operations are well funded.

At the date of this report the Group has a cash balance of \$2.3 million and is largely debt free with no security over its assets. Current inventory holdings of the Group's infant formula products (domestic only for Ocean Road Dairies) are sufficient to support ongoing development of our distribution network.

The Group is also investigating the sale of residual fresh dairy processing equipment as part of the closure of the Manifold Street site in Camperdown and, although not a preferred strategy for funding, our farming operations carry \$1.7 million in young livestock that are non-milking but are reared to replace ageing livestock in the current herd. An alternative strategy could be that replacement cattle are purchased as required in the open dairy cattle market.

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



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 2: REVENUE AND EXPENSES

	Notes	December 2022 \$	December 2021 \$
<b>(a) Revenue</b>			
Revenue from contracts with customers	(i)	4,187,229	4,506,565
Other sources of revenue	(ii)	19,593	21,018
<b>Total revenue</b>		<b>4,206,822</b>	<b>4,527,583</b>
 <b>(i) Revenue disaggregation</b>			
The revenue is disaggregated by service line and timing of revenue recognition.			
<b>Service lines:</b>			
- Nutritional powders		229,833	6,414
- Consumer direct		963,095	1,229,059
- Dairy farms		2,994,301	3,271,092
		<b>4,187,229</b>	<b>4,506,565</b>
 <b>Timing of revenue recognition</b>			
Services transferred to customers:			
- at a point in time		<b>4,187,229</b>	<b>4,506,565</b>
 <b>(ii) Other sources of revenue</b>			
Interest - unrelated		1,035	1,463
Farm costs recoveries		15,300	15,071
Fuel rebate and other revenue		3,258	4,484
		<b>19,593</b>	<b>21,018</b>
 <b>(b) Other Income</b>			
Gain on change in fair value of livestock (refer Note 4)		428,544	1,183,171
Gain on disposal of property, plant and equipment		1,860,874	1,555,342
		<b>2,289,418</b>	<b>2,738,513</b>
 <b>(c) Expenses</b>			
<b>(i) Finance costs</b>			
- CBA facility		-	60,905
- Loans - unsecured		16,050	5,246
- Finance costs - related party		2,904	-
- Finance costs - right of use assets		14,017	18,269
		<b>32,971</b>	<b>84,420</b>
 <b>(ii) Dairy related costs</b>			
Feed costs		738,892	790,993
Repairs, maintenance and vehicle costs		148,711	144,148
Animal health costs		14,604	21,577
Land holding and lease costs		15,594	23,474
Breeding and herd testing expenses		34,475	72,168
Dairy shed expenses		66,981	67,299
Electricity		68,853	97,084
Other dairy farm related costs		519,023	585,564
		<b>1,607,133</b>	<b>1,802,307</b>

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 2: REVENUE AND EXPENSES (cont'd)

	December 2022	December 2021
Notes	\$	\$
<b>(iii) Nutritional powders related costs</b>		
Cost of goods sold	149,888	3,546
Manufacturing related costs	391,888	-
Advertising and marketing costs	312,166	2,624
Property related costs	13,244	-
Other infant formula costs	319,307	21,409
<b>Total nutritional powders related costs</b>	<b>1,186,493</b>	<b>27,579</b>
<b>(iv) Consumer direct related costs</b>		
Cost of goods sold	835,704	1,053,294
Other home delivery costs	113,974	139,272
<b>Total consumer direct related costs</b>	<b>949,678</b>	<b>1,192,566</b>
<b>(v) Employment benefits expense</b>		
Employee and director remuneration costs	1,428,304	1,242,341
Equity settled share-based payment costs	284,100	92,500
	<b>1,712,404</b>	<b>1,334,841</b>
<b>(vi) Administration related costs</b>		
Administration costs	286,531	221,367
Equity settled share-based payment - professional costs	90,000	87,000
Professional costs	103,399	107,350
	<b>479,930</b>	<b>415,717</b>

### (d) Tax Expense

There is no income tax applicable to the result for the period due to the availability of carried forward tax losses.



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 3: DISCONTINUED OPERATIONS

Fresh milk processing at the Manifold Street site in Camperdown ceased at the end of August 2022.

Whilst a difficult decision, the closure allowed the Group to sharpen its focus on its new manufacturing plant and infant formula brands and, transfer a number of its experienced dairy processing staff to the new manufacturing plant.

Following the closure, the Group has some residual operating expenses that will continue as it investigates a potential sale of the processing equipment and transfer of the site lease.

