

24 December 2020

The Manager
Market Announcements Office
ASX Limited

**Notice of Annual General Meeting update and clarification of process for Overseas Shareholders
(Section 6.17)**

The Company wishes to advise that the Notice of Annual General Meeting (AGM) is updated for clarification of process for overseas shareholders – section 6.17 of the Explanatory Memorandum has been replaced and the revised section is contained in the attached Notice of AGM.

By order of the Board of Directors.



James Jackson
Executive Chairman

For further details contact:

James Jackson
Executive Chairman
Mobile: 0402435762
Email: james.jackson@ruralcapital.com.au



AUSTRALIAN RURAL CAPITAL LIMITED

ACN 001 746 710

NOTICE OF ANNUAL GENERAL MEETING

TIME: 11:00 AM AEST (Brisbane time)/12:00pm AEDT

DATE: 29 January 2021

PLACE: Held by online means, via Zoom, registrations via:
<https://us02web.zoom.us/j/83980563420>

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 (0) 3 8689 9997

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IMPORTANT INFORMATION

Time and place of meeting

Notice is given that an Annual General Meeting of the Members of Australian Rural Capital Limited ACN 001 746 710 (**ARC** or the **Company**) will be held on Friday, 29 January 2021 at **11.00am AEST (Brisbane time) / 12.00pm AEDT** by videoconference (**Meeting**). The online Meeting link is available below.

Your vote is important

The business of the Meeting affects your shareholding and your vote is important.

Voting eligibility

In accordance with section 1074E(2)(g)(i) of the *Corporations Act 2001* (Cth) (**Corporations Act**) and Regulation 7.11.37 of the Corporations Regulations and ASX Settlement Operating Rule 8.3.1(a), the Company has determined that for the purposes of the Meeting all Shares will be taken to be held by the persons who, according to records of the Company's Share registrar, held them as registered Shareholders at 7:00pm AEDT, Wednesday 27 January 2021.

Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Voting in person

To vote in person, attend the Meeting at the time and date set out above and in the manner set out as follows.

How to join online

The Company advises that due to the Australian Government's restrictions with respect to in response to the COVID-19 pandemic, ARC has determined that it would be prudent for the 2020 Annual General Meeting of Shareholders to be held online only.

The Meeting will be held by virtual means via a live Zoom teleconference with strictly no Shareholders in physical attendance.

The Board encourages Shareholders to monitor the ASX and the Company's website for any updates in relation to the Meeting that may need to be provided. In the meantime, the Board encourages Shareholders to submit their proxies as early as possible, even if they intend to attend the virtual Meeting, as the situation may change (e.g. there may be restrictions on how the Meeting itself may be held or conducted).

Shareholders will be able to attend the Meeting by going to <https://us02web.zoom.us/j/83980563420> using their web browser or internet enabled device. To join the Zoom Meeting, please click on the link below.

Join Zoom Meeting: <https://us02web.zoom.us/j/83980563420>

Meeting ID: **83980563420**

One tap mobile: +61280156011,,83980563420# Australia
+61370182005,,83980563420# Australia

Dial by your location +61 2 8015 6011 Australia

+61 3 7018 2005 Australia +61 7 3185 3730 Australia

+61 8 6119 3900 Australia +61 8 7150 1149 Australia

Find your local number: <https://us02web.zoom.us/j/83980563420>

Attendee registration by Zoom teleconference facility will be available between 10:30am and 11:00am AEST (Brisbane time)/11:00am and 12:00pm AEDT on the day of the Meeting which will be conducted by the Company's Share registry via Zoom online.

In order to provide for an efficient virtual Meeting, we request that any questions from Shareholders are provided to the Company Secretary at least 48 hours in advance of the Meeting. We also strongly recommend that all Shareholders lodge their votes via the Company's Share register platform prior to 11.00am AEST (Brisbane time)/12:00pm AEDT on Wednesday 27 January 2021 or by appointing a proxy prior to 11.00am AEST (Brisbane time)/12:00pm AEDT on Wednesday 27 January 2021.

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- any Shareholder entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend and vote instead of that Shareholder;
- the proxy does not need to be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the Shareholder's votes.

Shareholders and their proxies should be aware that under the Corporations Act:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chairman, who must vote the proxies as directed.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;
- if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (that is, as directed); and
- if the proxy is not the chair, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (that is, as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
- the appointed proxy is not the chair of the meeting;
- at the meeting, a poll is duly demanded on the resolution; and

- either of the following applies:
 - the proxy is not recorded as attending the meeting; or
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

Proxy requirements

Proxies must be:

- lodged at the Company's Share registry, Boardroom Pty Limited; or
- faxed to the fax number specified below

not later than 11.00am AEST (Brisbane time) or 12.00pm (AEDT) on Wednesday 27 January 2021.

Address (postal deliveries): c/-Boardroom Pty Limited, GPO Box 3993, Sydney NSW, 2001 Australia

Fax number for lodgement: +61 2 9290 9655

By electronic lodgement: <https://www.votingonline.com.au/arcagm2020>

In accordance with instructions provided on the proxy form you will need your postcode or country of residence (if your registered address is outside of Australia) as well as your Voting Access Code (**VAC**) to lodge your proxy vote online.

The proxy form has been enclosed with this Notice. Please read all instructions carefully before completing the proxy form.

Voting intentions

Subject to any voting restrictions and exclusions, the Chairman intends to vote in favour of all Resolutions on the agenda.

In respect of undirected proxies, subject to any voting restrictions and exclusions, the Chairman intends to vote in favour of all Resolutions on the agenda.

Questions and comments by Shareholders at the Meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to Shareholders as a whole to ask questions or to make comments on the management of the Company at the Meeting. Due to the current global pandemic and the limitations of the available technology, relevant written questions must be submitted no later than 11.00am (AEDT) on Wednesday, 27 January 2021 via markl@mertons.com.au

A list of those questions will be made available to Shareholders attending the Meeting. A representative who has been designated by management of the Company will either answer questions at the Meeting or table written answers to them at the Meeting. If written answers are tabled at the Meeting, they will be made available to Shareholders as soon as practicable after the Meeting.

DEFINITIONS

Capitalised terms in this Notice and Explanatory Memorandum are defined either in the Glossary section or where the relevant term is first used.

RESPONSIBILITY

This Notice of Meeting and Explanatory Memorandum has been prepared by the Company under the direction and oversight of its Directors.

MATERIAL INFORMATION

There is no information known to the Company that is material to the decision by a Shareholder on how to vote on Resolution 4 other than as disclosed in this Notice of Meeting and the Explanatory Memorandum, and information that the Company has previously disclosed to Shareholders.

Shareholders should note that this Notice of Meeting and Explanatory Memorandum is not a prospectus lodged under Chapter 6D of the Corporations Act.

PURPOSE OF THIS DOCUMENT

The main purpose of this Notice of Meeting is to:

- set out all information which the Company considers relevant to a Shareholder's decision on how to vote on the Resolutions; and
- explain the terms of the proposed In-specie Distribution, and the manner in which the In-specie Distribution will be implemented (if approved), and to provide such information as is prescribed or otherwise material to the decision of Shareholders whether or not to approve Resolution 3 to give effect to the In-specie Distribution.

This document includes a statement of all the information known to the Company that is material to Shareholders in deciding how to vote on Resolution 3, as required by Section 256C(4) of the Corporations Act.

ASIC AND ASX

A final copy of this Notice of Meeting and Explanatory Memorandum has been lodged with ASIC and ASX. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this Notice of Meeting.

FORWARD LOOKING STATEMENTS

Some of the statements appearing in this Notice may be in the nature of forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely',

'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and similar expressions are intended to identify forward-looking statements.

Indications of guidance on sales, capital expenditure, earnings and financial position and performance are also forward-looking statements. The forward-looking statements in this Notice are based on reasonable grounds, however you should be aware that such statements are only predictions and are subject to inherent risks and uncertainties, many of which are outside the Company's control.

Those risks and uncertainties include factors and risks specific to the Company and Namoi Cotton such as (without limitation) liquidity risk, risks associated with the cotton production and ginning, funding risks, operational risks, changes to Government fiscal, monetary and regulatory policies, regulatory approvals, the impact of actions of Governments, the potential difficulties in enforcing agreements, protecting assets and increases in costs of transportation and shipping of international operations, alterations to production estimates and targets, any circumstances adversely affecting areas in Queensland and New South Wales (or any of them), fluctuations in the production, volume and price of cotton, any imposition of significant obligations under environmental regulations, fluctuations in exchange rates, the fluctuating industry and cotton market cycles, the impact of inflation on operating and development costs, taxation, regulatory issue and changes in law and accounting policies, the adverse impact of wars, terrorism, political, economic or natural disasters, impact of changes to interest rates, loss of key personnel and delays in obtaining or inability to obtain any necessary Government approvals, the ability to service existing debt and to refinance debt to meet expenditure needs and any future acquisitions, any increased competition, insurance and occupational health and safety. For more information on the risk factors facing Namoi Cotton, please refer to Schedule 1.

Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and such deviations are both normal and to be expected. The forward-looking statements in this Notice reflect views held only as at the date of this Notice.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected.

None of the Company, Namoi Cotton nor any of their respective officers or any person named in this Notice or involved in the preparation of this Notice make any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, and you are cautioned not to place undue reliance on those statements.

The forward looking statements in this Notice reflect views held only as at the date of this Notice.

NO FINANCIAL PRODUCT ADVICE

This Notice does not constitute financial product, taxation or investment advice nor a recommendation in respect of the Namoi Cotton Shares. It has been prepared without taking into account the objectives, financial situation or needs of Shareholders or other persons.

Before deciding how to vote or act, Shareholders should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances.

Neither the Company nor Namoi Cotton is licensed to provide financial product advice. No cooling-off regime applies in respect of the acquisition of Namoi Cotton Shares under the In-specie Distribution (whether the regime is provided for by law or otherwise).

NO INTERNET SITE IS PART OF THIS DOCUMENT

No internet site is part of this Notice of Meeting and Explanatory Memorandum. The Company maintains an internet site (<https://www.ruralcapital.com.au/>). Any reference in this Notice to this internet site is a textual reference only and does not form part of this document.

RECOMMENDATIONS

Your Directors unanimously recommend the approval of the proposed Resolutions 3 and 4, and encourage Shareholders to vote **IN FAVOUR OF** Resolutions 3 and 4.

In forming their unanimous recommendation in respect of Resolutions 3 and 4, the Directors have carefully considered the following matters:

- (a) Shareholders will continue to retain their current percentage ownership interest in the capital of the Company.
- (b) All Shareholders will collectively obtain an 8.29% interest in the ordinary shares of Namoi Cotton and an 8.17% interest on a fully diluted basis including Namoi Cotton ordinary shares and residual capital stock.
- (c) As Namoi Cotton is listed on ASX, there will be a liquid market for Shareholders to facilitate trading of the Namoi Cotton Shares.
- (d) Namoi Cotton, as a company whose shares are quoted on ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations and Shareholders will be afforded the shareholder protections provided by the ASX Listing Rules.

The Directors have also considered the following potential disadvantages:

- (a) Shareholders may incur additional transaction costs.
- (b) Shareholders will become holders of Namoi Cotton Shares and the objectives and interests of Namoi Cotton may not align with those of Shareholders.
- (c) There is no guarantee that the Namoi Cotton Shares will rise in value.
- (d) Shareholders may incur additional transaction costs if they wish to dispose of their new investment in Namoi Cotton (e.g. brokerage costs).
- (e) There may be a taxation implications in respect of the distribution of the Namoi Cotton Shares to the Shareholders. Details of the possible general taxation effect of the transaction are set out in section 6.19 of this Explanatory Memorandum.

- (f) As a result of the return of capital, the Company may forego a sizeable percentage of the premium it might have received from a person seeking to acquire a controlling stake in Namoi Cotton.

Having regard to each of the above matters, the Directors consider that, on balance, the In-specie Distribution of Namoi Cotton Shares to Shareholders is in the best interests of Shareholders as the Directors believe that the Company will be able to provide greater value to the Shareholders through the In-specie Distribution.

