Beston Global Food Company Limited

Level 9, 420 King William Street
Adelaide SA 5000

Tel: +61 8 8470 6500
Fax: +61 8 8212 8992

ABN 28 603 023 383

bestonglobalfoods.com.au

Thursday 16 January 2020

Dear Valued Shareholder

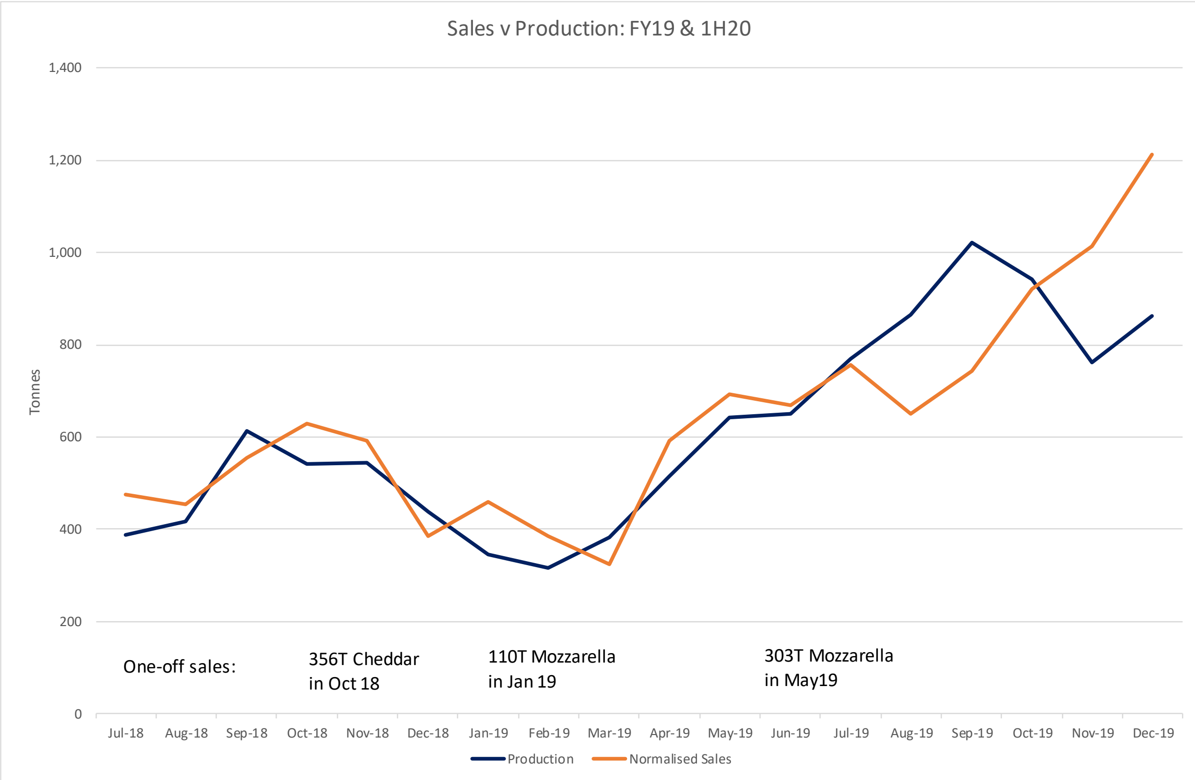
This is the time of year where I would introduce my letter with a few words hoping one and all had a happy Christmas and a safe and prosperous start to the New Year, and I do so. However, I am conscious of the shocking bushfire season and the unusually fierce heatwave occurring across Australia which has impacted on all of us in Australia in one way or another. Many of our employees have been providing assistance to the bushfire appeal effort, reflecting the enormous reservoir of good will and comradery which exists in Australia in times of adversity. Our hearts go out to all those families who have lost their homes, their livestock and their livelihoods.

I am pleased to report that none of our factories, farms or milk supply has been impacted by the bushfires. While we can never rule out such an event of course, given the fickle nature of climate change, our geographic positioning in areas of South Australia with high rainfall, abundant underground water supplies and highly productive soils were part and parcel of the measures taken by BFC at the outset to mitigate against climate change risk.

I would like to take this opportunity to provide a further update on progress in the business in the first half of FY20, following on from some of the information provided at the time of the recent Annual General Meeting (AGM) in November 2019.

