Australian Dairy Farms

APPENDIX 4E - PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

Australian Dairy Farms Group consisting of:

Australian Dairy Farms Limited ABN 36 057 046 607 (the Company or Parent Entity) and

Australian Dairy Farms Trust ARSN 600 601 689 (the Trust)

This report comprises the combined consolidated results of the Australian Dairy Farms Group and its controlled entitities (the Group).

The reporting period to which this report relates is the year ended 30 June 2016 and the previous corresponding period is the year ended 30 June 2015. Throughout this report these periods are designated by the terms '2016' and '2015' respectively.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	% Change	**$000 2016**	**$000 2015**
Revenues from ordinary activities	261%	9,844	2,725
Loss from ordinary activities after tax attributable to members of the stapled entity	81%	(3,704)	(2,052)
Net loss for the period attributable to members of the stapled entity	81%	(3,704)	(2,052)

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

Control Gained or Lost over Entities in the Year

On 15 April 2016, the Group acquired Camperdown Dairy Company Pty Ltd. Campperdown Dairy Company Pty Ltd contributed $36,598 profit to the Group's consolidated profit from ordinary activities during the year ended 30 June 2016. Refer Note 14 for details of the acquisition.

Investment in Associates and Joint Ventures

As part of the above acquisition of Camperdown Dairy Company Pty Ltd, the Group acquired a 50% investment in the Camperdown Cheese & Butter Factory Pty Ltd Joint Venture. Refer Note 15 for Joint Venture details.

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Director's Report

This Director's Report is for the information of securityholders and the market generally as part of the Appendix 4E Preliminary Final Report of the Group for the financial year ended 30 June 2016.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- the ownership and operation of dairy farms and dairy livestock for the production and sale of fresh raw milk to external processing factories for conversion to milk and milk products; and
- from 15 April 2016, through the acquisition of Camperdown Dairy Company Pty Ltd, the activities extended to the processing and sale of dairy products to domestic and export markets.

OPERATING RESULTS

The results for the financial year ended 30 June 2016 include the continued ownership and operation of dairy farms in South-West Victoria and the processing and sale of dairy products from the newly acquired Camperdown Dairy Company Pty Ltd (CDC) from 15 April 2016.

Total revenue from ordinary activities for the year ended 30 June 2016 is $9,844,465, up 261% against the 2015 comparative period. This is a result of the full year operation of farms acquired in the 2015 financial year, the addition of the Missens Road farm in July 2015 and Drumborg farm in September 2015 and the revenue of $3,191,166 since acquisition date from CDC.

The consolidated net loss attributed to members of the Group, after providing for income tax is $3,703,625 (2015: $2,051,668). This result is comprised of a net loss from the Dairy Farm segment of $2,695,495, net profit from the Dairy Processing segment of $36,598 and corporate costs and bank facility finance charges of $1,044,728.

The Dairy Farm segment loss has been adversely impacted by farm revaluations and a hot and dry El nino summer that resulted in higher than anticipated feed costs. An independent valuation was conducted on an all farms for the year ended 30 June 2016 resulting in an impairment expense of $1,809,399 (2015: $638,165). These valuations are the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, wherein the parties had each acted knowledgeably, prudently and without compulsion and reflect current market conditions based on an investigation and analysis of sales evidence of a more or less comparable nature to the subject properties.

NET FINANCIAL POSITION

The net assets of the Group at 30 June 2016 total $27,446,181 an increase of $2,359,503 from the 2015 comparative.

The key assets in the statement of financial position at 30 June 2016 are:

- cash and cash equivalents of $2,472,232;
- property, plant and equipment of $26,271,715;
- intangible assets of $6,810,080; and
- biological assets (livestock) of $4,516,400.

Total current and non-current borrowings of the Group are $13,113,786 (2015: $6,757,028) comprising bank and supplier borrowings of $10,792,292 (2015: $4,607,568) and the liability amount of the convertible note of $2,321,494 (2015: $2,149,460).

The total debt to assets ratio is 39% at 30 June 2016 (2015: 23%).

REVIEW OF OPERATIONS

The financial year ending 30 June 2016 (FY2016) has been a transformational year for the Group, which, will be seen in the future as instrumental in establishing the success and profitability of the Group.

The Group commenced FY2016 after completing a successful Institutional and Share Purchase Plan capital raising in May and June 2015 based on the proposed acquisition of new farms and livestock to increase milk production.

Since then, several events intervened to change the strategic direction of the Group and position it to become the first ASX listed vertically integrated dairy farming and milk product manufacturer, with the emphasis moving from milk production to milk processing and sales of value added milk products. The Group has also increased its securityholder base from approximately 900 holders to 4,500 holders at FY2016 end.

REVIEW OF OPERATIONS (cont'd)

In July and August 2015, the Bureau of Meteorology (BOM) raised awareness of an increasing threat of an El Nino weather effect developing for the late spring and summer. An El Nino event in 2012 had produced very severe dry weather conditions in spring, summer and autumn with the normal rainfall virtually ceasing in mid-September instead of as late as December and early January in an average year. The result of the 2012 seasonal event was a combination of failed on farm production of grass and silage and very high prices for purchased hay and grain with a reduction in quality.

