



Australian Dairy Farms Group

ASX Code: AHF

31 January 2015

AUSTRALIAN DAIRY FARMS GROUP

Commentary on Appendix 4C

Highlights of the December 2014 Quarter

- Australian Dairy Farms became the only ASX listed Australian dairy Farmer on 28 October 2014.
- Acquired Brucknell No 1 and No 2 Farms as per Prospectus
- \$3,000,000 institutional placement oversubscribed at **25% premium to IPO price**
- Contracted to purchase two additional farms for 2015 settlement – total four farms
- **Targeting >10 million litres in first full year production** from four farms
- **Positive net profit contribution from farm operations** for the period
- Due diligence underway on additional farms – targeting 5-8 by June 2015
- Installation of computerised feed systems to Brucknell Farms to complete Q1 2015
- Implementing farm reconfiguration and laneways for new season production
- Forward purchasing contracts for summer fodder in place

Australian Dairy Farms Group (ASX: AHF) (“Group”), Australia’s first ASX listed dairy farmer, is pleased to provide commentary on its activities completed during the December 2014 Quarter.

During the quarter ended 31 December 2014 Australian Dairy Farms Group successfully listed on ASX as a Stapled Security on 28 October 2014.

Commentary on Appendix 4C

In the week prior to listing on ASX, (on 23 October 2014) Australian Dairy Farms Group was formed by the stapling of the securities of the Australian Dairy Farms Trust and the former listed company APA Financial Services Limited (APP), which has been renamed Australian Dairy Farms Limited. At the same time, the acquisition of the Group’s first two dairy farms (Brucknell No 1 and No 2) was completed, and Stapled Securities were allotted to subscribers to the prospectus capital raising.

Accordingly, the activities of the Group as a Dairy Farmer in the December quarter 2014 comprise the **67 days from the commencement of its business on 23 October 2014 to 31 December 2014 inclusive**.

The attached Appendix 4C lodged with ASX on 30 January 2015 provided information about the activities of all above entities from 1 October 2014 to 31 December 2014. The half-yearly financial report to 31 December will include the combined results of all entities for the period from 1 July 2014 to 31 December 2014.

Farm Operating Results for the December 2014 quarter

The Group’s primary activity since listing has been consolidating the initial farms with once-off acquisition and establishment expenditure as well as planned capital works. The results for farm operations for the 67 day period have been positive, with management accounts showing an EBITDA of \$158,000 for that period. This figure closely approximates cash flow from farm operations relevant to the same period after

adjusting for timing of cash flows between periods. Please refer to Section 1.26 of the attached Appendix 4C for further detail.

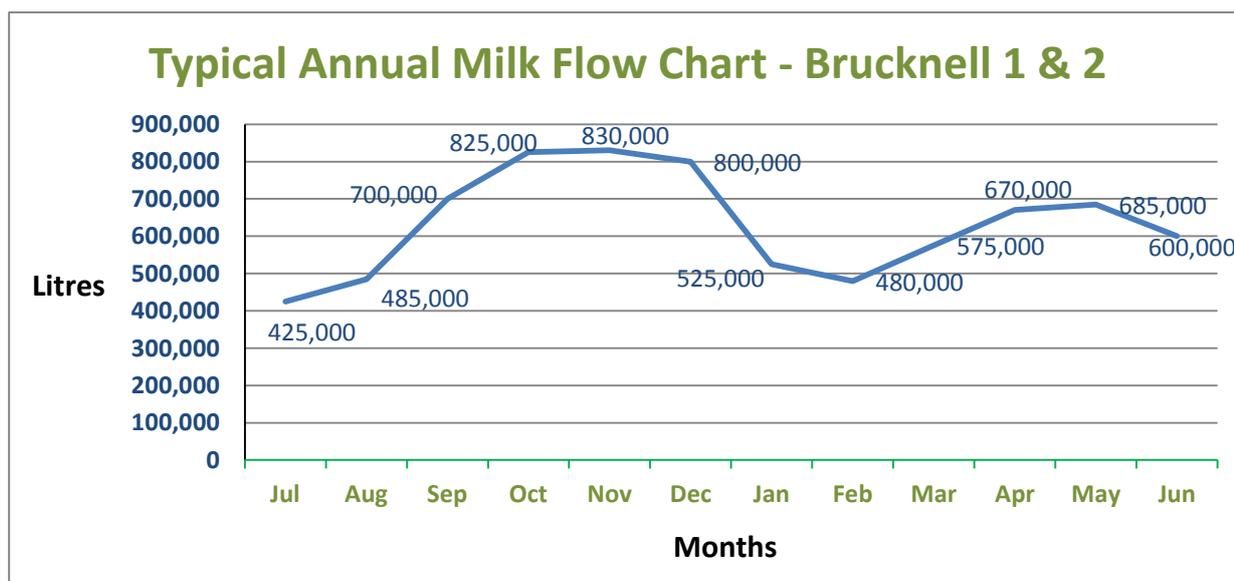
Capital Works for Operating Efficiencies

