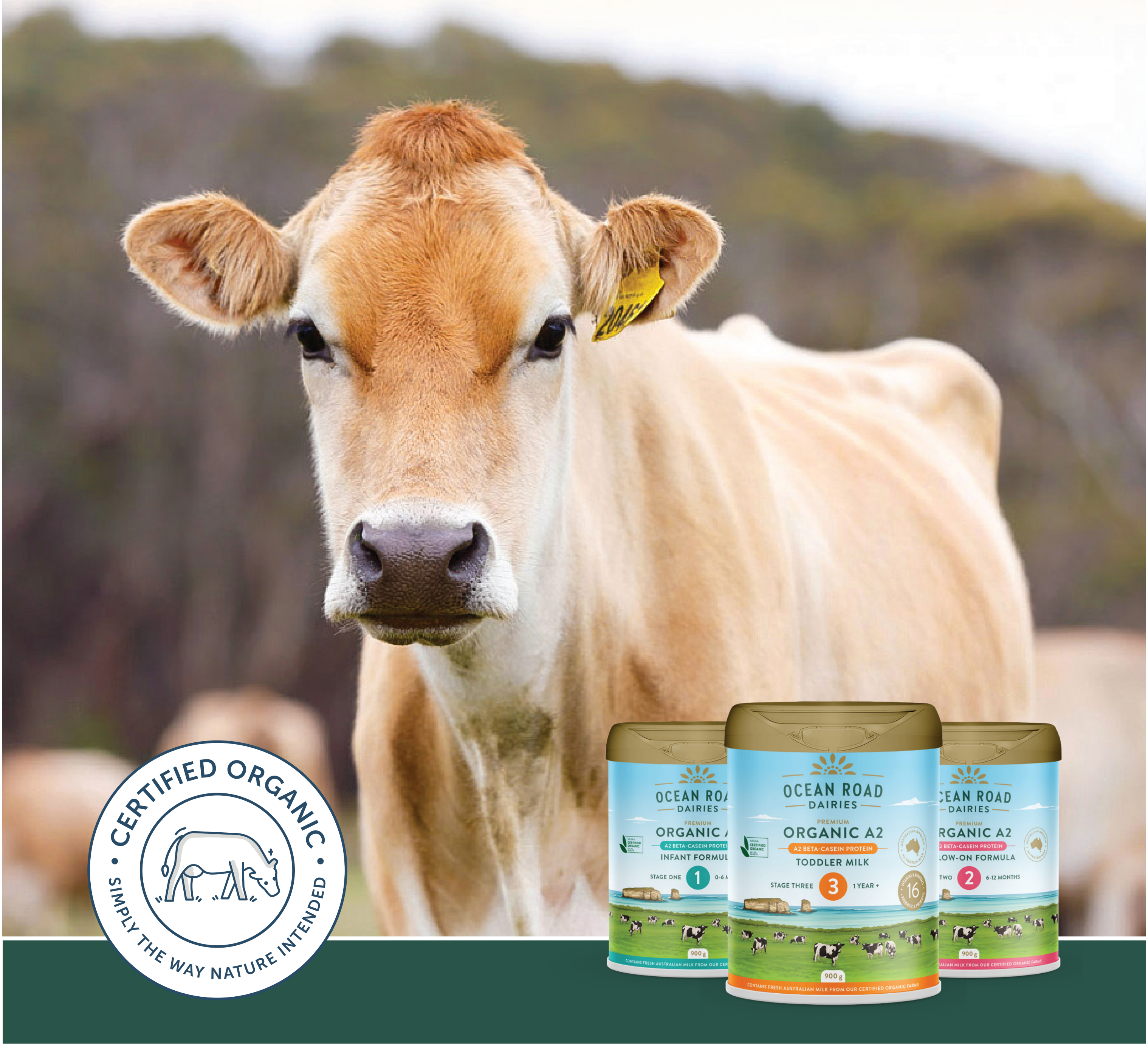
Australian Dairy Nutritionals

23

ANNUAL REPORT 2023

AUSTRALIAN DAIRY NUTRITIONALS GROUP



CORPORATE DIRECTORY

BOARD OF DIRECTORS

Martin Bryant
Non-Executive Chairman

Jason Dong
Non-Executive Director

Bernard Kavanagh
Non-Executive Director

Scott Lai
Non-Executive Director

COMPANY SECRETARY

Kate Palethorpe
Company Secretary

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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”.

WEBSITE

adnl.com.au

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CHAIRMAN'S ADDRESS

Despite the collective efforts of the Australian Dairy Nutritionals' team in completing its 5-year transformation strategy, this financial year has been one of mixed fortunes. The Group is now a fully vertically integrated manufacturer of premium organic infant formula and dairy powder products. After a long and costly period of establishing organic A2 dairy herds and organic certified farms plus construction of the purpose built manufacturing facility, the Group is now focused on selling our premium products.

Our Ocean Road Dairies Organic A2 infant formula has been sold in the domestic market since November 2022 and while there has been a strong interest in the range from distributors and consumers, we had hoped sales volumes for the financial year would be higher than what was achieved. Pleasingly we are starting to see sales of this range grow and hope that a further 12 months in the market and increased brand awareness will drive domestic sales performance.

Sales of the Future Gradulac Gentle range have been disappointing, so we are focussing this brand on international markets where consumer understanding and acceptance of reduced lactose formulations is already established.

In the second half of the financial year we put in place distribution arrangements for Vietnam, Canada and China and discussions are continuing with several other potential distributors. The team are working very hard to satisfy the product registration requirements for these markets to expedite sales in these markets.

As dairy farm revenues alone are not sufficient to support the cost base of the Group, we have restructured the business during the financial year to reduce costs and improve operational efficiencies including:

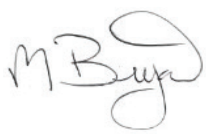
- discontinuing Camperdown Dairy's fresh milk processing and selling the residual assets;
- sale of our direct to consumer home delivery business, Victoria Farmers Direct;
- restructuring of the dairy farm portfolio to unstaple the shares in Australian Dairy Nutritionals Limited from the units in Australian Dairy Farms Trust and winding up the Trust. The restructure was completed effective 30 June 2023 and will deliver a substantial reduction in compliance and insurance costs and simplify the Group's corporate structure;
- sale and leaseback of the Brucknell North farm; and
- capital raisings from new and existing shareholders.

The Group's total revenue from continuing operations in FY23 was $5.86m, which is broadly the same outcome as the result in FY22. The resultant net loss from continuing operations was $6.9m in FY23, compared to $1.8m in FY22. The loss is largely attributable to commencement of production of nutritional powders from the new manufacturing facility plus the attendant marketing costs without material product sales. The net assets of the Group at 30 June 2023 total $33.5m, a decrease of $6.4m from June 2022. The decrease in net assets is predominantly driven by operating losses, offset by fair value increases and capital raising. The Group remains debt free.

The Group's small team continues to perform at a high standard enabling the Group to confidently promote and sell a premium product that has been manufactured in our factory from the organic A2 milk produced from our farms. There is no doubt that the achievements of the team in producing a world class product have been let down by slower sales results than we anticipated. However, we are seeing significant interest in our products in overseas markets where we can achieve prices commensurate with the quality of our nutritional powders and remain confident of success in the next year.

The Board acknowledges that the disappointing operating performance and lack of material infant formula sales has put significant pressure on the working capital position of the Group. Now that the new manufacturing facility has obtained its export licence the Board is confident that our search for global distribution partners will result in the Groups ability to scale up its manufacture and product sales. Until such time as the product sales build sufficient momentum to return positive cash flows the Group has a number of initiatives it can utilise to ensure working capital is adequate.

To all our shareholders, thank you for your continued support.



Martin Bryant
Chairman

CEO REPORT

FY23 was a very busy year with the final milestones of our 5 year vertical integration strategy being achieved with commencement of commercial production at our new infant formula facility and launch of our Ocean Road Organic A2 protein infant formula range in Chemist warehouse nationally in November 2022.

The transition from factory commissioning to commercial production was executed with remarkable efficiency, significantly outpacing industry standard. This is a commendable achievement that reflects the unwavering commitment of our talented operations team.

In February 2023 we were pleased to obtain our export licence for our manufacturing facility, allowing all powders and formulas produced in our manufacturing facility to be exported to international markets.

With the export licence in place, export production followed and the first shipping container of Ocean Road Dairies infant formula was shipped to China and launched on the JD.co.hk platform. This will be followed by Tmall and other e-commerce distribution opportunities in that market.

Domestic sales volumes of both the Future Gradulac Gentle and Ocean Road Dairies infant formula range have been slower to ramp up than anticipated. We put this down to the highly competitive nature of the infant formula category and the need for customers to develop both awareness and trust of our brands. In addition, COVID-19 materially changed the Australian infant formula category, resulting in a significant reduction in the volumes of sales through the major pharmacy and supermarket retailers (previously supercharged by daigou personal shoppers).

In response, we commenced the search for global distribution partners with participation in key trade shows across strategic locations including Singapore, the United States, Vietnam, and Thailand. The trade shows bring in distributors and retailers from many other countries as well as domestic attendance. The feedback has been excellent, and we have appointed distributors for both brands in Vietnam and Canada and are in advanced discussions with several other potential distributors in international markets.

Unfortunately, the timeline to enter international markets is longer than the domestic market as we need to ensure we meet the relevant country's product registration requirements which can take between 2 and 12 months.

The increased timeframe to produce material revenues from infant formula product sales has put pressure on the Gorup's cash flow as farm revenues are not sufficient to support the cost structure of the Group. However, we have adopted several measures during the financial year to raise cash including two private placements, a share purchase plan and the sale of discontinued fresh processing assets.

We will continue to closely manage cash flows to ensure the business remains viable while distribution arrangements are established, and market entry requirements satisfied.

I would like to thank all of our staff, shareholders, suppliers and customers for their support over the last 12 months.

Peter Skene
Chief Executive Officer

Amidst a challenging economic environment FY23 brought mixed fortunes for the Group. Major milestones were achieved with commercial production at the new infant formula facility and export certification, however domestic sales have been slower to build, accelerating our pivot to international market entries.

DIRECTORS' REPORT

The Board of directors of Australian Dairy Nutritionals Limited (the **Company**) submits to members the Annual Report of the Company and its controlled entities (the **Group**) for the financial year ended 30 June 2023.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- ownership of dairy farms via the Australian Dairy Farms Trust (ADFT) and Regen Properties Pty Ltd (Regen Properties);
- operation of dairy farms and ownership of livestock through SW Dairy Farms Pty Ltd (SWD);
- manufacture of Ocean Road Dairies Organic A2 infant formula base powders at 160 Depot Road, Camperdown, Victoria; and
- distribution of the Group's infant formula ranges through Organic Nutritionals Pty Ltd (Organic Nutritionals).

The Group's infant formula manufacturing facility achieved commercial production in October 2022 and the Ocean Road Dairies Organic A2 infant formula range was launched in Chemist Warehouse stores nationally in November 2022.

Organic Nutritionals successfully obtained export certification from the Department of Agriculture, Fisheries and Forestry (DAFF) for its infant formula manufacturing facility in February 2023. The export certification means infant formula and other dried milk and milk powder products manufactured at the Depot Road manufacturing facility can be exported from Australia to international markets, subject to local requirements for importation of these products into each market. The certification was a critical step in expanding the international distribution footprint for the Ocean Road Dairies infant formula range.

Discontinued Operations – Fresh Processing and Consumer Direct

During the year the Group discontinued its fresh dairy processing operations and sold its home delivery business. These segments are reported as discontinued operations for the year ended 30 June 2023.

Camperdown Dairy's fresh milk processing ceased at the end of August 2022 allowing the Group to focus on its infant formula strategy and transition skilled processing staff to the Depot Road manufacturing facility. On 3 June 2023, the Group announced that it had entered into an agreement to sell Camperdown Dairy's residual fresh dairy processing assets for $1.05 million and transfer the Manifold Street lease to a third party. The sale and transfer completed on 29 June 2023, delivering operational cost savings of $30k per month.

Victorian Farmers Direct Pty Ltd, the Group's consumer direct home delivery business, was sold on 28 April 2023.

Corporate restructure and unstapling

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 dairy farms was transferred from ADFT to Regen Properties, with the Brucknell North and South farms transferred in May 2022 and the Yaringa farm in September 2022.

On 15 July 2022 the Group sold the Brucknell North farm to a third party for $6.425 million. The farm was immediately leased back by SWD for a period of 3 years plus a further 1-year option to renew. This allows the Group to continue to produce organic A2 protein milk at the farm to support the manufacture of the Ocean Road Dairies infant formula range. SWD is able to terminate the lease of the Brucknell North farm without liability by providing 90 days written notice, giving it significant flexibility in managing its raw milk requirements.

At the Group's annual general meeting held 24 November 2022, shareholders voted in favour of unstapling the shares in ADNL from the units in ADFT. The unstapling date is 1 December 2022 and following the unstapling, shares in ADNL have continued to trade on the ASX, with no further trading in the units of ADFT.

On 6 March 2023, unitholders were advised that ADFT had transferred all remaining and future arising assets to ADNL and that, in the absence of any objection from unitholders, the units would be cancelled and ADFT wound up. No objections were received from unitholders within the time required so the units were cancelled and the trust wound up effective 30 June 2023.

As part of the restructure, no changes were made to dairy farm operations which remain in SWD.

Following the completion of the FY23 audit, the Group will apply to cancel the Australian Financial Services Licence held by the responsible entity of ADFT, Dairy

DIRECTORS' REPORT, CONTINUED.

Fund Management Ltd and wind up this entity. The restructure and unstapling process simplifies the Group's corporate structure and delivers a substantial reduction in compliance and insurance costs.

Capital Raising

During the year, the Group has undertaken the following capital raising to support its cash flows as it works to establish distribution networks for its products:

- On 26 April 2023, a private placement of 33,333,333 new shares to Mr Xin Yang to raise $1 million at a price of $0.03 per share. The subscription agreement included a 'top-up' mechanism requiring ADNL to issue additional shares if it raised additional capital within 6 months of the placement at a price less than $0.03 per share. As ADNL conducted a share purchase plan within 6 months of the placement at $0.022 per share, Mr Yang was issued an additional 12,121,212 shares in ADNL on 11 July 2023 to 'top up' his shareholding to be equivalent to a subscription price of $0.022 per share;
- On 29 June 2023, a share purchase plan to existing shareholders to raise $505k through the issue of 22,957,300 shares at a price of $0.022 per share; and
- On 11 July 2023, a private placement to specific sophisticated investors to raise $710k at a price of $0.022 per share. This placement completed after the reporting period and the proceeds are not incorporated in the financial results at 30 June 2023.

BUSINESS MODEL AND OBJECTIVES

In March 2018 the Group announced its 5-year strategy to transition to become a fully vertically integrated manufacturer of premium organic infant formula and dairy nutritional products.

October 2022 saw the successful completion of the final step in the vertical integration strategy with commercial production of all three stages of the Ocean Road Dairies Organic A2 infant formula range at the Group's infant formula manufacturing facility. The Ocean Road Dairies range was launched in Chemist Warehouse stores nationally in November 2022.

In the second half of FY23 the Group's focus shifted to establishing the distribution network for its infant formula products and refining operations at the manufacturing facility. At a broader level there was also a renewed focus on refining the Group's corporate operations to reduce complexity and costs.

The infant formula category in Australia was significantly impacted by COVID-19. Prior to COVID-19 lockdowns and international border closures, large volumes of infant formula were purchased from the major pharmacy and supermarket retailers by personal shoppers (known as daigous) and sent overseas, predominantly to China. When international borders were closed, sales through this channel reduced significantly, materially impacting the performance of the infant formula category in the major pharmacy and supermarket retailers.