(a) **Statement of Profit or Loss and Other Comprehensive Income for the period from discontinued operations:**

		DECEMBER 2022	DECEMBER 2021
	Notes	\$	\$
Revenue		657,742	4,094,415
Employment expenses		(341,210)	(946,962)
Finance costs		(9,317)	(9,317)
Dairy product related costs		(1,175,123)	(3,745,337)
Depreciation and amortisation expense		(120,575)	(317,750)
Impairment expense - right of use assets	(i)	(168,857)	-
Impairment expense - property, plant and equipment	(i)	(2,056,601)	-
<b>loss before income tax</b>		<b>(3,213,941)</b>	<b>(924,951)</b>
Income tax expense		-	-
<b>Net loss from discontinued operations</b>		<b>(3,213,941)</b>	<b>(924,951)</b>

(i) Investigations are ongoing for a potential sale of the processing equipment and transfer of the site lease however, the Board have adopted a conservative approach and written down the carrying value of the fresh dairy processing plant and equipment and right of use assets at the Manifold Street site. This has resulted in an impairment expense on property, plant and equipment of \$2,056,601 and on right of use assets of \$168,857.

The write-down of the plant and equipment and right of use assets has no impact on the cash position and when the Group sells any of the equipment in the future then the proceeds of such sale will be recognised as a gain.

(b) **The net cash flows of the discontinued operation, which have been incorporated into the statement of cash flows, are as follows:**

	DECEMBER 2022	DECEMBER 2021
	\$	\$
Net cash outflow from operating activities	(951,172)	(589,612)
Net cash outflow from investing activities	(1,226)	(68,026)
Net cash inflow from finance activities	689,018	763,371
<b>Net cash outflow by discontinued operations</b>	<b>(263,380)</b>	<b>105,733</b>

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 4: BIOLOGICAL ASSETS

	Notes	December 2022 \$	June 2022 \$
Dairy cattle livestock - mature	(i)	4,669,688	4,416,205
<b>Total biological assets</b>		<b>4,669,688</b>	<b>4,416,205</b>
Opening carrying amount		4,416,205	4,795,079
Purchases of livestock		-	389,640
Deemed cost of livestock disposed		(175,061)	(2,111,186)
Gain from changes to fair value		428,544	1,342,672
		<b>4,669,688</b>	<b>4,416,205</b>
<b>Reconciliation of cattle numbers:</b>		<b>Number</b>	<b>Number</b>
Opening balance		2,227	2,900
Purchases		-	164
Natural increase and attrition		189	725
Sales		(223)	(1,562)
<b>Closing balance</b>		<b>2,193</b>	<b>2,227</b>

(i) Biological assets represent the dairy livestock owned by the Group. The livestock is valued at fair value, by an independent stock agent, based on the prices in the open dairy cattle market in the locality of the Group's dairy farming operations. A fair value gain of \$428,544 (December 2021: \$1,183,171) has been recognised in profit and loss at 31 December 2022, and represents price movements, natural increase and the movement in ages of young stock.

## NOTE 5: INTANGIBLE ASSETS

	December 2022 \$	June 2022 \$
<b>Recipes, formulations and patents</b>		
- at cost	346,846	346,846
<b>Product development</b>		
- at cost	368,799	305,970
Less accumulated amortisation	(105,335)	(105,335)
	<b>263,465</b>	<b>200,635</b>
<b>Total intangible assets</b>	<b>610,311</b>	<b>547,481</b>

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Notes	December 2022 \$	June 2022 \$
<b>Land, buildings and improvements</b>			
- at fair value		19,745,849	19,767,915
Less accumulated depreciation		(411,333)	(408,617)
	(a)	<b>19,334,516</b>	<b>19,359,298</b>
<b>Plant and equipment - owned</b>			
- at cost		11,862,935	11,532,228
Less impairment expense	(b)	(2,056,601)	-
Less accumulated depreciation		(3,976,576)	(3,888,238)
		<b>5,829,758</b>	<b>7,643,990</b>
<b>Total property, plant and equipment</b>		<b>25,164,274</b>	<b>27,003,288</b>

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

Property name	Note	Acquisition date	December 2022	June 2022
Brucknell No 2	(i)	22 October 2014	6,292,651	6,423,625
Yaringa - Nirranda South	(i)	4 October 2018	7,684,729	7,642,992
Depot & Old Geelong Road (Camperdown)	(ii)	17 November 2017	272,974	272,974
Infant Formula Plant Project	(ii)	in progress	5,084,162	5,019,707
<b>Total</b>			<b>19,334,516</b>	<b>19,359,298</b>

(i) Registered valuers Preston Rowe Paterson completed an independent valuation of both farms properties on 3 February 2022. The basis of the valuation was 'As Is and In Use' with vacant possession and the combined fair value of both farm properties (excluding the Infant Formula Plant Project and Depot & Old Geelong Road Land) was \$14,050,000. The Board has reviewed carrying amounts at 31 December 2022 and are satisfied they are not impaired and the best estimate of the property values are the independent valuations from February 2022 plus capitalised costs from the valuation date, less depreciation.

