31 January 2023
ASX Code: AHF

Appendix 4C Quarterly Cash Flow and Market Update

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 2022 (**Quarter**) released to the market on 31 January 2023.

This Quarter saw net cash outflows from operating activities of $1.67 million, a material reduction on the previous quarter of $2.22 million. Operating expenditure for the Quarter also included the final three (3) months of consultancy fees paid to IJ Funds Management (total $137k) as well as residual ongoing operating costs for Camperdown Dairy.

The Quarter also included $216k of capital expenditure on the infant formula plant.

The Group continued to build inventory of the Ocean Road Dairies Organic A2 protein (**ORD**) infant formula range for the domestic market during the Quarter. We have applied for export certification of our infant formula plant and are expecting the licence to be issued imminently. Once the export licence is issued the Group will be able to export dairy nutritional products produced at our plant including the Ocean Road Dairies Organic A2 protein infant formula range.

Sales and Distribution

In 2022 the Group introduced two new infant formula brands into the domestic Australian market – the future Gradulac Gentle and Ocean Road Dairies organic A2 protein infant formula ranges. As with any new product the Group expects it will take time for consumers to become aware of and trust the products, particularly in a highly brand loyal category such as infant formula, so we continue to invest in targeted marketing activities to build brand awareness, create consumer interest and drive sales conversion.

In conjunction with this, the Group is heavily focussed on building distribution of both ranges domestically and in key international markets. The infant formula category underwent significant change due to the impact of Covid-19 both domestically and internationally, so we continue to adapt our distribution strategy to account for these structural changes as well as prevailing marketing conditions.

For international markets, apart from China's cross border e-commerce channel, the timing of market entry is contingent on product registration requirements which, where required, typically take between 1-6 months depending on the specific market. Infant formula products for the Chinese cross border e-commerce channel (**CBEC**) must be packed in a CNCA (Certification and Accreditation Administration of the People's Republic of China) approved facility but do not require a formal product registration.

Prior to the end of 2022 AHF representatives attended two significant trade shows in Asia where there was good interest from potential distributors, particularly for the Ocean Road Dairies range. Discussions are continuing with several potential distributors for key Asian markets.

Domestically, both ranges are available in Chemist Warehouse stores nationally. The Ocean Road Dairies infant formula was only available on-shelf from late October/early November 2022 so the range is still in its infancy however sales of the future Gradulac Gentle range have been slower than anticipated. Management is working closely with Brand Solutions, Chemist Warehouse and other domestic distributors/retailers to improve sales of the future range.

Farms

Farm milk production and therefore revenues were strong during the Quarter as intermittent periods of rainfall delayed the dry off of pastures until early to late January 2023. We have also leased part of an organic certified farm nearby the Brucknell farms to grow a portion of our own organic grain.

Subject to seasonal conditions and yield assumptions we estimate this will allow the Group to grow approximately 30% of its supplemental feed requirements, at a materially lower cost than current market prices and, assists in securing organic grain supply for AHF dairy farms for next season.

Unstapling Process

During the Quarter, the Group commenced the formal process to unstaple shares in Australian Dairy Nutritionals Limited (**ADNL**) from units in the Australian Dairy Farms Trust (**ADFT**). On Tuesday 6th December 2022, shares in ADNL commenced trading on the ASX on a normal (T+2) basis, without units in the ADFT. This process remains ongoing with the next steps being the winding up of the ADFT and cancellation of the units in the ADFT.

Quarterly Activity Report (QAR) – Additional Information for the quarter ended 31 December 2022 (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. The Expenditure reported in the Quarter relates primarily to:

- dairy farm operating costs including feed and employment costs;
- infant formula production costs including purchase of raw materials, packaging, employment and other associated manufacturing costs; and
- 3 months of consulting fees for IJ Funds Management; and
- corporate costs in relation to the Group including employment costs, ASX fees, registry fees, insurance, accounting 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 expenditure of $178k in fees and salaries paid to the Directors and the CEO (who was a related party of the Company within the last 6 months). An additional $60k of consulting fees were paid comprising:

- $12k paid to Bernard Kavanagh for consulting services in relation to a potential business transaction; and
- $48k paid to Jason Dong for consulting services in relation to the China market.

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

Ends

Further Details

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About Australian Dairy Nutritionals Group

*Australian Dairy Nutritionals Group (**AHF**) is a vertically integrated Australian dairy group which owns high quality organic and organic A2 dairy farms, and a processing facility located in Southwestern Victoria, the 'Golden Triangle' of Australia's dairy industry. In addition to our premium Future range of infant formulas the Group has also commenced production of Australia's first Organic A2 infant formula made with farm fresh Australian milk from our farms at our purpose-built infant formula factory.*

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	**Quarter ended ("current quarter")**
See Above	31 December 2022

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		2,234	5,303
1.2	Payments for			
	(a)	research and development	-	-
	(b)	product manufacturing and operating costs	(2,402)	(6,333)
	(c)	advertising and marketing	(140)	(277)
	(d)	leased assets	-	-
	(e)	staff costs	(690)	(1,426)
	(f)	administration and corporate costs	(647)	(1,116)
1.3	Dividends received (see note 3)		-	-
1.4	Interest received		1	1
1.5	Interest and other costs of finance paid		(28)	(40)
1.6	Income taxes paid		-	-
1.7	Government grants and tax incentives		-	-
1.8	Other (provide details if material)		-	-
1.9	**Net cash from / (used in) operating activities**		**(1,672)**	**(3,888)**

2.	**Cash flows from investing activities**			
2.1	Payments to acquire:			
	(a)	entities	-	-
	(b)	businesses	-	-
	(c)	property, plant and equipment	(216)	(665)
	(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	(28)	(63)
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	6,094
	(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**	**(244)**	**5,366**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	631	631
3.6	Repayment of borrowings	(237)	(743)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – lease liabilities	(113)	(225)
3.10	**Net cash from / (used in) financing activities**	**281**	**(337)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	5,208	2,432
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,672)	(3,888)

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)	(244)	5,366
4.4	Net cash from / (used in) financing activities (item 3.10 above)	281	(337)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**3,573**	**3,573**

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	3,573	5,208
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)**	**3,573**	**5,208**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1.	238
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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 The $238K is comprised of:

- $178k of directors' fees and salaries (including superannuation); and
- $60k of consulting fees comprising:
  - $12k paid to Bernard Kavanagh for consulting services in relation to a potential business transaction; and
  - $48k paid to Jason Dong for consulting services in relation to the China market.

7.	**Financing facilities** *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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (Short-term credit facility - insurance)	393	393
7.4	**Total financing facilities**	**393**	**393**

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.

7.3 Premium Funding (Insurance) – Unsecured short-term loan facility. Flat interest rate: 4.10%.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,672)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	3,573
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	3,573
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	2.14

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: 31 January 2023

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.