Additionally, there was considerable industry discussion at the time, about the expectations of weakness in milk prices globally and questions about the sustainability of local Victorian farmgate prices, which in April 2016, eventuated in announcements from major processors to retrospectively reduce prices.

After analysing pasture growth budgets and other farm scenarios, the directors made a conscious and concerned decision that it was of greater benefit to the Group to withhold from acquiring further farms and conserve cash resources – on the basis that there was no advantage in producing additional milk when input costs were likely to exceed revenues.

Forward contracts were negotiated with hay and fodder suppliers at fixed prices based on expected consumption levels to manage existing herds. Ultimately, the summer and autumn seasons were far worse than expectations in terms of lack of rain and greater heat, and hay and fodder suppliers were themselves hit by materially lower production. This then resulted in increased purchase requirements and significantly increased prices driven by exported hay and fodder demand, while on farm fodder production dried off months earlier than average.

Directors undertook a detailed assessment of the existing farms and the level of development work that could be undertaken to viably protect or mitigate the impact of adverse weather such as improving the drainage and water storage on farms, the installation of irrigation and additional or increase volumes of surface water storage facilities.

A comprehensive program of development work and irrigation was compiled for each of the farms for implementation during the dry summer so that new water storage would be in place when the autumn rains and wetter winter expectations eventuated. The extensive planned upgrades to each farm were costed and undertaken with internal project management to limit overheads.

The beneficial results of that work can be seen currently through very strong pasture growth, full dams, well-drained pastures and irrigation in place.

This work should have positive affects year after year in more reliable and greater volume grass production, with lower cost and lower volumes of purchased feed.

At the same time, the directors were actively considering ways to change the sole focus from simply supplying conventional milk to large milk processing factories, which priced their purchases on global markets. This included investigations into conversion to specialty milk production, such as organic and acquisition of existing organic or already converting farms.

In the second quarter of FY2016, the opportunity presented to acquire Camperdown Dairy Company Pty Ltd (CDC) to provide the potential to vertically integrate the dairy farming and milk production operation with milk processing and product marketing and capture the benefits of value adding to the milk produced.

After assessment and negotiation, a contract was executed two days before Christmas 2015, with a view to completion in early February 2016, using an extension of available CBA banking facilities and the security of the farm assets. Incumbent management was to be retained and the contract was conditional on several small matters relating to change of control of leases and agreement. These relatively minor matters delayed the completion until mid-April 2016 and final adjustments were not signed off by the vendor and buyer until 29 June 2016.

One month after completion the directors and CDC management met for two consecutive days to plan the strategies for the Group going forward and to identify and prioritise the most valuable opportunities for the Group, in terms of potential for growth and profitability.

Shortly after settlement, the milk industry in Victoria was impacted by announcements from major milk processors regarding the retrospective reduction in milk prices paid to farmers for the 2015/16 financial year. This had a positive flow on effect of focusing consumer awareness on the narrow margins that most Australian dairy farmers work on and resulted in a consumer driven move to purchase premium milk.

This changed the marketplace for CDC in June and July 2016, with the expected introduction of Camperdown milk and other products into major retailers expedited resulting in significant increases in sales volumes.

During this period, the Loyalty Options that were on issue to original investors in the Group were due to be exercised or expire. From January to April 2016, there was strong take-up of the Loyalty Options and member take-up combined with an underwriting of the balance saw approximately $6.1m of new capital raised for the Group.

REVIEW OF OPERATIONS (Cont'd)

At the end of FY2016, the structure and future of the Group is one of good quality farms with very strong pasture cover and infrastructure that is materially protected from other than the worst of adverse seasonal conditions.

There is continued focus on integration of the milk produced and milk process to develop the provenance and traceability of product source so valuable in the dairy and other agricultural products.

Management is working with major retailers and boutique outlets to develop premium products, which are ideally branded under the Camperdown label although also under retailer-associated brands with the advantage of being a company that is small enough to be flexible and innovative and large enough to be able to produce substantial volumes.

The Group has a pipeline of potentially very viable and profitable products and partnerships, which capitalise on the ability of the Group to be adaptive to market changes.

Michael Hackett

Chairman

Brisbane

31 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Revenue	1(a)	9,844,465	2,725,348
Other income	1(b)	775,685	124,584
Administration and non-dairy related costs	1(c)(iv)	(924,019)	(779,281)
Employment expenses		(1,730,896)	(452,074)
Finance costs	1(c)(i)	(343,322)	(252,936)
Dairy farm related costs	1(c)(ii)	(4,935,072)	(2,015,122)
Dairy processing related costs	1(c)(iii)	(2,477,168)	-
Depreciation and amortisation		(753,449)	(112,672)
Deemed cost of livestock sold	1(c)(v)	(1,350,450)	(623,310)
Loss from change in fair value of livestock	1(c)(v)	-	(28,040)
Impairment of property, plant and equipment	1(c)(v)	(1,809,399)	(638,165)
Loss before income tax		**(3,703,625)**	**(2,051,668)**
Income tax expense	1(d)	-	-
Net loss for the year		**(3,703,625)**	**(2,051,668)**
Other comprehensive income			
Items that will be classified subsequently to profit or loss when specific conditions are met:			
Gain on available-for-sale financial asset		-	3,400
		-	3,400
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the year		**-**	**-**
Total comprehensive loss for the year		**(3,703,625)**	**(2,048,268)**
Loss is attributable to:			
Company shareholders		(1,003,181)	(815,973)
Trust unitholders		(2,700,444)	(1,235,695)
		(3,703,625)	**(2,051,688)**
Total comprehensive loss is attributable to:			
Company shareholders		(1,003,181)	(812,573)
Trust unitholders		(2,700,444)	(1,235,695)
		(3,703,625)	**(2,048,268)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	20	(2.25)	(3.02)
Diluted earnings per stapled security (cents)	20	(2.25)	(3.02)