Capital works on the Brucknell No1 and No2 farms since acquisition include the installation of a computerised and automated feeding system, to be completed in February 2015. The system provides the capability of automatically regulating and dispensing a pre-programmed mixture and quantity of feed to individual livestock activated by electronic ear tags.

The system will draw from multiple feed and grain silos which are being progressively installed and it is expected that the cost savings from more efficient feeding will pay back the capital cost of the installation within two years.

Milk Production

Production of milk on all dairy farms varies significantly throughout the year according to the number of cows in milk, the individual farm’s calving pattern and the volume of feed available to livestock. The following graph shows the typical milk flow pattern throughout an average financial year with pasture based farming with an estimated total annual production of 7.6 million litres. Periods of production from June through August and February through April coincide with milking cow calving patterns.



Completion of acquisition of Ignatios Farm and Brucknell No 3 Farm

Subsequent to the year end, on 14 January 2015, the purchase of Ignatios Farm was settled and non-milking livestock are being progressively transferred to this property from the Brucknell No 1 and No 2 Farms. Ignatios Farm is approximately 15 minutes’ drive from the existing farms at Brucknell.

A strategy for the use of the Ignatios Farm is being implemented which allows the carrying capacity of “in-milk” cows on the Brucknell No 1 and No 2 Farms, and in due course on the Brucknell No 3 Farm, to be increased to make maximum use of the high quality milking platforms of those farms. Young stock and cows preparing for calving are intended to be accommodated at Ignatios Farm.

The Brucknell No 3 Farm is scheduled for completion at the end of February 2015. Some minor laneway development will be undertaken to facilitate access between the properties for farm machinery and where applicable for livestock movement. Existing staff from the Brucknell Farms have been appointed as farm managers for Brucknell No 3 Farm and additional milking staff have been identified and will be engaged.

The efficiencies in operating the Brucknell Farms and others that are acquired in the region in conjunction with Ignatios Farm is expected to show positive financial results in the future operations.

Group Strategy

The Group's business strategy is to aggregate and consolidate quality dairy farms, initially in the "Golden Triangle" of dairy in South West Victoria, to maximise milk production volumes for sale to established milk processors to take advantage of increased pricing for increasing production volumes.

The Directors have set a target to be producing in excess of 50 million litres annually within two years (730 days) after listing. Indicatively, that means operating approximately 15-20 quality dairy farms with about 7,000 milking cows on average throughout the year.

By securing a total of four farms and livestock with annual production estimates of in excess of 10 million litres, the Group has realised 20% of its two year target for farm and livestock numbers in its first 67 days as a listed stapled entity.

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About Australian Dairy Farms Group

Australian Dairy Farms Group (Australian Dairy Farms Group) is Australia's first ASX listed dairy farmer. Its focus is on aggregating high quality dairy farms in Victoria, initially in the South Western region with particular emphasis on the famous Golden Triangle region between Warrnambool and Colac south of the Princes Highway to the coast around Port Campbell.

The Group listed on ASX on 28 October 2014 after raising approximately \$9.3 million from a range of institutional, professional and retail investors. At listing the Group had two adjoining dairy farms in full production in the Brucknell locality, about 35 km east of Warrnambool and approximately 2.5 hours' drive from Melbourne CBD.

Australian Dairy Farms Group is listed as a stapled security comprising one fully paid share in **Australian Dairy Farms Limited** (the Company) and one fully paid unit in **Australian Dairy Farms Trust** (the Trust). Within the structure, the Company is the operator and manager of the dairy farm properties which are leased from the Trust as the registered owner.

Investors and existing security holders are encouraged to follow the progress of the Group and are invited to register to have the various updates sent by email in future. Details of this facility will be mailed to security holders in the near future.

Australian Dairy Farms Limited is the former listed company APA Financial Services Limited (ASX Code APP).