INDICATIVE TIMETABLE

Key Dates*

| | |
|--|------------------|
| General Meeting to approve the disposal of the Company's main undertaking, reduction of capital, and In-specie Distribution of Namoi Cotton Shares | 29 January 2021 |
| ASX informed of Shareholder decision | 29 January 2021 |
| Record Date* | 4 February 2021 |
| In-specie Distribution to Shareholders of Namoi Cotton Shares* | 10 February 2021 |

*** Note: These dates are indicative only and may change without notice. Refer to Section 6.3 for further details.**

BUSINESS OF THE MEETING

AGENDA

1. Chairman's address

Report on results and activities during the financial year.

2. Financial statements and reports

To receive and consider the Company's audited financial statements and reports for the year ended 30 June 2020.

3. Adoption of remuneration report

Resolution 1

To consider, and if thought fit, to pass the following Resolution as a non-binding ordinary Resolution:

"That the Company adopt the remuneration report for the year ended 30 June 2020 in accordance with Section 250R (2) of the Corporations Act."

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting exclusion statement: The Company will disregard any votes cast on this Resolution 1 by or on behalf of a member of the Company's Key Management Personnel whose remuneration details are disclosed in the remuneration report, or by or on behalf of a Closely Related Party, in any capacity unless the vote is cast:

- (a) by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) by the Chairman of the Meeting as a proxy for a person entitled to vote and the Chairman has received express authority to vote undirected proxies as the Chairman sees fit.

The Chairman will vote all undirected proxies in favour of this Resolution 1.

4. Re-election of Director - Mr Wayne Massey

The ASX Listing Rules and the Constitution of the Company require each Director to be re-elected every three years and also that an election of Directors be held each year.

Mr Wayne Massey was originally appointed a Director of the Company on 14 December 2015. He will retire in accordance with clause 17.5 of the Company's Constitution and, being eligible, has offered himself for re-election.

Resolution 2

To consider, and if thought fit, to pass the following Resolution as an ordinary Resolution:

"That Mr Wayne Massey, being eligible, be re-elected as a Director of the Company".

5. Disposal of the main asset of the company being the majority of Namoi Cotton shares held by the Company

Resolution 3

To consider and, if thought fit, pass the following Resolution as an ordinary Resolution:

"Approval is given for the Company to undertake the disposal of 11,651,616 Shares of the issued share capital held by the Company in Namoi Cotton Limited, on the terms and conditions set out in in the Explanatory Memorandum".

Voting exclusion statement: The Company will disregard any votes cast in favour of Resolution 3 by or on behalf of:

- the named person or class of persons excluded from voting; or
- an associate of that person or those persons;
- a counterparty to the transaction that, of itself or together with one or more other transactions, will result in significant change to the nature or scale of the entity's activities and any other person who will obtain a material benefit as a result of the transactions (except a benefit solely by reason of being a holder of ordinary securities in the entity);
- the acquirer of the entity's main undertaking and any other person who will obtain a material benefit as a result of the disposal of the entity's main undertaking (except a benefit solely by reason of being a holder of ordinary securities in the entity); and
- a person whose votes, in ASX's opinion, should be disregarded.

However, this does not apply to a vote cast in favour of a resolution by:

- a person as a proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

The Chairman will vote all undirected proxies in favour of this Resolution 3.

6. Approval for an equal Capital Reduction and In-specie Distribution

Resolution 4

To consider and, if thought fit, pass the following Resolution as an ordinary Resolution:

“That, subject to the passing of Resolution 3, for the purposes of sections 256B and 256C of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the capital of the Company to be reduced by the Company making a pro-rata In-specie Distribution of up to approximately 11,651,616 of the approximately 12,700,000 fully paid ordinary shares held by the Company in Namoi Cotton Limited to all the Shareholders of the Company on the Record Date (rounded down to the nearest whole Namoi Cotton Share), with the consequence that each Shareholder on the Record Date shall be deemed to have consented to becoming a Namoi Cotton Shareholder and being bound by its constitution, on the terms and conditions set out in the Explanatory Memorandum”.

7. Other business

To consider any other business that may lawfully be brought forward in accordance with the Constitution of the Company or the law.

8. Other information

An Explanatory Memorandum accompanies and forms part of this Notice of Meeting.

All Shareholders should read the Explanatory Memorandum carefully and in its entirety. Shareholders who are in doubt regarding any part of the business of the Meeting should consult their financial adviser or legal adviser for assistance.

Dated: 24 December 2020

By order of the Board

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

James Jackson
Executive Chairman

EXPLANATORY MEMORANDUM

(This Explanatory Memorandum forms part of the Notice of Meeting)

This Explanatory Memorandum provides further information for members in respect of the Resolutions to be considered at the Annual General Meeting of Australian Rural Capital Limited (**ARC** or the **Company**) to be held at 11.00am AEST (Brisbane time)/12:00pm (AEDT) on **29 January 2021** via videoconference (the **Meeting**). The online Meeting link will be available from: www.ruralcapital.com.au and is available in the Notice of Meeting.

This Explanatory Memorandum has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

This Explanatory Memorandum should be read in conjunction with, and forms part of the accompanying Notice of Meeting. The purpose of this Explanatory Memorandum is to provide such information as is prescribed or otherwise material to Shareholders in deciding whether or not to pass the Resolutions set out in the Notice.

This Notice includes a statement of all the information known to the Company that is material to Shareholders in deciding how to vote on Resolution 4, as required by Section 256C(4) of the Corporations Act.

1. Chairman's Address

Report on results and activities during the financial year.

2. Financial statements and reports

Under s317 of the Corporations Act, ARC is required to lay its annual financial report, directors' report and remuneration report before its Shareholders at its Annual General Meeting. The annual financial report is submitted for Shareholders' consideration and discussion at the Annual General Meeting as required. Meeting attendees are invited to direct questions to the Chairman in respect of any aspect of the report they wish to discuss. There is no requirement for Shareholders to approve the reports.

Representatives of ARC's auditor, Bentleys Brisbane (Audit) Pty Ltd, will be present for discussion purposes on matters of relevance to the audit.

Shareholders can access a copy of the annual report from: www.ruralcapital.com.au

3. Resolution 1 – Adoption of remuneration report

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 1. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 1.

Resolution 1 provides Shareholders the opportunity to vote on ARC's remuneration report. The remuneration report is contained in the Directors' report. Under s250R(2)

of the Corporations Act, ARC must put the adoption of its remuneration report to a vote at its annual general meeting.

This vote is advisory only and does not bind the Directors or ARC.

The Board will consider the outcome of the vote and comments made by Shareholders on the remuneration report at this Meeting when reviewing ARC's remuneration policies. If 25% or more of the votes that are cast are voted against the adoption of the remuneration report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a ***spill resolution***) that another meeting be held within 90 days at which all of ARC's Directors other than the Executive Chairman must be offered up for election.

Key management personnel (including Directors) and their Closely Related Parties must not cast a vote on the remuneration report, unless as holders of directed proxies for Shareholders eligible to vote on Resolution 1.

ARC encourages all Shareholders to cast their votes on this Resolution. The Chairman will vote all undirected proxies in favour of this Resolution. If you wish to vote "against" or "abstain" you should mark the relevant box in the attached proxy form.

The Board recommends that Shareholders vote in favour of this advisory Resolution 1.

4. Resolution 2 – Re-election of Mr Wayne Massey as a Director

Board recommendation and undirected proxies. The Board recommends that Shareholders vote in **FAVOUR** of Resolution 2. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 2.

Under Clause 17.5 of ARC's Constitution, Wayne Massey, retires by rotation. Mr Massey, being eligible, offers himself for re-election by Shareholders as a Director of the Company.

Resolution 2 therefore provides for the re-election of Wayne Massey as a Director of ARC in accordance with ARC's Constitution.

Mr Wayne Massey has occupied a number of senior finance executive positions in the sugar industry since 1998, including a period as Chief Financial Officer of MSF Sugar Ltd from 2008 to 2012 (ASX listed until 2012). During this period the sugar industry experienced a period of deregulation, which was followed by a period of industry consolidation. Mr Massey has experience in mergers and acquisitions, debt management and development of futures and currency capability. He has also held Director positions of unlisted Australian parent and subsidiary companies in the sugar industry in recent years and has been a Director of SMART, an Industry Superannuation Fund.

Mr Massey is not a director of any other listed entities currently or in the last three years.

The Directors (excluding Wayne Massey) unanimously recommend that Shareholders vote in favour of Resolution 2.

5. Resolution 3 - Disposal of the main asset of the Company being the majority of Namoi Cotton Shares held by the Company

5.1 The Company intends to distribute approximately 11,651,616 shares held by the Company in Namoi Cotton by a pro-rata in-specie distribution to the Company's Shareholders in accordance with Resolution 4 (In-specie Distribution).

The In-specie Distribution will only proceed if the Company obtains Shareholder approval under the Corporations Act.

Should approval be obtained, the In-specie Distribution will be implemented by an equal reduction of the Company capital on a pro-rata basis. The Company Shareholders will receive an in specie return of capital by way of the distribution of Namoi Cotton Shares in proportion to the number of the Company Shares held by them at the Record Date. The Company Shareholders will thereby retain direct ownership of the Company and will receive direct ownership of Namoi Cotton.

5.2 Disposal of the majority of Namoi Cotton Shares held by the Company

The Company's primary asset is its investment in fully paid ordinary shares in Namoi Cotton. As at the date of this notice the Company holds 12,700,000 shares in Namoi Cotton, being approximately 9.04% on an undiluted basis of the total shares on issue by Namoi Cotton.

Shareholder approval is sought as the Company proposes to make a significant change to the investments owned by the company and the significant change involves the entity disposing of the majority of the shareholding in Namoi Cotton by way of the In-specie Distribution of 11,651,616 Namoi Cotton shares to shareholders of the Company. This represents approximately 91.75% of the 12,700,000 shares held by the Company in Namoi Cotton. Should the In-specie Distribution be approved by shareholders, the Company will then hold a total of 1,048,384 shares in Namoi Cotton, which would equate to 0.75% of the total Namoi shares on issue on an undiluted basis.

Should the disposal of the Company's Namoi Cotton shares be approved by shareholders and the In-specie Distribution proceed, as per *Schedule 2 ARC Pro-forma consolidated statement of financial position as at 30 November 2020*, the Company's net assets will decline from \$4,005,179 as at 30 June 2020 to \$414,376, being the pro-forma statement of consolidated financial position at 30 November 2020.

Should shareholders approve the In-specie Distribution and the Company will then have six (6) months from the date of approval of the In-specie Distribution to find a new primary asset or assets or the shares of the Company will be suspended from quotation on the ASX.

Accordingly, Resolution 3 seeks Shareholder approval for the proposed disposal of Namoi Cotton Shares by In-specie Distribution by way of an ordinary resolution of the Shareholders of the Company.

5.3 Reason for disposal of the majority of Namoi Cotton Shares

The Directors believe that, following an assessment of the advantages and disadvantages disclosed below, the pro-rata In-specie Distribution is in the best interests of the Company.

Potential advantages of disposal of main undertaking

- (a) Shareholders will continue to retain their current percentage ownership interest in the capital of ARC.
- (b) All Shareholders will collectively retain a 9.04% interest in Namoi Cotton.
- (c) All Shareholders will maintain the opportunity to participate in the business of Namoi Cotton through their:
 - (i) direct interest in Namoi Cotton;
 - (ii) indirectly via their direct interest in ARC.
- (d) As Namoi Cotton is listed on ASX, there will be a liquid market for Shareholders to facilitate trading of the Namoi Cotton Shares.
- (e) Namoi Cotton, as a company whose shares are quoted on ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations and Shareholders will be afforded the shareholder protections provided by the ASX Listing Rules.
- (f) Shareholders interests in Namoi Cotton will be preserved from any potential future dilution or reduction in interest from potential share issues or share sales of Namoi Cotton by ARC.

Potential disadvantages of disposal of main undertaking

The potential disadvantages to the Shareholders of approving Resolution 3 are:

- (a) the Company will reduce its interest in Namoi Cotton;
- (b) the Company will be undertaking the disposal of the majority of its main asset, which may not be consistent with the investment objectives of all Shareholders;
- (c) the Company will lose its potential income earning asset;
- (d) the disposal may affect the Company's ability to remain listed on the ASX, as it may no longer comply with the requirements of the listing rules and the Company will have six (6) months from the date of approval of the In-specie Distribution to find a new main asset or assets or the shares of the Company will be suspended from quotation on ASX.

- (e) As a result of the pro-rata In-specie Distribution, the size of the Company's asset base and operating activities will reduce significantly; and
- (f) the Company will continue to incur various costs and such costs may contribute to the erosion of Shareholder value.

