

Market Update and Appendix 4C Quarterly Cash Flow

Australian Dairy Nutritionals Group Limited (**AHF** or the **Group**) advises that this activity report relates to the Appendix 4C for the quarter ended 31 December 2020 (**Quarter**) set out at the end of this announcement.

- **Launch of the Future Infant Formula range on track for Q2 CY2021**
- **Construction of infant formula plant building substantially complete and fit out and installation of the plant has now commenced with formula production expected in Q4 CY2021**
- **Following completion of the Infant Formula Plant, Ecklin South Organic A2 Infant Formula expected to launch in Q4 CY2021**
- **Recently acquired infant formula blend and canning line ready for shipping to Australia**
- **Group farms enjoying excellent seasonal conditions and reduction in organic grain prices combined to improve feed input costs**

Construction of the Infant Formula Plant Building

Construction of the Group's infant formula building was largely complete by end of December 2020 with final remaining works to be completed once the plant fit out and installation is complete. The Group is now focussing on fitout and installation of the infant formula plant which is expected to be completed by end of June 2021. The internal layout has been finalised and key services are physically connected in preparation for commissioning works. The infant formula plant is expected to be operational in July 2021, commencing with milk powders and followed by infant formula in the final quarter of calendar year 2021.



Image: Completed infant formula building (roof to be installed and some final works to be completed once plant installation has been completed)



Image: Interior of the building



Image: Liquid infant formula mixing tanks ready for installation

Infant Formula Blend & Canning Line Update

The acquisition of the infant formula blend and canning line announced to the market on 15 December 2020 is progressing ahead of schedule. The line has been successfully decommissioned, packed into shipping containers and was shipped from Malaysia to Melbourne, Australia this week.

The line has the capacity to produce 20 million tins per annum. The line will enable AHF, in the future once installed, to tin or bag its own formula and powder products plus offer external blend and pack services. The infant formula blend and canning line total estimated investment of \$AU1 million is approximately 15-20% of new replacement value.

Future Infant Formula production and launch

First production of the Group's 3-stage Future Infant Formula range is scheduled this quarter with a domestic launch in the second quarter of the calendar year. Management is heavily focussed on securing physical and online retail distribution opportunities in both domestic and international markets. Distribution will be supported by a comprehensive omni-channel marketing and promotional campaign to drive range awareness and education of the new range.

Excellent seasonal conditions for all of the Group's farms

The Group's farms are all benefiting from excellent seasonal conditions in South West Victoria. All farms experienced strong pasture growth through the winter/spring period and cut good levels of silage in late November thus reducing reliance on external hay/grass, through the typically drier final quarter of the year. The Group has also welcomed an approximately 40% reduction in organic grain prices compared to last season. Conversion of the Group's remaining farms to organic milk production remains on track for the fourth quarter of CY2021.

Capital Raising – Placement and SPP

The Group announced on 15th December 2020 that it had received binding commitments to raise \$6.5 million via a two tranche Placement (**Placement**) through the issue of 108,333,334 new stapled securities at \$0.06 per security. Tranche 1 of the Placement was completed on the 21 December 2020 raising \$3.316 million before costs.

Tranche 2 of the Placement is subject to shareholder approval at the extraordinary general meeting held on 18 February 2021. Assuming Tranche 2 is approved by shareholders, AHF will raise an additional \$3.184 million before costs.

The Group also launched a Security Purchase Plan (**SPP**) offer for eligible security holders to raise up to \$1 million at the same price as the Placement. AHF will accept applications (in whole or in part) which result in the SPP Offer raising a further \$1 million. The SPP is scheduled to close on 10 February 2021.

The proceeds of the Placement and SPP will be applied towards:

- the acquisition of the high-speed blend and canning line including the cost to transport it to Camperdown, Victoria;
- investment in the launch of the Group's Future and Ecklin South Organic A2 infant formula brands including a comprehensive marketing and promotion plan for the new ranges; and
- general working capital and transaction costs.

Quarterly Activity Report (QAR) – Additional Information for the quarter ended 31 December 2020 (Quarter)

(a) Details of the Company's Business Activities for the Quarter

The Group's business activities during the Quarter focussed on dairy farming and dairy manufacturing. Construction of the Group's infant formula plant building also continued through the Quarter as noted above.

