

Rules 4.1, 4.3

Appendix 4D

Half yearly report

Introduced 1/1/2003.

| | |
|--|----------------------------------|
| Name of Entity | Australian Rural Capital Limited |
| ABN | 52 001 746 710 |
| Financial Period Ended | 31 DECEMBER 2018 |
| Previous Corresponding Reporting Period | 31 DECEMBER 2017 |

Results for Announcement to the Market

| | \$ | Percentage increase /(decrease) over previous corresponding period |
|---|----------------------------|---|
| Revenue from ordinary activities | (1,359,455) | (175%) |
| Profit from ordinary activities after tax attributable to members | (1,600,646) | (201%) |
| Profit for the period attributable to members | (1,600,646) | (201%) |
| Dividends (distributions) | Amount per security | Franked amount per security |
| Final Dividend | Nil | - |
| Interim Dividend | Nil | - |
| Previous corresponding period | Nil | Nil |
| Record date for determining entitlements to the dividends (if any) | | |
| Brief explanation of any of the figures reported above necessary to enable the figures to be understood: | | |
| | | |

The half-yearly report it is to be read in conjunction with the most recent annual financial report.

Dividends

| | |
|--|-----|
| Date the dividend is payable | N/A |
| Record date to determine entitlement to the dividend | N/A |
| Amount per security | NIL |
| Total dividend | NIL |
| Amount per security of foreign sourced dividend or distribution | N/A |
| Details of any dividend reinvestment plans in operation | N/A |
| The last date for receipt of an election notice for participation in any dividend reinvestment plans | N/A |

NTA Backing

| | Current Period | Previous corresponding period |
|--|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | 46.6c | 62.0c |

Control Gained Over Entities Having Material Effect

| | |
|---|---|
| Name of entity (or group of entities) | - |
| Date control gained | - |
| Consolidated profit / (loss) from ordinary activities since the date in the current period on which control was acquired | - |
| Profit / (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period | - |

Loss of Control Gained Over Entities Having Material Effect

| | |
|--|---|
| Name of entity (or group of entities) | - |
| Date control lost | - |
| Consolidated profit / (loss) from ordinary activities for the current period to the date of loss of control | - |
| Profit / (loss) from ordinary activities of the controlled entity (or group of entities) while controlled for the whole of the previous corresponding period | - |

Details of Associates and Joint Venture Entities


| Name of Entity | Percentage Held | | Share of Net Profit | |
|----------------|-----------------|-----------------|---------------------|-----------------|
| | Current Period | Previous Period | Current Period | Previous Period |
| | - | - | - | - |

Audit/Review Status

| | | | |
|---|--|--|---|
| This report is based on accounts to which one of the following applies: (Tick one) | | | |
| The accounts have been audited | | The accounts have been subject to review | X |
| The accounts are in the process of being audited or subject to review | | The accounts have not yet been audited or reviewed | |
| If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification: | | | |
| Not applicable | | | |
| If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification: | | | |
| Not applicable | | | |

Attachments Forming Part of Appendix 4D

| Attachment # | Details |
|--------------|--------------------------|
| 1 | Interim Financial Report |
| | |

| | |
|---|--|
| Signed By (Director/Company Secretary) |  |
| Print Name | James A Jackson (Executive Chairman) |
| Date | 25 February 2019 |

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2018.

Directors

The names of directors who held office during or since the end of the half-year:

James Andrew Jackson
Darren Anderson
Wayne Massey

Principal Activities

During the financial half-year, the principal activities of the consolidated entity consisted of:

- Equity Investment- investment in rural and agricultural companies, securities, schemes and entities
- Funds Management and Financial Services-operation of a wholesale funds management business

Review of Operations

Australian Rural Capital Limited (**ARC**) posted a loss after provision for income tax of \$1,600,646 for the period compared to a profit of \$1,582,214 in the comparative period. Of this loss, \$1,616,533 arose from the mark to market of the Company's strategic 13,471,111 ordinary shares in Namoi Cotton Limited ("Namoi") to a level of 40 cents per share, as compared to 52 cents per share on 30 June 2018.

The loss in the half year of \$1.6 m was a result of the share price of our current principal investment in Namoi Cotton Limited falling back to 40 cents from previous level of 52 cents. We still believe this to be an undervalued strategic investment, but current earnings headwinds, some negative sentiment towards the cotton industry and lack of summer rains has contributed to this lower share price, (which I discuss further in detail below).