5.4 Material terms of the pro-rata In-specie Distribution

The material terms of the In-specie Distribution are contained below in section 6 of this Explanatory Memorandum.

5.5 Effect of the pro-rata In-specie Distribution

- (a) Effect of the pro-rata In-specie Distribution on the assets of the Company

The Company presently holds 12,700,000 Shares in Namoi Cotton. Upon completion of the pro-rata In-specie Distribution of Namoi Cotton Shares the Company will hold approximately 1,048,384 Shares in Namoi Cotton.

- (b) Effect of the pro-rata In-specie Distribution on the Board and management

The pro-rata In-specie Distribution will not result in any change to the composition of the Board.

- (c) Effect of the pro-rata In-specie Distribution on the capital structure

The number of Shares on issue in the Company will remain unchanged as a result of the pro-rata In-specie Distribution.

- (d) Effect of the pro-rata In-specie Distribution on the corporate structure

The corporate structure will remain unchanged as a result of the pro-rata In-specie Distribution.

- (e) Tax impact of the pro-rata In-specie Distribution

Refer section 6.16 of this Explanatory Memorandum.

- (f) Goods and services tax (GST)

The pro-rata In-specie Distribution should not be subject to GST on the basis that it should qualify as a supply of a going concern.

- (g) The Company's intentions post completion of the pro-rata In-specie Distribution

- (i) consider other investment opportunities; and
- (ii) consider any further distribution or capital return to Shareholders in addition to the Capital return proposed under Resolution 4.

5.6 Additional information

- (a) Indicative timetable

Refer to the indicative timetable on page 9.

(b) Implications if the In-specie Distribution does not proceed

If the In-specie Distribution does not proceed the Company will maintain its existing 9.04% shareholding interest in Namoi Cotton.

(c) Directors' interests

The Directors do not have any material interest in the outcome of Resolutions 3 and 4 other than as a result of their interest arising solely in the capacity as Shareholders.

No Director will receive any payment or benefit of any kind as a consequence of the pro-rata In-specie Distribution other than in their capacity as a Shareholder, and as proposed under Resolution 4.

See section 6.10 of the Explanatory Memorandum for the details of the Directors' and their personal related entities' relevant interest in Shares as at the date of the Explanatory Memorandum.

(d) The Company's Share price

The table below provides a general indication of the historical trading price of Shares and the trading volume of Shares in the last 52 weeks as at 21 December 2020:

| | |
|-----------------------------------|---------------|
| Closing price on 21 December 2020 | AUD 0.40 |
| 52 week high | AUD 0.40 |
| 52 week low | AUD 0.20 |
| Average daily volume | 54,755 Shares |

5.7 Other material information

ASX announcements

The Company is a "disclosing entity" for the purposes of section 111AC of the Corporations Act. As such, it is subject to regular reporting and disclosure obligation. These disclosure obligations require the Company to disclose to the ASX any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Since the announcement of the results of the Company's last Annual Report on 20 August 2020, the Company has made the following announcements:

| Date | Announcement |
|-------------------|---|
| 9 December 2020 | Change in substantial holding |
| 17 November 2020 | Shareholder Update - Capital Reduction and Proposed ROC |
| 2 November 2020 | 2020 Annual General Meeting |
| 16 October 2020 | Quoted Options Cancellation Notice |
| 28 September 2020 | Becoming a substantial holder |
| 16 September 2020 | Postponement of Annual General Meeting Date |

Further information can also be found on the Company's website:

<https://www.ruralcapital.com.au/investors-centre>

5.8 Directors' Recommendation

The Directors unanimously recommend to Shareholders that they vote in favour of Resolution 3 at the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 3.

6. Resolution 4 – Approval for an equal reduction of capital and in-specie distribution

Please note that Resolution 4, the approval for an equal reduction of capital and in-specie distribution is dependent upon Shareholders present at the Annual General Meeting voting in favour of Resolution 3, the disposal of the main asset of the Company being the majority of the Namoi Cotton shares held by the Company. Should the Shareholders present at the Meeting not pass Resolution 3 then it will not be possible to proceed to Resolution 4.

6.1 Background and overview of the Capital Reduction and In-specie Distribution

(a) ARC

ARC is an ASX listed public company whose primary activities are the investment and management of investment in agribusiness and agriculture.

The main asset held by the Company is its 9.04% stake in Namoi Cotton. It was noted in the Company's Annual Report that the investment value in NAM has been significantly impacted by the worst drought in 160 years, which has reduced cotton crops and therefore NAM's processing and marketing volumes to levels of 15% of long-term industry averages.

During the past financial year the Company undertook an extensive exclusive due diligence and analysis on the entire Ginger operations of Buderim Group Limited (ASX: BUG) the Company's offer was overbid by another party as the proposed transaction became public.

The Board acknowledges that the Company has been unsuccessful in securing a business or assets to acquire, or assets to manage to create a recurring source of income.

(b) Namoi Cotton Limited

Namoi Cotton Limited (ACN 010 485 588) is an ASX listed public company whose core business is cotton ginning and the marketing of cotton via the Namoi Cotton Alliance (**NCA**) joint venture. The principal activities of the entities in the Namoi Cotton consolidated group as specified in the Annual Report to Shareholders for the year ended 29 February 2020¹ were the ginning and marketing of cotton including its by products such as cotton seed and moss/mote.

In October 2020, Namoi Cotton completed the restructure of its joint venture partnership, NCA with Louis Dreyfus Company (LDC). The restructured joint venture consists of two partnerships, NCA and a new partnership called Namoi Cotton Marketing Alliance (**NCMA**).

The restructure will reduce the overall exposure to cotton lint trading volatility and associated debt, whilst improving its ginning and associated service offerings for current Australian cotton growers.

Namoi Cotton has 12 operational cotton gins located from Goondiwindi (QLD) through to Hillston (NSW).

Namoi Cotton is the renowned industry leader in achieving processing efficiencies through ginning technology, research and development and in-house servicing teams. Through NCA, Namoi Cotton is also well regarded in international markets for the provision of high quality Australian cotton.

Namoi Cotton is a "disclosing entity" for the purposes of section 111AC of the Corporations Act. As such, it is subject to regular reporting and disclosure obligation. These disclosure obligations require the Company to disclose to the

¹ Namoi Cotton Limited, "2020 Annual Report for NAM" (29 April 2020), accessible at <https://www.namoicotton.com.au/investors/annual-reports/>

ASX any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Since the announcement of the results of the Namoi Cotton's last Half Year Report on 27 October 2020, Namoi Cotton has made the following announcements:

| Date | Announcement |
|------------------|---|
| 18 December 2020 | Quarterly Activities Report |
| 18 December 2020 | Quarterly Cashflow Report |
| 16 December 2020 | Appendix 3G |
| 1 December 2020 | Appendix 2A – Residual Capital stock conversion |
| 4 November 2020 | Change of Director's Interest Notice |
| 3 November 2020 | Appendix 2A |
| 29 October 2020 | Renewal of debt facilities |
| 29 October 2020 | NCA restructure completed |
| 27 October 2020 | Half Yearly Report and Accounts |

Further information can also be found on the Company's website:
<https://www.namoicotton.com.au/investors/>

(c) Scale-Back

Having regard to the particular circumstances of the Company at the anticipated Record Date, including, but not limited to, the potential for a material capital gains tax liability to arise for the Company upon effecting the distribution, the Directors reserve the right to scale-back the number of Namoi Cotton Shares which are distributed pro-rata to Shareholders.

The In-specie Distribution will be effected by an equal reduction of ARC's capital on a pro rata basis. ARC Shareholders will receive an in-specie return of capital by way of the distribution of Namoi Cotton Shares in proportion to the number of ARC Shares held by them at the Record Date. ARC Shareholders will obtain ownership in Namoi

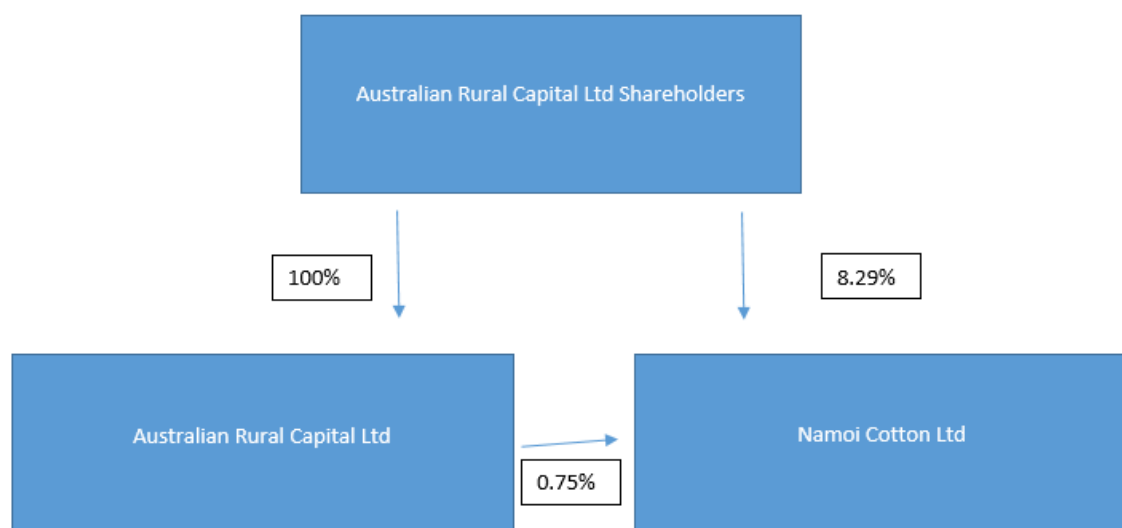
Cotton whilst still maintaining their ownership in ARC which will continue to hold 1,048,384 Namoi Cotton Shares.

Structure diagrams of the proposed arrangements immediately before and after the In-specie Distribution are set out below (assuming the full 11,651,616 Namoi Cotton Shares are distributed to ARC Shareholders).

(d) Current structure Pre In-specie Distribution



(e) Structure post In-specie Distribution



6.2 Namoi Cotton Limited and Board

The names and details of the Directors of the Company in office at the date of this Notice are:

Tim Watson, GAICD.

Mr Watson was appointed to the Board in November 2014 and elected as Chairman in September 2018. He grows cotton in the Hillston area, and has been involved in the cotton industry since 2000.

Joseph Di Leo, M.Bus.Acct. & Fin., FAICD.

Mr Di Leo was appointed to the Board in June 2018. He has an extensive career in agriculture in executive and non-executive roles.

Glen Price, B Rural Science (Hons), GAICD.

Mr Price has been a Board member since July 2009. He has been involved in the cotton industry for 42 years.

Robert Green, B Bus (QAC), MAICD.

Mr Green was appointed to the Board in May 2013. He has extensive knowledge and experience in the international agriculture industry.

Juanita Hamparsum, B Bus (UTS), CA, FPCT, GAICD.

Mrs Hamparsum was appointed to the Board in June 2018. She is a cotton grower from the Breeza area and has extensive experience in accounting and finance, agribusiness and risk management.

Ian Wilton

Mr Wilton is an experienced director and is currently Chair of Elders Limited (ASX:ELD). Mr Wilton brings significant agri-sector experience to the board of Namoi Cotton, having held senior executive positions with GrainCorp Limited, Ridley Corporation Limited and CSR sugar.

6.3 Capital Reduction overview

(a) General

Resolution 4 seeks approval from Shareholders to reduce its issued capital by the distribution of specific assets to Shareholders, being approximately 11,651,616 Namoi Cotton Shares (**Capital Reduction**). Provided approval is obtained from the Company's Shareholders at the meeting and the Company proceeds with the Capital Reduction, it is intended that the Capital Reduction will occur by the Company distribute and transfer approximately 11,651,616 Namoi Cotton Shares in specie to the Company's Shareholders at the record Date, on a pro-rata basis (**In-specie Distribution**).

The holding of Namoi Cotton Shares, being the main assets and primary investment of the Company, the Capital Reduction amounts to a disposal of the Company's main asset.

