

Full Year 2020 Results Update to Shareholders

- **Loss of \$1.15 million due to lower Namoi Cotton share-price**
- **NTA of ARC now at 31 cents compared to 40 cents last year**
- **Drought impacts Namoi value, we now estimate a value of 75 cents a share**
- **Namoi Cotton to right size business, remove surplus ginning capacity**
- **Cotton Industry Consolidation Opportunity being worked upon**
- **ARC proposed business acquisition does not complete**
- **No more working capital to be expended on Business Development**
- **Evaluating Proposed Return of Capital to Shareholders**

The board reports an after-tax loss of \$1,148,706 for the full year to June 30, 2020. The result was primarily driven by the reduced valuation of our investment in Namoi Cotton which I cover further below. Our listing and public company operating costs of approximately \$200,000 and business development costs of \$250,000 on a specific acquisition were the cash outlays. Our directors did not receive any cash fees for the period, shares were issued for fees, which were also expensed.

Our stated Net Tangible Assets (“NTA”) at June 30, 2020 was 31 cents per share compared to 40 cents a share at June 30, 2019. This is disappointing but not unexpected given the poor share-price performance of our main investment in Namoi Cotton. It has remained our objective to develop a business that is valued on earnings and earnings potential along with creating value in the investments we own, however, to date we have yet to achieve this.

Namoi Cotton Investment

We continue to hold the 9.6 % stake in Namoi Cotton. This investment valued as per the trading share price has been significantly impacted by the worst drought in 160 years, which has reduced cotton crops and therefore Namoi Cottons processing and marketing volumes to levels of 15% of long-term industry averages.

We estimate the cash break even for Namoi Cotton to be approximately 475,000 bales of cotton to be ginned each season, this compares to the long- term sustainable average gin volumes of circa 900,000 bales per season. The current season Namoi will gin circa 140,000 bales. The outlook for next year is for volumes around break- even levels, so the share price remains subdued.

This operating environment has caused Namoi to undertake some significant restructuring which will provide future benefits not seen today, however it will never replace the 2 years of earnings lost due to the drought. I wish to acknowledge one of the learnings from this experience has been the potential of a drought impact was underestimated by myself. Droughts are not a short- term event, they impact for at least 3 years. The year going into the drought saps confidence and growth plans are put on hold. The year of the drought, and it could last more than a year is negative cashflow and just staying alive. It takes another year to achieve recovery. I do believe Namoi is past the worst in this cycle, but it has reduced the NTA of Namoi on our estimates now down to 75 cents a share.

However, we must also not lose sight of the opportunities in these circumstances, and such conditions do highlight the structural and strategic weaknesses in an industry and business. In the case of Namoi, we believe the Australian cotton ginning space has around 1 million bales of surplus ginning capacity that puts a lid on ginning pricing and hence ginning returns.

Namoi needs to move rationalise and remove smaller gins from their portfolio and focus the business on larger gins processing greater than 125,000 bales per annum that generate free cash. Secondly, at some point Namoi will need to repair it's balance sheet. We think it makes sense for Namoi to first divest and close the lower returning gins and other non- strategic assets to right size the business and use the proceeds to reduce debt prior to raising any new equity at current levels.

Cotton Industry Consolidation

We also believe further industry consolidation is inevitable as it continues at pace on the cotton growing side. This option could create scale efficiencies and achieve greater geographic crop spread to mitigate climate risk for the Ginning participants. These initiatives could create value for Namoi, and we have been working on communicating these to the company and other interested parties, as we continue to believe at 32 cents the shares are significantly undervalued when compared to the asset value of circa 75 cents a share.

Business Acquisition

In our Half Year results we noted we were pursuing an opportunity and were undertaking due diligence. This business was the entire Ginger operations of the ASX listed Buderim Group. Following extensive exclusive due diligence and analysis at considerable expense and having obtained suitable debt funding our offer was finally overbid by 40% by another party as the transaction became public.

Strategic Direction and Proposed Return of Capital

We acknowledge that over the past 5 years, we have been unsuccessful in securing a business to acquire, or assets to manage to create a recurring source of income. This has not come about from lack of attempts but more an inability to complete. We understand that in the interests of the preservation of shareholders capital, that no more working capital is to be expended on business development.

Therefore, we have commenced a process to consider the options for a capital return of the assets of the company, (which are primarily Namoi Cotton shares) to shareholders. This process has numerous implications for the ongoing listing of the company shares on the ASX, which will also be considered in this process as we seek to maximise the value of our shareholder's interests. We will be updating you when appropriate with further details on these plans.

Summary

I again, wish to give thanks for all the efforts, work, wise counsel and input from my fellow director's Darren and Wayne in a year that has been both demanding and promising but ultimately disappointing. We have remained resolute on our goal in preserving value and recognising our situation realistically and this brings us to our current state.

I also wish to thank our company secretaries for their contributions and our various advisers with whom we have worked with over the past year for your help.

Finally, the Board wishes to thank all our shareholders for your interest and support in a tough year.

Yours Sincerely,



James A Jackson

Executive Chairman
August 20, 2020

For Further Details contact:

James Jackson,

Executive Chairman

Mobile: 0402435762 Email: james.jackson@ruralcapital.com.au

This release was authorised by the Board of Australian Rural Capital Limited.