This result impacts our stated NTA for ARC which is now 47 cents and makes it more difficult to raise any significant amount of new equity in ARC without diluting the existing interest of ARC shareholders. This means that we are reviewing our alternatives when raising new equity in ARC, particularly if we wish to make more substantial investments in ARC.

We are mindful that in the best interests of the company and all shareholders we wish to avoid the dilution of the interests of shareholders as any dilution would indirectly be diluting their interest in Namoi Cotton. This would be inconsistent to our view on the Namoi Cotton investment, which we currently believe is significantly undervalued.

This review does not affect ARC seeking to grow its funds management opportunities and we continue to seek out deals and investments and working towards raising capital to manage in a fund structure to own these investments.

Namoi Cotton and this Drought

Unfortunately, this natural disaster is now having a significant impact on the operations of Namoi Cotton as the impact on water and water availability will reduce cotton plantings for this year's crop which has also suffered from heat waves and low summer rainfall. It is useful to understand the severity of this drought in comparison to long term average water inflows.

Water NSW estimate that the Northern NSW river systems which feed the Barwon-Darling system and then the Menindee lakes, can expect an average of approximately 4000 gegalitres (GL) of annual inflows according to long term data. (1 GL=1000 ML)

- In 2016-17 inflows into the state's northern river systems was 7800 GL.
- In 2017-18 those rivers received just 542 GL
- In the first six months of 2018-19 these rivers received 30 GL

Valley Storage Levels (of between 2% and 37%) are now at record low levels with the following storage levels in the major valleys in which the Namoi Cotton gins operate as at February 11, 2019. All the Namoi Gins sites are supplied by cotton grown from these valleys.

- Gwydir 12 %:
- Border Rivers 12%:
- Lachlan 37%:
- Macquarie 15%:
- Namoi 2 %:
- For the purposes of completeness, the Upper Darling system is completely dry and with no storage water, and no cotton crop, the North Bourke Gin will not operate this season.

As this lack of rainfall continues, the focus is on the crop to be planted this year for processing in 2020, which will require significant rainfall prior to October this year. What this development does highlight is the need for Namoi Cotton to now look to grow and diversify the operations and earnings of the company in regions or businesses that are not exposed to such specific climatic and weather risk of the MDB (Murray Darling Basin) or seek to mitigate this risk in some other way.

The current takeover offer for GrainCorp has come about due to this same pattern of earnings volatility, which is the East Coast Australian Grain crop size, also a function of MDB rainfall and climatic risk. The bidders have sourced an innovative insurance contract to mitigate weather risk for the business.

Livestock Financing

At last years AGM we outlined the business dynamic's and market size for an investment opportunity in the livestock financing sector here in Australia. We have been working on acquiring an operation with the skills, expertise and experience to advance this investment, however procuring the appropriate source of debt funding for this type of operation has proven to be more time consuming and challenging than first

expected and which has delayed our progress. We are also working on our reporting requirements and we have sourced a monitoring provider to monitor the livestock, which will be cattle, with specific software tailored to our reporting requirements. We believe that demand remains strong for the product and the investment opportunity for ARC is attractive, however a series of hurdles remain to be overcome in sourcing economically viable core debt funding to fund the loan book.

Funds Management

We continue to work on deals in this space, with a filter to larger transactions which can generate scale for ARC to manage. The main issue we continue to encounter is vendor price expectations, but we are now seeing more reasonable offers.

Summary

We are in a solid financial position with cash balances exceeding \$450,000 to fund continued working capital. The objective remains to develop and/or acquire operations with recurring cashflow. The current investment is currently impacted by the drought, which will require more patience before it recovers, which means we are reviewing our alternatives for new equity, considering this situation.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Auditor's Declaration

We have received a declaration from the auditors, Bentleys Brisbane (Audit) Pty Ltd, of their independence. The lead auditor's independence declaration under Section 307C of the *Corporations Act 2001* is set out on page 7 for the half year ended 31 December 2018.

The report is made in accordance with a resolution of the Board of Directors pursuant to section 306(3)(a) of the *Corporations Act 2001*.

Signed on behalf of the Directors:



James A Jackson
Chairman

Dated: 25 February 2019

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*
TO THE DIRECTORS OF AUSTRALIAN RURAL CAPITAL LIMITED**

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.



Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants



Stewart Douglas
Director
Brisbane
25 February 2019

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2018

| Continuing Operations | Note | 31 Dec 2018 \$ | 31 Dec 2017 \$ |
|---|-------------|---------------------------------|---------------------------------|
| Revenue | 2 | (1,359,455) | 1,815,483 |
| Other expenses | 3 | (241,191) | (233,269) |
| Profit/(loss) before income tax | | (1,600,646) | 1,582,214 |
| Income tax expense | | - | - |
| Profit/(loss) after income tax for the half-year | | (1,600,646) | 1,582,214 |
| Other comprehensive income for the half year, net of tax | | - | - |
| Total comprehensive income attributable to members of Australian Rural Capital Limited | | (1,600,646) | 1,582,214 |
| Basic earnings/(loss) per share (cents per share) | | (12.8c) | 12.7c |
| Diluted earnings/(loss) per share (cents per share) * | | (12.8c) | 7.7c |

* The total of the listed shares (refer to Note 8) and listed options (refer Note 10) has been used to calculate the Diluted earnings per share for the comparative period.

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the attached notes.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
Statement of Financial Position
As at 31 December 2018

| | Note | Economic Entity | |
|----------------------------------|------|------------------|------------------|
| | | 31 Dec 2018 | 30 June 2018 |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | 459,459 | 452,379 |
| Trade and other receivables | | 14,100 | 12,042 |
| Financial assets | 6 | 5,388,576 | 7,004,977 |
| TOTAL CURRENT ASSETS | | 5,862,135 | 7,469,398 |
| NON-CURRENT ASSETS | | | |
| Deferred tax assets | | 11,730 | 11,730 |
| Goodwill | | 7,709 | 7,709 |
| TOTAL NON-CURRENT ASSETS | | 19,439 | 19,439 |
| TOTAL ASSETS | | 5,881,574 | 7,488,837 |
| CURRENT LIABILITIES | | | |
| Trade and Other payables | | 34,773 | 51,765 |
| TOTAL CURRENT LIABILITIES | | 34,773 | 51,765 |
| TOTAL LIABILITIES | | 34,773 | 51,765 |
| NET ASSETS | | 5,846,801 | 7,437,072 |
| EQUITY | | | |
| Issued capital | 8 | 20,003,935 | 19,995,610 |
| Reserves – options | 10 | 387,303 | 388,118 |
| Reserves – share based payments | | 68,831 | 98,353 |
| Accumulated losses | | (14,613,268) | (13,045,009) |
| Parent entity interest | | 5,846,801 | 7,437,072 |
| Non-controlling interest | | | |
| TOTAL EQUITY | | 5,846,801 | 7,437,072 |

The Statement of Financial Position is to be read in conjunction with the attached notes.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
Statement of Cash Flows
For the half year ended 31 December 2018

| | Note | Economic Entity | |
|--|----------|-----------------|-------------|
| | | 31 Dec 2018 | 31 Dec 2017 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (257,290) | (257,165) |
| Purchases of investments | | (132) | (142,792) |
| Proceeds from sale of investments | | - | 49,350 |
| Dividends received | | 255,951 | 11,697 |
| Interest received | | 227 | 13,268 |
| Net cash used in operating activities | | (1,245) | (325,642) |
| Cash flows from investing activities | | | |
| Repayment of loans to related entities | | - | - |
| Payment for purchase of business, net of cash acquired | | - | - |
| Net cash used in investing activities | | - | - |
| Cash flows from financing activities | | | |
| Issuance of new equity | | 8,325 | - |
| Net cash provided by financing activities | | 8,325 | - |
| Net increase in cash | | 7,080 | (325,642) |
| Cash at beginning of period | | 452,379 | 1,660,333 |
| Cash at end of period | 5 | 459,459 | 1,334,691 |