The accompanying notes form part of these financial statements.

AS AT 30 JUNE 2016

	Notes	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	2	2,472,232	14,871,060
Trade and other receivables	3	3,607,626	770,078
Inventories	4	559,324	45,903
Non-current assets held for sale	5	-	15,800
Other current assets	6	457,346	107,238
Total Current Assets		**7,096,528**	**15,810,079**
Non-Current Assets			
Biological assets	7	4,516,400	2,369,500
Intangible assets	8	6,810,080	-
Property, plant & equipment	9	26,271,715	14,506,963
Total Non-Current Assets		**37,598,195**	**16,876,463**
Total Assets		**44,694,723**	**32,686,542**
LIABILITIES			
Current Liabilities			
Trade and other payables	10	3,896,351	830,734
Provisions	11	165,780	12,102
Borrowings	12	2,733,413	349,086
Total Current Liabilities		**6,795,544**	**1,191,922**
Non-Current Liabilities			
Provisions	11	72,625	-
Borrowings	12	10,380,373	6,407,942
Total Non-Current Liabilities		**10,452,998**	**6,407,942**
Total Liabilities		**17,248,542**	**7,599,864**
Net Assets		**27,446,181**	**25,086,678**
EQUITY			
Issued capital	13	16,347,345	14,830,305
Reserves		-	5,056
Retained earnings		(9,399,531)	(8,396,350)
Equity attributable to shareholders		**6,947,814**	**6,439,011**
Non-controlling interests - Trust unitholders			
Issued units	13	24,978,986	20,427,841
Convertible notes	13	308,881	308,881
Accumulated losses		(4,789,500)	(2,089,055)
Equity attributable to non-controlling interests		**20,498,367**	**18,647,667**
Total Equity		**27,446,181**	**25,086,678**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Cash Flows from Operating Activities			
Receipts from customers		9,187,802	2,344,572
Payments to suppliers and employees		(9,619,097)	(3,007,204)
Interest received		74,710	38,398
Finance costs		(171,288)	(144,595)
Net operating cash flows		**(527,873)**	**(768,829)**
Cash Flows from Investing Activities			
Payment for property, plant & equipment		(10,527,336)	(10,869,583)
Proceeds from sale of property, plant & equipment		95,122	-
Proceeds from sale of non-current assets held for sale	5	22,256	627,095
Payment for biological assets	7	(2,755,800)	(2,059,637)
Payment for deposits on property and equipment		-	(93,591)
Cash from acquisition of Trust		-	2,731
Payment for Camperdown Dairy Company Pty Ltd		(10,921,449)	-
Net investing cash flows		**(24,087,207)**	**(12,392,985)**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	13	6,031,529	27,237,086
Net proceeds from loans - unsecured		87,620	1,990
Proceeds from CBA facility	12(c)	6,000,000	4,000,000
Proceeds / (repayment) to/from loan - Fonterra	12(b)	(60,000)	260,000
Net proceeds from bank hire purchase loans		157,103	338,926
Repayment of loans on acquisition of Trust		-	(3,841,495)
Net financing cash flows		**12,216,252**	**27,996,507**
Net increase / (decrease) in cash held		**(12,398,828)**	**14,834,693**
Cash at the beginning of the period		14,871,060	36,367
Cash at the end of the financial period		**2,472,232**	**14,871,060**

The accompanying notes form part of these financial statements.

FOR THE YEAR ENDED 30 JUNE 2016

	Issued Capital Ordinary	Financial Asset Revaluation Reserve	Non-controlling Interest (Trust)	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 July 2014	**7,866,059**	**197,767**	**-**	**(7,580,377)**	**483,449**
Comprehensive income for the year					
Loss attributable to company shareholders / trust unitholders	-	-	(1,235,695)	(815,973)	(2,051,668)
Other comprehensive income	-	3,400	-	-	3,400
Total comprehensive income / (loss) for the year	**-**	**3,400**	**(1,235,695)**	**(815,973)**	**(2,048,268)**
Transactions with equityholders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	6,964,246	-	20,427,841	-	27,392,087
Issue convertible notes	-	-	308,881		308,881
Total transactions with equity holders	**6,964,246**	**-**	**20,736,722**	**-**	**27,700,968**
Other					
Recognition of non-controlling interest in ADFT	-	-	(853,260)	-	(853,260)
Trust units acquired on stapling	-	-	(100)	-	(100)
De-recognition of revaluation increment on disposal of OHPL shares	-	(196,111)	-	-	(196,111)
Total other	**-**	**(196,111)**	**(853,360)**	**-**	**(1,049,471)**
Balance at 30 June 2015	**14,830,305**	**5,056**	**18,647,667**	**(8,396,350)**	**25,086,678**