As noted above, the Group also announced a placement to sophisticated and institutional investors to raise \$6.5 million (**Placement**) on 15 December 2020. Tranche 1 of the Placement completed on 21 December 2020 raising \$3.316 million (before costs) which is reflected in item 3.1 of the Quarterly Cash Flow.

The Expenditure reported in the Quarter relates primarily to:

- dairy farm operating costs including feed and employment costs;
- dairy manufacturing costs including raw materials, packaging, employment and waste disposal/effluent costs;
- payments to Spence Construction in respect of works completed under the construction agreement for the new facility; and
- corporate costs in relation to the Placement including lead manager fees, ASX fees, registry fees and legal fees.

(b) Payments to an associate of, a related party of the Company (section 6 of Appendix 4C)

Section 6 of the Appendix 4C includes details of the following fees paid to associates or related parties of the Group:

- \$175,000 in fees and salaries paid to the Directors of the Group;
- \$3,000 paid to Australian Adventure Tourism Pty Ltd (**AAT**) of which the Group's non-executive director Michael Hackett is a shareholder, for administrative services provided comprising book keeping, accountancy fees and compliance fees (charged at cost).

The release of this announcement was authorised by the Board of AHF.

Ends

Further Details

For additional company information or media enquiries, please contact:

Australian Dairy Nutritionals Limited

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Communications Policy

AHF makes ASX market releases at times directors believe it would be helpful or necessary for investors and as required by the Listing Rules. For further information regarding our shareholder communications policy, please refer to AHF's website: www.adnl.com.au.

About Australian Dairy Nutritionals Group

Australian Dairy Nutritionals Group (AHF) (previously named Australian Dairy Farms Group) is a vertically integrated Australian dairy group which owns high quality dairy farms and a processing facility (Camperdown Dairy Company) located in South Western Victoria, the 'Golden Triangle' of Australia's dairy industry. The Group is a trusted source of premium quality branded dairy products using milk sourced fresh from its farms.

Disclaimer – Forward Looking Statements

This announcement may include "forward looking statements" within the meaning of securities laws of applicable jurisdictions. These forward-looking statements are not historical facts but are based on AHF's current expectation, estimates and projections about the industry, in which it operates, and beliefs and assumptions. Readers are cautioned not to place undue reliance on forward looking statements.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Australian Dairy Nutritionals Group: Comprising
Australian Dairy Nutritionals Limited – ABN: 36 057 046 607; and
Australian Dairy Farms Trust – ARSN: 600 601 689

ABN

See Above

Quarter ended (“current quarter”)

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,187	11,889
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(5,467)	(10,046)
(c) advertising and marketing	(89)	(116)
(d) leased assets	-	(4)
(e) staff costs	(976)	(2,007)
(f) administration and corporate costs	(611)	(1,234)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	5
1.5 Interest and other costs of finance paid	(135)	(251)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	79	334
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,011)	(1,430)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,846)	(2,550)
(d) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(e) intellectual property	-	-
	(f) other non-current assets	(24)	(45)
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(1,870)	(2,595)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	3,316	3,316
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(221)	(221)
3.5	Proceeds from borrowings	370	370
3.6	Repayment of borrowings	(148)	(175)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – lease liabilities	(69)	(142)
3.10	Net cash from / (used in) financing activities	3,248	3,148

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,118	6,362
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,011)	(1,430)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,870)	(2,595)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,248	3,148
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,485	5,485

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,485	5,118
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,485	5,118

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1. This is comprised of directors' fees and salaries and administrative services.
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

175

-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

6.1 Directors' fees and salaries (inc superannuation) of \$172K

Payments to Australian Adventure Tourism Group Limited for administrative services of \$3K

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	12,054	12,054
7.2 Credit standby arrangements	-	-
7.3 Other (Short-term credit facility - insurance)	222	222
7.4 Total financing facilities	12,276	12,276

7.5 **Unused financing facilities available at quarter end** nil

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

7.1 Commonwealth Bank of Australia Limited – Secured loan facilities. Variable interest rate of 4.12% and maturity 4 October 2021.
7.3 Hunter Premium Funding (Insurance Premium Funding) – Unsecured short-term loan facility. Flat interest rate: 6.15%.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,011)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	5,485
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	5,485
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	5

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 January 2021

Authorised by: The Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.