The capital of ARC is to be reduced by ARC making an In-specie Distribution of up to approximately nine (9) Namoi Cotton Shares for every ten (10) ARC Shares to all holders of ARC Shares on the Record Date (rounded down to the nearest whole Namoi Cotton Share), with the consequence that each Shareholder on the Record Date shall be deemed to have consented to becoming a Namoi Cotton shareholder and being bound by its constitution, on the terms and conditions set out in this Explanatory Memorandum.

ARC's Shareholders will thereby retain direct ownership of ARC and also indirect ownership of ARC's retained shareholding in Namoi Cotton. Corporate structure diagrams of the proposed Capital Reduction immediately before and after the Capital Reduction and In-specie Distribution are set out in sections 6.1(d) and 6.1(e) of the Explanatory Memorandum. See the section 6.11(d) below for further details.

It is proposed that the Company will retain ownership of 1,048,384 Namoi Cotton Shares. As such, upon completion of the Capital Reduction and In-specie Distribution, it is expected that ARC will retain a minimum 0.75% shareholding in Namoi Cotton and an approximate 8.29% interest being held by the ARC's Shareholders directly. This means that post In-specie Distribution, it is anticipated

that ARC's Shareholders will collectively hold an 8.29% direct interest in Namoi Cotton and also a 0.75% indirect interest via ARC's retained Namoi Cotton Shares.

(b) Realisation of the Capital Reduction and In-specie Distribution

The procedural and timing aspects of a capital reduction are orchestrated by the Corporations Act and the ASX Listing Rules. The Capital Reduction and In-specie Distribution will be in effect from the Record Date as set out in the indicative timetable on page 9.

The Corporations Act and the ASX Listing Rules set out the procedure and timing for a Capital Reduction. Refer to page 9 for an indicative timetable in respect of the In-specie Distribution. The alteration to the Company's capital and the In-specie Distribution will become effective from the Record Date provided that after the Record Date has been set the Directors have not provided a notice to ASX stating that the Company does not intend to proceed with the reduction of capital contemplated by Resolution 4.

Generally, the standard record date for a reorganisation of capital of an ASX Listed company is four business days following a general meeting of that company.

If the Capital Reduction proceeds, Shareholders will receive a pro rata entitlement to approximately 11,651,616 Namoi Cotton Shares being distributed and each Shareholder's name will be entered on the register of members of Namoi Cotton with each ARC Shareholder having deemed to have consented to becoming a Namoi Cotton shareholder and being bound by its constitution.

An ARC Shareholder's entitlement to Namoi Cotton Shares to be distributed is to be based on the number of ARC Shares held at the Record Date. As mentioned above, it is proposed that the Company will retain ownership of 1,048,384 Namoi Cotton Shares, being a minimum of 0.75% shareholding interest in Namoi Cotton.

At the date of this Notice there are 12,946,240 Shares on issue in the Company. Assuming no Shares and no options are issued by the Company prior to the Record Date, and assuming the 11,651,616 Namoi Cotton Shares are distributed, the distribution ratio for the In-specie Distribution will be approximately 9 for 10 (that is, each ARC Shareholder will receive approximately nine (9) Namoi Cotton Shares for every ten (10) ARC Shares held at the Record Date, rounded down to the nearest whole number).

Other than as Shareholders of ARC or as otherwise set out in this Explanatory Memorandum, none of the Directors have any interest in Resolution 4.

6.4 Advantages and Disadvantages of the Capital Reduction

(a) Advantages

ARC considers distributing the Namoi Cotton Shares to ARC Shareholders would be beneficial for ARC's members, including for the following reasons:

- (i) Shareholders will continue to retain their current percentage ownership interest in the capital of ARC (predominantly via direct holdings, but also via an indirect holding to the extent ARC continues to own shares in NAM following the In-specie Distribution).
- (ii) All Shareholders will collectively retain approximately an 8.29% direct interest in Namoi Cotton.
- (iii) All Shareholders will maintain the opportunity to participate in the business of Namoi Cotton through their:
 - (A) direct interest in Namoi Cotton and
 - (B) indirectly via their interest in ARC
- (iv) As Namoi Cotton is listed on ASX, there will be a liquid market for Shareholders to facilitate trading of the Namoi Shares.
- (v) Namoi Cotton, as a company whose shares are quoted on ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations and Namoi Cotton shareholders will be afforded the shareholder protections provided by the ASX Listing Rules.
- (vi) Shareholders interest in Namoi Cotton will be preserved from any potential future dilution or reduction in interest from potential future share issues by ARC or sales of Namoi Cotton shares held by ARC.

(b) Disadvantages

ARC has identified distributing the Namoi Cotton Shares may involve certain disadvantages for ARC's members, including:

- (i) Shareholders will become holders of Namoi Cotton Shares and the objectives and interests of Namoi Cotton may not align with those of Shareholders.
- (ii) There is no guarantee that the Namoi Cotton Shares will rise in value.
- (iii) Shareholders may incur additional transaction costs if they wish to dispose of their new investment in Namoi Cotton (e.g. brokerage costs).
- (iv) There may be a taxation consequence in respect of the distribution of the Namoi Cotton Shares to the Shareholders, including the general taxation

effect of the transaction are set out in section 6.19 of this Explanatory Memorandum.

- (v) As a result of the return of capital, ARC may forego the opportunity for any premium which may have otherwise been available to it from a person seeking to acquire a controlling stake in Namoi Cotton.
- (vi) The disposal may affect the Company's ability to remain listed on the ASX, as it may no longer comply with the requirements of the listing rules and the Company will have six(6) months from the date of approval of the In-specie Distribution to find a new main asset or assets
- (vii) AS a result of the pro-rata in-specie Distribution, the size of the Company's asset base and operating activities will reduce significantly; and
- (viii) The Company will continue to incur various costs and such costs may contribute to the erosion of Shareholder value.

6.5 Pro forma financial of the Company and Namoi Cotton upon completion of the proposed Capital Reduction

A pro-forma statement of financial position of ARC is contained in Schedule 2 which shows the financial position of ARC as at 31 October 2020 together with the pro forma statement of the financial impact of the Capital Reduction and the In-specie Distribution on the Company.

A short form, consolidated statement of financial position for Namoi Cotton as at 31 August 2020, which has been extracted from audited Interim Financial Report for the half year ended 31 August 2020 of Namoi Cotton, is set out in Schedule 3. This should be read in conjunction with the formal notes to the account included in the Half Yearly Report of NAM lodged with the ASX on 27 October 2020 (ASX: NAM).

6.6 Effect of Proposed Capital Reduction on Shareholders

(a) What will you receive?

Subject to Shareholders approving Resolutions 3 and 4, eligible Shareholders will receive an in-specie return of capital by way of the distribution of Namoi Cotton Shares in proportion to the number of ARC Shares held by them at the Record Date.

Shareholders are not required to contribute any payment for the Namoi Cotton Shares which they are entitled to receive under the in-specie Distribution.

(b) What is the impact on your shareholding in the Company?

The number of Shares in the Company that you hold will not change as a result of the In-specie Distribution.

(c) Do you have to do anything to receive your Namoi Cotton Shares?

If the In-specie Distribution proceeds, you will automatically receive the Namoi Cotton Shares you are entitled to receive (unless you are an ineligible overseas Shareholder, in which case you will receive the proceeds), even if you vote against the In-specie Distribution or do not vote at all.

(d) **Will I be able to trade my Namoi Cotton Shares?**

If the In-specie Distribution is approved by Shareholders and is implemented, a holder of Namoi Cotton Shares will be able to trade their Namoi Cotton Shares in the future on ASX.

(e) **What are the taxation implications of the In-specie Distribution?**

A general guide to the taxation implications of the In-specie Distribution is set out in section 6.19 of this Explanatory Memorandum. The description is expressed in terms of the In-specie Distribution and is not intended to provide taxation advice in respect of particular circumstances of any Shareholder. Shareholders should obtain professional advice as to the taxation consequences of the In-specie Distribution in their specific circumstances.

(f) **What will happen if Resolution 3 is not approved?**

In the event that Shareholder approval of Resolution 3 is not obtained, the In-specie Distribution will not proceed and the distribution of Namoi Cotton Shares to ARC Shareholders will not occur.

6.7 Disclosure to ASX

ARC as an ASX listed company, is a disclosing entity as per the ASX continuous disclosure rules and is subject to regular reporting and disclosing obligations. Copies of documents lodged by ARC can be accessed through the ASX Announcements platform and can also be obtained through the ASIC.

6.8 Risk Factors

On successful completion of the In-specie Distribution, Shareholders will become shareholders in Namoi Cotton and should be aware of the general and specific risk factors which may affect Namoi Cotton and the value of its securities. These risk factors are set out in. The risk factors have been reviewed by each of the boards of Directors of the Company and Namoi Cotton and are considered applicable at the date of this Notice.

6.9 Effect of Proposed Capital Reduction on the Company

A pro-forma statement of financial position of ARC is contained in Schedule 2 which shows the financial impact of the capital reduction and the In-specie Distribution on the Company. Furthermore, the Company, being an ASX listed entity, is subject to the continuous disclosure requirements set out in Chapter 3 of the ASX Listing Rules. As such, any significant transactions will be disclosed to Shareholders.

6.10 Directors Interests and Recommendations

The table below sets out the number of securities in ARC held by the Directors at the date of the Meeting and also the number of Namoi Cotton Shares they are likely to have an interest in if Resolution 4 is passed and implemented:

| Director | ARC Shares | Options | Approximate number of Namoi Cotton Shares each Director will receive ² |
|------------------------|------------|--------------------|---|
| <i>James Jackson</i> | 2,708,690 | 450,000 (unlisted) | 2,437,821 |
| <i>Darren Anderson</i> | 407,045 | - | 366,341 |
| <i>Wayne Massey</i> | 260,088 | - | 234,079 |

After considering all relevant factors, the Directors recommend the Company's Shareholders vote in favour of Resolution 4 for the reasons summarised on page 8 of this Notice (under the heading "*Recommendations*").

6.11 Additional Info

- (a) The capital structure of ARC as at the date of this Notice is

| Number of Shares | Number of Unlisted Options |
|------------------|----------------------------|
| 12,946,240 | 450,000* |

* Exercisable at \$0.70 each, expiring 31 December 2020.

- (b) The capital structure of Namoi Cotton as at the date of this Notice is

| Number of Namoi Cotton fully paid ordinary shares | Residual Capital Stock |
|---|------------------------|
| 140,487,802 | 2,163,805 |

² Assuming the 11,651,616 Namoi Cotton Shares are distributed. The ratio for the In-specie Distribution may change.

- (c) the return of capital will be effected by a pro-rata distribution of up to a maximum of 11,651,616 Namoi Cotton Shares in specie proportionately to all of the Company's Shareholders:
 - (i) registered as such as at 5.00pm (AEST) on the Record Date; or
 - (ii) entitled to be registered as a Shareholder in the Company by virtue of a transfer of Shares executed and lodged with the Company before 5pm (AEST) on the Record Date.
- (d) At the date of this Notice, there are 12,946,240 Shares on issue in the Company. Assuming this same number of Shares was on issue at the Record Date, the formula for the In-specie Distribution would be nine (9) Namoi Cotton Shares for every ten (10) ARC Shares held. Any fractions of entitlement will be rounded down to the next whole number.

6.12 Information concerning ARC's Shares

- (a) The rights attaching to the Shares in the Company will not alter.
- (b) For the information of Shareholders, the highest and lowest recorded sale prices of the Company's Shares as traded on ASX during the 12 months immediately preceding the date of this Explanatory Memorandum, and the respective dates of those sales were:

| Date | Highest price | Date | Lowest price |
|---|----------------------|-----------------------------|---------------------|
| 14 December 2020 – 21 December 2020 | AUD0.40 | 4 May 2020 – 18 May 2020 | AUD0.20 |

The latest available closing price of the Company Shares on ASX prior to the date of this Notice was \$4.00 on 21December 2020.

6.13 Section 256C of the Corporations Act

The proposed Capital Reduction by way of an In-specie Distribution to Shareholders is an equal capital reduction.

Under Section 256B of the Corporations Act, the Company may only reduce its share capital if it:

- (a) is fair and reasonable to Shareholders as a whole;
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders in accordance with Section 256C of the Corporations Act.

The Directors believe that the In-specie Distribution is fair and reasonable to Shareholders as a whole and does not materially prejudice the Company's ability to pay its creditors. This is because each ARC Shareholder is treated equally and in the same manner since the terms of the reduction of capital are the same for each ARC Shareholder. The In-specie Distribution is on a pro rata basis, and the proportionate ownership interest of each ARC Shareholder remains the same before and after the Capital Reduction and In-specie Distribution.