Dairy Business

At the AGM, information was presented showing the significant increase in the production and sales of cheese that occurred from 4Q19 as we gained traction in our markets. Those trends have continued and are shown in the graphic below. Strong growth has continued in sales of mozzarella, our highest value product stream, which now accounts for 81% of total cheese sales. These strong positive trends demonstrate the significant progress we continue to make against our strategic imperatives to complete the transition from phase-2 start up to commercially sustainable operations as part of our Phase 2 business plan.



Total 1H20 cheese production 5,224T: Mozzarella 4,393T; Cheddar 831T

- Production Increase 177% over 1H19:2,939T, and 183% over 2H19:2,850T

Mozzarella sales in 1H20: 4,290T

- 156% increase over 1H19 and 159% increase over 2H19
- FY19 mozzarella sales totalled 4,364T

Total revenue from dairy factories: $45m: $41m of produced goods and $4m of milk sales

- 1H19 $40m, $14m milk traded out
- 2H19 $35m, $9m milk traded out

Milk Supply

Clearly, everyone in Australia is praying for a break in the drought, come this winter. If that does not occur, it is likely that the supply of milk across the country will come under further pressure. Some knock-on effects on milk supply are also likely to be experienced from the impacts of the recent bushfires on the dairy industry in NSW and Victoria.

The effects of the drought on milk production, and the resultant increase in feed costs, has led to increases in milk prices across Australia over the past 12-18 months, which, in turn, has had a dampening effect on margins. Product prices are now rising in response.

In anticipation of a possible continuation of these circumstances, as explained at the Company's recent AGM, BFC has instituted a series of initiatives around "stretching our milk"; that is, making our milk go further via yield improvements and product variations (i.e., offering products with differing moisture and fat ratios).
Our focus, in the year ahead will remain on increasing mozzarella volumes, and associated by-products in preference to the less profitable cheddar-based products.

Lactoferrin

As previously advised, lactoferrin production and sales in 1H20 were impacted by several operational issues. Resin purchased with the plant that is used to extract liquid lactoferrin from our whey stream was degrading, curtailing yields and reducing purity.

Replacement resin was purchased from overseas suppliers and delivered to our Jervois factory in late December at a cost of $800k. The new resin will be installed in late January along with the replacement of several machinery components in order to facilitate an overall upgrade of the plant. It is expected that the plant upgrade will be completed by mid-February and we will be back in full operation by the end of February 2020.

While the reduced production of lactoferrin over the last six months has impacted negatively on revenues and margins versus budget, it is expected that our forward production of lactoferrin will be at two to three times previous levels when the plant is back in full operation. As a product with high gross margins, the increased production of lactoferrin is expected to add significantly to our monthly profit results.

Business Development

Continued growth of sales both domestically and internationally are a core focus for BFC. It is pleasing to note that the further development of credible trading partners in the ASEAN region has resulted in International Sales now representing more than 10% of revenues. It is expected that this will continue to grow exponentially over the foreseeable period.

As I touched on at the AGM, BFC has been working on the development of a number of new products, as part of our "stretching the milk" initiatives. These products are in addition to the fat and moisture mozzarella variants referred to above.

Resources have been applied to the development and market trialling of these products with pleasing results – based on both internally managed assessments and more importantly, feedback from domestic retail customers and international buyers. Alternative recipes have been developed which will result in further increases in yields and improved margins.

BFC is well advanced in commercial negotiations with a number of large customers in relation to the long-term supply of these new product variants, both in Australia and overseas. We expect to have satisfactorily concluded at least some of these negotiations over the course of the next 60 days and be in a position to commence supply by early April 2020.

Work is continuing on the evaluation of an opportunity to increase our lactoferrin production even further than the outcome, as explained above, which will be achieved when the upgrades to the existing plant become fully operational (expected by end February 2020). The opportunity involves the use of skim milk to extract lactoferrin (rather than from liquid whey, as currently) and would entail an investment of circa $10 million (with a payback of less than 24 months).

The project, if it proceeds (following completion of the evaluation), would more than treble the output of lactoferrin over and above the higher production levels to be achieved from the existing plant when it is back in full production mode. The project would also provide a basis for the later expansion of production capabilities into other nutraceutical products, thereby further "stretching" the value we can extract from our milk intake.

Funds for this project would be provided from the redeployment of capital released via the Farms Sale and Leaseback transaction (as explained at the AGM and summarised below).