As a result, domestic sales of the Group's infant formula products in Chemist Warehouse have been slower to gain traction than anticipated and this is compounded by the fact that both brands are new in the market. The Group is continuing to invest in targeted marketing to promote and increase brand awareness in the Australian market and we continue to engage with the major supermarkets, however at this stage they are unlikely to add new brands to the category until the brand and products are sufficiently established in the market.

With challenging conditions domestically, the Group also focussed on establishing international distribution opportunities. A critical step in accessing international markets for the Ocean Road Dairies infant formula range was obtaining export certification of the Depot Road manufacturing facility. This was successfully obtained in February 2023, meaning infant formula and other powdered milk products manufactured at the facility can be exported to international markets (subject to local import requirements).

During the second half of FY23, the Group has made progress in establishing its international distribution network, attending four international trade shows, and appointing a distributor in Canada, Vietnam and for the JD.co.hk e-commerce platform in China. The Ocean Road Dairies signature store on JD.co.hk launched in July 2023 and management are working with the appointed distributors in Vietnam and Canada to satisfy the local requirements for import of both ranges in the respective markets.

Going Concern

The financial statements have been prepared using the going concern basis of preparation. During the year the Group incurred a loss of $9.24 million (2022: $4.15 million loss), has total accumulated losses of $48.74 million and had a net cash outflow from operations of $7.05 million (2022: $3.80 million outflow). The Groups cash and cash equivalent balance as at 30 June 2023 was $2.01 million. The Board is satisfied the going concern basis of preparation remains appropriate, reaching such a conclusion after having regard

DIRECTORS' REPORT, CONTINUED.

to the circumstances which they consider reasonably likely to affect the Group during the period of at least one year from the date of this report.

The Board has been very closely monitoring cash flows throughout the year as the Group has incurred costs in producing inventory and invested in sales and marketing activity to promote both infant formula brands however this has not yet translated to material infant formula sales.

To support cash flows the Group has reduced non-core operational costs through the closure and sale of Camperdown Dairy's fresh processing operations and the consumer direct home delivery business, Victorian Farmers Direct. The unstapling of the shares in ADNL from the units in the ADFT and winding up the ADFT will also deliver significant compliance and insurance cost savings in FY24.

While infant formula product sales build and the Group works to gain access to international markets such as Vietnam and Canada, the Board is confident in the Groups ability to continue as a going concern for the 12 month period assessed above due to the Group's ability to produce the requisite working capital from various initiatives including but not limited to:

- the Group is seeking to raise short-term borrowings in order to fund ongoing operational needs until such time as sales of its infant formula build sufficient momentum to return positive cash flows from operations to the Group;
- the Group can further curtail operating costs to better align with the output of the manufacture and sale of infant formula;
- the Group presently has at its disposal surplus assets that can be readily sold without impacting core operations, realising significant cash and cash equivalents; and
- the Group will seek approval from shareholders at the 2023 annual general meeting to refresh its 15% placement capacity and additional 10% placement capacity under ASX listing Rule 7.1. The Board is confident that it will obtain approval for at least one of the available placement facilities allowing it to raise working capital through equity placements to new or existing shareholders.

Should the Group be unsuccessful in securing additional funds or monetising assets, there exists a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. The Board are satisfied at the date of signing the financial report there are reasonable grounds to believe that the Group will be able to continue to meet its debts as and when they fall due and that it is appropriate for the financial statements to be prepared on a going concern basis.

The financial report does not include any adjustments to the amounts or classifications of recorded assets or liabilities that might be necessary should the Group not continue as a going concern. Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts that differ from those stated in the financial statements.

OPERATING RESULTS

Continuing Operations

The consolidated net loss from continuing operations attributed to members of the Group, after providing for income tax was $6,938,549 (2022: $1,788,268). This result is comprised of a net loss from the nutritional powders segment of $3,709,830 (2022: $276,592) and net loss from the dairy farm segment of $724,160 (2022: $1,074,922 profit). Corporate costs of $2,504,559 (2022: $2,586,598) are not included in the segment results.

Total revenue from continuing operations for FY23 is $5,855,677 which is broadly in line with the FY22 comparative period of $5,856,390. This is comprised of $5,442,236 (2022: $5,671,973) in revenue from the dairy farms segment and $413,441 (2022: $192,544) from the nutritional powders segment.

The decrease in dairy farms segment revenue of $230,315 in FY23 is largely attributable to a decrease in livestock sales and 3 months of revenue in the FY22 comparative from the Ecklin South farm which was sold in September 2021. This is offset by a positive increase in milk price per litre for FY23.

The Nutritional powders segment revenue in FY23 increased by $220,897 compared to FY22, reflecting the launch of the Ocean Road Dairies infant formula range in November 2022. Although this is an increase, this is a disappointing result and demonstrates that domestic sales of both brands, particularly the Future brand, have been slower to build domestically than anticipated.

Total expenses from continuing operations for FY23 were $12,794,227, up 21% against the FY22 comparative period of $10,542,211. This increase is primarily driven by expenditure on manufacturing and marketing of the infant formula brands. Expenses for the nutritional powders

DIRECTORS' REPORT, CONTINUED.

segment are $4,123,271 (2022: $469,146) and $6,166,396 (2022: $7,486,467) for the dairy farms segment. Corporate expenses for FY23 are $2,504,559 (2022: $2,586,598).

Discontinuing Operations

Discontinued operations include Camperdown Dairy Company Pty Ltd's fresh dairy processing operations which were discontinued in August 2022 and the consumer direct home delivery business Victorian Farmers Direct sold in May 2023.

The consolidated net loss from discontinuing operations attributed to members of the Group, after providing for income tax was $2,305,637 (2022: $2,360,253). Refer Note 4 for further details.

FINANCIAL POSITION

The net assets of the Group at 30 June 2023 total $33,523,354, a $6,425,133 decrease from the June 2022 comparative of $39,948,487. The decrease is primarily driven by operating losses, offset by fair value increases and equity capital raising.

The key assets and liabilities in the statement of financial position at 30 June 2023 are:

- cash and cash equivalents of $2,007,429 (2022: $2,431,696);
- inventories of $1,732,674 (2022: $1,398,681);
- property, plant and equipment of $26,381,586 (2022: $33,428,288);
- intangible assets of $635,732 (2022: $547,481);
- biological assets (livestock) of $3,535,686 (2022: $4,416,205); and
- total borrowings of $nil (2022: $502,770).

REVIEW OF OPERATIONS

CONTINUING OPERATIONS

DAIRY FARM SEGMENT

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

(i) Dairy farm ownership structure

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 dairy farm properties were transferred from ADFT to a new wholly owned subsidiary of ADNL, Regen Properties Pty Ltd (Regen Properties). The Brucknell South and North farms were transferred to Regen Properties in May 2022 and the Yaringa farm was transferred in September 2022. No changes were made to dairy farm operations which remain in SWD.

On 15 July 2022, the Group sold the Brucknell North farm to a third party for $6.425 million. The sale did not include the A2 cow herd on that property and the farm was immediately leased back by SWD 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 3 months' written notice.

During the financial year SWD also leased part of an organic certified farm located in Darlington, Victoria. The property will be used to produce a portion of SWD's organic grain and silage requirements. Subject to the yield achieved, vertical integration of SWD's organic grain requirements will assist in securing organic grain supply and deliver an estimated 30% reduction in grain costs, compared to sourcing on market.

(ii) Dairy farm segment performance

For the third consecutive year, seasonal conditions in Southwest Victoria have been favourable for dairy farming. The dairy farms segment net loss for the financial year was $724,160 (2022: $1,074,922 profit). The FY22 result includes the gain on disposal of the Ecklin South farm of $1,555,342 and gains from changes to fair value of livestock of $1,342,672 (2023: $238,913 loss).

After removing the impact of the Ecklin South farm sale and sales, deemed cost of sales and fair value movements of livestock in both financial years, the dairy farm operating segment's financial performance has seen a significant improvement in FY23 with an operational net loss of $215,821 (2022: $1,240,044). This is off the back of a stronger milk price, reduced costs, and good seasonal conditions. With strong milk prices, good seasonal conditions and vertical integration of organic grain, FY24 should see a move back to achieving a profitable operating result in the dairy farms segment.

(iii) Livestock values

Livestock values remained strong during the first half of the financial year, however prices softened in the second half of FY23 resulting in a loss from changes in fair value of livestock of $238,913 (2022: $1,342,672 gain).

DIRECTORS' REPORT, CONTINUED.

(iv) Farm values

Rural property prices in Southwest Victoria continued to perform well despite rising interest rates. Registered valuers Preston Rowe Paterson completed an independent valuation of both farm properties for 30 June 2023. The basis of the valuation is 'As Is and In Use' with vacant possession and the combined fair value of both farm properties is $15,400,000. The combined value of the Group's farm portfolio is up 9% on 30 June 2022 carrying values and a fair value gain of $1,434,305 is reflected in other comprehensive income.

(v) FY23 Farmgate milk price

After a period of record prices in FY23, farmgate conventional milk prices softened in the second half of the financial year driven by reduction in international demand as well as the impact of rising cost of living domestically. Despite this, demand for organic farmgate milk remained steady and SWD was able to contract all the excess organic milk produced by its farms in FY24 and FY25 at a similar price to FY23.

NUTRITIONAL POWDERS SEGMENT

(i) Depot Road Manufacturing Facility

The Group's infant formula manufacturing facility achieved commercial production of all three stages of the Ocean Road Dairies infant formula range in October 2022, a major milestone for the Group. The range launched in November 2022 and is available in Chemist Warehouse stores nationally.

The Group successfully obtained export certification from the Department of Agriculture, Fisheries and Forestry (DAFF) for the Depot Road manufacturing facility in February 2023. The export certification means infant formula and other dried milk and milk powder products manufactured at the 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 infant formula products and other milk powder products produced at the facility following the export certification are eligible for export to international markets which is a key step in expanding the Group's international distribution network.

Registered valuers IPN Valuers - Greater Geelong completed an independent valuation of the Depot & Old Geelong Road land and infant formula building for 30 June 2023. The basis of valuation is a cost approach using the summation of land and improvements, supported by comparable sales evidence and capitalisation of income. The combined fair value was assessed at $5,100,000 and a fair value loss of $149,769 is reflected in other comprehensive income.

(ii) Infant formula and nutritionals

As noted above, the Ocean Road Dairies infant formula range has been available in Chemist Warehouse stores nationally since November 2022. There has been significant focus on establishing this new brand in the market and developing consumer trust and confidence.

Our targeted marketing investment has focussed on driving brand and product recognition with consumers including social media campaigns and attendance at Pregnancy and Baby Shows. Whilst the infant formula category is highly competitive and consumers tend to be very brand loyal, Chemist Warehouse sales of the Ocean Road Dairies range are starting to increase steadily, notwithstanding the challenging retail environment and cost of living pressures.

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. Sales of the Future range have been slower to gain traction than anticipated most likely due to consumers finding the gradual lactose formulation difficult to understand. As a result, the segment includes a write-down of $916,519 in relation to short-dated stock of the future range. Moving forward, opportunities for the Future range will primarily relate to international markets.

For both infant formula ranges, the Group continues to work on obtaining ranging in both of the major supermarkets, however changes to the infant formula category because of COVID-19 lock downs and travel bans significantly reduced the volume of infant formula sold through this channel making them reluctant to take on new brands at this stage.

On the international front, the Group exported its first shipment of Ocean Road Dairies products to China in June 2023 in anticipation of the launch of the Ocean Road Dairies signature store on the JD.co.hk and Tmall e-commerce platforms. Based on our experience domestically, sales are likely to be slow to build as the brand has to gain recognition in this market and consumers develop trust in the products.

DIRECTORS' REPORT, CONTINUED.

The Group has also appointed a distributor for both ranges in Vietnam and Canada and is progressing product registration requirements in these markets. Registration of the Future range in Malaysia has been delayed, however the Group still considers this an attractive territory and is continuing to progress distribution opportunities for both brands.

On 17 May 2023 the Group announced the execution of a Cooperation Agreement with Beijing Yiqing Food Group Co. Ltd (Yiqing). Yiqing is a comprehensive food group headquartered in Beijing, China with a wide range of businesses including beverages, bread, beer, cooked food, snacks, pastries and other categories as well as its own distribution businesses including food stores, Jingqing convenience stores and e-commerce. Management are working with Yiqing to understand their requirements and identify opportunities for the two businesses to partner for mutual benefit.

DISCONTINUED OPERATIONS

FRESH DAIRY PROCESSING SEGMENT

Camperdown Dairy Company Pty Ltd

As per previous announcements to the ASX during the year, the Group made the decision to close its fresh milk processing at the Manifold Street site in Camperdown. The closure allowed the Group to transfer several experienced dairy processing staff to its new manufacturing facility and focus on its infant formula brands. The fresh processing operations ceased at the end of August 2022 and the remaining plant and equipment and the Manifold Street site lease were transferred to a third party on 29 June 2023 for $1,050,000 resulting in a loss on disposal of $1,025,217.

CONSUMER DIRECT SEGEMENT

Victorian Farmers Direct Pty Ltd

The consumer direct segment comprised the Group's Victorian Farmers Direct business, an online platform which delivered fresh milk, dairy, meat, and other groceries directly to consumers' doorsteps. The business operated in Victoria only and generated revenue of $1,466,334 in FY23 (2022: $2,249,471) and a net loss of $132,861 (2022: $98,307). With the closure of Camperdown Dairy's fresh milk processing, the Group restructure and the business in a loss position, the business was sold to a third party in April 2023.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group in FY23 included the sale of the Brucknell North farm for $6.425 million which completed on 15 July 2022. Immediately after settlement of the sale SWD leased back the property for a period of 3 years with an option to renew for a further 12 months.

FY23 also saw the closure of Camperdown Dairy's fresh processing operations and sale of the residual processing equipment and transfer of the Manifold Street lease on 29 June 2023.

At the operational level, the Depot Road infant formula manufacturing facility achieved first commercial production of the Ocean Road Dairies Organic A2 infant formula range in October 2022 and the range was launched in Chemist Warehouse stores nationally from November 2022. The Depot Road manufacturing facility also achieved export certification through the Department of Agriculture, Fisheries and Forestry (DAFF) in February 2023 allowing dried milk and milk powder products manufactured at the facility to be exported to international markets (subject to local import requirements).

From a corporate perspective, the Group sought the approval of shareholders at the annual general meeting held on 24 November 2022 to unstaple the shares in ADNL from the units in ADFT. The unstapling resolution was approved by shareholder and the unstapling completed effective 1 December 2022. Since that date, the shares in ADNL have continued to trade as normal on the ASX and the units in the trust were cancelled and ADFT was wound up effective 30 June 2023.

The Board also conducted two capital raisings in the financial year to support the Group's cash flows. 33,333,333 shares were issued to Mr Xin Yang on 26 April 2023 raising $1,000,000 and 22,957,300 shares were issued to existing shareholders through a share purchase plan on 29 June 2023 raising $505,061.

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

DIRECTORS' REPORT, CONTINUED.