The proposed pro rata, in-specie distribution of Namoi Shares to Shareholders on the Record Date by way of Capital Reduction is an equal reduction of capital because:

- (a) it relates only to ordinary shares;
- (b) it is applicable to each Shareholder in proportion to the number of the Company's Shares held; and
- (c) the terms of the Capital Reduction are the same for each Shareholders of Company's Shares.

In accordance with section 256C of the Corporations Act:

- (a) the proposed Capital Reduction is an equal capital reduction and requires approval by an ordinary resolution passed at a general meeting of ARC Shareholders;
- (b) this Explanatory Memorandum and previous ASX announcements set out all information known to ARC that is material to the decision on how to vote on Resolutions 3 and 4; and
- (c) ARC has lodged with ASIC a copy of this Notice of Meeting and accompanying documentation.

6.14 ASX Listing Rule 7.17

Listing Rule 7.17 provides in part that a listed entity, in offering shareholders an entitlement to securities, must offer those securities pro rata or in such other way as, in the ASX's opinion, is fair in all the circumstances. In addition, there must be no restriction on the number of securities which a Shareholder holds before this entitlement accrues. The In-specie Distribution satisfies the requirements of Listing Rule 7.17 because the distribution of Namoi Cotton Shares is being made to ARC Shareholders on a pro rata basis, and there is no restriction on the number of ARC Shares a Shareholder must hold before the entitlement to the Namoi Cotton Shares accrues.

6.15 ASX Listing Rule 7.25

Listing Rule 7.25 provides that a listed entity must not reorganise its capital if the effect of doing so would decrease the price at which its main class of securities would be likely to trade after the reorganisation to an amount less than 20 cents.

The Company has sought and obtained a waiver from Listing Rule 7.25 to the extent necessary to permit Resolutions 1 and 2 of the Notice to allow the Company to reorganise its capital pursuant to an equal reduction of capital that will be completed in accordance with the provisions of the Corporations Act, even if it is likely to reduce the trading price of the entity's main class of securities to an amount less than 20 cents.

6.16 Effect of Shareholder approval

- (a) If Resolutions 3 and 4 are approved, the Company Shareholders - as at the Record Date - will receive a pro rata beneficial entitlement to Namoi Cotton Shares based on the number of the Company Shares they held at the Record Date. The Capital Reduction and the transfer and distribution of Namoi Cotton Shares will become effective from the Record Date (provided that after the Record Date has been set the Directors have not provided a notice to ASX stating that the Company does not intend to proceed with the reduction of capital contemplated by Resolution 3). Any fractions of entitlement will be rounded down to the next whole number. Shares in Namoi Cotton are to be held subject that after the Record Date has d on Namoi Cotton's website.
- (b) The actual dollar value of the proposed return of capital will be an amount equal to the value of the Namoi Cotton Shares transferred and distributed to be assessed by the Directors. Please refer to Schedule 2 for the pro-forma statements of financial position of the Company which show the expected financial impact of the Capital Reduction and In-specie Distribution. The Board considers the proposed Capital Reduction will have no material effect on the interests of the Company Shareholders, except as disclosed in the discussion of the advantages and disadvantages of the reduction set out in the recommendation section of the Notice at page 8 above.

6.17 Overseas Company Shareholders

The In-specie Distribution of the Namoi Shares to overseas ARC Shareholders under the reduction of capital will be subject to legal and regulatory requirements in their relevant overseas jurisdictions. If the requirements of any jurisdiction where an ARC Shareholder is resident are held to restrict or prohibit the distribution of securities as proposed or would impose on ARC an obligation to prepare a prospectus or other similar disclosure document or other impose on ARC an undue burden, the Namoi Shares to which the relevant ARC Shareholder is entitled will not in fact be issued to such Shareholders and instead will be sold by ARC on their behalf, in order that ARC will pay the relevant Shareholder a cash equivalent amount, or otherwise ARC will seek to make alternative arrangements with respect to the relevant Shareholder which are reasonable in all the circumstances.

If ARC elects to sell the Namoi Shares on a relevant ARC Shareholder's behalf, ARC will then account to those Shareholders for the net proceeds of sale after deducting the costs and expenses of the sale. As the return of capital is being represented and satisfied by the In-specie Distribution and security prices may vary from time to time (assuming

a liquid market is available), the net proceeds of sale to such Shareholders may be more or less than the notional dollar value of the reduction of capital. It will be the responsibility of each ARC Shareholder to comply with the laws to which they are subject in the jurisdictions in which they are resident.

In addition to Australian and New Zealand Shareholders, ARC proposes to distribute the Namoi Shares to ARC Shareholders with registered addresses in Hong Kong and the United Kingdom.

Hong Kong

The In-specie Distribution may not be offered or sold in Hong Kong by means of any document other than to (1) “professional investors” within the meaning of the *Securities and Futures Ordinance (Cap. 571)* of Hong Kong (**Cap. 571**) and any rules made thereunder, or (2) in circumstances which do not result in the document being a “prospectus” as defined in the *Companies Ordinance (Cap. 32)* of the laws of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No invitation, advertisement or document relating to the In-specie Distribution may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the In-specie Distribution which are intended to be disposed of only to persons outside Hong Kong or only to “professional investors,” as defined under the Cap. 571 and any rules made thereunder.

United Kingdom

Neither the information in this Notice of Meeting nor any other document relating to the In-specie Distribution has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the *Financial Services and Markets Act 2000* (UK), as amended (**FSMA**)) has been published or is intended to be published in respect of the In-specie Distribution. The In-specie Distribution may not be offered in the United Kingdom by means of this Notice of Meeting, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This Notice of Meeting should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom. Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the In-specie Distribution has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to ARC. In the United Kingdom, this Notice of Meeting is being distributed only to, and is directed at, persons (i) who fall within Article 43 (members or creditors of certain bodies corporate) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, as amended, or (ii) to whom

it may otherwise be lawfully communicated (together "relevant persons"). The Capital Reduction to which this Notice of Meeting relates is available only to, and any invitation, offer or agreement to participate will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Notice of Meeting or any of its contents.

6.18 Information concerning Namoi Cotton Shares

Namoi Cotton, as an entity with Shares quoted on the Official List of the ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations. Copies of documents lodged in relation to Namoi Cotton may be obtained for a fee from, or inspected at, an office of the ASIC or can be accessed at Namoi Cotton's ASX announcements platform.

For the information of Shareholders, the highest, lowest and last recorded sale prices of Namoi Cotton's Shares as traded on ASX during the 12 months immediately preceding the date of this Notice of Meeting were:

| | Price | Date |
|---------|--------------|------------------------------|
| Highest | AUD0.37 | 10 February 2020 |
| Lowest | AUD0.27 | 23 March 2020 - 8 April 2020 |
| Last | AUD0.30 | 21 December2020 |

A summary of the more significant rights that will attach to the Namoi Cotton Shares is set out below. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the Namoi Cotton Shareholders. Full details of the rights attaching to the Namoi Cotton Shares are set out in Namoi Cotton's constitution, a copy of which is available on the ASX and on Namoi website at <https://www.namoicotton.com.au/>.

(a) General Meetings

Namoi Cotton's shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of Namoi Cotton.

Namoi Cotton's shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of Namoi Cotton.

(b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, shareholder present in person and each other person present as a proxy, attorney or representative of a shareholder has one vote; and
- (iii) on a poll, each shareholder present in person or a shareholder who has duly lodged a valid direct vote in respect of the relevant resolution, or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid Namoi Cotton Share held by the member, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, have a fraction of one vote equal to the proportion which the amount paid up on that share (excluding amounts credited) is to the total amounts paid up and payable (excluding amounts credited) on that share.

(c) **Dividend Rights**

Subject to the Corporations Act, the constitution of Namoi Cotton and the terms of issue or rights of any shares with special rights to dividends, the directors of Namoi Cotton may determine that a dividend is payable, fix the amount and the time for payment and authorise the payment or crediting by Namoi Cotton to, or at the discretion of, each member entitled to that dividend. Subject to the rights of any preference shareholders and to the rights of the holders of any shares credited or raised under any special arrangement as to the dividend, the dividend as declared shall be payable proportionately according to the amounts paid up or credited as paid up, on the shares, and otherwise in accordance with Part 2H.5 of the Corporations Act. Interest is not payable by Namoi Cotton in respect of any dividend, whether final or interim.

(d) **Capitalisation of Profits**

Namoi Cotton's directors:

- (i) may resolve to capitalise any sum, being whole or part of the amount for the time being standing to the credit of any reserve account or the profit and loss account or otherwise available for distribution to members; and
- (ii) may, but need not, resolve to apply the sum for the benefit of members in the proportions to which those members would have been entitled in a distribution of that sum by way of dividend.

(e) **Winding-Up**

- (i) If Namoi Cotton is wound up, the liquidator may, with the sanction of a special resolution of Namoi Cotton, divide among the members in kind the whole or any part of the property of the Company and may for that purpose set such value as the liquidator considers fair on any property to

be so divided and may determine how the division is to be carried out as between the members or different classes of members.

- (ii) The liquidator may, with the sanction of a special resolution of Namoi Cotton, vest the whole or any part of such property in trustees on such trusts for the benefit of the contributories as the liquidators thinks fit, but so that no member is compelled to accept any shares or other securities in respect of which there is any liability.
- (iii) The above does not prejudice or affect the rights of a member holding shares in Namoi Cotton issued on special terms and conditions.

(f) **Transfer of Shares**

Generally, shares in Namoi Cotton are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act, the Listing Rules or the CS Facility Operating Rules.

(g) **Shareholding Limit**

A person and the person's Associates must not, in aggregate, have a Relevant Interest in more than 20% of the ordinary shares on issue in Namoi Cotton (**Shareholding Limit**).

The Shareholding Limit will apply from the date of adoption of Namoi Cotton's constitution, being 10 October 2017, and may be only varied if the Shareholding Limit ceases to apply if the continuation of the Shareholding Limit is not approved by special resolution at the review date being the 2021 annual general meeting of Namoi Cotton, or Namoi Cotton's main undertaking ceases to be a cotton processing business.

6.19 Taxation

(a) **General**

The following comments relate to the Australian taxation consequences for Shareholders who receive Namoi Cotton Shares in respect of the proposed Capital Reduction and In-specie Distribution based on the application of Australian taxation laws in force at the date of this Explanatory Memorandum.

The views expressed in this summary are not intended as specific advice to Shareholders. The application of tax legislation may vary according to the individual circumstances of Shareholders. In this regard, the comments below are only relevant to those Shareholders who hold their Shares on capital account (i.e. have not been held for the purpose of resale or as trading stock).

Furthermore, this summary does not apply to:

- Shareholders whose Shares are subject to the employee share acquisition scheme tax rules or Shareholders who are not the beneficial owners of their Shares in the Company; or
- Shareholders who are not residents of Australia for tax purposes.

The application of tax legislation can vary according to the individual circumstances of each Shareholder. This summary is not intended, and should not be relied upon, as specific taxation advice to any particular Shareholder. It should be emphasised that these comments are general in nature, may not be applicable to your individual circumstances and cannot be relied upon for accuracy or completeness.

You should therefore seek and rely on your own professional advice in relation to the taxation consequences of the Capital Reduction and In-specie Distribution relating to your specific circumstances. Neither the Company nor any of its officers, or its advisers accept liability or responsibility with respect to such consequences.

The proposed In-specie Distribution of Namoi Cotton Shares from the Company to its Shareholders will consist of a return of share capital component.

The following is an overview of the Australian tax implications that should arise as a consequence of the proposed In-specie Distribution for an Australian resident Shareholder who holds Shares on capital account.

Non-Australian resident Shareholders should seek specific professional advice by reference to their own circumstances so as to determine their Australian CGT position.

The taxation consequences to Shareholders (resident and non-resident) who may hold ARC Shares on revenue account or through a company or superannuation fund will depend on their specific circumstances and, accordingly, Shareholders such as banks, insurance companies, share traders and professional investors should seek their own specific advice.