The Statement of Cash Flows is to be read in conjunction with the attached notes.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
Statement of Changes in Equity
For the half year ended 31 December 2018

| | Issued Capital | Reserves | | Accumulated Losses | Total Equity |
|--|-------------------|-------------------------|----------------|-----------------------|------------------|
| | | Share based payments | Options | | |
| | \$ | \$ | \$ | \$ | \$ |
| At 30 June 2017 | 19,995,610 | 86,640 | 388,118 | (14,326,187) | 6,144,181 |
| Total comprehensive income for the period | - | - | - | 1,582,214 | 1,582,214 |
| Share based payments reserve | - | 6,048 | - | - | 6,048 |
| Contribution of equity (net) | - | - | - | - | - |
| Cost of issue of options | - | - | - | - | - |
| At 31 December 2017 | 19,995,610 | 92,688 | 388,118 | (12,743,973) | 7,732,443 |
| Total comprehensive income for the period | - | - | - | (301,036) | (301,036) |
| Share based payments reserve | - | 5,665 | - | - | 5,665 |
| At 30 June 2018 | 19,995,610 | 98,353 | 388,118 | (13,045,009) | 7,437,072 |
| Total comprehensive income for the period | - | - | - | (1,600,646) | (1,600,646) |
| Share based payments reserve | - | 2,050 | - | - | 2,050 |
| Contribution of equity from listed options exercised | 8,325 | - | - | - | 8,325 |
| Unlisted options lapsed | - | (31,572) | - | 31,572 | - |
| Listed options exercised | - | - | (815) | 815 | - |
| At 31 December 2018 | 20,003,935 | 68,831 | 387,303 | (14,613,268) | 5,846,801 |

The Statement of Changes in Equity is to be read in conjunction with the attached notes.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial report was approved by the Board of Directors on 25 February 2019.

This interim consolidated financial report has been prepared in accordance with Accounting Standard AASB 134 and is to be read in conjunction with the annual financial report for the financial year ended 30 June 2018 ("**2018 Annual Report**"). The 2018 Annual Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations and the *Corporations Act 2001*, as appropriate for for-profit oriented entities.

The half yearly report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the economic entity as the full financial report. Accordingly, it is recommended that this financial report be read in conjunction with the 2018 Annual Report and any public announcements made by Australian Rural Capital Limited ("**ARC**") during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The same accounting policies have been followed as those applied and discussed in the 2018 Annual Report, other than those outlined below:

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2018.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 9 *Financial Instruments* and related amending Standards
- AASB 15 *Revenue from Contracts with Customers* and related amending Standards
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

AASB 9 Financial Instruments and related amending Standards

In the current year, the Group has applied AASB 9 *Financial Instruments* (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives however there was no material impact on adoption of the standard.

In summary AASB 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

AASB 15 Revenue from Contracts with Customers and related amending Standards

In the current year, the Group has applied AASB 15 *Revenue from Contracts with Customers* (as amended) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

In the current year, the Group has applied AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions which is effective for an annual period that begins on or after 1 January 2018.

There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

The functional and presentation currency of ARC is Australian dollars.

| Economic Entity | |
|------------------------|--------------------|
| 31 Dec 2018 | 31 Dec 2017 |
| \$ | \$ |

NOTE 2: REVENUES

Revenues are comprised as follows:

| | | |
|--|--------------------|------------------|
| Miscellaneous revenue | 900 | |
| Interest revenue | 227 | 13,268 |
| Dividend income | 255,951 | 11,697 |
| Change in fair value of investments retained | (1,616,533) | 1,790,518 |
| Total revenues | (1,359,455) | 1,815,483 |

NOTE 3: EXPENSES

Expenses are comprised as follows:

| | | |
|--|----------------|----------------|
| Directors fees and costs – cash | 124,811 | 93,250 |
| Directors fees and costs – share based | 2,050 | 6,048 |
| Insurance | 7,388 | 16,989 |
| Office and occupancy expenses | 6,000 | 6,000 |
| Other expenses | 100,942 | 110,982 |
| Total expenses | 241,191 | 233,269 |

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

| | Economic Entity | |
|--|-----------------|--------------|
| | 31 Dec 2018 | 30 June 2018 |
| | \$ | \$ |

NOTE 4: DIVIDENDS PAID OR PROPOSED

Declared and paid during the period

| | | |
|----------------------|---|---|
| Total dividends paid | - | - |
|----------------------|---|---|

Proposed and not recognised as a liability (fully franked at 27.5%)

| | | |
|---|---|---|
| Interim franked dividend for period to 31 December 2018: nil (30 June 2018: nil) | - | - |
|---|---|---|

The current balance of the franking account, prior to accounting for any taxation paid in relation to the result for the latest period is \$26,695.