EVENTS AFTER THE REPORTING PERIOD

- On 11 July 2023 the Group completed a placement to sophisticated investors to raise $710,000 through the issue of 32,272,727 shares at $0.022 per share.
- The Group issued a further 12,121,212 shares to Mr Xin Yang as the subscription agreement for the placement completed on 26 April 2023 provided for his shareholding to be 'topped up' in the event the Group raised further equity capital within 6 months of completion of the placement at a price less than $0.03 per share. The issue of the additional shares gave him an effective subscription price of $0.022, the same as the share purchase plan and later placement.
- Mr Adrian Rowley resigned from the Board on 27 July 2023 to focus on his own business.
- Mr Scott Lai was appointed to the Board on 7 August 2023. Mr Lai is a director of IJ Funds Management Pty Ltd, one of the Group's substantial shareholders and brings a strong background of establishing and managing start-up businesses. He also has significant experience and networks in capital raising and investment management. Mr Lai will seek re-appointment as a director at the Group's next annual general meeting.

In the opinion of the directors there are no other material matters that have arisen since 30 June 2023 that have significantly affected or may significantly affect the Group, that are not disclosed elsewhere in this report or in the accompanying financial statements.

ENVIRONMENTAL ISSUES

The Group is regulated by environmental obligations contained in the *Environment Protection Act 1970* (Cth) and is subject to water licensing restrictions under the *Water Act 1989* (Vic). The Group is also subject to a Trade Waste Agreement with Wannon Water which regulates effluent disposal from the Depot Road manufacturing facility.

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

After a significant period of investment in transitioning its dairy farms to organic A2 protein milk production and construction of the Group's infant formula manufacturing facility, ADNL's vertical integration strategy is now complete. In FY24 and beyond the Group will focus on the following core areas:

- sale and distribution of its infant formula ranges and complementary products;
- increasing the capacity and efficiency of its manufacturing operations;
- refining its farming operations; and
- effective management of non-operational costs.

BUSINESS RISK

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

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

Milk Prices

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

Operating Risks

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

DIRECTORS' REPORT, CONTINUED.

Environmental Risks

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

Development Projects

The Group may undertake new projects to build new facilities and expand existing facilities, which may include installation of an additional dryer or installation of the high speed canning line. There are risks associated with development projects, including trial and testing delays, cost overruns or, the development may not perform to its designed capacity initially or at all. This may result in delays in anticipated revenues flowing from the developments, all of which could have an adverse effect on the Group's revenues and costs.

Access to Specialised Raw Materials

As the Group moves to manufacture more complex nutritional products and organic products, it will need to source raw materials from a variety of domestic and international suppliers. Some of these raw materials have limited supply, long lead times and require forward commitments to secure supply. If the Group does not manage its inventory requirements of these raw materials it may experience delays in production of its products and product outages. This may in turn, cause issues with the Group's customers if customer supply arrangements are impacted.

Customer / Supplier Contract Security

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

Food Safety / Quality

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

Funding and Access to Capital

In order to support large increases in demand for the Group's products and increase inventory or, to expand the Group's infant formula plant capacity or install the high-speed blending and canning line, further capital may need to be raised. There is no guarantee that those funds will be able to be raised, or if they are raised, raised at a cost which is acceptable to the Group. Further, any equity capital raising may dilute existing securityholders in the Group.

Marketing Investment and Competitive landscape

The infant formula and infant nutrition segment is highly competitive and many large, long established businesses participate in the segment. These brands have very large marketing budgets to promote their products making it difficult for new brands to gain exposure in the market. There is no guarantee that the level of marketing investment available to the Group will be sufficient to increase brand or product awareness in the market or, that consumers will develop the required level of trust in the Group's brands/products to consider trying or switching to them. Furthermore, there is no guarantee that other participants in the segment won't introduce similar products to the Group's products potentially eroding the Group's competitive advantage.

Inventory Management

Predicting market and consumer demand for new products is very difficult. Furthermore, manufacturing facilities often require minimum production volumes to manufacture products or components of a product. There is a risk of large inventory write offs and/or brand damage if inventory of finished products (particularly products with shelf life restrictions) or components of products materially exceed demand.

DIRECTORS' REPORT, CONTINUED.

Infectious Diseases and Export Risks

An outbreak of COVID-19 or another infectious disease at the Group's production plant could cause the temporary shutdown of that plant and standing down of staff, with a consequential effect on production and revenues. Furthermore, the discovery of infectious diseases affecting livestock in Australia may require isolation or even destruction of livestock or, restrictions on movement of livestock both domestically and internationally. This would have significant impact of the Group's farming operations and it's raw milk production volumes.

The Group is also exposed to the global dairy market and the availability of export opportunities of milk from Victoria. If country borders are closed or imports or exports limited, then there is a risk that there will be excess local supply, attracting a lower price, and reducing the prices which the Group is able to obtain for its products.

Global Climate Conditions Risk

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

Regulatory / Compliance Risk

Changes in relevant taxes, legal and administration regimes, accounting practice and government licensing and operations policies may adversely affect the financial performance of the Group. The sale of infant formula products is highly regulated both domestically and in international markets. Failure to comply with these regulations may damage the reputation of the Group and its brands and impact the financial performance of the Group including access to international markets. In addition, in order to perform its activities the Group must comply with the environmental legislation of Federal, State and Local governments, which may include changes to the conditions of or further obligations under its environmental and water use licences and other regulated entitlements.

Consumption Trends

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

DIRECTORS' REPORT, CONTINUED.

INFORMATION ON DIRECTORS

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

Name	Position
Martin Bryant	Chairman
Adrian Rowley	Director (resigned 27 July 2023)
Jason Dong	Director
Bernard Kavanagh	Director
Scott Lai	Director (appointed 8 August 2023)

Martin Bryant	**Non-Executive Chairman**
Qualifications	Bachelor of Business - University of Western Australia Member of Australian Institute of Company Directors
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 2,500,000 shares at 30 June 2023.
Martin Bryant was appointed to the Board on 11 November 2019 and was appointed Chairman of the Group on 23 December 2019. Martin is a highly skilled senior executive and director with extensive international experience at senior levels and a particular focus on Asia including China, Vietnam and The Philippines. Martin brings a wealth of strategic and operational experience to the Group as well as insight and leadership of the Board.	

Adrian Rowley	**Non-Executive Director (resigned 27 July 2023)**
Qualifications	Certified Financial Planner
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 1,911,000 shares at 30 June 2023.
Adrian Rowley was appointed to the board on 20 July 2011. Adrian has had a career in financial services spanning 20 years and is currently Portfolio Manager and Equity Strategist within the Watershed Funds Management Investment Team. Adrian is a specialist in the delivery of Managed Account Solutions with over 15 years' experience managing funds across multiple platforms, structures and asset classes. Adrian is the Portfolio Manager for the Watershed Australian Share SMA and Income SMA and a member of the Asset Allocation, International Share and Emerging Leaders Investment teams. Mr Rowley resigned as a director of the Company on 27 July 2023.	

DIRECTORS' REPORT, CONTINUED.

Jason Dong	Non-Executive Director
Qualifications	Master of Commerce (University of Melbourne) Bachelor of Economics, Shanxi University of Finance and Economics, China
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 500,000 shares at 30 June 2023.

Jason Dong was appointed to the Board on 15 April 2021. Jason is a highly skilled executive with extensive experience working with Australian and Chinese enterprises to promote trade and industry relationships. His previous roles include Industry Adviser and Research Fellow for the Centre of International Agricultural Research of the Chinese Academy of Agricultural Sciences and a member of the Industry Advisory Board for the Centre for Asian Business and Economics at the University of Melbourne.

Bernard Kavanagh	Non-Executive Director
Qualifications	Bachelor of Commerce - Deakin University Fellow of Institute of Company Secretaries and Administrators Fellow of Australian Institute of Company Directors
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	No relevant interest in shares at 30 June 2023.

Bernard Kavanagh was appointed to the Board on 21 June 2022. Bernard is a highly skilled director who brings a wealth of dairy and agriculture industry skills and experience. Until 2016 he was a senior executive with Saputo Inc., a top 10 global dairy company holding the positions of Vice-President – Dairy Divisions International and General Manager – Corporate Development. Prior to this he held several senior executive positions over 30 years at Warrnambool Cheese and Butter Co Ltd including Chief Financial Officer, Company Secretary, General Manager – Strategy & Growth and Executive Director. He has significant listed company Executive and Board experience including mergers and acquisitions, capital raising, strategic global supply arrangements as well as strategy development and oversight. More recently he led the oversubscribed IPO of Ketone Dairy Corporation (ASX: KTD) on the ASX as Chairman.

Scott Lai	Non-Executive Director
Qualifications	Bachelor of Commerce - Banking, Finance and Risk Management (Griffith University) Master of Commerce - Professional Accounting (Griffith University)
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 42,503,864 shares at 30 June 2023.

Scott Lai was appointed to the Board on 7 August 2023. Scott brings strong financial market knowledge and an extensive network of more than 1,000 corporate and high net worth investors to the Group. He also has a strong track record of establishing and growing innovative businesses in highly regulated sectors including financial services and energy markets with demonstrated skills managing teams of more than 100 employees. In 2017 Mr Lai founded IJ Financial Services Pty Ltd and has grown this business to be a preeminent leader in the fund investment and mortgage loan industry in Queensland with a specific focus on the Chinese market. Mr Lai is also a director of IJ Funds Management Pty Ltd which has been a major shareholder in the Group since 2022.

DIRECTORS' REPORT, CONTINUED.

COMPANY SECRETARY

The following persons held office as a company secretary of the Company during the financial year:

Kate Palethorpe	**Company Secretary and General Counsel**
Interest in Group securities & options	A relevant interest in 1,500,000 stapled securities at 30 June 2023.
Kate Palethorpe was appointed to this role in September 2018. Kate is an experienced legal and governance professional with both domestic and international businesses. She holds a Bachelor of Science and Law and is admitted to the Victorian Supreme Court and High Court of Australia. She also has a strong background in food manufacturing and FMCG, including direct experience in product development, procurement and logistics.	

MEETINGS OF DIRECTORS

The Board generally meets on a monthly basis either in person or by telephone conference. Directors meet bi-annually with the Group's auditor to discuss relevant issues arising in relation to the half year review and annual audit. On matters of corporate governance, the Board retains a direct interest rather than through a separate committee structure which at this stage is appropriate for a Board of this size and structure. At each Board meeting written reports in relation to operating strategies and activities are provided as well as risk and compliance matters with a particular focus on occupational health and safety, food safety and quality and key strategic and emerging risks.

Aside from formally constituted directors' meetings, the directors and chairman are in regular contact regarding the operation of the Group and particular issues of importance.

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

Directors	Meetings eligible to attend	Meetings attended
Martin Bryant	17	16
Adrian Rowley	17	13
Jason Dong	17	14
Bernard Kavanagh	17	17

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2023 (2022: $nil) at the date of this report.

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year, the Company paid an insurance premium in respect of an insurance policy insuring the directors, the company secretary and all executive officers of the Group against a liability incurred as a consequence of holding that office in the Group to the extent permitted by the *Corporations Act 2001.* The amount of the premium was $41,740 (2022: $33,519) for all directors and officers for the year.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such by an officer or auditor.

DIRECTORS' REPORT, CONTINUED.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of a court to bring proceedings against or on behalf of the Group or to intervene in any significant proceedings to which any such entity is a party for the purpose of taking responsibility for all or any part of those proceedings. No proceeding has had or is likely to have a material impact on the financial position of the Group.

NON-AUDIT SERVICES

The Board is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and is satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

i) all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and,

ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional Ethical Standards Board.

During the year ended 30 June 2023 there was no payment to external auditors for non-audit services (2022: $nil).

OPTIONS / PERFORMANCE SECURITIES

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
12 February 2018	12 February 2023	12.4 cents	7,000,000[1]
18 November 2019	18 November 2022	11.5 cents	2,500,000[1]
17 February 2021	17 February 2024	9 cents	3,000,000

[1] Loan Securities issued under the Company's Long Term Incentive Plan which have expired and are in the process of being bought back and cancelled.

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

There have been no other options granted over unissued securities or interests of any controlled entity within the Group during or since the end of the reporting period.

A summary of movements in options and other performance securities is set out in Note 27.

For details of options and performance securities issued to directors and executives as remuneration, refer to the Remuneration Report.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2023 has been received and a copy can be found at page 27.

DIRECTORS' REPORT, CONTINUED.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Australian Dairy Nutritionals Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific incentives based on achievement of key operational and strategic objectives affecting the Group's performance. Whilst the Board acknowledges that the Group received a first strike in relation to the remuneration report for financial year ending 30 June 2022, the Board has acted on the message from shareholders to ensure the remuneration policy is appropriate and effective in its ability to attract and retain high-quality KMP to manage the Group, as well as create goal congruence between directors, executives and shareholders based on the performance of the Group.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- the remuneration policy is developed and approved by the Board. The Group does not have a remuneration committee due to the current size and nature of the Group's activities. Professional advice is sought by the Board from independent external consultants when required;
- All KMP receive a base salary (which is based on factors such as role and experience, market comparison with equivalent roles, performance and length of service) plus superannuation;
- Performance incentives are based on the achievement of strategic and operational objectives by the KMP, which are agreed in advance, typically shortly after the Group's budget and strategy for the relevant financial year is approved;
- Performance incentives are only paid if the Board determines the KMP has met the predetermined key performance indicators (KPIs);
- Incentives paid in the form of equity are intended to align the interests of the KMP with the Group and the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- The Board reviews KMP packages annually by reference to the Group's performance, executive performance, and comparable information from industry sectors. Performance of KMP is reviewed on an ongoing basis with a formal review conducted annually, typically after issue of the Group's audited result for the relevant financial year. This includes review of the relevant KMP's performance against agreed objectives and award of incentives (if applicable). The remuneration policy is designed to attract a high caliber of executives and reward them for performance leading to long-term growth in shareholder value.

KMP receive, at a minimum, a superannuation guarantee contribution in line with legislation, which is currently 11%. Some individuals, however, may choose from time to time to sacrifice part of their salary to increase payments towards superannuation.

There are currently no defined benefit superannuation entitlements to KMP and upon retirement KMP are paid employee benefit entitlements accrued to the date of retirement. Any options or rights not exercised before or on the date of termination will lapse (unless otherwise agreed by the Board).

All remuneration paid to KMP is valued at the cost to the Group and expensed.

The Board's policy is to remunerate non-executive directors at market rates for their time, commitment, and responsibilities. The Chairman determines payments to the directors and reviews their remuneration annually, based on performance, market practice, duties, and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to directors is subject to approval by shareholders at the annual general meeting.

Directors and executives are entitled to participate in the Company's Long Term Incentive Plan (LTIP) to align their interests with shareholders' interests. Given the strike against the 2022 Remuneration Report, the Board have elected not to seek approval for any performance incentives in respect of financial year 2024.

DIRECTORS' REPORT, CONTINUED.

KMP or closely related parties of KMP are prohibited from entering hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration. In addition, the Board's remuneration policy prohibits directors and KMP from using Australian Dairy Nutritionals Limited shares as collateral in any financial transaction, including margin loan arrangements.

Engagement Of Remuneration Consultants

During the financial year, no consultants were engaged by the remuneration committee to review the elements of KMP remuneration and provide recommendations. As the size and nature of the Group's activities increase, this may become necessary.

Performance-Based Remuneration

Performance incentives are set annually, in consultation with KMP and based on the Group's strategic and operational objectives, both short term and long term. For executives, a portion of the measures typically focus on the overall performance of the Group (measured by specific performance metrics) and a portion are tailored to the operational area each individual is accountable for. The KPIs target areas the Board believes hold greatest potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals.

Performance in relation to the KPIs is assessed annually, based on an assessment of the KMP's performance against the agreed KPIs. In determining whether a KPI has been achieved, the Group bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports may be obtained from other organisations.

Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and the Board determines whether the relative attached KPI is approved..

Relationship Between Remuneration Policy And Group Performance

As noted above, the remuneration policy provides for a fixed and variable component of remuneration for KMP's of the Group. The fixed component of a KMP's remuneration is a contractual obligation and cannot be amended without the agreement of the relevant KMP or, termination of the KMP. The remuneration policy provides for a variable component of the KMP's remuneration which is at-risk and only granted to the KMP if pre-agreed performance conditions are achieved. The variable component of the KMP's remuneration is designed to reward the KMP only for performance which contributes to the performance of the Group thereby aligning the experience of the KMP with the experience of the shareholder. The issue of performance-based incentives to KMP pursuant to the Group's Long Term Incentive Plan is to align KMP and shareholder interests. The Group believes this policy to be effective in driving KMP's and other Group personnel to increase shareholder wealth in future years.

Performance Conditions Linked To Remuneration

During this financial year, the Group issued shares to KMP (Adrian Rowley, Jason Dong and Peter Skene). The grant of these performance incentives was approved by shareholders at the 2021 annual general meeting held on 20 January 2022. Peter Skene, Adrian Rowley and Jason Dong were each issued 500,000 shares on 24 August 2022 as the Total Shareholder Return (TSR) performance hurdle attached to those performance incentives was achieved during the financial year ended 30 June 2022.

At the 2022 annual general meeting held on 24 November 2022, shareholders approved the issue of 1,000,000 performance rights to each of Bernard Kavanagh and Jason Dong. The performance rights entitled each individual to be issued 1 share in the Company if performance conditions attached to those performance rights were achieved. None of the performance conditions were achieved and therefore the 1,000,000 performance rights were forfeited.

DIRECTORS' REPORT, CONTINUED.

Key Management Personnel (KMP) Shareholdings

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

30 June 2023	Balance at 01/07/2022	Granted as Remuneration	Purchased on Market	Balance at 30/06/2023
Martin Bryant	1,500,000	-	1,000,000	2,500,000
Adrian Rowley[1]	1,411,000	500,000	-	1,911,000
Peter Skene[2]	14,415,385	500,000	158,566	15,073,951
Jason Dong	-	500,000	-	500,000
Bernard Kavanagh	-	-	-	-
	17,326,385	**1,500,000**	**1,158,566**	**19,984,951**

1. Resigned as a director 27 July 2023.
2. Includes 7,000,000 loan securities issued under the Company's Long Term Incentive Plan which have expired and are in the process of being bought back and cancelled.

Other Equity-Related KMP Transactions

There have been no other transactions involving equity instruments apart from those described in the tables above relating to options, rights and shareholdings.

Changes In Directors And KMP Subsequent To Year-End

On 27 July 2023 Adrian Rowley resigned as a director of the Company. On 7 August 2023 Scott Lai was appointed as a director of the Company.

Employment Details Of Members Of Key Management Personnel

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

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

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

DIRECTORS' REPORT, CONTINUED.

Remuneration Expense Details For The Year Ended 30 June 2023

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the Group. Such amounts have been calculated in accordance with Australian Accounting Standards.

Key Management Personnel (KMP)	Short Term Benefit		Post Employment	Long-term Benefit	Termination Benefits	Equity-settled Share-based Payments	Total
	Salary / Director's Fees	Annual Leave	Super Contributions	LSL	Termination Benefits	Performance Rights	
	$	$	$	$	$	$	$
M Bryant - 2023	75,000	-	7,875	-	-	-	82,875
M Bryant - 2022	75,000	-	7,500	-	-	9,000	91,500
A Rowley - 2023[1]	63,450	-	3,150	-	-	-	66,600
A Rowley - 2022	60,000	-	5,700	-	-	9,000	74,700
J Dong - 2023[2]	202,497	-	6,300	-	-	2,500	211,297
J Dong - 2022	60,000	-	6,000	-	-	9,000	75,000
B Kavanagh - 2023[3]	78,000	-	8,190	-	-	2,500	88,690
B Kavanagh - 2022	-	-	-	-	-	-	-
P Skene - 2023	382,404	16,197	25,000	9,211	-	-	432,812
P Skene - 2022	383,744	14,061	25,000	6,699		9,000	438,504
Total - 2023	**801,351**	**16,197**	**50,515**	**9,211**	**-**	**5,000**	**882,274**
Total - 2022	**578,744**	**14,061**	**44,200**	**6,699**	**-**	**36,000**	**679,704**

1. This includes directors' fees and an amount paid in accordance with a contract arrangement with Watershed Funds Management Pty Ltd, an entity associated with Adrian Rowley.
2. This amount includes director's fees and an amount paid in accordance with a contract arrangement with Ozvic Victoria Pty Ltd, an entity associated with Jason Dong.
3. Bernard Kavanagh was appointed as a director on 22 June 2022.

DIRECTORS' REPORT, CONTINUED.

Options And Rights Granted As Share-Based Payments

During the year ended 30 June 2023 are as follows:

		Grant Details			Exercised		Forfeited		
	Balance at 01/07/2022	Issue Date	No.	Value ($)	No.	Value ($)	No.	Value ($)	Balance at 30/06/2023
P Skene	7,500,000		-	-	(500,000)	(9,000)	-	-	7,000,000
M Bryant[1]	500,000		-	-	-	-	(500,000)	(9,000)	-
A Rowley	500,000		-	-	(500,000)	(9,000)	-	-	-
J Dong	500,000	24/11/2022	1,000,000	29,000	(500,000)	(9,000)	(1,000,000)	(29,000)	-
B Kavanagh	-	24/11/2022	1,000,000	29,000	-	-	(1,000,000)	(29,000)	-
Total	**9,000,000**		**2,000,000**	**58,000**	**(1,500,000)**	**(27,000)**	**(2,500,000)**	**(67,000)**	**7,000,000**

1. 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 is entitled and these have been cancelled.

		Vested	Unvested
	Balance at 30/06/2023	No.	No.
P Skene[1]	7,000,000	7,000,000	-
	7,000,000	**7,000,000**	**-**

[1]Loan Securities issued under the Company's Long Term Incentive Plan which have expired and are in the process of being bought back and cancelled.

The fair value of options granted as remuneration as shown in the above table has been determined in accordance with Australian Accounting Standards and was recognised as an expense over the relevant vesting period.

During the year ended 30 June 2022 are as follows:

		Grant Details			Exercised		Forfeited		
	Balance at 01/07/2021	Issue Date	No.	Value ($)	No.	Value ($)	No.	Value ($)	Balance at 30/06/2022
P Skene	8,000,000	20/01/2022	3,000,000	156,500	(1,000,000)	(87,999)	(2,500,000)	(147,500)	7,500,000
M Bryant	-	20/01/2022	1,000,000	38,500	-	-	(500,000)	(29,500)	500,000
A Rowley	-	20/01/2022	1,000,000	38,500	-	-	(500,000)	(29,500)	500,000
J Dong	-	20/01/2022	1,000,000	38,500	-	-	(500,000)	(29,500)	500,000
Total	**8,000,000**		**6,000,000**	**272,000**	**(1,000,000)**	**(87,999)**	**(4,000,000)**	**(236,000)**	**9,000,000**

		Vested	Unvested
	Balance at 30/06/2022	No.	No.
P Skene	7,500,000	7,500,000	-
M Bryant	500,000	500,000	-
A Rowley	500,000	500,000	-
J Dong	500,000	500,000	-

DIRECTORS' REPORT, CONTINUED.

Other Transactions With KMP And/Or Their Related Parties

As set out in Note 25(b) of the financial statements, the Group had the following transactions with KMP:

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

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2023, Watershed Funds Management Pty Ltd was paid $33,450 (2022: $65,700) for the provision of services by Adrian Rowley as director. There was no (2022: $6,023) amounts due at 30 June 2023.

(ii) OzVic Pty Ltd - director related entity

OZVIC Group Pty Ltd is a related entity of Jason Dong. During the year ended 30 June 2023, OZVIC Group Pty Ltd was paid $142,497 (2022: $nil) for the provision of consultancy services by Jason Dong and there was no (2022: $nil) outstanding amounts due at 30 June 2023.

There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above relating to equity and compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favorable than those reasonably expected under arm's length dealings with unrelated persons.

First Strike - 2022 AGM

At the 2022 AGM, 50.29% of the votes cast by shareholders were against the adoption of the Remuneration Report in the annual report for the financial year ending 30 June 2022 (2022 Remuneration Report), which meant the Company incurred a first strike.

The first strike against the adoption of the 2022 Remuneration Report was a serious message for the Board from shareholders. The Board has taken the first strike seriously and taken the following measures to deliver greater transparency to shareholders in relation to Board and Executive remuneration and to ensure there is greater alignment between executive and shareholder experience whilst also honoring its contractual obligations to its personnel:

(a) the Group will not seek approval for the issue of any variable performance-based incentives for the Directors (e.g. performance rights) in relation to financial year 2024;

(b) the CEO and other Executives only received the fixed component of their remuneration for financial year 2023 and, neither the CEO or other Executives received variable performance-based remuneration in relation to financial year 2023;

(c) any variable performance-based remuneration component for the CEO and other Executives in relation to financial year 2024 will be tied to the financial performance of the Group.

At the 2023 annual general meeting of the Company, shareholders will be asked to vote on the adoption of the remuneration report for financial year 2023 contained in this annual report (2023 Remuneration Report). If 25% or more of the shareholders vote against the 2023 Remuneration Report then the Company will incur a second strike and shareholders will be asked to vote on whether an extraordinary general meeting of the Company, referred to as a 'Spill Meeting' is to be convened.

If the Spill Meeting resolution is passed as an ordinary resolution, that is 50% of the votes are cast 'for' the resolution, a Spill Meeting will need to be convened within 90 days of the 2023 annual general meeting. If the Spill Meeting is to be held, all the non-executive Directors will cease to hold office immediately before the end of the Spill Meeting unless they are re-elected at the Spill Meeting.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Martin Bryant
Chairman

31 August 2023

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

The principal governance related policies and practices are as follows:

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

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

AUDITOR'S INDEPENDENCE DECLARATION

Nexia Australia

Nexia Brisbane Audit Pty Ltd
Level 28, 10 Eagle St
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GPO Box 1189
Brisbane QLD 4001
E: email@nexiabrisbane.com.au
P: +61 7 3229 2022

nexia.com.au

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

To the Directors of Australian Dairy Nutritionals Limited

As the lead auditor for the audit of Australian Dairy Nutritionals Group I declare that, to the best of my knowledge and belief, during the year ended 30 June 2023 there have been no contraventions of:

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

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

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

Nexia Brisbane Audit P/L

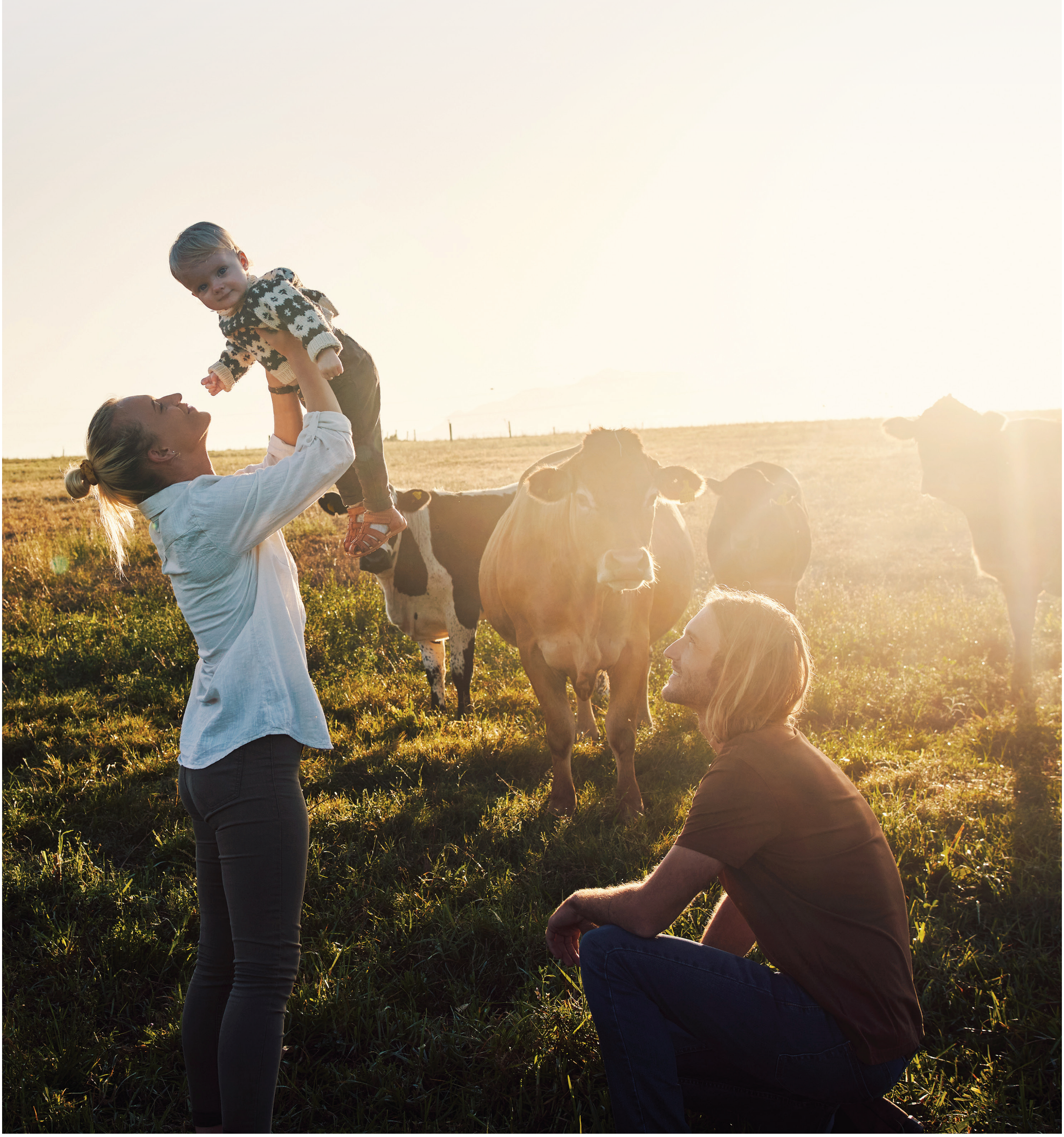
Nexia Brisbane Audit Pty Ltd

Gavin Ruddell
Director

Date: 31 August 2023

Advisory. Tax. Audit.