(ii) At 31 December 2022, the Infant Formula Plant Project was in the final stage of completion. On full completion and at an appropriate time, the Board will engage an independent valuer to assess the fair value of the infant formula plant and associated land. The Board have assessed the fair value of the infant formula plant and associated land at 31 December 2022 and the carrying value is the current historical cost and is representative of the market value.

(b) On 22 August 2022, the Group ceased fresh milk processing at its Camperdown Dairy Manifold Street site. The Board have adopted a conservative approach to the carrying value of the fresh dairy processing plant and equipment at the Manifold Street site as investigations remain ongoing for a potential sale of the processing equipment and transfer of the site lease. This has resulted in an impairment expense on property, plant and equipment of \$2,056,601.

The write-down of the plant and equipment and right of use assets has no impact on the cash position and when the Group sells any of the equipment in the future the proceeds of such sale will be recognised as a gain.



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 7: BORROWINGS

	Notes	December 2022 \$	June 2022 \$
<b>Current</b>			
Loans - unsecured	(i)	393,143	-
Loan - related party	(ii)	-	502,770
<b>Total current borrowing</b>		<b>393,143</b>	<b>502,770</b>

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

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

## NOTE 8: ISSUED CAPITAL

	December 2022 \$	June 2022 \$
Contributed equity of the Group	74,656,988	74,308,888

### Movement in stapled securities and shares:

		Number of Shares	Share- holders \$	Unit- holders \$	Issued Capital \$	Issue Price \$
Opening balance	1 Jul 2022	548,552,225	43,563,897	30,744,991	74,308,888	
Employee performance securities (i)	24 Aug 2022	3,230,000	226,100	-	226,100	0.070
Performance rights exercised (ii)	24 Aug 2022	1,500,000	27,000	-	27,000	0.018
Transfer from NCI on destapling (iii)	5 Dec 2022	-	30,744,991	(30,744,991)	-	-
Supplier securities (iv)	16 Dec 2022	1,800,000	90,000	-	90,000	0.050
Employee performance securities (v)	16 Dec 2022	100,000	5,000	-	5,000	0.050
<b>31 December 2022</b>		<b>555,182,225</b>	<b>74,656,988</b>	<b>-</b>	<b>74,656,988</b>	

Until 5 December 2022, the stapled securities of the Group were comprised of one share in the Company and one unit in the Trust. As noted in Note 1(a), the stapled securities were destapled effective from 5 December 2022.

(i) On 24 August 2022, there were 3,230,000 stapled securities issued as a share-based payment under the AHF Long Term Incentive Plan at a price of \$0.070 per security. The fair value of securities issued, determined by reference to the market price, was \$226,100.

(ii) On 24 August 2022, there were 1,500,000 stapled securities issued at a price of \$0.018 per security upon vesting of employee performance rights.

(iii) On 5 December 2022, the Company and the Trust were destapled. (Refer Note 1(a)).

(iv) On 16 December 2022, there were 1,800,000 shares issued as a share-based payment for consulting services under the AHF Long Term Incentive Plan at a price of \$0.05 per security. The fair value of shares issued, determined by reference to the market price, was \$90,000.

(v) On 16 December 2022, there were 100,000 shares issued as a share-based payment under the AHF Long Term Incentive Plan at a price of \$0.050 per security. The fair value of shares issued, determined by reference to the market price, was \$5,000.

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 8: ISSUED CAPITAL (cont'd)

### Movement in stapled securities:

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 9: SEGMENT REPORTING

The Group has historically disclosed two reportable segments, dairy farms and dairy processing. With the closure of the fresh milk processing at Camperdown in August 2022 and the subsequent reporting as a discontinued operation in the half-year, the Group has revised its dairy processing segment to more appropriately reflect the current operations of the Group.