(b) **Demerger Tax Rules**

Demerger Tax Rules in Division 125 of the *Income Tax Assessment Act 1997 (ITAA 1997)* does not apply to the Company. Broadly, the Demerger Tax Rules allow a company to undertake a restructure where it transfers the ownership of a subsidiary to its shareholders without any immediate tax consequences for the company or the shareholders. However, these Demerger Tax Rules only apply where the group had at least a 20% interest in the demerged subsidiary³. As the interest in NAM is less than 20% these rules do not apply.

³ Subsection 125-65(6) ITAA 1997

(c) **Consequences for Company**

An in-specie distribution of the Namoi Cotton Shares is treated as a disposal for income tax purposes by ARC. This will give rise to a realised gain or loss for ARC based on the market value at the time of the distribution as compared to ARC's cost base for the Namoi Cotton Shares.

ARC has historically treated the Namoi Cotton Shares as trading stock and brought to account the movements in the market value of the Namoi Cotton Shares for income tax purposes (by valuing at market value for income tax purposes). As a result, based on current ASX listed trading prices there should not be any significant gain (if any).

In any event, ARC should have sufficient available tax losses such that no income tax will be payable.

(d) **Consequences for Shareholders**

Return of capital and not a dividend

The return of capital is proposed to be undertaken as an equal return of capital from the perspective of the Corporations Act with any transfer accounted for as a debit to share capital (noting ARC has accumulated losses and on the basis that any accounting profit on disposal of Namoi Cotton Shares will only reduce accumulated losses). On this basis, the in-specie distribution will not be a "dividend" as defined in subsection 6(1) of the *Income Tax Assessment Act 1936* (Cth) for income tax purposes - but would be considered a return of capital.

While a return of capital debited to the share capital account will not be treated as a dividend under the general rules, the Commissioner of Taxation may apply certain anti-avoidance rules to treat certain capital returns as a dividend. In the circumstances, the anti-avoidance provisions in sections 45A and 45B⁴ could be relevant.

Section 45A may apply if a return of capital is streamed to certain "advantaged" shareholders. However, this would not apply on the basis that all Shareholders will receive the In-specie Distribution in direct proportion to their shareholding in ARC.

Section 45B may apply where, broadly, a capital return is made to Shareholders in substitution for dividends. The application of section 45B requires consideration of a list of factors and can be complicated. In the circumstances, it is not expected section 45B will apply having regard to the commercial objectives of distributing the primary asset to Shareholders, there is no recent pattern of dividends and the accumulated loss position. However, the Commissioner of Taxation has applied section 45B in circumstances where the company makes a profit on distribution of the relevant asset to shareholders (in

circumstances where this is a return from share capital and the company has accumulated losses). The Commissioner of Taxation has applied section 45B to treat the profit component as a dividend. This is on the basis that this part of the return made is attributable to profits (one of the factors that needs to be considered under section 45B is the extent to which the capital benefit is attributable to capital and profits). While Arc's tax adviser does not consider this should apply in the Company's circumstances, the Shareholders may wish to undertake more detailed analysis. However, if the share price of Namoi Cotton Shares increased such that there was a significant profit on transfer of the Namoi Cotton Shares, the Shareholders should consider this further.

Consequences of capital return

The income tax consequence of the capital return for shareholders will depend upon their individual circumstances – in particular, whether the shareholder is a resident or non-resident and whether they hold their shares on capital or revenue account. Comments below set out the position for resident Shareholders who hold their shares on capital account.

For resident Shareholders who hold their shares on capital account, broadly, the value of the capital return (based on Namoi Cotton Shares) will reduce their cost base of ARC Shares and if the return is greater than their cost base it will crystallise a capital gain.

CGT Event G1⁵ will happen when the In-specie Distribution of the Namoi Cotton Shares is made. The impact of CGT Event G1 on the ARC's Shareholders will depend upon the market value of the Namoi Cotton Shares at the time of the In-specie Distribution and the cost base and reduced cost base of their Shares.

If the return of capital (market value of the Namoi Cotton Shares received) is more than the Shareholders cost base of their Shares, the cost base and reduced cost base of their Shares will be reduced to nil and the Shareholder will have a capital gain equal to the excess. Any capital gain may be eligible for the CGT discount where the Shares were held for at least 12 months prior to the In-specie Distribution (for individuals, trusts and superannuation funds).

Where the capital return is not more than the cost base of their Shares, the cost base and reduced cost base will be reduced by the capital return amount. The Shareholders cannot make a capital loss as a result of the capital return. Their shareholding in ARC will need to otherwise come to an end in order to crystallise any capital losses.

Shareholders will receive a cost base for the Namoi Cotton Shares received equal to the market value of the Shares at the time of the In-specie Distribution. Where these Namoi Cotton Shares are subsequently sold, Shareholders will not

⁵ Section 104-135 ITAA1997. If a Shareholder sells his or her Shares after the Record Date but before the In-specie Distribution, the Shareholder would make a capital gain under section 104-25 (CGT event C2).

be eligible for the CGT discount on any capital gain until they have been held for a period of 12 months.

6.20 Lodgement with ASIC

The Company has lodged this Notice of Annual General Meeting and Explanatory Memorandum to ASIC in accordance with Section 256(C) of the Corporations Act. ASIC and its officers hold no responsibility for the contents of this Notice or the merits of the transaction to which this Notice relates.

If Resolution 3 is passed, the Capital Reduction and In-specie Distribution is required to take effect in accordance with a timetable approved by ASX. Please refer to page 9 of this Notice for the proposed indicative timetable for completion of the Capital Reduction and In-specie Distribution, which is subject to change by the Company and any requirements of the ASX Listing Rules and the Corporations Act.

6.21 Other Material Information

There is no information material to the making of a decision by a Shareholder in the Company whether or not to approve Resolution 3 (being information that is known to any of the Directors and which has not been previously disclosed to Shareholders in the Company) other than as disclosed in this Explanatory Memorandum and all relevant Schedules.

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| The Directors unanimously recommend that Shareholders vote in favour of Resolution 4. |
|--|

Further Information

Shareholders with any queries in relation to the Annual General Meeting may contact the Company Secretary, Mark Licciardo, on (03) 8689 9997 or markl@mertons.com.au

GLOSSARY

In this Notice of meeting:

\$ means Australian dollars.

ARC or the Company means Australian Rural Capital Limited (ABN 52 001 746 710).

ASIC means Australian Securities and Investments Commission.

Associates has the same meaning as in Division 2 of Part 1.2 of the Corporations Act as that Division applies to references in Chapter 6 of the Corporations Act.

ASX means ASX Limited (ACN 008 624 691) or the financial market known as the Australian Securities Exchange that is operated by ASX limited, as the context requires.

AEDT means Australian Eastern Daylight Time.

AEST means Australian Eastern Standard Time as observed in Brisbane, Queensland.

Board means the board of Directors of the Company.

Capital Reduction has the meaning given under section 6.4(a) of this Notice.

Chairman means the chairperson of this Meeting.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations for the purposes of the definition of 'closely related party' in the Corporations Act.

Constitution means the constitution of the Company.

Corporations Act means *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Director means a director of the Company.

Explanatory Memorandum means this explanatory memorandum which forms part of the Notice of Meeting.

In-specie Distribution means the pro-rata in-specie distribution of 11, 651,616 Namoi Cotton Shares held by the Company to the Company's Shareholders, as described in section 6.4(a) of the Explanatory Memorandum.

Key Management Personnel or **KMP** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any Director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

ITAA 1997 means *Income Tax Assessment Act 1997*.

Listing Rules means the listing rules of the ASX Limited.

Meeting means the Annual General Meeting of the Company the subject of this Notice of Meeting scheduled to occur on 29 January 2021.

Namoi Cotton or **NAM** means Namoi Cotton Limited (ACN 010 485 588) (ASX:NAM).

Namoi Cotton Shares means approximately 11,651,616 fully paid ordinary shares the Company holds in the share capital of Namoi Cotton at the date of this Notice.

Namoi Cotton Shareholder means a holder of a Namoi Cotton Share.

Notice or **Notice of Meeting** means this notice of meeting including the Explanatory Memorandum and the Proxy Form.

Proxy Form means the proxy form accompanying the Notice.

Record Date means date set by Directors as provided in the indicative timetable on page 9.

Relevant Interest has the same meaning as in section 9 of the Corporations Act.

Resolution means a resolution set out in this Notice.

Share means a fully paid ordinary share in ARC.

Shareholder means a registered holder of a Share.

Shareholding Limit has the meaning given under section 6.18(g).

Schedule 1 Key Risk Factors facing Namoi Cotton Limited

The business, assets and operations of Namoi Cotton Limited will be subject to certain risk factors that have the potential to influence its operating and financial performance in the future. These risks can impact on the value of an investment in its securities and include those highlighted in the table below.

The risk factors set out below ought not to be taken as exhaustive of the risks faced by Namoi Cotton Limited or by investors in Namoi Cotton Limited. The below factors, and others not specifically referred to below, may in the future materially affect the financial performance of Namoi Cotton Limited and the value of Namoi Cotton Shares. Therefore, the Namoi Cotton Shares carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those shares.

| Risk | Description |
|--|--|
| Risks relating to cotton production | <p>The Namoi Cotton Alliance is a joint venture established by Namoi Cotton and Louis Dreyfus Company Asia Pte Ltd (NCA).</p> <p>The financial performance of Namoi Cotton's ginning and related business and the NCA joint venture's cotton marketing business is reliant on the level of cotton produced by its grower customers. Namoi Cotton is exposed to fluctuations in the volume and quality of cotton supplied by cotton grower. The quantity and quality of cotton produced and made available to Namoi Cotton directly impacts its business. In years when a small quantity of cotton is produced, adverse consequences may flow to Namoi Cotton's businesses as a result of underutilisation of assets and under recovery of overheads. There is also the risk of being unable to supply established customers in years where large quantities of cotton are provided. Risks associated with the level of cotton production in Australia include the following:</p> <p>(i) Climate and access to water</p> <p>The growth of cotton is reliant on access to water. Access to water depends on rainfall events in the right locations and on government policy. Rainfall in Australian cotton growing regions is considered variable and in some instances there can be prolonged periods with limited rainfall events which impacts the level of water cotton growers hold on farm and have access to from public dam and river systems.</p> <p>Access to water is subject to government policy which may adversely affect the ability to access water and through water licences that regulate the right to draw water from rivers, public dams and bores. Water rights are tradeable. The Murray Darling basin is subject to a co-ordinated management plan regulated by the Murray Darling Basin Authority.</p> |

| Risk | Description |
|---|--|
| | <p>If adequate water is not available at acceptable prices in a cotton growing season that will significantly adversely affect the size of the Australian cotton crop in that season and therefore the volume of cotton related business undertaken by Namoi Cotton.</p> <p>(ii) Adverse weather conditions</p> <p>Adverse weather conditions such as drought, storms, cyclones or flood may lead to lower cotton production, leading to reduced levels of cotton planting, or damage to growing cotton thereby affecting the volume and quality of cotton grown in Namoi Cotton's key operating regions.</p> <p>(iii) Disease and insect infestation</p> <p>Agricultural production such as cotton is susceptible to disease risk, including insect infestation. Disease may have a material negative impact on cotton yield and quality.</p> <p>(iv) Competition among agricultural products</p> <p>Agricultural producers have a choice to produce cotton or other agricultural commodities. Cotton production is capital intensive as compared to many other agricultural commodities. As such, cotton production is only a viable crop for larger agricultural producers. A key determinant of the attractiveness of cotton as a crop is the expected price of cotton bales. If prices are expected to be high as compared to other agricultural commodities that makes cotton a relatively attractive crop. If prices are expected to be low compared to other agricultural commodities that makes cotton a relatively unattractive crop. Agricultural commodity prices can be volatile and unpredictable. International cotton prices are quoted in USD and are affected by a variety of factors that are outside the control of Australian producers.</p> <p>(v) Regulation of genetically modified crops</p> <p>In many jurisdictions there is a move against genetically modified agriculture and increased regulation of genetically modified varieties of agricultural products. Any increase in the regulation of genetically modified cotton may disadvantage Australian cotton as compared to cotton produced in other countries and may negatively impact the manner in which cotton is produced in Australia.</p> |
| Risks specific to Namoi Cotton's | Namoi Cotton undertakes cotton ginning and related business operations at a variety of regional locations across the cotton producing regions it |