	Issued Capital Ordinary	Financial Asset Revaluation Reserve	Non-controlling Interest (Trust)	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 July 2015	**14,830,305**	**5,056**	**18,647,667**	**(8,396,350)**	**25,086,678**
Comprehensive income for the year					
Loss attributable to company shareholders / trust unitholders	-	-	(2,700,444)	(1,003,181)	(3,703,625)
Total comprehensive income / (loss) for the year	**-**	**-**	**(2,700,444)**	**(1,003,181)**	**(3,703,625)**
Transactions with equityholders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	1,517,040	-	4,551,144	-	6,068,184
Total transactions with equity holders	**1,517,040**	**-**	**4,551,144**	**-**	**6,068,184**
Other					
De-recognition of revaluation increment on disposal of OHPL shares	-	(5,056)	-	-	(5,056)
Total other	**-**	**(5,056)**	**-**	**-**	**(5,056)**
Balance at 30 June 2016	**16,347,345**	**-**	**20,498,367**	**(9,399,531)**	**27,446,181**

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1: REVENUE AND EXPENSES

(a) Revenue	2016	2015
Revenue	**$**	**$**
Dairy farm milk sales	5,571,670	2,366,824
Dairy processing sales	3,162,751	-
Livestock sales	801,542	305,972
Other revenue	233,792	14,154
	9,769,755	**2,686,950**
Other revenue		
Interest received - other persons	74,710	38,398
Total Revenue	**9,844,465**	**2,725,348**
(b) Other Income		
Gain on disposal of other financial assets (refer note 5)	11,512	110,459
Gain on change in fair value of livestock (refer note 7)	741,550	-
Gain on disposal of property, plant and equipment	22,623	14,125
	775,685	**124,584**
(c) Expenses		
(i) Finance costs		
CBA facility	155,520	126,387
Loans - unsecured	4,712	1,966
Loans - Fonterra	334	560
Other	5	2,356
Finance charges payable under finance leases	10,717	5,603
Interest on loans (related parties)	-	7,723
Interest accrued convertible note (related parties)	172,034	108,341
	343,322	**252,936**
(ii) Dairy farm related costs		
Feed costs	3,439,257	1,404,762
Repairs, maintenance and vehicle costs	270,867	110,173
Animal health costs	214,307	74,783
Land holding and lease costs	78,312	66,431
Breeding and herd testing expenses	156,483	62,400
Dairy shed expenses	91,181	47,426
Electricity costs	129,083	43,601
Other dairy farm related costs	555,582	205,546
	4,935,072	**2,015,122**
(iii) Dairy processing related costs		
Cost of goods sold	1,999,998	-
Freight costs	223,181	-
Property and lease costs	131,294	-
Other dairy processing related costs	122,695	-
	2,477,168	**-**

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1: REVENUE AND EXPENSES (cont'd)

(c) Expenses (cont'd)	**2016**	**2015**
(iv) Administration costs	**$**	**$**
Administration costs	238,709	113,908
Professional costs	468,668	309,608
Directors fees	109,500	74,200
CDC acquisition costs	107,142	-
Stapling transaction costs	-	281,565
	924,019	**779,281**
(v) Other significant items		
Deemed cost of livestock sold (refer note 7)	1,350,450	623,310
Loss from changes to fair value of livestock (refer note 7)	-	28,040
Impairment of land and buildings (refer note 9)	1,809,399	638,165

(d) Tax Expense

(i) Tax Consolidated Group

The Company and its wholly owned Australian subsidiaries have formed a tax consolidated group. As a consequence these entities are treated as a single tax entity. The head entity within the tax consolidated group is Australian Dairy Farms Limited. The Trust is not part of the tax consolidated group.

(ii) Trust

Under current income tax legislation the Trust is not liable to pay tax provided its taxable income and taxable realised capital gains are distributed to unitholders.

(iii) Tax Losses for Year 30 June 2016.

Management have prepared tax estimates for the tax consolidated group for the year to 30 June 2016.

On the basis of these estimates, the directors believe that the Parent Entity and its wholly owned subsidiaries have no taxable income for the year to 30 June 2016 and have unbooked carried forward tax losses at 30 June 2016.

For the preparation of the report at 30 June 2016 directors determined that the recoverability of these tax losses is presently uncertain as a trend of profitable growth has not been fully established.