In the half-year ended 31 December 2022, the dairy processing segment has been split as follows:

- Dairy Processing - this segment includes the property, plant and equipment and residual assets and liabilities from the fresh milk processing factory at Camperdown.
- Nutritional Powders - this segment includes the processing and sale of dairy and nutritional products to domestic and international markets.
- Consumer Direct - this segment includes the online platform which delivers fresh milk, dairy, meat and other groceries directly to consumers' doorsteps.

The 31 December 2021 and 30 June 2022 comparatives have been restated to reflect this change.

(i) Segment Performance	Nutritional Powders \$	Dairy Farms \$	Consumer Direct \$	Total \$
<b>31 December 2022</b>				
<b>Revenue</b>				
External sales	229,833	3,012,859	963,095	4,205,787
Other income	-	2,289,418	-	2,289,418
Interest revenue	-	1,035	-	1,035
<b>Total segment revenue</b>	<b>229,833</b>	<b>5,303,312</b>	<b>963,095</b>	<b>6,496,240</b>
<b>Total group revenue</b>				<b>6,496,240</b>
<b>Segment net profit / (loss) before tax</b>	<b>(1,477,728)</b>	<b>2,740,954</b>	<b>(78,766)</b>	<b>1,184,460</b>
<b>Reconciliation of segment result to group net profit/loss before tax:</b>				
Amounts not included in segment result but reviewed by the Board:				
Corporate charges	(375,683)	(375,683)	(11,383)	(762,749)
Corporate charges allocated to discontinued operations				(375,684)
<b>Net profit from continuing operations before tax</b>				<b>46,027</b>



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 9: SEGMENT REPORTING (cont'd)

(ii) Segment Performance	Nutritional Powders \$	Dairy Farms \$	Consumer Direct \$	Total \$
<b>31 December 2021</b>				
<b>Revenue</b>				
External sales	6,414	3,290,647	1,229,059	4,526,120
Other income	-	2,738,513	-	2,738,513
Interest revenue	-	1,462	1	1,463
<b>Total segment revenue</b>	<b>6,414</b>	<b>6,030,622</b>	<b>1,229,060</b>	<b>7,266,096</b>
<b>Total group revenue</b>				<b>7,266,096</b>
<b>Segment net profit / (loss) before tax</b>	<b>(21,167)</b>	<b>2,357,367</b>	<b>(27,153)</b>	<b>2,309,047</b>
<b>Reconciliation of segment result to group net profit/loss before tax:</b>				
Amounts not included in segment result but reviewed by the Board:				
Corporate charges	(333,183)	(618,440)	(12,977)	(964,600)
Corporate charges allocated to discontinued operations				(333,183)
<b>Net profit from continuing operations before tax</b>				<b>1,011,264</b>

(iii) Segment Assets	Nutritional Powders \$	Dairy Farms \$	Dairy Processing \$	Consumer Direct \$	Total \$
<b>As at 31 December 2022</b>					
<b>Segment assets</b>	14,477,539	23,655,652	608,428	49,497	38,791,116
<b>Segment assets include:</b>					
Additions to non-current assets	721,743	6,759	-	-	728,502
<b>(iv) Segment Assets</b>					
<b>As at 30 June 2022</b>					
<b>Segment assets</b>	11,544,379	28,151,504	4,790,926	115,793	44,602,602
<b>Segment assets include:</b>					
Additions to non-current assets	2,498,972	513,944	88,033	6,847	3,107,796

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 9: SEGMENT REPORTING (cont'd)

(v) Segment Liabilities	Nutritional Powders \$	Dairy Farms \$	Dairy Processing \$	Consumer Direct \$	Total \$
As at 31 December 2022					
Segment liabilities	1,522,459	1,773,760	422,273	29,683	3,748,175

(vi) Segment Liabilities	Nutritional Powders \$	Dairy Farms \$	Dairy Processing \$	Consumer Direct \$	Total \$
As at 30 June 2022					
Segment liabilities	611,524	1,755,576	2,168,254	118,761	4,654,115

## NOTE 10: SHARE-BASED PAYMENTS

### (a) Stapled securities / shares granted to employees under the Group Incentive Plan as share-based payments

During the half-year ended 30 December 2022 are as follows:

Grant Date	Note	Number
24 August 2022	(i)	3,230,000
16 December 2022	(ii)	100,000

(i) On 24 August 2022, there were 3,230,000 stapled securities issued to management personnel of the Group at a price of \$0.070 per security. The fair value of securities issued, determined by reference to the market price, was \$226,100.

(ii) On 16 December 2022, there were 100,000 shares issued to an employee as part of a performance review at a price of \$0.050 per share. The fair value of shares issued, determined by reference to the market price, was \$5,000.

