Full Year 2019 Results Update to Shareholders

- **Loss of $2.5m due to falling Namoi Cotton Share price**
- **NTA at June 30, 2019 of 40 cents per share**
- **Drought Conditions ongoing, worst in 120 Years**
- **Namoi Cotton making structural changes to adjust business**
- **Deal search continues to grow the Funds Opportunity**
- **ARC Directors propose to take shares in lieu of cash fees to preserve cash**

Financial Results

The board reports an after-tax loss of $2,478,952 for the full year to June 30, 2019. The result was primarily driven by the reduced valuation of our investment in Namoi Cotton. Our operating costs and business development costs have been maintained at similar levels to last year, reflecting our ongoing frugal approach to expenses.

Our stated Net Tangible Assets ("NTA") at June 30, 2019 was 40 cents per share compared to 60 cents a share at June 30, 2018. It remains our objective to develop a business that is valued on earnings and earnings potential along with creating value in the investments we own. I will now discuss our initiatives and progress on these objectives.

Namoi Cotton Investment

We have held our overall shareholding at 13,471,111 shares in the Namoi Cotton Limited, which represents a 9.6% holding of the currently issued ordinary shares. The company paid a dividend of 1.9 cents per share which amounted to a total of just over $255,000 on our holding, which was paid in the July 2018, this was earned on the 2018 Cotton season. Our Executive Chairman joined the board of Namoi Cotton in July 2018. Namoi did not declare a dividend this year due to earnings being impacted by joint venture investments and associates and a poor outlook for the 2020 season.

The NTA of Namoi remains at 93 cents per share and we believe that the valuation of those assets is real. The challenge for Namoi Cotton is to operate the business to achieve returns that support that valuation and for that to be reflected in the company share price. Understandably that is difficult in the current challenging operating climate, however it is the long- term objective of the ARC investment in Namoi.

The Drought and Namoi Cotton

Record low rainfall have now been measured for 2 consecutive years making this current drought the worst in 120 years of record being kept. This has a significant impact on cotton growing in the regions in which Namoi operate. At the Annual General Meeting in late July, Namoi noted that the current year ginning volumes would be about 450,000 bales or 50% of our estimate of long- term sustainable bales (LTSB) of 900,000 bales per annum (noting last year was 1,200,000 bales ginned). Further to this given the ongoing dry, projected ginning volumes for next season of between 160,000 and 220,000 bales or taking the mid- point of 190,000 bales, which is close to 20% of LTSB (900,000 bales). Some upside to this number does exist if a significant rainfall event was to eventuate prior to December which could produce large scale dryland plantings, however this would only bring volumes up to this year's levels.

Australian Rural Capital Limited
ABN 52 001 746 710
c/- Broadley Rees Hogan, Level 24, 111 Eagle Street, BRISBANE QLD 4000
GPO Box 635 BRISBANE QLD 4001 phone: (07) 3223 9170

On the positive side, Namoi is a having a serious look at the cost structure of the business and operating network and this work has started along with the appointment of a new CEO. Namoi is transitioning from a co-operative to a public company which now serves the interests of shareholders. A cultural change in the organisation is to be expected and this is happening, and we at ARC expect Namoi to emerge from these difficult operating conditions as a much more focused business with a both eyes on costs, whilst producing returns on assets employed and still providing the strong grower and customer service it is known for.
The outlook for cotton production and the growth of the industry remains solid with new regions opening in Northern Australia and investors like Macquarie Bank Funds buying cotton farms, indicate to us that cotton is still a solid business when the water is available to grow it.

The consumption of natural fibre continues to grow and is only limited by production, as consumers across the globe demand high quality, ethically produced fibre in garments as opposed to plastic based synthetic fibre or those produced under modern slavery conditions. A serious opportunity exists for Australian Cotton to leverage the sophisticated supply chain and traceability it has developed into better quality markets and improve both pricing and margins for our product.

The Murray Darling Basin Plan

A great deal of media attention has been focused on the actions of irrigators and irrigation companies and the resultant environmental impact of these actions to the Murray Darling Basin. A small number of operators have been found to be not complying with the rules and have been legally prosecuted, but this is a small minority and the enforcement of regulation has acted to stop this behavior.

However, some of this reporting has also been factually incorrect and at times misleading to the reader, as this is a complex issue. Water used for irrigation purposes is a very regulated resource with strict rules and measures to ensure environmental flows are enabled prior to any water being used for irrigation purposes. This is the fundamental premise of the Basin Plan and compliance to this plan has continued.

The reality remains that the most significant impact on the Murray Darling Basin in the past two years is the continuing record drought, conditions never experienced before in 120 years. The Darling River which sources its flows from Queensland and New South Wales is dry. Therefore, no water is flowing from the Darling River into the Murray River.

Funds Management Opportunity

Following up from our half year this activity will be driven on a deal by basis, as opposed to raising for a fund. We have not been able to source any deals in the past 6 months that stack up for us or we would recommend to investors. This remains a focus of our business but at present no activity to report.

Cattle Market and Livestock Financing

This drought has also had considerable impact on the national beef cattle herd and particularly the proportion of female cattle, (being current and future breeders) being slaughtered. This means that the cattle supply equation is becoming increasing tight as this year continues and coupled with ongoing strong demand for Australian beef and strong international pricing this is manifesting itself in a strong upward movement on cattle prices. The EYCI now trades 530 cents per kg, with market analysts expecting a move upward to 800 cents per kg over the next 12 months, (having previously reached just over 700 cents per kg in late 2016) if and when the drought breaks and re stocker demand also enters the market.

This would lead you to believe that sourcing debt funding options for this type of lending would be available at reasonable costs and we continue to seek out sources of capital to fund a lending book in this space. Realistically we require debt funding at the cost of 7% to 8% to enable us to be competitive and profitable in this space. This has yet to forth coming but discussions continue.

Cash Levels and Directors Fees
Cash levels are now at $250,000 which provides enough working capital for the next 12 months excluding paying director’s fees. Therefore, in order to preserve cash, we have suspended all cash payments for Directors fees excluding superannuation contributions from July 1, 2019. In the absence of any future capital raising, the Directors have taken the step to accept shares as opposed to cash as remuneration for the period from July 1, 2019 to June 30, 2020. This resolution will be put to shareholders at our Annual General Meeting in October for your approval. We understand this is not a long- term solution to cashflow generation, however under the abnormal conditions of the drought and our lack of dividend income we believe this to be a prudent approach for this period. We do envisage we will in the future, raise some new equity capital to help fund working capital and potentially an investment, and this current approach allows us the opportunity to take time to execute on that requirement.

Summary
I wish to thank all the efforts, work and wise counsel and input of my fellow directors and our company secretaries for their contributions and continued quality input to our decision making. This was a year that started with promise but has been more difficult as the drought took grip. We are mindful we need to grow out of this phase and at the same time preserve shareholder value. We believe we are on this path which also requires a long- term approach.

Finally, the Board wishes to thank all our shareholders for your interest and support over the year and we look forward to reporting more progress soon.

Yours Sincerely,

James A Jackson
Executive Chairman
August 15, 2019