Australian Dairy Nutritionals Group

Annual General Meeting

20 January 2022

Chairman's Address

During the last two years the COVID pandemic and its impact continue to challenge the Group and our industry. Despite the difficulties wrought by the pandemic Australian Dairy Nutritionals continues to focus on, and invest in, our strategy to become a fully vertically integrated manufacturer and brand owner of premium differentiated dairy products.

The Group has been successful in achieving significant traction toward completion of our strategy, despite the pressure on the Group to continually adapt to a turbulent environment. This has been frustrating and costly; however, our successes are notable and include:

- launch of future® Gradulac – the company's first range of infant formula;
- the construction of our new infant formula building and installation of the infant formula plant;
- funding the purchase of a high-speed canning line;
- building on our existing strong distribution relationships for both the local and offshore markets; and
- developing new sales and distribution opportunities for our formula and related ranges including our recently announced JV with Wellnex and ranging with Woolworths's marketplace;
- the transition of all farms to A2 herds and organic pasture certification of our Brucknell North and Brucknell South farm.

During FY21 the Group's total income was $21.7m, a slight decrease on FY20, leading to an operating EBITDA loss for the year of $2.98m. While disappointing, it does reflect the impact of the pandemic and a volatile dairy industry. Due to a highly competitive domestic market our yoghurt production was much lower than expected and weighed heavily on our results. This resulted in our decision to terminate our processing contract with The Collective which is expected to finish up in May 2022.

While we have been disappointed with the ability to profitably access the domestic yoghurt market, we were hopeful that recent discussions with potential strategic partners would provide access to Asian markets. Unfortunately, these discussions have not led to the production volumes we require. Hence, with the completion of the new infant formula plant and the current low volumes of yoghurt production we will review our fresh processing operations to determine the most cost-effective manufacturing structure.

We have completed the construction and installation of the infant formula factory and commissioning is expected to complete in this quarter. This will complete our transition to a fully vertically integrated dairy manufacturer of products under our own brand. Our aim is to commence commercial manufacture of our own organic A2 infant formula range in the first half of this calendar year using milk from our farms. This progress has been made despite the many challenges brought about by the pandemic restrictions.

Our team have been working hard on establishing distribution arrangements for the domestic and international market and we were very pleased to announce the establishment of the joint venture with Wellnex and execution of an agreement with a Tier 1 Cross Border E Commerce provider for China prior to Christmas.

We continue to be happy with the development of the farms, with the last farms achieving organic pasture certification in October 2021. There has been considerable improvement in the pastures over the year leading to lower fodder and pasture maintenance costs. We will continue to focus on regenerative farming and leverage the environmental and sustainable aspects of the farms' operations.

Despite the satisfactory results from the farms, we reduced our farm portfolio to better match the future milk demand for our operations. This resulted in the sale of two farms, Drumborg and Ecklin South, in the last 18 months. The resultant income allowed us to pay out the Group's existing finance facility, leaving us free of debt. The remaining three farms will be the focus of our specialty milk production with two of the farms now converted to organic A2 protein milk production with the third converting by end July 2022. This will mean that Australian Dairy Nutritionals will farm one of the largest organic A2 herds in Australia, a valuable asset in the current market.

Despite the frustrations wrought by the COVID pandemic, at a personal and professional level, the management team have become very practiced at managing the business through this current period of uncertainty. The Board is especially thankful of their efforts in maintaining a rigorous discipline to the adherence of the health and safety rules as they continue to protect the business and all employees.

The Group is excited about the coming financial year as the hard work of the last few years culminates in the production and sale of our own organic A2 branded infant formula, sourced from our farms.

To all our securityholders, thank you, for your continued support and I hope during these challenging times that you stay safe and healthy.