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

| |
|--|
| Australian Dairy Farms Group ASX Code: AHF Comprising: Australian Dairy Farms Limited ABN: 36 057 046 607; and Australian Dairy Farms Trust ARSN: 600 601 689 |
|--|

ABN

| |
|-----------|
| See above |
|-----------|

Quarter ended ("current quarter")

| |
|------------------|
| 31 December 2014 |
|------------------|

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--|----------------------------|---------------------------------------|
| Cash flows related to operating activities | | |
| 1.1 Receipts from customers | 337 | 337 |
| 1.2 Payments for (a) staff costs | (90) | (90) |
| (b) advertising and marketing | - | - |
| (c) research and development | - | - |
| (d) leased assets | - | - |
| (e) other working capital | (675) | (849) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 22 | 23 |
| 1.5 Interest and other costs of finance paid | (25) | (25) |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | - | - |
| Net operating cash flows | (431) | (604) |

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

| | Current quarter \$A'000 | Year to date (6 Months) \$A'000 |
|--|----------------------------|---------------------------------------|
| 1.8 Net operating cash flows (carried forward) | (431) | (604) |
| Cash flows related to investing activities | | |
| 1.9 Payment for acquisition of: | | |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | (13,020) | (13,020) |
| (e) other non-current assets | - | - |
| 1.10 Proceeds from disposal of: | | |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | - | - |
| (e) other non-current assets | 278 | 627 |
| 1.11 Loans to other entities | - | (137) |
| 1.12 Loans repaid by other entities | 137 | 137 |
| 1.13 Other (provide details if material) | - | - |
| Net investing cash flows | (12,605) | (12,393) |
| 1.14 Total operating and investing cash flows | (13,036) | (12,997) |
| Cash flows related to financing activities | | |
| 1.15 Proceeds from share/unit issues | 12,297 | 12,297 |
| 1.16 Proceeds from sale of forfeited shares | - | - |
| 1.17 Proceeds from borrowings | 6,754 | 6,754 |
| 1.18 Repayment of borrowings | (4) | (7) |
| 1.19 Dividends paid | - | - |
| 1.20 Other – capitalised raising costs | (868) | (868) |
| Net financing cash flows | 18,179 | 18,176 |
| Net increase (decrease) in cash held | 5,143 | 5,179 |
| 1.21 Cash at beginning of quarter/year to date | 72 | 36 |
| 1.22 Exchange rate adjustments to item 1.20 | - | - |
| 1.23 Cash at end of quarter | 5,215 | 5,215 |

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|---|----------------------------|
| 1.24 | Aggregate amount of payments to the parties included in item 1.2 | |
| 1.25 | Aggregate amount of loans to the parties included in item 1.11 | |
| 1.26 | <p>Explanation necessary for an understanding of the transactions</p> <div style="border: 1px solid black; padding: 5px;"> <p>1.2 (e) other working capital includes payment for listing costs, listing advice, corporate costs and farm operating costs.</p> <p>1.10 (e) proceeds from other non-current assets are the proceeds from the sale of OneVue shares.</p> <p>1.9 (d) physical non-current assets is the payment for the acquisition of Brucknell No 1 and No 2 farms and deposits on Ignatios farm and Brucknell No 3 farm. The total includes acquisition costs, capital development, plant and equipment and biological assets.</p> <p>1.17 proceeds from borrowings include a \$4m loan facility with the CBA and \$2.35m in convertible notes.</p> </div> | |

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not applicable

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

| | | Amount available \$A'000 | Amount used \$A'000 |
|-----|-----------------------------|-----------------------------|------------------------|
| 3.1 | Loan facilities | 4,000 | 4,000 |
| 3.2 | Credit standby arrangements | N/A | N/A |

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 4.1 Cash on hand and at bank | 5,215 | 72 |
| 4.2 Deposits | - | - |
| 4.3 Bank overdraft | - | - |
| 4.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.23) | 5,215 | 72 |

Acquisitions and disposals of business entities

| | Acquisitions (Item 1.9(a)) | Disposals (Item 1.10(a)) |
|---|-------------------------------|-----------------------------|
| 5.1 Name of entity | - | - |
| 5.2 Place of incorporation or registration | - | - |
| 5.3 Consideration for acquisition or disposal | - | - |
| 5.4 Total net assets | - | - |
| 5.5 Nature of business | - | - |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: *Michael Hackett*

Date:30 January 2015.....

Director

Print name: MICHAEL HACKETT

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.