NOTE 2: CASH AND CASH EQUIVALENTS

	2016	**2015**
	$	**$**
Current		
Cash at bank and in hand	2,472,232	14,871,060
Total cash and cash equivalents	**2,472,232**	**14,871,060**

NOTE 3: TRADE AND OTHER RECEIVABLES

	2016	**2015**
	$	**$**
Current		
Trade debtors	3,114,806	500,021
Other receivables	492,820	270,057
Total current receivables	**3,607,626**	**770,078**

NOTE 4: INVENTORIES

	2016 $	2015 $
Current		
Packaging	353,473	-
Raw materials, finished goods and chemicals	110,811	-
Feedstock, hay and silage	95,040	45,903
Total inventories	**559,324**	**45,903**

NOTE 5: NON-CURRENT ASSETS HELD FOR SALE

	Notes	2016 $	2015 $
Current			
Non-current assets held for sale		-	15,800
Total non-current assets held for sale		**-**	**15,800**
Listed investment, at fair value			
- shares in listed corporations	(a)	-	15,800
Total available-for-sale financial assets		**-**	**15,800**
Movements during the half-year:			
Opening balance		15,800	725,147
Proceeds from sales		(22,256)	(627,095)
De-recognition of revlauation increment on disposal		(5,056)	(196,111)
Financial asset revaluation reserve		-	3,400
Gain on disposal		11,512	110,459
Total non-current assets held for sale		**-**	**15,800**

(a) On 16 November 2015 the Group disposed of the remaining 40,000 shares in OneVue Holdings Limited.

NOTE 6: OTHER ASSETS

	2016 $	2015 $
Current		
Prepayments	138,173	13,647
GST receivable	265,481	-
Bonds and deposits	53,692	93,591
Total other assets	**457,346**	**107,238**

NOTE 7: BIOLOGICAL ASSETS

	Notes	2016 $	2015 $
Non-current			
Dairy livestock	(a)	4,516,400	2,369,500
Total biological assets		**4,516,400**	**2,369,500**
Movements during the year:			
Opening carrying amount		2,369,500	-
Acquisition of livestock acquired through stapling		-	961,213
Purchases of livestock		2,755,800	2,059,637
Deemed cost of livestock disposed		(1,350,450)	(623,310)
Gain / (loss) from changes to fair value		741,550	(28,040)
Closing carrying amount		**4,516,400**	**2,369,500**

Movements during the year:	**Number**	**Number**
Opening balance	1,625	-
Purchases	1,765	1,854
Natural increase and attrition	1,672	496
Sales	(1,760)	(725)
Closing balance	**3,302**	**1,625**

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2016 the livestock has been valued at fair value, by an independent stock agent, based on the prices in the open cattle market in the locality of the dairy operations.

NOTE 8: INTANGIBLE ASSETS

	Note	2016 $	2015 $
Goodwill			
- at cost	(a)	6,616,393	-
		6,616,393	**-**
Contractual agreements			
- at fair value	14	225,000	-
Less accumulated amortisation		(31,313)	-
		193,687	**-**
Total intangible assets		**6,810,080**	**-**

(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 is allocated to goodwill. Refer note 14 for further details.

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Note	2016 $	2015 $
Land, buildings and improvements			
- at cost		22,428,442	14,016,159
Less accumulated depreciation		(472,186)	(65,645)
Less accumulated impairment	(b)	(2,447,564)	(638,165)
	(a)	**19,508,692**	**13,312,349**
Plant and equipment - owned			
- at cost		6,541,085	872,580
Less accumulated depreciation		(314,938)	(36,889)
		6,226,147	**835,691**
Plant and equipment - leased			
- at cost		578,207	369,061
Less accumulated depreciation		(41,331)	(10,138)
		536,876	**358,923**
Total property, plant and equipment		**26,271,715**	**14,506,963**

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

Farm name	Acquisition date	Carrying value
Brucknell No 1	22 October 2014	4,140,000
Brucknell No 2	22 October 2014	4,390,000
Ignatios	14 January 2015	2,223,692
Brucknell No 3	6 March 2015	2,290,899
Missens Road	7 July 2015	1,559,101
Drumborg	9 September 2015	4,905,000
Total		**19,508,692**

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

(b) On 29 August 2016 registered valuer Mr Roger Cussen provided an independent valuation of all farms in light of recent sales evidence, assessing the fair value of the combined properties at $19,508,692. Adjusting the carrying cost on the basis of the independent valuation resulted in an impairment of $1,809,399 for the year ended 30 June 2016.

In the comparative 2015 year, Mr Cussen also provided an independent valuation on 25 February 2015 on the Brucknell No 1 and Brucknell No 2 farms. The carrying cost on the basis of the independent valuation resulted in an impairment of $638,165 for the year ended 30 June 2015.

NOTE 10: TRADE AND OTHER PAYABLES

	2016 $	2015 $
Current		
Trade creditors	2,273,087	416,060
Sundry creditors and accrued expenses	1,623,264	414,674
Total trade and other payables	**3,896,351**	**830,734**

NOTE 11: PROVISIONS

	2016 $	2015 $
Current		
Employee benefits	165,780	12,102
Total current provisions	**165,780**	**12,102**
Non-current		
Employee benefits	72,625	-
Total non-current provisions	**72,625**	**-**
Total provisions	**238,405**	**12,102**

NOTE 12: BORROWINGS

	Notes	2016 $	2015 $
Current			
Loans - unsecured		96,263	8,642
Bank hire purchase loans - secured		115,656	80,444
Convertible notes	(a)	2,321,494	-
Loan - Fonterra	(b)	200,000	260,000
Total current borrowings		**2,733,413**	**349,086**
Non-current			
Bank hire purchase loans - secured		380,373	258,482
CBA facility	(c)	10,000,000	4,000,000
Convertible notes	(a)	-	2,149,460
Total non-current borrowings		**10,380,373**	**6,407,942**
Total borrowings		**13,113,786**	**6,757,028**