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

A summary of movements in performance rights is as follows:

	December 2022	June 2021
Opening balance	2,000,000	1,000,000
Granted (i)	2,000,000	6,000,000
Forfeited	-	(4,000,000)
Exercised (ii)	(1,500,000)	(1,000,000)
Cancelled (iii)	(500,000)	-
Closing balance	<u>2,000,000</u>	<u>2,000,000</u>

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

### NOTE 10: SHARE-BASED PAYMENTS (cont'd)

#### (i) Granted performance rights

During the half-year ended 31 December 2022, the following performance rights were granted:

- On 24 November 2022, shareholders approved the issue of 500,000 performance rights each to directors Bernard Kavangh and Jason Dong (TSR hurdle).

The issue price of the rights is 0.5 cents calculated using the Monte Carlo method, the expiry date is 30 June 2023 and the rights vest when total shareholder return is >30 in the period during 1 July 2022 to 30 June 2023. Other Key inputs include volatility of 63.08% and a risk-free rate of 3.24%.

The fair value of the rights issued was \$5,000.

- On 24 November 2022, shareholders approved the issue of 500,000 performance rights each to directors Bernard Kavangh and Jason Dong (EBITDA hurdle).

The issue price of the rights is 5.3 cents calculated using the Black-Scholes method, the expiry date is 30 June 2023 and the rights vest if the Group's audited operating EBITDA for the financial year ending 30 June 2023 is break even or above. Other Key inputs include volatility of 63.08% and a risk-free rate of 3.24%.

The fair value of the rights issued is \$53,000.

#### (ii) Exercised performance rights

During the half-year ended 31 December 2022, 1,500,000 stapled securities were issued to directors on exercise of performance rights as the performance conditions attached to these performance rights were achieved. (refer Note 8(ii)).

#### (iii) Cancelled performance rights

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

### (c) Options

A summary of movements in options is as follows:

	December 2022	June 2022
Opening balance	9,500,000	9,500,000
Expired (i)	(6,500,000)	-
Closing balance	<b>3,000,000</b>	<b>9,500,000</b>

(i) During the half-year ended 31 December 2022, 6,500,000 lead manager and management options expired (June 2022: nil).

There were no options granted, cancelled or exercised during the half-year ended 31 December 2022 (June 2022: nil).

### (d) Loan securities

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

	December 2022	June 2022
Opening balance	9,500,000	9,500,000
Expired (i)	(2,500,000)	-
Closing balance (exercisable)	<b>7,000,000</b>	<b>9,500,000</b>

(i) During the half-year ended 31 December 2022, 2,500,000 loan securities expired (June 2022: nil). The expired loan securities will be bought back for nil consideration in accordance with the buy-back procedure set out in the *Corporations Act 2001* (Cth).

There were no loan securities issued, cancelled, or exercised during the half-year ended 31 December 2022 (June 2022: nil).

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 10: SHARE-BASED PAYMENTS (cont'd)

### (e) Other share-based payments

During the half-year ended 31 December 2022, there were 1,800,000 shares issued as a share-based payment for consulting services under the AHF Long Term Incentive Plan at a price of \$0.05 per share. The fair value of shares issued, determined by reference to the market price, was \$90,000.

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

	Note	December 2022 \$	December 2021 \$
Equity settled share-based payments - employment benefit costs	2(iv)	284,100	92,500
Equity settled share-based payments - professional costs	2(v)	90,000	87,000

## NOTE 11: FAIR VALUE

### (a) Fair Value Hierarchy

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

#### 31 December 2022

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Level 4 \$	Total \$
<b>Non-financial assets</b>						
Biological Assets	4	-	4,669,688	-	-	4,669,688
Land and buildings	6	-	19,334,516	-	-	19,334,516
<b>Total non-financial assets recognised at fair value on a recurring basis</b>			<b>24,004,204</b>			<b>24,004,204</b>

#### 30 June 2022

<b>Non-financial assets</b>						
Biological Assets	4	-	4,416,205	-	-	4,416,205
Land and buildings	6	-	19,359,298	-	-	19,359,298
<b>Total non-financial assets recognised at fair value on a recurring basis</b>			<b>23,775,503</b>			<b>23,775,503</b>



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 11: FAIR VALUE (cont'd)

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

In the absence of an active market for an identical asset, the Group selects and uses one or more valuation techniques to measure the fair value of the asset. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