FINANCIAL STATEMENTS **2023**



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $	2022 $
Continuing Operations			
Revenue	3(a)	5,855,677	5,856,390
Other income	3(b)	-	2,897,553
Administration and non-dairy related costs	3(c)(v)	(916,179)	(652,709)
Employment expenses	3(c)(iv)	(3,352,074)	(2,722,795)
Finance costs	3(c)(i)	(56,748)	(113,844)
Dairy farm related costs	3(c)(ii)	(3,659,058)	(4,080,492)
Infant formula product related costs	3(c)(iii)	(3,176,790)	(472,143)
Depreciation and amortisation		(752,858)	(389,042)
Deemed cost of livestock sold	11	(641,606)	(2,111,186)
Loss from changes in fair value of livestock	11	(238,913)	-
Loss before income tax		**(6,938,549)**	**(1,788,268)**
Income tax expense	5	-	-
Loss from continuing operations		**(6,938,549)**	**(1,788,268)**
Discontinued operations			
Loss from discontinued operations after tax	4	(2,305,637)	(2,360,253)
Loss for the year		**(9,244,186)**	**(4,148,521)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss			
Fair value movement on land and buildings at fair value through other comprehensive income		1,058,922	7,160,545
Other comprehensive income / (loss) for the year		**1,058,922**	**7,160,545**
Total comprehensive income / (loss) for the year		**(8,185,264)**	**3,012,024**
Profit/(loss) attributable to:			
Company shareholders		(9,157,667)	(5,389,438)
Trust unitholders		(21,730)	1,241,756
Non-controlling interest		(64,789)	(839)
		(9,244,186)	**(4,148,521)**
Total comprehensive income/(loss) attributable to:			
Company shareholders		(8,098,745)	(5,389,438)
Trust unitholders		(21,730)	8,402,301
Non-controlling interest		(64,789)	(839)
		(8,185,264)	**3,012,024**
Earnings per share from continuing and discontinued operations:			
Basic earning per share (cents)	30	(1.65)	(0.81)
Diluted earnings per share (cents)	30	(1.65)	(0.81)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Note	2023 $	2022 $
Assets			
Cash and cash equivalents	6	2,007,429	2,431,696
Trade and other receivables	7	660,390	974,232
Inventories	8	1,732,674	1,398,681
Non-current assets held for sale	9	-	6,425,000
Other current assets	10	276,267	836,365
Total Current Assets		**4,676,760**	**12,065,974**
Non-Current Assets			
Biological assets	11	3,535,686	4,416,205
Right of use assets	12	1,009,996	569,654
Intangible assets	13	635,732	547,481
Property, plant & equipment	14	26,381,586	27,003,288
Total Non-Current Assets		**31,563,000**	**32,536,628**
Total Assets		**36,239,760**	**44,602,602**
Liabilities			
Current Liabilities			
Trade and other payables	15	945,138	2,837,666
Lease liabilities	12	555,605	242,634
Provisions	16	699,559	630,342
Borrowings	17	-	502,770
Total Current Liabilities		**2,200,302**	**4,213,412**
Non-Current Liabilities			
Lease liabilities	12	484,920	345,504
Provisions	16	31,184	95,199
Total Non-Current Liabilities		**516,104**	**440,703**
Total Liabilities		**2,716,406**	**4,654,115**
Net Assets		**33,523,354**	**39,948,487**
Equity			
Issued capital	18	76,091,020	43,563,897
Reserves	19	6,176,512	8,026,909
Non-controlling interests		-	
Accumulated losses		(48,678,550)	(35,541,736)
Equity attributable to shareholders		**33,588,982**	**16,049,070**
Non-controlling interests			
Issued units	18	-	30,744,991
Accumulated losses		(65,628)	(6,845,574)
Equity attributed to non-controlling interests		**(65,628)**	**23,899,417**
Total Equity		**33,523,354**	**39,948,487**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $	2022 $
Cash Flows from Operating Activities			
Receipts from customers		8,836,952	15,242,346
Payments to suppliers and employees		(15,814,031)	(18,911,399)
Interest received		4,046	6,520
Finance costs		(78,153)	(132,478)
Net operating cash flows		**(7,051,186)**	**(3,795,011)**
Cash Flows from Investing Activities			
Payment for property, plant & equipment	14	(825,881)	(2,576,084)
Proceeds from sale of property, plant & equipment		7,146,669	5,886,339
Deposit on sale of property, plant and equipment		-	321,250
Payment for non-current assets held for sale		(30,900)	-
Payment for biological assets	11	-	(389,640)
Payment for intangible assets	13	(110,011)	(142,072)
Cash on disposal of VFD		(2,937)	-
Net investing cash flows		**6,176,940**	**3,099,793**
Cash Flows from Financing Activities			
Net proceeds from issue of shares	18	1,434,032	2,733,999
Repayment of CBA facility		-	(5,980,506)
Proceeds from borrowings - unsecured		630,555	652,838
Repayment of borrowings - unsecured		(630,555)	(652,838)
Repayment of related party loan	17	(500,000)	500,000
Repayment of hire purchase loans		-	(179,394)
Repayment of lease principal	12(c)	(484,053)	(139,304)
Net financing cash flows		**449,979**	**(3,065,205)**
Net increase / (decrease) in cash held		**(424,267)**	**(3,760,423)**
Cash at the beginning of the period		2,431,696	6,192,119
Cash at the end of the financial period		**2,007,429**	**2,431,696**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

	Note	Issued Capital Ordinary	Asset Revaluation Reserve	Option Reserve	Non-controlling Interests	Accumulated Losses	Total
		$	$	$	$	$	$
Balance at 1 July 2022		**43,563,897**	**7,160,545**	**866,364**	**23,899,417**	**(35,541,736)**	**39,948,487**
Comprehensive income for the year							
Loss attributable to company shareholders for the period		-	-	-	(21,730)	(9,157,667)	(9,179,397)
Non-controlling interests		-	-	-	(64,789)	-	(64,789)
Other comprehensive income for the period		-	1,058,922	-	-	-	1,058,922
Total comprehensive loss for the year		**-**	**1,058,922**	**-**	**(86,519)**	**(9,157,667)**	**(8,185,264)**
Transactions with equity holders in their capacity as equity holders and other transfers:							
Contribution of equity, net of transaction costs	18(vi),(vii)	1,434,032	-	-	-	-	1,434,032
Director performance rights	25(b)(i)	-	-	5,000	-	-	5,000
Share-based payments - shares	18(i),(v)	231,100	-	-	-	-	231,100
Share-based payment - supplier	18(iv)	90,000	-	-	-	-	90,000
Transfer to retained earnings		-	(2,117,570)	(769,749)	-	2,887,319	-
Transfer from NCI on de-stapling	18(iii)	30,744,991		-	(23,878,525)	(6,866,466)	-
Shares issued on exercise of rights		27,000	-	(27,000)	-	-	-
Total transactions with owners and other transfers		**32,527,123**	**(2,117,570)**	**(791,749)**	**(23,878,525)**	**(3,979,147)**	**1,760,132**
Balance at 30 June 2023		**76,091,020**	**6,101,897**	**74,615**	**(65,628)**	**(48,678,550)**	**33,523,354**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2022

	Note	Issued Capital Ordinary	Asset Revaluation Reserve	Option Reserve	Non-controlling Interests	Accumulated Losses	Total
		$	$	$	$	$	$
Balance at 1 July 2021		**40,562,399**	**-**	**918,363**	**22,658,500**	**(30,152,297)**	**39,949,326**
Comprehensive income							
Profit / (loss) attributable to company shareholders / trust unitholders for the period		-	-	-	1,241,756	(5,389,438)	(4,147,682)
Non-controlling interests		-	-	-	(839)	-	(839)
Other comprehensive income for the period		-	7,160,545	-	-	-	7,160,545
Total comprehensive income / (loss) for the year		**-**	**7,160,545**	**-**	**1,240,917**	**(5,389,438)**	**3,012,024**
Transactions with equity holders in their capacity as equity holders and other transfers:							
Contribution of equity, net of transaction costs	18(xi)	2,733,999	-	-	-	-	2,733,999
Share-based payments - securities	18(viii)	92,500	-	-	-	-	92,500
Share-based payments - performance rights		-	-	36,000	-	-	36,000
Shares issued on exercise of rights	18(ix)	87,999	-	(87,999)	-	-	-
Share-based payment - supplier	18(x)	87,000	-	-	-	-	87,000
Total transactions with equity holders		**3,001,498**	**-**	**(51,999)**	**-**	**-**	**2,949,499**
Balance at 30 June 2022		**43,563,897**	**7,160,545**	**866,364**	**23,899,417**	**(35,541,736)**	**39,948,487**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 ("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.

On 5 December 2022, the shares in the Company were destapled from the units in the Trust. The consolidated financial statements for the year ended 30 June 2023 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 financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

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

Going concern

The financial statements have been prepared using the going concern basis of preparation. During the year the Group incurred a loss of $9.24 million (2022: $4.15 million loss), has total accumulated losses of $48.74 million and had a net cash outflow from operations of $7.05 million (2022: $3.80 million outflow). The Groups cash and cash equivalent balance as at 30 June 2023 was $2.01 million. The Board is satisfied the going concern basis of preparation remains appropriate, reaching such a conclusion after having regard to the circumstances which they consider reasonably likely to affect the Group during the period of at least one year from the date of this report.

The Board has been very closely monitoring cash flows throughout the year as the Group has incurred costs in producing inventory and invested in sales and marketing activity to promote both infant formula brands however this has not yet translated to material infant formula sales.

To support cash flows the Group has reduced non-core operational costs through the closure and sale of Camperdown Dairy's fresh processing operations and the consumer direct home delivery business, Victorian Farmers Direct. The unstapling of the shares in ADNL from the units in the ADFT and winding up the ADFT will also deliver significant compliance and insurance cost savings in FY24.

While infant formula product sales build and the Group works to gain access to international markets such as Vietnam and Canada, the Board is confident in the Groups ability to continue as a going concern for the 12 month period assessed above due to the Group's ability to produce the requisite working capital from various initiatives including but not limited to:

- the Group is seeking to raise short-term borrowings in order to fund ongoing operational needs until such time as sales of its infant formula build sufficient momentum to return positive cash flows from operations to the Group;
- the Group can further curtail operating costs to better align with the output of the manufacture and sale of infant formula;
- the Group presently has at its disposal surplus assets that can be readily sold without impacting core operations, realising significant cash and cash equivalents; and
- the Group will seek approval from shareholders at the 2023 annual general meeting to refresh its 15% placement capacity and additional 10% placement capacity under ASX listing Rule 7.1. The Board is confident that it will obtain approval for at least one of the available placement facilities allowing it to raise working capital through equity placements to new or existing shareholders.

Should the Group be unsuccessful in securing additional funds or monetising assets, there exists a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. The Board are satisfied at the date of signing the financial report there are reasonable grounds to believe that the Group will be able to continue to meet its debts as and when they fall due and that it is appropriate for the financial statements to be prepared on a going concern basis.

The financial report does not include any adjustments to the amounts or classifications of recorded assets or liabilities that might be necessary should the Group not continue as a going concern. Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts that differ from those stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(b) Principles of Consolidation

Stapling

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

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

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

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

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

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

Subsidiaries

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

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

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

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in Note 24 to the consolidated financial statements.

Business combinations

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(c) Income tax

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

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

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

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

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

Tax consolidation

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

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

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

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

Tax funding arrangements and tax sharing arrangements

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(c) Income tax (cont'd)

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

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

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

(d) Fair value of assets and liabilities

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

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

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

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

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

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

(e) Inventories

Inventories and consumables held for use in operations are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The method used to determine costs for inventory categories are:

Feedstocks, hay and silage: Purchase price of inventory and other direct costs for farm produced inventory.

Packaging: Purchase price of packaging including transport costs.

Raw materials: Purchase price of raw materials including transport costs.

Finished goods: Purchase price of raw materials, direct labour, other direct production costs and overheads.

(f) Biological Assets

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

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(f) Biological Assets (cont'd)

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

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

(g) Financial instruments

Initial recognition and measurement

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

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

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

Classification and subsequent measurement

Financial liabilities

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

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

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

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

A financial liability cannot be reclassified.

Financial assets

Financial assets are subsequently measured at:

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

Measurement is on the basis of the two primary criteria:

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(g) Financial instruments (cont'd)

Derecognition

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

Derecognition of financial liabilities

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment

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

- financial assets that are measured at amortised cost;

Loss allowance is not recognised for:

- financial assets measured at fair value.

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

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

Simplified approach

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

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

Recognition of expected credit losses in financial statements

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

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(h) Property, Plant and Equipment

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

Property

Freehold land and buildings are carried at their fair value (being the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated impairment losses and accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(l) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Depreciation

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(i) Leases (the Group as lessee)

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

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

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

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options if lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

(j) Employee Benefits

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(k) Provisions

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

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

(l) Impairment of Assets

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

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

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

(m) Intangible Assets other than Goodwill

Recipes, formulations, trademarks and patents

Recipes, formulations, trademarks and patents are recognised at cost of acquisition. They have an indefinite life and are tested annually for impairment and carried at cost less any accumulated impairment losses.

Product development

Product development is recorded at cost, has a finite life and is carried at cost less accumulated amortisation and any impairment losses. Product development has an estimated useful life of between one and three years. It is assessed annually for impairment.

(n) Cash and cash equivalents

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

(o) Trade and other receivables

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

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

(p) Trade and other payables

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

(q) Borrowing costs

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

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

(r) Goods and services tax (GST)

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

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

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

(s) Revenue and Other Income

Revenue recognition policies are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(s) Revenue and Other Income (cont'd)

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

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

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

Dairy cattle sales are recognised when:

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

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

(t) Critical Accounting Estimates and Judgments

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

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

- Carrying value determination of land and buildings, refer Note 14(a);
- Carrying value determination of right of use assets, refer Note 12(a);
- Fair value determination of livestock, refer Note 11;
- Share-based payments, refer Note 27; and
- Income tax and other taxes, refer Note 5;

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

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

(u) Comparative figures

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

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

(v) Non-current Assets Held for Sale and Discontinued Operations

Non-current assets and disposal groups are classified as held for sale and generally measured at the lower of carrying amount and fair value less costs to sell, where the carrying amount will be recovered principally through sale as opposed to continued use. No depreciation or amortisation is charged against assets classified as held for sale.

Classification as "held for sale" occurs when: management has committed to a plan for immediate sale; the sale is expected to occur within one year from the date of classification; and active marketing of the asset has commenced. Such assets are classified as current assets.

A discontinued operation is a component of an entity, being a cash-generating unit (or a group of cash-generating units), that either has been disposed of, or is classified as held for sale, and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with the view to resale.

Impairment losses are recognised for any initial or subsequent write-down of an asset (or disposal group) classified as held for sale to fair value less costs to sell. Any reversal of impairment recognised on classification as held for sale or prior to such classification is recognised as a gain in profit or loss in the period in which it occurs.

(w) Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a joint venture and accounted for using the equity method. Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

(x) New and Amended Accounting Standards and Interpretations Adopted by the Group

The Australian Accounting Standards Board (AASB) has issued a number of standards and amendments to standards that are mandatory for the first time in the reporting period commenced 1 July 2022. The Group has assessed and determined that there are no new or amended standards applicable for the first time for the financial report for the year ended 30 June 2023, that materially affect the Group's accounting policies or any of the amounts recognised in the financial statements.

(y) New and Amended Accounting Standards and Interpretations in issue but not yet effective

The AASB has issued a number of new or amended accounting standards and interpretations that are not mandatory for the first time in the reporting period ended 30 June 2023. The Group has assessed these standards and interpretations and determined that there are no standards or amendments to standards that are not yet effective that are expected to have a material impact on the Group in the future reporting period.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 2: PARENT ENTITY

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

	2023	2022
	$	$
Statement of Financial Position		
Assets		
Current Assets	18,145,754	17,842,525
Non-current Assets	12,695,232	12,751,769
Total Assets	**30,840,986**	**30,594,294**
Liabilities		
Current Liabilities	757,466	7,226,740
Non-current Liabilities	64,614	125,816
Total Liabilities	**822,080**	**7,352,556**
Equity		
Issued capital	76,091,020	43,563,896
Reserves	74,615	857,364
Retained earnings	(46,146,729)	(21,179,522)
Total Equity	**30,018,906**	**23,241,738**
Statement of Comprehensive Income		
Total loss	(25,728,692)	(2,525,458)
Total comprehensive loss	(25,728,692)	(2,525,458)

Contingent liabilities and guarantees

The Company does not have any contingent liabilities or guarantees for the year ended 30 June 2023.