(a) On 22 October 2014, the Group issued 235 unlisted convertible notes each with a face value of $10,000. The key terms of the notes included a 2 year maturity date and the noteholder is able to convert the notes to fully paid Stapled Securities at a conversion price of 20 cents per stapled security. The notes bear interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and if the noteholder elects to convert to stapled securities, interest will be paid in cash or stapled securities issued at the conversion price at the Group's election. Subsequent to the initial issue of the notes there has been a change to the conversion price of the notes from 20 cents to 18.38 cents per stapled security as a result of the dilutive effect of the bonus issue of loyalty options by the Group in November 2014. This change was resolved by shareholders at the EGM on 29 July 2016. This change has no impact on the carrying value of the convertible notes as they are measured at amortised cost using the effective interest method as per below. The notes have been classified as a current liability at 30 June 2016 as the maturity date is 22 October 2016.

The Group designated the convertible notes as a compound financial instrument comprising a debt component and an equity component. The debt component of the compound financial instrument was initially recognised at fair value of $2,041,119 and the equity component of $308,881 was initially recognised as the difference between the face value of the compound financial instrument and the fair value of the debt component.

Subsequent to initial recognition, the debt component of the compound financial instrument is measured at amortised cost using the effective interest method with a balance at 30 June 2016 of $2,321,494 (2105: $2,149,460). The equity component of the compound financial instrument is not remeasured.

(b) At 30 June 2016 the Group has a $200,000 interest free advance from Fonterra Milk Australia Pty Ltd which has a maturity date of 30 November 2016.

NOTE 12: BORROWINGS (cont'd)

(c) At 30 June 2016 the Group had banking facilities with the Commonwealth Bank of Australia Limited (CBA) secured by registered mortgages and charges over all the Group farms. The facility is a three year loan facility of $10,000,000 which has a maturity date of 15 April 2019. The facility is subject to compliance with pre-determined covenants. The directors have classified the facility as a non-current liability in its entirety based on the facility not maturing until 15 April 2019, the Group not intending to repay the facility prior to maturity date and the meeting of all covenants during the period and subsequent to balance date.The facility is fully drawn to $10,000,000 at the date of this report.

NOTE 13: CONTRIBUTED EQUITY

	2016 $	2015 $
Contributed equity of the Group	41,635,212	35,567,027

(a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2015	Opening balance	156,126,217		14,830,305	20,736,722	35,567,027
31 Mar 2016	Loyalty options exercised	19,319,259	0.25	1,207,454	3,622,361	4,829,815
08 Apr 2016	Loyalty options exercised	5,559,854	0.25	347,490	1,042,473	1,389,963
	Transaction costs	-	-	(37,904)	(113,689)	(151,593)
30 June 2016		**181,005,330**		**16,347,345**	**25,287,867**	**41,635,212**
01 Jul 2015	Opening balance	60,986,733		7,866,059		7,866,059
22 Oct 2014	1:5 share consolidation	(48,789,323)	-	-	-	-
22 Oct 2014	Stapling arrangement	-	-	-	100	100
22 Oct 2014	Convertible notes	-	-	-	308,881	308,881
22 Oct 2014	Capital Raising	46,485,500	0.20	2,324,275	6,972,825	9,297,100
22 Oct 2014	Payment of director fees	775,000	0.20	155,000	-	155,000
30 Dec 2014	Placement	12,000,000	0.25	750,000	2,250,000	3,000,000
15 Apr 2015	Loyalty options exercised	19,693	0.25	1,230	3,693	4,923
10 Jun 2015	Loyalty options exercised	2,500	0.25	156	469	625
10 Jun 2015	Share Purchase Plan	6,200,000	0.20	310,000	930,000	1,240,000
22 Jun 2015	Capital Raising	78,446,114	0.20	3,922,306	11,766,917	15,689,223
	Transaction costs	-	-	(498,721)	(1,496,163)	(1,994,884)
30 June 2015		**156,126,217**		**14,830,305**	**20,736,722**	**35,567,027**

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.

(b) 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.

(c) Options

On 8 December 2014 the Group allotted 29,350,479 unlisted loyalty options over stapled securities pursuant to its bonus issue as set out in detail in the Offer Document dated 17 November 2014. On 27 February 2015, 24,901,306 options vested to the holders of loyalty options on that date in accordance with the issue terms of the loyalty options.

On or before 31 March 2016 loyalty option holders exercised 19,301,452 options and the balance of 5,559,854 was fully underwritten by Bell Potter Securities and exercised in accordance with the underwriting agreement on 8 April 2016.