NOTE 5: CASH AND CASH EQUIVALENTS

| | | |
|--|---------|---------|
| Cash on hand and at bank | 459,459 | 452,379 |
| Net cash and cash equivalents as per statement of cash flows | 459,459 | 452,379 |

NOTE 6: FINANCIAL ASSETS

CURRENT:

Fair value through profit and loss:

| | | |
|--|-----------|-----------|
| Listed investments at fair value – shares in listed corporations | 5,388,444 | 7,004,977 |
| TOTAL | 5,388,444 | 7,004,977 |

NOTE 7. CONTROLLED ENTITIES

| | Country of Incorporation | Percentage Owned | |
|---|-----------------------------|------------------|--------------|
| | | 31 Dec 2018 | 30 June 2018 |
| Parent Entity: | | | |
| Australian Rural Capital Limited | Australia | | |
| Controlled Entities of Australian Rural Capital Limited: | | | |
| ARC Agrivest Limited (a) (b) | Australia | 100% | 100% |
| Australian Rural Capital Management Pty. Ltd (c) | Australia | 100% | 100% |

(a) Registered 12 August 2016

(b) Formerly ARC Investor Limited

(c) Formerly Foundry Investment Partners Pty. Limited

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Economic Entity
31 Dec 2018 **30 June 2018**
\$ \$

NOTE 8. EQUITY – ISSUED CAPITAL

12,508,740 fully paid authorised ordinary shares
(30 June 2018: 12,492,090) 20,003,935 19,995,610

MOVEMENT IN ISSUED SHARES OF THE PARENT ENTITY FOR THE PERIOD

| Date | Details | Number of shares | \$ |
|------------------|--------------------------|---------------------|------------|
| 30 June 2018 | Opening balance | 12,492,090 | 19,995,610 |
| 13 November 2018 | Listed options exercised | 16,650 | 8,325 |
| 31 December 2018 | Closing balance | 12,508,740 | 20,003,935 |

NOTE 9. EQUITY: RESERVES - SHARE BASED PAYMENTS

Executive Remuneration

On 4 August 2014, the company issued 450,000 unlisted options each exercisable into one new share of ARC at a price of 70c per share before 31 December 2020 to the Executive Chairman, James Jackson. The options vest in three tranches of 150,000 on 25 July 2015, 25 July 2016 and 24 July 2017 providing James Jackson is still an employee of the company. These options had a fair value at the grant date of 12.75c per option. The cost of the options is amortised over the relevant period to full vesting and equated to \$0 in the period to 31 December 2018 (2017: \$383).

On 14 October 2016, the company issued 400,000 unlisted options each exercisable (exercise price is \$0.70) into one new share of ARC as per the following table (300,000 to James Jackson and 100,000 to Wayne Massey);

| Issue | Number of Options | Vesting Condition |
|-----------|-------------------|---|
| Tranche 1 | 133,333 | If ARC Share Price is \$0.80 by 31 October 2018 based on the VWAP for the month of October 2018 |
| Tranche 2 | 133,333 | If ARC Share Price is \$0.90 by 31 October 2019 based on the VWAP for the month of October 2019 |
| Tranche 3 | 133,334 | If ARC Share Price is \$1.00 by 31 October 2020 based on the VWAP for the month of October 2020 |

The options vest in three tranches of 133,333 on 31 October 2018, 31 October 2019 and 31 October 2020 providing James Jackson and Wayne Massey are still an employee of the company. These options had a fair value at the grant date of 12c per option. The cost of the options is amortised over the relevant period to full vesting and equated to \$2,050 in the period to 31 December 2018 (2017: \$5,665). The options relating to tranche 1 expired at 31 October 2018 and a transfer to account for this was made between the share based payments reserve and retained earnings of \$9,304.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. EQUITY: RESERVES - SHARE BASED PAYMENTS (CONT'D)

Advisory Services

On 4 August 2014, the company issued 240,000 unlisted options each exercisable into one new share of ARC at a price of 70c per share before 31 December 2018 to Baron Partners Limited. The options fully vested upon issue. These options had a fair value at the grant date of 9.28c per option. The cost of the options of \$22,268 was fully expensed in the period to 31 December 2014. These options expired at 31 December 2018 and a transfer to account for this was made between the share based payments reserve and retained earnings of \$22,268.