| Risk | Description |
|--------------------------------|--|
| ginning and related businesses | <p>services in New South Wales and southern Queensland. Risks specific to those business activities include the following:</p> <p>(i) Competition</p> <p>Namoi Cotton operates in a competitive market environment. Namoi Cotton has significant ginning market share in the regions within which it operates. However, there can be no guarantee that the competitive environment in which it operates will remain as it is currently. New entrants, a material adverse change to the competitive environment or new initiatives implemented by competitors may have a material adverse impact on the operating and financial performance of Namoi Cotton. If there are too many cotton gins in a particular cotton growing region that can negatively impact profitability of the gins in that region.</p> <p>(ii) Dependence on key customers</p> <p>The Australian cotton industry is dominated by a relatively small group of large cotton producers. As such, Namoi Cotton's business is dependent on a small number of customers. There is a risk that these customers may move their business to competitors or exert pressure on Namoi Cotton to reduce its prices.</p> <p>(iii) Short term cotton ginning contracts based on cotton season</p> <p>The majority of cotton ginning contracts are for a single season and are not long-term in nature. Therefore, many cotton farmers can choose to cease ginning their cotton with Namoi Cotton at any time or on short notice. This could lead to a reduction in the amount of cotton available for ginning by Namoi Cotton.</p> <p>(iv) Increase in input costs</p> <p>The primary input costs associated with Namoi Cotton's ginning and related activities are labour, electricity, gas, petrol, diesel and consumables. If there are material increases in input costs that could negatively impact Namoi Cotton's financial performance.</p> <p>(v) Human resources constraints</p> <p>Namoi Cotton's ginning activities require a regional workforce for approximately six months of each year. There may be difficulties in identifying and retaining appropriately skilled workers in some of the regional centres in which it operates.</p> |

| Risk | Description |
|------|---|
| | <p>(vi) Workplace health and safety</p> <p>Namoi Cotton employees are at risk of workplace accidents and incidents as cotton ginning involves the operation of significant industrial plant and heavy machinery.</p> <p>(vii) Industrial and wage disputes</p> <p>Namoi Cotton's ginning workers are subject to an industrial award. Disputes may arise in the course of the renegotiations which have the potential to lead to strikes or other forms of industrial action that could lead to disruptions of Namoi Cotton's operations. Any renegotiations could lead to increases in labour costs. In times of low unemployment or shortage of skilled workers, there could be upward pressure on wages. If any of these events occur, it may impact Namoi Cotton's ability to provide services and Namoi Cotton may incur higher costs and suffer reduced profitability.</p> <p>(viii) Disposal of trash</p> <p>A significant by-product of cotton ginning is cotton trash. Cotton trash breaks down into the environment over a period of years. Typically Namoi Cotton retains cotton trash on site at its cotton gins. Retention on site risks reducing yard area available for the processing of cotton modules. There is a risk that regulation relating to the handling and storage of cotton trash may change resulting in additional financial cost to Namoi Cotton. Cotton trash is combustible, leading to a risk of fire and financial cost to Namoi Cotton or damage to the assets of Namoi Cotton.</p> <p>(ix) Changes to environment protection licences</p> <p>If Namoi Cotton was unable to renew its licences or the relevant Environmental Protection Authority imposes onerous conditions on licences this could impact Namoi Cotton's ability to operate and/or impact the costs associated with its business which could have a material impact on its financial performance.</p> <p>(x) Infrastructure risk</p> <p>Namoi Cotton's gins are subject to the normal risks associated with industrial facilities of this nature including the risk of fire, wind damage, other weather threats and acts of god. Namoi Cotton insures against these risks.</p> <p>(xi) Cotton seed risk</p> |

| Risk | Description |
|---|---|
| | <p>Namoi Cotton is the largest trader of cotton seed in Australia. Cotton seed is purchased from cotton growers and sold into domestic feed and oil processing facilities along with exports for the same purposes. Namoi Cotton is exposed to the risk that the price of cotton seed moves after it has either bought or sold cotton seed and before it has taken an offsetting position as there is no hedge instrument for cotton seed other than a physical purchase or sale. In the event Namoi Cotton makes the wrong assumptions or engages in poor execution whilst trading the cotton seed it could be exposed to financial losses.</p> <p>(xii) Mote and moss risk</p> <p>Mote is a by-product output from the ginning process that can be either sold by Namoi Cotton as mote or refined and sold as moss. Mote and moss are sold in US cents per pound and Namoi Cotton is therefore exposed to the risk that the price of the mote or moss moves after the mote or moss has been created and before an offsetting position has been taken through a sale of the mote or moss or hedge of the moss with cotton futures. In the event Namoi Cotton makes the wrong assumptions or engages in poor execution whilst trading the mote or moss with respect to any of the above in this section it could be exposed to financial losses.</p> <p>(xiii) Lint cotton procurement risk</p> <p>Pursuant to Namoi Cotton's joint venture arrangements with NCA, Namoi Cotton must purchase cotton from growers and on-sell that cotton to NCA. If NCA were to default in its obligations to Namoi Cotton under this on-sale agreement Namoi Cotton would be left with the cotton it has purchased and the claim it would have against NCA.</p> <p>(xiv) Proximity of growers to gins</p> <p>The proximity of a gin to the growers it services is a competitive advantage over more distant gins. If Namoi Cotton gins are not located in areas where cotton is being produced or there is a change away from cotton production in the regions where Namoi Cotton gins are located that would negatively impact Namoi Cotton's competitive position.</p> |
| Risks specific to NCA and the marketing business undertaken by the Namoi Cotton Marketing Alliance | <p>NAM participates in the marketing of cotton through its 51% interest in NCA and 15% interest in the NCMA.</p> <p>NCMA's key marketing risks are derived from the process of entering into contracts to purchase cotton bales from growers, hedging various market</p> |

| Risk | Description |
|--------|--|
| (NCMA) | <p>related exposures regarding the purchases and the sale of the cotton bales to other merchants and spinning mill customers. NAM through NCMA acts as an intermediary between the grower and the spinning mill taking principal risk in the purchase and sale contracts for cotton bales. Risks specific to NCA and NCMA's business activities that could impact NAM include the following:</p> <p>(i) Cotton prices can be volatile and are subject to a number of drivers</p> <p>NCMA seeks to hedge the fixed cost of cotton purchased from growers through cotton futures contracts prior to locking in profits earned through contracts to sell cotton to spinning mill customers. However, there can be no certainty that those risks will be fully financially hedged and NCMA may suffer losses as a result of movements in the cotton price. The price of cotton may also be impacted by the pricing of manmade materials that compete with cotton in fabric and garments. If NCMA makes the wrong assumption as to current and future cotton prices and positions it risks suffering losses in its marketing business.</p> <p>(ii) Liquidity and financing risk</p> <p>There is a risk that NCMA may not be able to secure working capital financing lines for its marketing business for the amount of the business that it is seeking to undertake and the business could not then operate, partly or at all depending on the funding restrictions that exist. There is a risk that the working capital financing lines are re-priced adding additional costs to NCMA's marketing business.</p> <p>(iii) Hedging instrument and maturity and misalignment risk</p> <p>NCMA is exposed to financial risk associated with movements in cotton futures prices between the hedge instrument contract month and the physical purchase or sale contract delivery month. Specifically, NCMA is exposed to potential financial losses should the cotton futures market go into backwardation (inverse) and it is required to roll the cotton futures contracts forward to the physical purchase and sale delivery month. If NCMA makes the wrong assumptions as to current and future cotton prices when rolling their positions to match with the underlying physical purchase and sale contracts it risks suffering losses in its marketing business.</p> <p>(iv) Movements in foreign exchange rates</p> <p>NCMA's sales contracts with spinning mills and traders for lint cotton are denominated in USD, whilst purchase contracts from Australian growers</p> |

| Risk | Description |
|------|---|
| | <p>are denominated in AUD, NCMA hedges USD/AUD exposures utilising foreign exchange contracts. However, there can be no certainty that those risks will be fully financially hedged or the assumptions utilised to hedge the exposure are correct and NCMA may suffer losses as a result in movements in the AUD/USD exchange rate.</p> <p>(v) Delivery risk</p> <p>If a delivery default occurs and NCMA seeks to resell the relevant cotton it may suffer loss if cotton prices have fallen.</p> <p>(vi) Counterparty credit risk</p> <p>In the normal course of NCMA's business, NCMA is exposed to a risk of loss if a counterparty fails to perform its financial or contractual obligations to NCMA. For example, the default of one of NCMA spinning mill customers by failing to make payments due, or by failing to make payments in a timely manner, may affect NCMA's cash flow and its ability to meet its own financial commitments. Such counterparty credit risk may have an adverse effect on NCMA's reputation and its financial performance.</p> <p>(vii) Basis risk</p> <p>The price of cotton includes an element known as basis and this largely reflects the premium for Australian cotton quality relative to other growths of cotton around the world over and above the ICE Cotton Futures price. If NCMA makes the wrong assumption as to current and future basis levels for Australian cotton it risks suffering losses in its marketing business.</p> <p>(viii) Grade (quality) risk</p> <p>NCMA incurs grade risk in its contracts with its spinning mill clients if cotton delivered to NCMA by its growers does not meet the grade (quality) required under its sale contracts with spinning mill clients.</p> <p>(x) Short term cotton purchase contracts based on cotton season</p> <p>Growers ordinarily contract for the sale of lint cotton on a season-by-season basis and as such retain the right to deal with merchants as they see fit on a season to season basis. Therefore, many cotton farmers can choose to cease supplying their cotton to NCMA on short notice and will make this decision each year. This could lead to a reduction in the amount of cotton available for marketing by NCMA.</p> |

| Risk | Description |
|--|--|
| | <p>(xi) Joint venture risks</p> <p>As the NCA and NCMA is a joint venture between NAM and Louis Dreyfus Company there is a risk that the joint venture partners might not be aligned on a business or strategic issues concerning the joint venture and disputes might arise concerning the joint venture. The existence of a dispute may adversely impact on the business of the joint venture. As Louis Dreyfus Company is a direct competitor of NAM for ginning services in some regions and with NCMA for the marketing business, there is a risk of conflicts of interest that may negatively impact the NCMA business.</p> <p>(xii) Risk of funding calls and dilution</p> <p>If NCMA were to suffer losses on its marketing business, a funding call to cover those losses can be made on each joint venture partner in NCMA. NAM's share of such a funding call would be 15% and subject to a "cap and collar" arrangement, limited to \$1.5m. If NAM were to choose not to meet that call or was unable to satisfy the call its percentage interest in NCMA would potentially be diluted.</p> |
| <p>General risks associated with Namoi Cotton</p> | <p>In addition to specific risks each of the businesses of Namoi Cotton is subject to the following general risks:</p> <p>(i) General operating risks</p> <p>The risk of exposure to unexpected financial and non-financial losses arising from the way in which Namoi Cotton conducts its business operations (including the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events). Operational risks include those arising from process error, fraud, product tampering, systems failure, failure of security and physical protection systems, insurance risk, customer services, staff skills, judgment and performance, and product development and maintenance. Namoi Cotton mitigates the financial impact of certain risks to its businesses by undertaking and maintaining current specific insurance policies to protect against such risks.</p> <p>(ii) Dependence on key personnel</p> <p>There is only limited backup in Namoi Cotton's management team if a senior manager leaves. The loss of the Chief Executive Officer or one or more other members of Namoi Cotton's senior management team may have a material adverse impact on the operating and financial</p> |

| Risk | Description |
|------|---|
| | <p>performance of Namoi Cotton. As the number of executives involved in the cotton industry is relatively small there is a risk that if a senior member of Namoi Cotton management were to move to a competitor that may be damaging to Namoi Cotton's business.</p> <p>(iii) Reputation risk</p> <p>If Namoi Cotton were to suffer damage to its corporate reputation, providing services to cotton growers could become more challenging.</p> <p>(iv) Regulatory risks</p> <p>Namoi Cotton is subject to and must comply with various regulatory requirements in various jurisdictions including the Corporations Act, the <i>Australian Competition and Consumer Act 2010</i> (Cth) and the ASX Listing Rules. Changes to legislation, regulation, policy and procedures may impact on Namoi Cotton, its financial results and business operations, or have unforeseen consequences.</p> <p>(v) Work health and safety</p> <p>Namoi Cotton employees are at risk of workplace accidents and incidents given the nature of the industry in which Namoi Cotton operates. In the event that a Namoi Cotton employee is injured in the course of their employment, Namoi Cotton may be liable for penalties or damages under relevant work health and safety legislation and may have civil liability. This has the potential to harm both the reputation and financial performance of Namoi Cotton.</p> <p>(vi) Failure to protect intellectual property rights</p> <p>Namoi Cotton maintains trade mark registrations in four jurisdictions around the world, which provide legal protection for its "ANDY" brand and patent round module handling technology. NCMA has been granted a royalty free trade mark licence to use that brand. Actions taken by Namoi Cotton to protect its trade mark registrations may not be adequate, complete or enforceable in all relevant jurisdictions and may not prevent the misappropriations of its intellectual property and proprietary information or deter independent development of similar technologies by others. Namoi Cotton may suffer damage if competitors, new market entrants, or former employees or contract counterparties infringe or challenge its intellectual property rights.</p> <p>(vii) Litigation and disputes</p> |