NOTE 13: CONTRIBUTED EQUITY (cont'd)

(d) Convertible Notes

On 22 October 2014, the Group issued 235 unlisted convertible notes each with a face value of $10,000. The key terms of the notes included a 2 year maturity date and the noteholder is able to convert the notes to fully paid Stapled Securities at a conversion price of 20 cents per stapled security. The notes bear interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and if the noteholder elects to convert to stapled securities, interest will be paid in cash or stapled securities issued at the conversion price at the Group's election. Subsequent to the initial issue of the notes there has been a change to the conversion price of the notes from 20 cents to 18.38 cents per stapled security as a result of the dilutive effect of the bonus issue of loyalty options by the Group in November 2014. This change was resolved by shareholders at the EGM on 29 July 2016. This change has no impact on the carrying value of the convertible notes as they are measured at amortised cost using the effective interest method as per below. The notes have been classified as a current liability at the 30 June 2016 as the maturity date is 22 October 2016.

The Group designated the convertible notes as a compound financial instrument comprising a debt component and an equity component. The debt component of the compound financial instrument was initially recognised at fair value of $2,041,119 and the equity component of $308,881 was initially recognised as the difference between the face value of the compound financial instrument and the fair value of the debt component.

Subsequent to initial recognition, the debt component of the compound financial instrument is measured at amortised cost using the effective interest method with a balance at 30 June 2016 of $2,321,494 (2105: $2,149,460). The equity component of the compound financial instrument is not remeasured.

NOTE 14: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2016 Percentage Owned	2015 Percentage Owned
Parent Entity:			**%**	**%**
Australian Dairy Farms Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd		ordinary	100	100
Dairy Fund Management Limited		ordinary	100	100
DFI Operations Pty Ltd (dormant)		ordinary	100	100
Camperdown Dairy Company Pty Ltd	(b)	ordinary	100	-
Other Controlled Entities			%	%
Australian Dairy Farms Trust		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.

(a) Ultimate Controlling Entity

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

NOTE 14: CONTROLLED ENTITIES (cont'd)

(b) Acquisition of subsidiary

On 15 April 2016 Australian Dairy Farms Limited acquired 100% of the issued capital and control of Camperdown Dairy Company Pty Ltd (CDC) for a net cash purchase consideration of $10,927,665. This acquisition forms part of the Group's overall strategy to become the ASX's first vertically integrated dairy entity as a milk farmer, processor, manufacturer and exporter of dairy products.

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

	$
Purchase consideration:	
- Cash	10,927,665
Less:	
Cash and cash equivalents	6,216
Trade and other receivables	1,801,985
Inventories	515,285
Other assets	124,102
Property, plant and equipment[1]	3,834,921
Intangible assets[2]	225,000
Trade and other payables	(2,022,506)
Provisions	(173,731)
Identifiable assets acquired and liabilities assumed	**4,311,272**
Goodwill[3]	**6,616,393**

1. Property, plant and equipment was independently valued by Henley Valuers on a fair value (going concern) basis.

2. In accordance with *AASB 3: Business Combinations* the acquirer is required to recognise separately from Goodwill the identifiable intangible assets of CDC on acquisition. Under the accounting standard, an intangible asset is considered identifiable if it meets the Contractual Legal Criterion. Customer supply agreements meet the Contractual Legal Creiterion and in accordance with this requirement the Group has attributed $225,000 to material supply agreements that are required to be amortised over the life of the agreements.

3. Goodwill is attributable to the significant time and costs to setup and establish the factory and business at Campberdown, including the establishment of the current workforce, management team and brand. Significant synergies with the group's dairy farms and vertical integration are expected following the Group's acquisition.

Revenue of CDC included in the consolidated revenue of the Group since the acquisition date on 15 April 2016 amounted to $3,191,166 and net profit of $36,598 was included in consolidated profit of the Group since the acquisition date.

NOTE 15: ASSOCIATES AND JOINT ARRANGEMENTS

Information on Joint Ventures

Set out below are the details of the joint venture the Group acquired an ownership interest in as part of the acquisition of Camperdown Dairy Company Pty Ltd. The share capital of Camperdown Cheese & Butter Factory Pty Ltd consists solely of ordinary shares and the proportion of ordinary shares held by the Group equals the voting rights held by the Group.

The Group has designated the joint venture in accordance with *AASB 11: Joint Arrangement* and accounted for the joint venture using the "equity" method of accounting. The joint venture is deficient in net assets at 30 June 2016 and therefore the Group has not recognised these losses in the joint venture as required by *AASB 128 Investments in Associates and Joint Ventures*.

Name	Principal Activities	Country of Incorp.	Type	Ownership Interest		Carrying amount of investment	
				2016	2015	2016	2015
				%	%	$	$
Unlisted:							
Camperdown Cheese & Butter Factory Pty Ltd (CCB)	Manufacture of butter & cream	Aust	Shares	50.00	-	-	-

CCB is a private entity that manufactures butter and cream for the shareholders of the joint venture. The Group's interest in the company represents a strategic investment with the joint venture operated on a break-even basis.

NOTE 16: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

Until the acquisition of Camperdown Dairy Company Pty Ltd (CDC) on 15 April 2016 management determined the Group operated in one reportable segment. Following the acquisition of CDC another segment has been established as set out below and the 2016 financial results have been allocated and reported on this basis.

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 to external processing factories for conversion to milk and milk products

Dairy Processing
The dairy processing segment includes the processing and sale of dairy products to domestic and export markets from 15 April 2016.