Contractual commitments

At 30 June 2023, the parent company had not entered into any contractual commitments.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 3: REVENUE AND EXPENSES

	Note	2023 $	2022 $
(a) Revenue			
Continued operations			
Revenue from contracts with customers	(i)	5,804,396	5,795,182
Other sources of revenue	(ii)	51,281	61,208
		5,855,677	**5,856,390**
Discontinued operations			
Revenue from contracts with customers	(i)	2,131,077	9,057,177
Other sources of revenue	(ii)	12,556	149,378
		2,143,633	**9,206,555**
		7,999,310	**15,062,945**

(i) Revenue disaggregation

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

	2023 $	2022 $
Service lines		
- Nutritional powders	407,300	187,099
- Dairy Farms	5,397,096	5,608,083
- Dairy Processing	664,743	6,807,707
- Consumer Direct	1,466,334	2,249,470
	7,935,473	**14,852,359**
Timing of revenue recognition		
Services transferred to customers:		
- at a point in time	**7,935,473**	**14,852,359**
(ii) Other sources of revenue		
Interest - unrelated	4,046	6,520
Farm costs recoveries	31,200	30,071
Fuel rebate and other revenue	28,591	173,995
	63,837	**210,586**
(b) Other income		
Gain from changes to fair value of livestock	-	1,342,672
Gain on disposal of property, plant & equipment	-	1,554,881
	-	**2,897,553**
(c) Expenses		
(i) Finance costs		
CBA facility	-	60,905
Loans - unsecured	25,906	28,052
Loan - related party	2,904	2,770
Right of use assets	27,938	1,167
Finance charges payable under finance leases	-	20,950
	56,748	**113,844**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 3: REVENUE AND EXPENSES, (cont'd)

	2023	2022
(c) Expenses continued.	**$**	**$**
(ii) Dairy related costs		
Feed costs	1,722,050	1,632,353
Repairs, maintenance and vehicle costs	363,926	406,538
Animal health costs	31,495	38,923
Land holding and lease costs	30,969	44,381
Breeding and herd testing expenses	59,032	111,010
Dairy shed expenses	104,183	102,368
Electricity	125,688	167,456
Other dairy farm related costs	1,221,715	1,577,463
	3,659,058	**4,080,492**

	2023	2022
(iii) Infant formula related costs:		
Cost of goods sold	294,461	143,924
Inventory impairment	916,519	-
Manufacturing related costs	909,352	33,377
Advertising and marketing costs	660,970	80,839
Property related costs	28,368	10,799
Other infant formula costs	367,120	203,204
	3,176,790	**472,143**

	2023	2022
(iv) Employee benefits expense		
Employee and director remuneration costs	3,120,974	2,594,295
Equity settled share-based payment costs	231,100	128,500
	3,352,074	**2,722,795**

	2023	2022
(v) Administration and non-dairy related costs		
Administraion costs	504,929	382,793
Equity settled share-based payment - professional costs	90,000	87,000
Professional costs	277,543	157,940
Property costs	43,707	24,976
	916,179	**652,709**

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NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 4: DISCONTINUED OPERATIONS

(a) On 22 August 2022, the Group ceased fresh milk processing at its Camperdown Dairy Manifold Street site and on 29 June 2023 the Group announced the sale of the Camperdown dairy equipment and transfer of the Manifold Street lease to complete the closure of the discontinued fresh dairy processing activites.

Cash consideration of $1,050,000 has been received and a $1,025,217 loss on disposal of property, plant and equipment has been re-corded in discontinued operations.

(b) With the closure of the Group's fresh milk processing at Camperdown and with the consumer direct business achieving losses, The Group sold Victorian Farmers Direct Pty Ltd On 28 April 2023 for $19,600.

A gain of $12,557 from disposal of subsidiaries has been recorded in discontinued operations.

	2023	2022
(c) Statement of Profit or Loss and Other Comprehensive Income for the period from discontinued operations:	**$**	**$**
Revenue	2,131,076	9,206,555
Other Income	12,557	-
Employment expenses	(477,152)	(1,840,789)
Finance costs	(18,634)	(18,634)
Dairy product related costs	(2,805,531)	(9,101,302)
Depreciation and amortisation expense	(122,736)	(606,083)
Loss on disposal of property, plant and equipment	(1,025,217)	-
Loss before income tax	**(2,305,637)**	**(2,360,253)**
Income tax expense	-	-
Net loss from discontinued operations	**(2,305,637)**	**(2,360,253)**

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

	2023	2022
	$	**$**
Net cash outflow from operating activities	(1,222,900)	(1,622,727)
Net cash outflow from investing activities	1,048,774	288,910
Net cash outflow from from financing activities	(79,395)	(68,473)
Net cash outflow by discontinued operations	**(253,521)**	**(1,402,290)**

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NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 5: INCOME TAX EXPENSE

	2023 $	2022 $
(a) The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Prima facie tax payable / (benefit) on profit / (loss) from ordinary activities before income tax at 25% (2022: 25%):	(2,311,047)	(1,037,130)
Add / (less)		
Tax effect of:		
- trust (profit) / loss not recognised	(1,421,738)	(314,106)
- current period tax losses not recognised	2,104,347	1,536,251
- net amount of expenses not currently deductible	910,500	185,410
- other income not included in assessable income	717,938	(370,425)
Income tax expense / (benefit) attributable to entity	-	-

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

(b) Deferred tax assets not recognised

Deferred tax assets and liabilities not brought to account, the net benefit of which will only be realised if the conditions for deductibility set out in Note 1 occur. The amount of losses ultimately available is also dependent on compliance with conditions of deductibility imposed by law.

	2023 $	2022 $
Temporary differences	1,760,067	253,602
Tax losses	11,785,855	11,103,246
Net unbooked deferred tax assets	**13,545,922**	**11,356,848**

The Group has significant carry forward tax losses and will only be able to utilise these losses subject to it satisfying certain carry forward rules and other taxation legislation such as the Same Business Test and/or the Continuity of Ownership Test. Due to the changes that have occurred within the Group since these losses commenced accumulating, there is uncertainty as to the likelihood of the Group being able to utilise these losses. The Group has previously endeavoured to obtain a private ruling as to the status of its carry forward losses from the Australian Taxation Office (ATO) only to be advised that the ATO will not rule on the applicability of carry forward tax losses until such time as the Group endeavours to utilise those losses.

The 2022 comparative year amounts have been re-stated to agree to tax returns as lodged.

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NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 6: CASH AND CASH EQUIVALENTS

	Note	2023 $	2022 $
Current			
Cash at bank and in hand		2,007,429	2,431,696
Total cash and cash equivalents	28	**2,007,429**	**2,431,696**

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

(a) Reconciliation of Cash

For the purpose of the Consolidated Cash Flow Statement, cash includes cash and cash equivalents comprising the following at 30 June 2023:

	2023 $	2022 $
Cash at bank and in hand	2,007,429	2,431,696
	2,007,429	**2,431,696**

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

	2023 $	2022 $
Net loss after income tax	(9,244,186)	(4,148,521)
Adjustment of non cash items		
Amortisation & depreciation	875,593	995,125
Deemed cost of livestock disposed	641,606	2,111,186
Fair value adjustment of biological assets	238,913	(1,342,672)
Net loss / (gain) on disposal of property, plant and equipment	41,276	(1,554,881)
Loss on disposal of property, plant and equipment - discontinued operations	1,025,217	-
Inventory impairments	916,519	-
Bad debts and impairment provision	7,193	(26,429)
Gain on disposal of subsidiary	(12,557)	-
Finance costs - loan from related party	(2,770)	2,770
Equity settled share-based payments	258,600	215,500
Changes in assets and liabilities, net of the effects of purchase of subsidiaries		
(Increase) / decrease in trade and other receivables	301,979	185,921
(Increase) / decrease in other assets	50,618	(685,345)
(Increase) / decrease in inventories	(639,711)	(359,981)
Increase / (decrease) in trade and other payables	(1,514,678)	751,890
Increase / (decrease) in provisions	5,202	60,426
Net operating cash flows	**(7,051,186)**	**(3,795,011)**

(c) Changes in liabilities arising from finance activities

	1 July 2022 $	Cash flows $	Non-cash Movements $	30 June 2023 $
Loan - related party	502,770	(505,674)	2,904	-
Lease liabilities	588,138	(484,053)	936,440	1,040,525
	1,090,908	**(989,727)**	**939,344**	**1,040,525**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 7: TRADE AND OTHER RECEIVABLES

	Note	2023 $	2022 $
Current			
Trade debtors		621,253	775,211
Other receivables		39,137	199,021
Total current trade and other receivables	28	**660,390**	**974,232**

The Group applies the simplified approach to providing for expected credit loss prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group has not recorded an impairment for expected credit losses in the current or prior year as all trade and other receivables are considered credit worthy with no material balances past due. The effect of any expected credit loss is considered immaterial.

(a) Lifetime Expected Credit Loss Credit Impaired

2023	Current	> 30 days past due	> 60 days past due	>90 days past due	Total
	$	$	$	$	$
Expected loss rate	0%	0%	0%	0%	
Gross carrying amount	621,453	38,718	219	-	**660,390**
Loss allowance provision	-	-	-	-	-

2022	Current	> 30 days past due	> 60 days past due	>90 days past due	Total
	$	$	$	$	$
Expected loss rate	0%	0%	0%	0%	
Gross carrying amount	896,446	63,889	5,143	8,754	**974,232**
Loss allowance provision	-	-	-	-	-

Credit Risk

The Group has a significant concentration of credit risk with one (2022: two) key customer totaling $527,291 (2022: $381,822) or 80% (2022: 39%) of receivables at balance date. There is no impairment on this customer and outstanding amounts, the customer has always paid within terms and are within terms at year end.

The class of assets described as "trade and other receivables" is considered to be the main source of credit risk to the Group.

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

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

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

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(b) Financial Assets Measured at Amortised Cost	Note	2023 $	2022 $
Trade and other receivables			
Total current		660,390	974,232
Total financial asstes measured at amortised cost	28	**660,390**	**974,232**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 8: INVENTORIES

	2023	2022
Current	**$**	**$**
Feedstocks, hay and silage	451,422	199,046
Packaging	18,161	202,627
Raw materials, finished goods and chemicals	1,263,091	997,008
Total inventories	**1,732,674**	**1,398,681**

NOTE 9: NON-CURRENT ASSETS HELD FOR SALE

On 9 June 2022 the Group announced to the ASX that it had entered into an unconditional contract of sale and leaseback for the Brucknell North farm located at 417 Moreys Road, Victoria for $6.425M. The sale was completed 15 July 2022.

In accordance with AASB 5: Non-current Assets Held for Sale, the Group reclassified the assets of the Brucknell North farm in the proposed sale as held for sale.

Following is a detailed breakdown of the assets held for sale in the 30 June 2022 comparative:

	2023	2022
Non-current	**$**	**$**
Property, plant and equipment	–	6,425,000
	-	**6,425,000**

NOTE 10: OTHER ASSETS

	Note	2023 $	2022 $
Current			
Prepayments		227,017	778,567
Bonds and deposits	28	49,250	57,798
Total other assets		**276,267**	**836,365**

NOTE 11: BIOLOGICAL ASSETS

	Note	2023 $	2022 $
Non-current			
Dairy livestock	(i)	3,535,686	4,416,205
Total biological assets		**3,535,686**	**4,416,205**
Opening carrying amount		4,416,205	4,795,079
Purchases of Livestock		-	389,640
Deemed cost of livestock disposed		(641,606)	(2,111,186)
Gain / (loss) from changes to fair value		(238,913)	1,342,672
Closing carrying amount		**3,535,686**	**4,416,205**

Movement during the year (herd numbers):

	2023 No.	2022 No.
Opening balance	2,227	2,900
Purchases	-	164
Natural increase and attrition	860	725
Sales	(782)	(1,562)
Closing balance	**2,305**	**2,227**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 11: BIOLOGICAL ASSETS, (cont'd)

(i) Biological assets represent the dairy livestock owned by the Group. At 30 June 2023, the livestock has been valued at fair value, by independent stock agents, based on the prices in the open cattle market in the locality of the dairy operations. A fair value loss of $238,913 (2022: $1,342,672) has been recognised in profit and loss at 30 June 2023, and represents price movements, natural increase and the movement in ages of young stock.

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

During the year ended 30 June 2023, the Group produced 6.2 million litres (2022: 6.8 million litres) of raw milk. The average number of cows milked during the year was 1,051 (2022: 1,154).

NOTE 12: RIGHT OF USE ASSETS

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

	2023	2022
	$	$
Right of use assets		
Leased land and buildings	1,483,968	1,153,344
Accumulated depreciation	(473,972)	(583,690)
Total right of use assets	**1,009,996**	**569,654**

Movement in carrying amounts:

		2023	2022
	Note	$	$
Opening balance	(i)	569,654	307,344
Additions	(ii)	1,081,100	402,869
Disposals	(iii)	(168,858)	-
Depreciation expense		(471,900)	(140,559)
Net carrying amount		**1,009,996**	**569,654**

(i) The Group has the following carried forward land and building leases recognised under AASB16.

- a 3-year lease on 368 acres of land on Cooramook Road, Grassmere, Victoria, with an expiry date of 24 December 2024.
- a 3-year lease on a warehouse at 3/216 Blackshaws Road, Altona North, Victoria, with an expiry date of 31 May 2025.

(ii) The Group entered into the following leases recognised under AASB 16 during the period.

- a 3-year lease on 410 acres of land at 463 Moreys Road, Brucknell, Victoria with an expiry date of 14 July 2025.

  The land lease is an initial 3 years with a 1-year option, which provides the Group opportunities to manage the lease in order to align with business strategies. The option is only exercisable by the Group; however, management has no reasonable certainty at this point in time that the option will be exercised and as such the option is not included in the calculation of the lease liability.

- a 3-year lease on 229 acres of land at 463 Moreys Road, Brucknell, Victoria with an expiry date of 14 July 2025.

  The land lease is an initial 3 years with a 1-year option, which provides the Group opportunities to manage the lease in order to align with business strategies. The option is only exercisable by the Group; however, management has no reasonable certainty at this point in time that the option will be exercised and as such the option is not included in the calculation of the lease liability.

- a 3-year and 3 months lease on 651 acres of land at Claidheamh, Darlington, Victoria with an expiry date of 22 March 2026.

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

(iii) The following carried forward lease recognised under AASB 16 was disposed during the period.

- a 5-year and 3-month lease on factory premises at 325 Manifold Street, Camperdown, with an expiry date of 31 March 2025;

  On 29 June 2023, the lease was transferred as part of the sale of the Camperdown dairy fresh processing equipment (refer Note 14(b)).