NOTE 10. EQUITY: RESERVES – LISTED OPTIONS

| Date | Details | Number of listed options | \$ |
|------------------|-------------------|---------------------------------|----------------|
| 30 June 2018 | Opening balance | 7,930,863 | 388,118 |
| 13 November 2018 | Options exercised | (16,650) | (815) |
| 31 December 2018 | Closing balance | <u>7,914,213</u> | <u>387,303</u> |

NOTE 11. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the fair value measurement being:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

| | | | | |
|--|------------------|----------|----------|------------------|
| 31 December 2018 | Level 1 | Level 2 | Level 3 | TOTAL |
| | \$ | \$ | \$ | \$ |
| Financial assets at fair value through profit or loss: | | | | |
| Shares in other corporations | 5,388,576 | - | - | 5,388,576 |
| TOTAL | <u>5,388,576</u> | <u>-</u> | <u>-</u> | <u>5,388,576</u> |
| 30 June 2018 | Level 1 | Level 2 | Level 3 | TOTAL |
| | \$ | \$ | \$ | \$ |
| Financial assets at fair value through profit or loss: | | | | |
| Shares in other corporations | 7,004,977 | - | - | 7,004,977 |
| TOTAL | <u>7,004,977</u> | <u>-</u> | <u>-</u> | <u>7,004,977</u> |

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 11. FAIR VALUE MEASUREMENT (CONT'D)

There were no transfers between levels during the financial half year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

There are no financial liabilities outstanding at 30 June 2018 and 31 December 2018 necessitating comparison of similar financial liabilities.

NOTE 12. SEGMENT INFORMATION

The Economic Entity's activities have been divided into two specific segmental groups, operating in one geographical region, being Australia:

Funds management: the management of investment vehicles and provision of other funds management services;

Investment: investment in listed and unlisted Australian companies and securities.

Unallocated expenses include all financing costs except those directly attributable to investment, and personnel costs associated with the Economic Entity except the use of outside personnel as Directors of partly owned subsidiaries and compliance committees which are capable of allocation to a specific business segment; interest and dividend income is allocated to "Investment".

| Six months to 31 December 2018 | Funds M'ment | Investment | Unallocated | TOTAL |
|--|--------------|-------------|-------------|-------------|
| | \$ | \$ | \$ | \$ |
| Revenue | | (1,359,682) | | (1,359,682) |
| Interest revenue | | 227 | | 227 |
| Expenses other than finance, depreciation & amortisation | 3,665 | | 237,526 | 241,191 |
| SEGMENT RESULT | (3,665) | (1,359,455) | (237,526) | (1,600,646) |
| Finance costs | - | - | - | - |
| PROFIT BEFORE INCOME TAX | (3,665) | (1,359,455) | (237,526) | (1,600,646) |
| Income tax expense | - | - | - | - |
| PROFIT AFTER INCOME TAX | (3,665) | (1,359,455) | (237,526) | (1,600,646) |
| Segment Assets | 52,317 | 5,798,076 | 31,181 | 5,881,574 |
| Segment Liabilities | 240 | - | 34,533 | 34,773 |

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. SEGMENT INFORMATION (CONT'D)

| Six months to 31 December 2017 | Funds M'ment | Investment | Unallocated | TOTAL |
|--|-----------------|------------|-------------|-----------|
| | \$ | \$ | \$ | \$ |
| Revenue | - | 1,802,215 | - | 1,802,215 |
| Interest revenue | - | 13,268 | - | 13,268 |
| Expenses other than finance, depreciation & amortisation | (5,654) | - | (227,615) | (233,269) |
| SEGMENT RESULT | (5,654) | 1,815,483 | (227,615) | 1,582,214 |
| Finance costs | - | - | - | - |
| LOSS BEFORE INCOME TAX | (5,654) | 1,815,483 | (227,615) | 1,582,214 |
| Income tax expense | - | - | - | - |
| LOSS AFTER INCOME TAX | (5,654) | 1,815,483 | (227,615) | 1,582,214 |
| Segment Assets | 52,435 | 7,674,456 | 42,435 | 7,769,326 |
| Segment Liabilities | 240 | - | 36,643 | 36,883 |

NOTE 13. EVENTS AFTER THE REPORTING DATE

No matter or circumstance has arisen since the end of the period which, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial periods.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'J. A. Jackson', with a long horizontal flourish extending to the right.

James A Jackson
Executive Chairman

25 February 2019

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF AUSTRALIAN RURAL CAPITAL LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Rural Capital Limited and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Rural Capital Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants



Stewart Douglas
Director
Brisbane
25 February 2019