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NOTE 16: SEGMENT REPORTING (cont'd)

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Segment assets

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

Segment liabilities

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

Comparative data

Where comparative data has not been presented the group was considered one operating segment being Dairy Farms.

All other segments

Other income from the gain on disposal of non-current assets held for sale has been disclosed in this segment.

Amounts not included in segment result but reviewed by the Board

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- corporate charges
- finance costs - bank facility

(i) Segment Performance	**Dairy Farm**	**Dairy Processing**	**All Other Segments**	**Total**
30 June 2016				
Revenue	**$**	**$**		**$**
External sales	6,578,589	3,191,166	-	9,769,755
Other income	764,173	-	11,512	775,685
Interest revenue	74,710	-	-	74,710
Total segment revenue	**7,417,472**	**3,191,166**	**11,512**	**10,620,150**
Total group revenue				**10,620,150**
Segment net profit / (loss) before tax	**(2,712,010)**	**36,598**	**11,512**	**(2,663,900)**
Reconciliation of segment result to group net profit/(loss) before tax				
(i) Amounts not included in segment result but reviewed by the Board				
Corporate charges				(884,205)
Finance costs - bank facility				(155,520)
Net profit before tax				**(3,703,625)**

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 16: SEGMENT REPORTING (cont'd)

	Dairy Farms	Dairy Processing	Total
(ii) Segment Assets			
As at 30 June 2016	**$**	**$**	**$**
Segment assets	23,376,929	15,317,794	44,694,723
Segment assets include:			
Additions to non-current assets	13,279,538	10,925,047	24,204,585
Total group assets			**44,694,723**

(iii) Segment Liabilities

As at 30 June 2016			
Segment liabilities	4,246,694	3,001,848	7,248,542
Reconciliation of segment liabilities to group liabilities			
Unallocated liabilities			
CBA facility (refer note 12)			10,000,000
Total group liabilities			**17,248,542**

(iv) Revenue by geographic region

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

	2016	2015
	$	$
Australia	10,620,150	2,849,932
Other countries	-	-
Total revenue	**10,620,150**	**2,849,932**

(v) Assets by geographic region

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

	2016	2015
	$	$
Australia	44,694,723	32,686,542
Other countries	-	-
Total assets	**44,694,723**	**32,686,542**

NOTE 17: FAIR VALUE MEASUREMENTS

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

- financial assets; and
- biological assets

The Group does not subsequently measure any 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 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 is included in Level 2.

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset 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 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 2016

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Non-financial assets					
Biological assets	7	-	4,516,400	-	4,516,400
Total non-financial assets recognised at fair value on a recurring basis		**-**	**4,516,400**	**-**	**4,516,400**

NOTE 17: FAIR VALUE MEASUREMENTS (cont'd)

30 June 2015

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Financial assets					
Shares in listed companies	5	15,800	-	-	15,800
Total financial assets recognised at fair value on a recurring basis		**15,800**	**-**	**-**	**15,800**
Non-financial assets					
Biological assets	7	-	2,369,500	-	2,369,500
Total non-financial assets recognised at fair value on a recurring basis		**-**	**2,369,500**	**-**	**2,369,500**

(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 2016 $	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	4,516,400	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	3,984,825		

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

(c) Disclosed Fair Value Measurements

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

Trade and other receivables;

Inventories;

Other current assets;

Property, plant and equipment;

Trade and other payables;

Provisions; and

Borrowings.

NOTE 18: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities.

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NOTE 19: EVENTS AFTER THE BALANCE DATE

On 29 July 2016 the Group held an Extraordinary General Meeting (EGM) of security holders to vote on seven separate resolutions. The resolutions included the approval of financial assistance for the CDC acquisition (refer note 12(iii)), approval of changes to the conversion price of the convertible notes (refer note 12(i)), appointment of Dairy Funds Management Limited as responsible entity of Australian Dairy Farms Trust and approval of changes to terms of securities issued under the ADFG incentive plan to directors and KMP. Results of the EGM were released to ASX following the meeting with six of the seven resolutions passed.

The directors are not aware of any other significant events post 30 June 2016.

NOTE 20: EARNINGS PER STAPLED SECURITY CALCULATIONS

The weighted average ordinary securities used in EPS is 164,474,789. The convertible notes are considered to be dilutive potential ordinary securities however they are anti-dilutive at 30 June 2016 as the Group is in losses and the ASX market price for AHF stapled securities is below the 18.38 cent conversion price of the convertible notes at the 30 June 2016.

NOTE 21: NET TANGIBLE ASSET BACKING PER SECURITY

	2016	**2015**
	Cents	**Cents**
Net tangible asset backing per ordinary security	11.4	16.1

NOTE 22: DIVIDENDS

No dividend has been paid or recommended during the reporting period.

NOTE 23: DIVIDEND REINVESTMENT PLAN

The Group does not operate a Dividend Reinvestment Plan.

NOTE 24: FOREIGN ENTITIES

Not applicable.

NOTE 25: OTHER SIGNIFICANT INFORMATION

Refer to the Commentary on Annual Results.

NOTE 26: AUDIT STATUS

This Appendix 4E has been prepared from accounts which are in the process of being audited.