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 12: RIGHT OF USE ASSETS, (cont'd)

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

	2023	2022
	$	$
Depreciation charge related to right of use assets	414,266	98,987
Interest expense on lease liabilities (included in finance costs)	23,334	40,751

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

	2023	2022
Total cash outflows for leases	484,053	318,698

(d) Lease liabilities

	2023	2022
Current		
Lease liabilities	555,605	242,634
Total current lease liabilities	**555,605**	**242,634**
Non-current		
Lease liabilities	484,920	345,504
Total non-current lease liabilities	**484,920**	**345,504**
Total lease liabilities	**1,040,525**	**588,138**

NOTE 13: INTANGIBLE ASSETS

	Note	2023	2022
		$	$
Recipes, formulations, trademarks and patents			
-at cost		613,972	503,961
		613,972	**503,961**
Product development			
-at cost		43,520	148,855
Less accumulated amortisation		(21,760)	(105,335)
		21,760	**43,520**
Total intangible assets	(a)	**635,732**	**547,481**

(a) The movement in carrying amounts of intangibles comprises:

	2023	2022
Opening balance	547,481	429,173
Additions in year	110,011	142,072
Amortisation	(21,760)	(23,764)
Closing balance	**635,732**	**547,481**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Note	2023 $	2022 $
Land, buildings and improvements			
- at fair value		20,500,000	19,767,915
less accumulated depreciation		-	(408,617)
	(a)	**20,500,000**	**19,359,298**
Plant and equipment			
- at cost		6,901,800	11,532,228
less accumulated depreciation		(1,020,214)	(3,888,238)
	(b)	**5,881,586**	**7,643,990**
Total property, plant and equipment		**26,381,586**	**27,003,288**

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

Property name	Note	Acquisition / commission date	2023	2022
Brucknell No 2	(i)	22 October 2014	7,000,000	6,423,625
Yaringa - Nirranda South	(i)	4 October 2018	8,400,000	7,642,992
Infant Formula Facility	(ii)	1 July 2022	5,100,000	5,019,707
Total			**20,500,000**	**19,359,298**

(i) Registered valuers Preston Rowe Paterson completed an independent valuation of both farms properties for 30 June 2023. The basis of the valuation is '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) is $15,400,000. The combined value of the Group's farm portfolio is up 9% on 30 June 2022 carrying values and a fair value gain of $1,434,305 is reflected in other comprehensive income.

(ii) Registered valuers IPN Valuers - Greater Geelong completed an independent valuation of the Depot & Old Geelong Road land and infant formula building for 30 June 2023. The basis of valuation is a cost approach using the summation of land and improvements, supported by comparable sales evidence and capitalisation of income. The combined fair value was assessed at $5,100,000 and a fair value loss of $149,769 is reflected in other comprehensive income.

(b) On 22 August 2022, the Group ceased fresh milk processing at its Camperdown Dairy Manifold Street site and on 29 June 2023 the Group announced the sale of the Camperdown dairy equipment and transfer of the Manifold Street lease to complete the closure of the discontinued fresh dairy processing activites.

Cash consideration of $1,050,000 has been received and a loss on disposal of property, plant and equipment of $1,025,217 has been recorded in discontinued operations (refer Note 4(c)).

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14: PROPERTY, PLANT AND EQUIPMENT, (cont'd)

(c) Movements in the carrying amounts:

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

	Land, Buildings & Improvements	Plant & Equipment	Total
2023	**$**	**$**	**$**
Balance beginning of the financial year	19,359,298	7,643,990	27,003,288
Additions	134,095	691,786	825,881
Disposals	(118,059)	(2,177,612)	(2,295,671)
Fair value adjustments	1,284,536	-	1,284,536
Depreciation expense	(159,870)	(276,578)	(436,448)
Balance at end of financial year	**20,500,000**	**5,881,586**	**26,381,586**

	Land, Buildings & Improvements	Plant & Equipment	Total
2022	**$**	**$**	**$**
Balance beginning of the financial year	21,142,568	7,085,247	28,227,815
Additions	924,425	1,651,659	2,576,084
Disposals	(3,741,848)	(612,449)	(4,354,297)
Transfer between classes	410,695	(410,695)	-
Fair value adjustments	7,160,545	-	7,160,545
Transfer to non-current assets held for sale	(6,425,000)	-	(6,425,000)
Transfer from right of use assets	-	648,943	648,943
Depreciation expense	(112,087)	(718,715)	(830,802)
Balance at end of financial year	**19,359,298**	**7,643,990**	**27,003,288**

NOTE 15: TRADE AND OTHER PAYABLES

	Note	2023 $	2022 $
Current			
Trade creditors		485,711	1,757,126
Sundry creditors and accrued expenses		459,427	1,080,540
Total trade and other payables		**945,138**	**2,837,666**
Financial liabilities at amortised cost classified as trade and other payables			
Total Trade and other payables		945,138	2,837,666
Financial liabilities as trade and other payables	28	**945,138**	**2,837,666**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 16: PROVISIONS

	2023	2022
	$	$
Current		
Employee benefits	699,559	630,342
Total current provisions	**699,559**	**630,342**
Non-Current		
Employee benefits	31,184	95,199
Total non-current provisions	**31,184**	**95,199**
	730,743	**725,541**
Opening Balance	725,541	665,115
Additional provisions	276,434	250,955
Amounts used	(271,232)	(190,529)
Closing Balance	**730,743**	**725,541**

Provision for employee benefits

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

NOTE 17: BORROWINGS

		2023	2022
	Note	$	$
Current			
Loan - related party	(i)	-	502,770
Total current borrowing		**-**	**502,770**

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 18: ISSUED CAPITAL

	2023	2022
	$	$
Contributed equity of the Group	76,091,020	74,308,888

(a) Movement in ordinary shares at 30 June 2023:

Details	Date	Number of Stapled Securities	Shareholders	Unitholders	Stapled Entity	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 de-stapling (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
Placement shares (vi)	26 Apr 2023	33,333,333	1,000,000	-	1,000,000	0.030
Share purchase plan (vii)	29 Jun 2023	22,957,300	505,061	-	505,061	0.022
Transaction costs		-	(71,029)	-	(71,029)	
30 June 2023		**611,472,858**	**76,091,020**	**-**	**76,091,020**	

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, 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 securities 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 securities issued, determined by reference to the market price, was $5,000.

(vi) On 26 April 2023, there were 33,333,333 shares issued to Mr Xin Yang in a private placement. The fair value of shares issued, determined by reference to the placement price of $0.03, was $1,000,000, with transaction costs of $50,000. Subsequent to the year end on 11 July 2023, Mr Yang was issued a further 12,121,212 top up shares to ensure consistency with the price of the completed share purchase plan on 29 June 2023.

(vii) On 29 June 2023, there were 22,957,300 shares issued on completion of a Share Purchase Plan (SPP). The fair value of shares issued, determined by reference to the SPP price of $0.022 per share, was $505,061.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 18: ISSUED CAPITAL, (cont'd)

(b) Movement in stapled securities at 30 June 2022:

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

(i) 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.

(ii) 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. The fair value of securities issued, determined by refernce to market price, was $87,999.

(iii) 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.

(iv) 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.

NOTE 19: RESERVES

Nature and purpose of reserves

Option reserve

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

Asset revaluation reserve

The asset revaluation reserve records revaluation of land and buildings.

NOTE 20: COMMITMENTS

There are no capital expenditure commitments contracted for the year ended 30 June 2023.

In the 2022 comparative, the Group engaged IJ Funds Management to provide consultancy services in relation to the expansion of the Group's business in Asia, as well as marketing and networking activities in the region. The consultancy services fee of $45,833 per month commenced 1 July 2022 and ended 31 December 2022.

NOTE 21: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities for the year ended 30 June 2023 (2022: nil).

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 22: KEY MANEGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2023.

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

	2023	2022
	$	$
Short term	801,351	592,805
Post-employment	50,515	44,200
Other Long-term	25,408	6,699
Share-based paymens	5,000	36,000
	882,274	**679,704**

Short-term employee benefits

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

Post-employment benefits

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

Other long-term benefits

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

Share-based payments

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

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

NOTE 23: AUDITORS' REMUNERATION

Remuneration of the auditor for:

	2023	2022
	$	$
Audit and review of the financial statements	80,342	74,946

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 24: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2023 Percentage Owned	2022 Percentage Owned
Parent Entity:			%	%
Australian Dairy Nutritionals Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd		ordinary	100	100
Dairy Fund Management Limited		ordinary	100	100
Camperdown Dairy Company Pty Ltd		ordinary	100	100
Victorian Farmers Direct Pty Ltd		ordinary	-	100
Organic Nutritionals Pty Ltd		ordinary	100	100
Jonesy's Distribution Pty Ltd	(b)	ordinary	-	100
Camperdown Brand Manufacturing Pty Ltd	(b)	ordinary	-	100
Regen Properties Pty Ltd		ordinary	100	100
Regen Farms Pty Ltd		ordinary	100	100
Regen Operations Pty Ltd		ordinary	100	100
Camperdown Dairy Park Trust		units	100	100
Other Controlled Entities				
Ocean Dairy Pty Ltd		ordinary	50	50
Australian Dairy Farms Trust	(c)(d)	units	-	-

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

(a) Ultimate Controlling Entity

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

(b) Deregistered entities

The following dormant companies were deregistered during the period:

Jonesy's Distribution Pty Ltd - 13 November 2022

Camperdown Brand Manufacturing Pty Ltd - 13 November 2022

(c) Transactions with Non-controlling interests in ADFT

As set out in Note 1, ADFT was a controlled entity. On 5 December 2022, the shares in the Company were destapled from the units in the Trust. The consolidated financial statements for the year ended 30 June 2023 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.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 24: CONTROLLED ENTITIES, (cont'd)

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

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

	2023 $	2022 $
Summarised Financial Position		
Current assets	-	19,155,734
Non-current assets	-	7,642,991
Current liabilities	-	(9,229)
Non-current liabilities	-	-
Net Assets	**-**	**26,789,496**
Carrying amount of non-controlling interests	-	26,789,496
Summarised Financial Performance		
Other income	6,866,466	1,600,483
Profit after tax	6,844,735	1,241,755
Other comprehensive income after tax	-	2,889,241
Total comprehensive income	**6,844,735**	**4,130,996**
Profit attributable to non-controlling interests	**6,844,735**	**4,130,996**
Summarised Cash Flow Information		
Net cash from / (used in) operating activities	-	(207,096)
Net cash from / (used in) investing activities	-	5,463,178
Net cash from / (used in) financing activities	-	(5,332,923)
Net cash increase / (decrease) in cash and cash equivalents	**-**	**(76,841)**

Following the destapling of ADFT and the Company, the Board elected to forgive all intercompany loans with ADFT. This has resulted in a revenue from forgiveness of the loans of $6,866,466 (2022: $nil).

NOTE 25: RELATED PARTY TRANSACTIONS

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

(i) Entities exercising control over the Group:

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

(ii) Key management personnel:

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

For details of disclosures relating to key management personnel, refer to Note 22.

(iii) Other related parties:

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

(b) Transactions with related parties:

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 25: RELATED PARTY TRANSACTIONS, (cont'd)

The following transactions occurred with related parties:

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

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2023, Watershed Funds Management Pty Ltd was paid $33,450 (2022: $65,700) for the provision of services by Adrian Rowley as director. There was no (2022: $6,023) amounts due at 30 June 2023.

OZVIC Group Pty Ltd is a related entity of Jason Dong. During the year ended 30 June 2023,OZVIC Group Pty Ltd was paid $142,497 (2022: $nil) for the provision of consultancy services by Jason Dong and there was no (2022: $nil) outstanding amounts due at 30 June 2023.

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

(c) Loan from related party:

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 interest rate: RBA official cash rate + 6%. The loan including accrued interest of $5,674 was repaid in full on 29 July 2022.

NOTE 26: SEGMENT REPORTING

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.

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 sale of the Victorian Farmers Direct business in April 2023, both are reported as discontinued operations for the year ended 30 June 2023. The Group has revised its dairy processing segment to more appropriately reflect the current operations of the Group.

For the year ended 30 June 2023, the dairy processing segment has been split as follows:

Dairy Processing (Discontinued Operations) - this segment includes the 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.

Home Delivery (Discontinued Operations) - the comparative segment includes the online platform which delivers fresh milk, dairy, meat and other groceries directly to consumers' doorsteps.

The 30 June 2022 comparatives have been restated to reflect the current year changes.

There has been no change to the dairy farms segment which includes the ownership and operation of dairy farms and dairy livestock for the production and sale of fresh raw milk for conversion to milk and milk products.

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.

Corporate costs and KMP remuneration have not been allocated to segments but are reviewed by the Board and there are no intersegment sales.

Segment assets

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

Segment liabilities

Liabilities are, if possible, allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment, otherwise they are split between segments. Segment liabilities include trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 26: SEGMENT REPORTING, (cont'd)

(i) Segment Performance

30 June 2023	**Nutritional Powders**	**Dairy Farms**	**Total**
	$	**$**	**$**
Revenue			
External sales	413,441	5,438,190	5,851,631
Other income	-	-	-
Interest revenue	-	4,046	4,046
Total segment revenue	**413,441**	**5,442,236**	**5,855,677**
Total group revenue			**5,855,677**
Segment net profit / (loss) before tax	**(3,709,830)**	**(724,160)**	**(4,433,990)**
Reconciliation of segment result to group net profit/loss before tax from continuing operations:			
Amounts not included in segment result but reviewed by the Board:			
- Corporate charges	(626,140)	(1,252,280)	(1,878,420)
- Corporate charges allocated to discontinued operations			(626,139)
Net loss from continuing operations before tax			**(6,938,549)**

(ii) Segment Performance

30 June 2022	**Nutritional Powders**	**Dairy Farms**	**Total**
	$	**$**	**$**
Revenue			
External sales	187,099	5,668,713	5,855,812
Other income	5,455	2,889,416	2,894,871
Interest revenue	-	3,260	3,260
Total segment revenue	**192,554**	**8,561,389**	**8,753,943**
Total Group revenue			**8,753,943**
Segment net profit / (loss) before tax	**(276,592)**	**1,074,922**	**798,330**
Reconciliation of segment result to group net profit/loss before tax from continuing operations:			
Amounts not included in segment result but reviewed by the Board:			
- Corporate charges	(646,650)	(1,293,299)	(1,939,949)
- Corporate charges allocated to discontinued operations			(646,649)
Net loss from continuing operations before tax			**(1,788,268)**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 26: SEGMENT REPORTING, (cont'd)

(iii) Segment Assets

As at 30 June 2023	**Nutritional Powders**	**Dairy Farms**	**Total**
	$	**$**	**$**
Segment assets	13,286,970	22,952,790	36,239,760
Segment assets include:			
Additions to non-current assets	786,292	1,261,599	2,047,891

(iv) Segment Assets

As at 30 June 2022	**Nutritional Powders**	**Dairy Farms**	**Dairy Processing**	**Home Delivery**	**Total**
	$	**$**	**$**	**$**	**$**
Segment assets	11,544,379	28,151,504	4,790,926	115,793	44,602,602
Segment assets include:					
Additions to non-current assets	1,662,650	1,350,267	88,032	6,847	3,107,796

(v) Segment Liabilities

As at 30 June 2023	**Nutritional Powders**	**Dairy Farms**	**Total**
	$	**$**	**$**
Segment liabilities	1,066,963	1,649,443	2,716,406

(vi) Segment Liabilities

As at 30 June 2022	**Nutritional Powders**	**Dairy Farms**	**Dairy Processing**	**Home Delivery**	**Total**
	$	**$**	**$**	**$**	**$**
Segment liabilities	611,524	1,755,576	2,168,254	118,761	4,654,115

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 26: SEGMENT REPORTING, (cont'd)

(iv) Revenue by geographic region

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

	2023	2022
	$	$
Australia	5,855,677	8,753,943
Other foreign countries	-	-
Total revenue	**5,855,677**	**8,753,943**

(v) Assets by geographic region

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

	2023	2023
	$	$
Australia	36,239,760	44,602,602
Other foreign countries	-	-
Total revenue	**36,239,760**	**44,602,602**

NOTE 27: SHARE BASED PAYMENTS

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

During the year ended 30 June 2023 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.

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

During the year ended 30 June 2022 are as follows:

Grant Date	Note	Number
8 September 2021	(i)	1,850,000

(i) On 8 September 2021, there were 1,850,000 stapled securities issued to management personnel of the Group at a price of $0.05 per security. The fair value of securities issued, determined by reference to the market price, was $92,500.