Strategic Imperatives
Progress against our previously announced strategic imperatives is summarised below:

- **Capacity Utilisation**
  Nearly all milk received being processed to BFC branded cheese (with negligible sale of raw milk).

- **Sales Pipeline**
  Strong demand for mozzarella domestically and internationally with regular, repeat customers.

- **Product Mix**
  Mozzarella sales approximately 80% of total cheese volumes. New product development to add to margins.

- **Grow Milk Supply**
  Critical focus area in 2H20 for FY21. (See discussion re farms sales and leaseback below).

- **Dairy Nutraceuticals**
  Current production capability restored with a significant uplift in output volumes. Lactoferrin from skim milk will further expand capacity and add to earnings.

The production outlook for 2H20 remains to produce approximately 9,000T mozzarella plus 1,000T cheddar and 4,700T whey powder. Management continue to seek additional milk supply and are in the process of adding a further 300 cows to our own farms which will increase production by about 1ML in 2H20.

Our wholly owned meat (and alternative meat) products Company, Provincial Food Group (PFG) has, over the last six months, developed significant capability, manufacturing know-how and technical knowledge in the manufacture of plant-based protein products.

This developmental work has involved a significant commitment of management time, monies and factory resources in amongst other things, moving kitchen recipes into large scale production and dealing with variations in the characteristics of raw materials delivered to the PFG factory in Shepparton. A lot of this work has been undertaken at the expense of the core meat business, and as a result, PFG will not meet its budget expectations for the period. Nevertheless, the capabilities and experience which has been built over this period in the manufacture of plant-based, alternative meat products has positioned PFG to be a key player in the future in this fast-growing segment of the food industry.

The focus of PFG in 2H20 will be on building growth and margins in its profitable core meat business while at the same time continuing to exploit, at a measured pace (and with the right partnerships), the potential which has now been put in place for the supply of plant-based alternative meat products.

V3: Volume, Value, Velocity

In previous letters, presentations and at the AGM I have spoken of our focus on reducing the cost of our operations through the V3 process. At the AGM I advised that savings totalling approximately $6m p.a. had been achieved in the business through the result of the combined effect of a number of actions taken over the past 12-18 months. The focus on cost reductions through better processes and commercial negotiations continues and is closely monitored and measured.

Our aim is to continue to drive down the cost of doing business (CODB) while delivering the highest quality of both products and service to our customers.

Share Purchase Plan (SPP)

BFC launched a SPP which opened on 13 January. The Chairman's letter included in the SPP documents sets out the reasons for undertaking the SPP at this time. I recommend the SPP to shareholders and seek your continued support to deliver on the substantial promise which the business holds as it continues to grow.

Farms Sale and Leaseback

At the AGM, BFC announced plans to undertake a sale and leaseback of its farms. The purpose of the sale and leaseback is to allow $30+m of capital applied to the farms to be redeployed to our factories where we can achieve higher rates of return e.g. nutraceuticals expansion. The sale and lease back will significantly reduce bank debt and reset balance sheet gearing. This will place BFC in a better position to undertake non-organic growth should opportunities arise in the shorter term.

The leaseback arrangements are intended to allow BFC to continue to operate the farms and maintain direct control of the milk produced for supply to the factories.

Discussions with potential purchasers/lessors are progressing well with a view to completing a transaction in the next few months.

Closing Comments

A lot has been achieved over the course of the last 12-18 months to continue to drive the transition of the core dairy and meat businesses from start-up phase to a commercially sustainable enterprise. We will continue our unrelenting focus on delivering on the strategic imperatives. Where we have missed targets in 1H20, mainly in lactoferrin production and at PFG, corrective action has already been taken. Our formal 1H20 half year reporting will be available towards the end of February on completion of audit reviews.

Following the release of our 1H20 reports, the Management team along with members of the Board in some instances, will embark on an investor road show, both within Australia and overseas. The audience for the road show will include both existing investors and potential new investors, broking firms and potential new strategic partners.

Having completed the start-up phase (Phase 1) of our business plan, and done much of the "heavy lifting" for the growth phase (Phase 2) of the plan, we believe that this is the right time to get onto the "radar" of potential new investors, strategic partners and others and provide market participants with further insight into the strong competitive advantages which have been built into the business of BFC over the past four years.

I look forward to your continued support through 2H20 and as we prepare for FY21.

Kind regards

Jonathan Hicks
Chief Executive Officer