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

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

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

Description	Fair Value at 31 December 2022 \$	Valuation Technique(s) \$	Input Used \$
<b>Non-financial assets</b>			
Biological assets	4,669,688	Market approach using recent observable industry market data for dairy cattle	Breed, weight, condition
Land and buildings	19,334,516	Market approach using recent observable comparable sales evidence	Price per hectare, improvements value, current replacement cost
	<u>24,004,204</u>		

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

## NOTE 12: EARNINGS PER SHARE CALCULATION

	December 2022 cents	December 2021 cents
<b>From continuing and discontinued operations</b>		
Basic profit / (loss) per share	(0.57)	0.02
Diluted profit / (loss) per share	(0.57)	0.02
<b>From continuing operations</b>		
Basic profit / (loss) per share	0.01	0.20
Diluted profit / (loss) per share	0.01	0.20
<b>From discontinued operations</b>		
Basic profit / (loss) per share	(0.58)	(0.18)
Diluted profit / (loss) per share	(0.58)	(0.18)
<b>Reconciliation of earnings to profit or loss:</b>		
Profit / (loss) attributable to shareholders	\$ (3,167,914)	\$ 86,313
<b>Weighted average number of shares outstanding during the year used in calculating basic EPS</b>		
Weighted average number of options outstanding	Number of Shares	Number of Shares
	552,042,225	503,891,804
<b>Weighted average number of shares outstanding during the year used in calculating dilutive EPS</b>	<b>552,042,225</b>	<b>503,891,804</b>

All options on issue are considered to be dilutive potential ordinary shares, however they are presently anti-dilutive at 31 December 2022 as the average market price of shares during the period is less than the exercise price of all options.

## NOTE 13: CAPITAL COMMITMENTS

There are no capital expenditure commitments contracted for the year half-year ended 31 December 2022.

## NOTE 14: EVENTS AFTER THE BALANCE DATE

- On 10 February 2023, the Group announced to the ASX it has successfully obtained export certification from the Department of Agriculture, Fisheries and Forestry (DAFF) for its infant formula manufacturing facility. The export certification means infant formula and other dried milk and milk powder products manufactured at the Group's manufacturing facility can be exported from Australia to international markets, subject to local requirements for importation of these products into each market.

In the opinion of the directors there are no other material matters that have arisen since 31 December 2022 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

# DIRECTORS' DECLARATION

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## Australian Dairy Nutritionals

### DIRECTORS' DECLARATION

For the half-year ended 31 December 2022

In accordance with a resolution of the directors of Australian Dairy Nutritionals Group, the directors of the staples entity declare that:

- (a) the financial statements and notes set out on pages 10 to 28 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half-year ended on that date.
- (b) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

**Martin Bryant**  
Chairman

28 February 2023

# INDEPENDENT AUDITOR'S REVIEW TO THE MEMBERS



## Independent Auditor's Review Report to the Members of Australian Dairy Nutritionals Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Australian Dairy Nutritionals Group which comprises Australian Dairy Nutritionals Limited ("the Company") and the entities it controlled at the end of the period or from time to time during the period ("the Group"), which comprises the consolidated condensed statement of financial position as at 31 December 2022, the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review 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 & 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 annual 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 review report.

#### Nexia Brisbane Audit Pty Ltd

Registered Audit Company 299289

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### **Independent Auditor's Review Report to the Members of Australian Dairy Nutritionals Limited (continued)**

#### ***Responsibility of the Directors for the Financial Report***

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility for the Review of the Financial Report***

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Nexia Brisbane Audit P/L*

**Nexia Brisbane Audit Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Gavin Ruddell'.

**Gavin Ruddell**  
**Director**

Level 28, 10 Eagle Street,  
Brisbane QLD 4000

Date: 28 February 2023

# CORPORATE DIRECTORY

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## BOARD OF DIRECTORS

Martin Bryant  
*Non-Executive Chairman*

Adrian Rowley  
*Non-Executive Director*

Jason Dong  
*Non-Executive Director*

Bernard Kavanagh  
*Non-Executive Director*

## COMPANY SECRETARY

Kate Palethorpe  
*Company Secretary*

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## REGISTERED OFFICE

160 Depot Road  
Camperdown VIC 3260

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

## CORPORATE OFFICE

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## SHARE REGISTER

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## AUDITOR

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Web: [www.nexia.com.au](http://www.nexia.com.au)

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## STOCK EXCHANGE

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

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## WEBSITE

[adnl.com.au](http://adnl.com.au)



# Australian Dairy Nutritionals

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