(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:

	2023	2022
Opening balance	2,000,000	1,000,000
Granted (i)	2,000,000	6,000,000
Forfeited (ii)	(2,000,000)	(4,000,000)
Exercised (iii)	(1,500,000)	(1,000,000)
Cancelled (iv)	(500,000)	-
Closing balance	**-**	**2,000,000**

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 27: SHARE BASED PAYMENTS, (cont'd)

(i) Granted performance rights

During the year ended 30 June 2023, the following performance rights were granted:

- On 24 November 2022 the Group issued 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 the Group issued 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 Monte Carlo 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) Forfeited performance rights

Performance rights are forfeited if performance hurdles are not satisfied or after the holder ceases to be employed by the Group, unless the Board determines otherwise.

During the year ended 30 June 2023, 2,000,000 performance rights issued to Directors (TSR and EBITDA hurdles) were forfeited as performance hurdles were not met.

(iii) Exercised performance rights

During the year ended 30 June 2023, 1,500,000 stapled securities were issued to directors on exercise of performance rights (refer Note 18(ii)).

(iv) 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:

	2023	2022
Opening balance	9,500,000	9,500,000
Expired (i)	(6,500,000)	-
Closing balance	**3,000,000**	**9,500,000**

(i) Expired options

During the year ended 30 June 2023, 6,500,000 lead manager and management options expired.

There were no options granted, cancelled or exercised during the year ended 30 June 2023.

(d) Loan securities

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

	2023	2022
Opening balance	9,500,000	9,500,000
Expired (i)	(9,500,000)	-
Closing balance (exerciable)	**-**	**9,500,000**

(i) During the year ended 30 June 2023, 9,500,000 loan securities expired. 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 year ended 30 June 2023.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 27: SHARE BASED PAYMENTS, (cont'd)

(e) Other share-based payments

During the year ended 30 June 2023, there were 1,800,000 stapled securities 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 securities issued, determined by reference to the market price, was $90,000.

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

	Note	2023 $	2022 $
Equity settled share-based payments - employment benefit costs	3(iv)	231,100	128,500
Equity settled share-based payments - professional costs	3(v)	90,000	87,000

NOTE 28: FINANCIAL RISK MANAGEMENT

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

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

	Note	2023 $	2022 $
Financial assets			
Financial assets at amortised cost:			
Cash and cash equivalents	6	2,007,429	2,431,696
Loans and receivables	7	660,390	974,232
Bonds and deposits	9	49,250	57,798
Total financial assets		**2,717,069**	**3,463,726**
Financial Risk Management Policies			
Financial liabilities			
Financial liabilities at amortised cost:			
Lease liabilities	12	1,040,525	588,138
Trade and other payables	15	945,138	2,837,666
Borrowings	17	-	502,770
Total financial liabilities		**1,985,663**	**3,928,574**

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

Treasury Risk Management

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

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 28: FINANCIAL RISK MANAGEMENT, (cont'd)

Financial Risk Exposures and Management

(a) Credit risk

The Group trades only with parties that it believes to be creditworthy. The maximum exposure to credit risk is equivalent to the financial assets' carrying value. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, however the Group will always have exposure to potential bad debts (see also Note 7).

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

(b) Liquidity risk

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

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

The table following presents contractual maturity of the Group's financial instruments. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates taking into consideration management expectations that Group banking facilities will be extended.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 28: FINANCIAL RISK MANAGEMENT, (cont'd)

(b) Liquidity risk, continued.

Financial Liability and Financial Asset Maturity Analysis:

	Within 1 year		1 to 5 years		Over 5 years		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Borrowings	-	(502,770)	-	-	-	-	-	(502,770)
Lease liabilities	(555,605)	(242,634)	(484,920)	(345,504)	-	-	(1,040,525)	(588,138)
Trade & other payables	(945,138)	(2,837,666)	-	-	-	-	(945,138)	(2,837,666)
Total expected outflows	**(1,500,743)**	**(3,583,070)**	**(484,920)**	**(345,504)**	**-**	**-**	**(1,985,663)**	**(3,928,574)**
Financial assets - cash flows realisable								
Cash	2,007,429	2,431,696	-	-	-	-	2,007,429	2,431,696
Trade and other receivables	660,390	974,232	-	-	-	-	660,390	974,232
Bonds and deposits	30,000	-	19,250	57,798	-	-	49,250	57,798
Total anticipated inflows	**2,697,819**	**3,405,928**	**19,250**	**57,798**	**-**	**-**	**2,717,069**	**3,463,726**
Net (outflows) / inflows on financial instruments	**1,197,076**	**(177,142)**	**(465,670)**	**(287,706)**	**-**	**-**	**731,406**	**(464,848)**

(c) Market risk

Interest Rate Risks

The Group at the date of this report has $2,007,429 in variable rate cash balances.

Sensitivity Analysis

The Group has performed sensitivity analysis relating to its exposure to variable interest rate at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

Interest rate sensitivity analysis

At 30 June 2023, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2023	2022
	$	$
Change in profit		
- Increase in interest rate by 1%	20,074	19,289
- Decrease in interest rate by 1%	(20,074)	(19,289)
Change in equity		
- Increase in interest rate by 1%	(20,074)	19,289
- Decrease in interest rate by 1%	20,074	(19,289)

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 28: FINANCIAL RISK MANAGEMENT, (cont'd)

(c) Market risk, continued.

	Footnote	Carrying Amount 2023 $	Carrying Amount 2022 $	Fair Value 2023 $	Fair Value 2022 $
Financial assets at amortised cost:					
Cash and cash equivalents	(i)	2,007,429	2,431,696	2,007,429	2,431,696
Trade and other receivables	(i)	660,390	974,232	660,390	974,232
Bonds and deposits	(i)	49,250	57,798	49,250	57,798
Total financial assets		**2,717,069**	**3,463,726**	**2,717,069**	**3,463,726**
Financial liabilities					
Trade and other payables	(i)	945,138	2,837,666	945,138	2,837,666
Lease liabilities	(ii)	1,040,525	588,138	1,040,525	588,138
Borrowings	(ii)	-	502,770	-	502,770
Total financial liabilities		**1,985,663**	**3,928,574**	**1,985,663**	**3,928,574**

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

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

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

NOTE 29: FAIR VALUE MEASUREMENT

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

- Biological assets
- Land and buildings

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

(a) Fair Value Hierarchy

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

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 29: FAIR VALUE MEASUREMENT, (cont'd)

(a) Fair Value Hierarchy, continued.

The fair values of assets and liabilities that are not traded in an active market are determined using one valuation technique. This valuation technique maximises, to the extent possible, the use of observable market data. All significant inputs required to measure fair value are observable, therefore the asset or liability 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 haracteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with the following valuation approach:

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

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

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

30 June 2023	Note	Level 1	Level 2	Level 3	Level 4	Total
		$	$	$	$	$
Non-financial assets						
Biological Assets	11	-	3,535,686	-	-	3,535,686
Land and buldings	14	-	20,500,000	-	-	20,500,000
Total non-financial assets recognised at fair value on a recurring basis		**-**	**24,035,686**	**-**	**-**	**24,035,686**

30 June 2022

	Note	Level 1	Level 2	Level 3	Level 4	Total
		$	$	$	$	$
Non-financial assets						
Biological Assets	11	-	4,416,205	-	-	4,416,205
Land and buldings	14	-	19,359,298	-	-	19,359,298
Total non-financial assets recognised at fair value on a recurring basis		**-**	**23,775,503**	**-**	**-**	**23,775,503**

(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.
- ncome 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.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 29: FAIR VALUE MEASUREMENT, (cont'd)

(a) Fair Value Hierarchy, continued.

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.

Description	Fair Value at 30 June 2023	Valuation Technique(s)	Input Used
	$		
Non-financial assets			
Biological assets	3,535,686	Market approach using recent observable industry market data for dairy cattle	Breed, weight, condition
Land and buildings	20,500,000	Market approach using recent observable comparable sales evidence	Price per hectare, improvements value, current replacement cost
	24,035,686		

(c) Disclosed Fair Value Measurements

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

- Cash;
- Trade and other receivables;
- Bonds and deposits;
- Trade and other payables;
- Borrowings; and
- Lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED.

FOR THE YEAR ENDED 30 JUNE 2023

NOTE 30: EARNINGS PER SHARE CALCULATIONS

	2023	2022
	cents	cents
From continuing and discontinued operations :	(1.65)	(0.81)
Basic loss per share	(1.65)	(0.81)
Diluted loss per share		
From continuing operations :	(1.24)	(0.35)
Basic loss per share	(1.24)	(0.35)
Diluted loss per share		
From discontinued operations :	(0.41)	(0.46)
Basic loss per share	(0.41)	(0.46)
Diluted loss per share		
	2023	**2022**
	$	**$**
Reconciliation of earnings to profit or loss:	(9,244,186)	(4,148,521)
Loss attributable to shareholders and unitholders		
	Number of Shares	**Number of Shares**
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	559,588,729	511,529,282
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**559,588,729**	**511,529,282**

All options on issue are considered to be dilutive potential ordinary shares, however they are presently anti-dilutive at 30 June 2023 as the average market price of shares during the period is less than the exercise price of all options.

NOTE 31: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2023 (2022: $nil) at the date of this report.

NOTE 32: EVENTS AFTER THE BALANCE DATE

- On 11 July 2023 the Group completed a placement to sophisticated investors to raise $710,000 through the issue of 32,272,727 shares at $0.022 per share.
- The Group issued a further 12,121,212 shares to Mr Xin Yang as the subscription agreement for the placement completed on 27 April 2023 provided for his shareholding to be 'topped up' in the event the Group raised further equity capital within 6 months of completion of the placement at a price less than $0.03 per share. The issue of the additional shares gave him an effective subscription price of $0.022, the same as the share purchase plan and later placement.
- Mr Adrian Rowley resigned from the Board on 27 July 2023 to focus on his own business.
- Mr Scott Lai was appointed to the Board on 8 August 2023. Mr Lai is a director of IJ Funds Management Pty Ltd, one of the Group's substantial shareholders and brings a strong background of establishing and managing start-up businesses. He also has significant experience and networks in capital raising and investment management. Mr Lai will seek re-appointment as a director at the Group's next annual general meeting.

In the opinion of the directors there are no other material matters that have arisen since 30 June 2023 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

DIRECTORS' DECLARATION

For the year ended 30 June 2023

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

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

   (i) give a true and fair view of the Company's and Group's financial position as at 30 June 2023 and of their performance for the year ended on that date; and

   (ii) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2023.

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

Martin Bryant
Chairman

31 August 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

Nexia Australia

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Dairy Nutritionals Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to Note 1(a) in the financial report which indicates that during the year the Group incurred a loss of $9.24 million (2022: $4.15 million loss) has total accumulated losses of $48.74 million and had a net cash outflow from operations of $7.05 million (2022: $3.80 million outflow). As stated in Note 1(a), these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS, CONTINUED.

Nexia Australia

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of carrying value of property, plant and equipment Refer Note 14 of the financial report. At 30 June 2023 key assets of the Group included property, plant and equipment of $26,381,586. During the year the Group continued to record operating losses and cash outflows from operating activities. Accounting standards require an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. The Group has identified impairment indicators which required management to perform an impairment assessment. Impairment testing of property plant and equipment was a key audit matter due to the significance of the value of the recorded assets in the statement of financial position.	Our procedures included, but were not limited to: • We completed site visits at locations of material property, plant and equipment and inspected the general state of the assets to assess whether assets continue to be employed in the business and are in sound working order; • We performed procedures to determine that recorded assets existed and were reported completely and accurately in the financial records of the Group; • We assessed the competence and qualifications of the independent property valuation expert used by the Group; • We assessed the valuation reports obtained by the Group, with reference to the methodology used, prior independent expert valuations, and our knowledge of the Group assets; and • We evaluated the adequacy of the disclosures made in the financial report regarding the assessment of the carrying value of the Groups property, plant and equipment.

Other information

The directors are responsible for the other information. The other information comprises the information in Australian Dairy Nutritionals Limited's annual report, for the year ended 30 June 2023, but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS, CONTINUED.

Nexia Australia

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in pages 20 to 25 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Australian Dairy Nutritionals Limited for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS, CONTINUED.

Nexia Australia

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

Responsibilities

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

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Gavin Ruddell
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 31 August 2023

SHAREHOLDER INFORMATION

The following information was extracted from Australian Dairy Nutritional Group's Register of Shareholders on 7 August 2023:

TWENTY LARGEST SHAREHOLDERS - ORDINARY SECURITIES

		Securities Held	% of Issued Capital
1	XIN YANG	45,454,545	7.03
2	IJ FUNDS MANAGEMENT PTY LTD	42,503,864	6.58
3	MRS QIUMEI DING	30,100,000	4.66
4	WE SAY GO PTY LIMITED	29,849,229	4.62
5	MR JIMMY THOMAS & MS IVY RUTH PONNIAH	22,203,671	3.44
6	CORPORATE SOLUTIONS PTY LTD	15,309,892	2.37
7	ILWELLA PTY LTD	13,301,025	2.06
8	BARADNIL PTY LIMITED	12,500,000	1.93
9	COSTINE PTY LTD	7,696,324	1.19
10	OZSCIENTIFIC PTY LTD	7,350,000	1.14
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,601,402	1.02
12	CITICORP NOMINEES PTY LIMITED	6,254,387	0.97
13	MR JIMMY THOMAS & MS IVY RUTH PONNIAH	6,237,771	0.97
14	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	5,984,373	0.93
15	PJB BRADCO PTY LTD	5,685,000	0.88
16	FIDUCIARY NOMINEES PTY LTD	5,205,540	0.81
17	MR PETER JOHN SKENE & MRS LYNNE NICOLE SKENE	5,033,951	0.78
18	SHAREHOLDERS MUTUAL ALLIANCE PTY LTD	5,000,000	0.77
18	BLAMNCO TRADING PTY LTD	5,000,000	0.77
19	MOWSAN PTY LTD	4,834,937	0.75
20	BNP PARIBAS NOMINEES PTY LTD	4,804,758	0.74
		286,910,669	**44.39**
	Total Securities on issue	**646,366,797**	**100.00**

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Number of Securityholders	Shares	%
100,001 and Over	632	590,240,964	91.32
10,001 to 100,000	1,295	50,206,306	7.77
5,001 to 10,000	493	4,198,061	0.65
1,001 to 5,000	553	1,672,449	0.26
1 to 1,000	212	49,017	0.01
	3,185	**646,366,797**	**100.00**

MARKETABLE PARCELS

On 7 August 2023, using the last traded share price of $0.024 per share, there were 1,716 holdings totalling 13,290,671 shares, which were of less than a marketable parcel ($500).

VOTING RIGHTS

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

SHAREHOLDER INFORMATION, CONTINUED.

SUBSTANTIAL SECURITYHOLDERS

The names of the substantial shareholders listed in the Group's register on 7 August 2023 are:

	Securities Held	% of Voting Power
XIN YANG	45,454,545	7.03
IJ FUNDS MANAGEMENT PTY LTD	42,503,864	6.58

UNLISTED OPTIONS/RIGHTS OVER ORDINARY SECURITIES

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

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
17 February 2021	17 February 2024	$0.09	3,000,000

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

RESTRICTED SECURITIES

There are 9,500,000 restricted loan securities on issue at the date of this report. The loan securities have expired and are in the process of being bought back and cancelled.

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Australian Dairy Nutritionals

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