| Risk | Description |
|------|--|
| | <p>Namoi Cotton may, from time to time, be involved in legal proceedings arising from the conduct of its business, including but not limited to from customers, past and present employees, regulators, competitors or suppliers. The loss arising from such litigation may not be covered by insurance or the aggregate potential liability in respect of possible legal proceedings may exceed any insurance coverage. Any material legal proceedings could have a material adverse impact on Namoi Cotton's financial performance and position. Even if Namoi Cotton was to ultimately prevail in the litigation, it could divert management's attention and resources from Namoi Cotton's operations and business, and Namoi Cotton could also suffer significant reputational damage which could have an adverse effect on Namoi Cotton's business.</p> <p>(viii) Force majeure events</p> <p>Events may occur within or outside Australia that could impact upon global, Australian or other local economies relevant to Namoi Cotton's financial performance or operations. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events or occurrences that can have an adverse effect on the demand for Namoi Cotton's products and services. Namoi Cotton has only a limited ability to insure against some of these risks.</p> <p>(ix) Changing industry structure</p> <p>It is not possible to anticipate how change may impact upon Namoi Cotton's business and the structure of the Australian cotton industry. It is possible that structural change may disadvantage Namoi Cotton as compared to its competitors, both current and future.</p> <p>(x) Inability to secure adequate insurance</p> <p>While Namoi Cotton seeks to maintain insurance coverage that is consistent with industry practice, there is a risk that any claim under Namoi Cotton's insurance policies may be subject to certain exceptions, may not be honoured fully, in part, in a timely manner, or at all. There is also a risk that Namoi Cotton is unable to purchase sufficient insurance to cover all losses incurred. Additionally, in the future, insurance coverage may not be available to Namoi Cotton at commercially acceptable premiums, or at all.</p> <p>(xi) General economic and financial market conditions</p> |

| Risk | Description |
|------|--|
| | <p>The operating and financial performance of Namoi Cotton is influenced by a variety of general domestic and global economic and business conditions that are outside the control of Namoi Cotton. There is a risk that prolonged deterioration in general economic conditions may impact the demand for Namoi Cotton's products and negatively impact Namoi Cotton's financial performance, financial position, cash flows, dividends, growth prospects and the price at which Ordinary Shares trade.</p> <p>(xii) Changes to importation trade barriers</p> <p>Namoi Cotton exports to a variety of countries, particularly in China, South East Asia and the Indian Subcontinent. Change to trade tariffs or duties or the subsidisation of local producers or other exporters by a foreign government or the introduction of other import barriers, could make Namoi Cotton's products less competitive in those markets, which could have material adverse impact on the financial performance and prospects of Namoi Cotton.</p> <p>(xiii) Sovereign risks</p> <p>A change in the laws, regulations, policies, government or political and legal system in a jurisdiction to which Namoi Cotton exports could materially and adversely impact Namoi Cotton's financial position or profitability. Some of the jurisdictions to which Namoi Cotton exports may in the future experience sudden civil unrest or major change to their government or political or legal systems. Namoi Cotton's operations may be adversely affected by the risks associated with exporting to such jurisdictions, which may impact on its ability to grow the business by expansion into overseas markets.</p> <p>(xiv) Liabilities under anti-bribery and corruption laws</p> <p>Namoi Cotton operates in an international environment. Furthermore, some of Namoi Cotton's activities take place in parts of the world that have a risk of bribery and corruption to varying degrees, and Namoi Cotton's operations in those jurisdictions are subject to various anti-bribery and corruption laws, including Australian and other foreign anti-bribery and corruption laws. NCA's sales activities in many countries are undertaken through agents in circumstances where NCA may have limited control over the activities of those agents. Namoi Cotton cannot guarantee that its internal policies and controls will be effective in each case to ensure that Namoi Cotton is protected from reckless or criminal acts committed by its officers, employees, consultants, agents, service providers and business partners that would violate applicable anti-</p> |

| Risk | Description |
|------|---|
| | <p>bribery and corruption laws. Violations of such laws can lead to criminal and civil penalties or sanctions under anti-corruption laws in relevant jurisdictions, which, in turn, could adversely affect Namoi Cotton's reputation or financial position.</p> <p>(xv) Future acquisitions and joint ventures</p> <p>From time to time Namoi Cotton may undertake acquisitions or enter into joint ventures consistent with its stated growth strategy. The successful implementation of acquisitions or joint ventures will depend on a range of factors including funding arrangements, cultural compatibility and integration. To the extent acquisitions are not successfully integrated with Namoi Cotton's business, the financial performance or prospects of Namoi Cotton could be negatively affected.</p> <p>(xvi) Changes in law and government policy (including application of changes in tax law)</p> <p>Changes in government policy or changes to general laws in Australia may affect Namoi Cotton's business operations and its financial position and performance (for example, by reducing its income or increasing its costs), and could reduce returns to holders of Ordinary Shares. The possible impact of such changes on Namoi Cotton's business cannot be predicted with any certainty. Potential significant reforms to Australia's tax laws can also give rise to uncertainty.</p> <p>(xvii) Changes in accounting standards and financial reporting requirements</p> <p>Australian Accounting Standards ("AAS") are adopted by the Australian Accounting Standards Board ("AASB") and are not within the control of Namoi Cotton or its Directors. The AASB may, from time to time, introduce new or refined AAS, which may affect the future measurement and recognition of key statement of profit or loss and statement of financial position items. There is also a risk that interpretation of existing AAS, including those relating to the measurement and recognition of key statement of profit or loss or statement of financial position items may differ. Any changes to the AAS or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of Namoi Cotton. In addition, Namoi Cotton will be subject to the risk that there may be changes in financial reporting requirements as well as changes in the interpretation of such requirements that may change the basis that Namoi Cotton is required to use to prepare its</p> |

| Risk | Description |
|------|--|
| | <p>financial statements, which may adversely effect on the reported financial performance and position of Namoi Cotton.</p> <p>(xviii) Access to funding</p> <p>Namoi Cotton may require further debt or equity funding in the future in order to fund growth strategies, in particular, acquisitions. There is a risk that Namoi Cotton may be unable to access debt or equity funding from the capital markets or its existing lenders on favourable terms, or at all.</p> <p>(xix) Future performance and forward looking statements / expected future events may not occur</p> <p>Ordinary Shares will be subject to general market risks applicable to all securities listed on a stock exchange. There can be no guarantee that an active market in Ordinary Shares will develop or that the price of Ordinary Shares will increase. There may be relatively few potential buyers or sellers of Ordinary Shares on the ASX at any time. This may increase the volatility of the market price of Ordinary Shares. It may also affect the prevailing market price at which holders of Ordinary Shares are able to sell their Ordinary Shares. This may result in holders of Ordinary Shares receiving a market price for their Ordinary Shares that is less or more than the price that holders of Ordinary Shares paid.</p> |

Schedule 2 ARC Pro-forma consolidated statement of financial position as at 30 November 2020

| Consolidated Statement of Financial Position | Notes | Audited 30 June 2020 | Unaudited 30 November 2020 | Proforma 30 November 2020 |
|--|--------------|-------------------------------------|---|--|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | 116,144 | 96,674 | 96,674 |
| Financial assets | | 4,108,688 | 3,936,999 | 324,998 |
| Trade and other receivables | | 21,510 | 9,304 | 9,304 |
| TOTAL CURRENT ASSETS | | 4,246,342 | 4,042,977 | 430,976 |
| NON-CURRENT ASSETS | | | | |
| Deferred tax assets | | 7,239 | 7,239 | 7,239 |
| Goodwill | | 7,709 | 7,709 | 7,709 |
| TOTAL NON-CURRENT ASSETS | | 14,948 | 14,948 | 14,948 |
| TOTAL ASSETS | | 4,261,290 | 4,057,925 | 445,924 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | | 56,111 | 31,548 | 31,548 |
| Borrowings | | 200,000 | - | - |
| TOTAL CURRENT LIABILITIES | | 256,111 | 31,548 | 31,548 |
| TOTAL LIABILITIES | | 256,111 | 31,548 | 31,548 |
| NET ASSETS | | 4,005,179 | 4,026,377 | 414,376 |
| EQUITY | | | | |
| Issued capital | | 20,178,935 | 20,178,935 | 16,566,933 |
| Options reserve | | 387,303 | 387,303 | 387,303 |
| Share based payments reserve | | 68,588 | 68,588 | 68,588 |
| Accumulated losses | | (16,629,647) | (16,608,448) | (16,608,448) |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF AUSTRALIAN RURAL CAPITAL LIMITED | | 4,005,179 | 4,026,377 | 414,376 |

Schedule 3 Namoi Cotton Limited consolidated statement of financial position as at 31 August 2020 *

Set out below is a condensed consolidated statement of financial position as at 31 August 2020 which has been extracted from the audited Interim Financial Report for the half-year ended 31 August 2020, as released to the ASX on 27 October 2020.

BALANCE SHEET

as at 31 August 2020

| | Note | Consolidated \$'000 | | |
|---|------|------------------------|----------------|----------------|
| | | 31 Aug 2020 | 29 Feb 2020 | 31 Aug 2019 |
| Current assets | | | | |
| Cash and cash equivalents | 5 | 418 | 731 | 2,420 |
| Trade and other receivables | 6 | 9,350 | 3,531 | 25,413 |
| Inventories | 7 | 14,274 | 7,254 | 29,605 |
| Prepayments | | 408 | 683 | 987 |
| Derivative financial instruments | 8 | 4,793 | 4,280 | 2,670 |
| Assets held for sale | 13 | 2,278 | - | - |
| Total current assets | | 31,521 | 16,479 | 61,095 |
| Non-current assets | | | | |
| Investments in associates accounted for using the equity method | 9 | 24,556 | 28,878 | 32,507 |
| Intangibles | | - | - | 961 |
| Property, plant and equipment | 12 | 128,905 | 133,939 | 134,364 |
| Total non-current assets | | 153,461 | 162,817 | 167,832 |
| Total assets | | 184,982 | 179,296 | 228,927 |
| Current liabilities | | | | |
| Trade and other payables | 14 | 10,401 | 4,184 | 31,480 |
| Interest bearing liabilities | 15 | 52,072 | 1,710 | 11,397 |
| Provisions | | 1,791 | 1,524 | 2,737 |
| Derivative financial instruments | 8 | 1,044 | 3,024 | 6,453 |
| Total current liabilities | | 65,308 | 10,442 | 52,067 |
| Non-current liabilities | | | | |
| Interest bearing liabilities | 15 | 2,364 | 44,778 | 43,769 |
| Provisions | | 246 | 571 | 674 |
| Deferred tax liability | | 189 | 2,067 | 4,622 |
| Total non-current liabilities | | 2,799 | 47,416 | 49,065 |
| Total liabilities | | 68,107 | 57,858 | 101,132 |
| Net assets | | 116,875 | 121,438 | 127,795 |
| Equity | | | | |
| Contributed equity | 16 | 37,639 | 37,639 | 37,639 |
| Reserves | 18 | 70,090 | 70,330 | 69,712 |
| Retained earnings | | 9,146 | 13,469 | 20,444 |
| Equity attributable to the equity holders of the parent | | 116,875 | 121,438 | 127,795 |
| Total equity | | 116,875 | 121,438 | 127,795 |

The above balance sheet should be read in conjunction with the accompanying notes.

Source: "Half Yearly Report and Accounts", 27 October 2020, Namoi Cotton Limited published via the ASX

* **Note:** for full details of accompanying notes, please refer to the Half Yearly Report and Accounts for Namoi Cotton Limited filed with the ASX on 27 October 2020 (ASX:NAM).