

Australian Rural Capital: Chairman's Address AGM Brisbane, October 16, 2015

Good morning, I am James Jackson the Executive Chairman of Australian Rural Capital, which I will refer to as ARC. I wish to welcome shareholders to our Annual General Meeting for 2015, and thank you for taking the interest to attend. I also wish to welcome a representative from our auditors, BDO, Mr Anthony Whyte and please let me introduce to you my fellow directors, Mr Andrew Brown, who also serves as Company secretary and Mr Darren Anderson, the chairman of our Audit Committee.

The order of business will be the opening of the meeting, followed by the Chairman's address which will include a short presentation, then the Financial Statements being presented to the meeting and any questions on these can be addressed to the Chairman of the meeting or the Auditor. Following this we have 4 items to be considered for approval by shareholders in ordinary business and once these have been voted upon and resolved the meeting will be closed. I request that any questions on the items of ordinary business be asked when the particular item is up for discussion and any other general questions be asked following the chairman's address.

Introduction

The reported loss for the 2015 June Year End was disappointing but not unexpected as the major factor in the result was the mark to market of our Namoi Cotton investment to 29 cents per unit, which is a non cash item and below our average cost of 33 cents per unit. Australian Rural Capital (ARC) was formed just over one year ago as a recapitalisation and name change of an existing investment company. ARC's strategy is to invest, facilitate and manage investment in agribusiness and agricultural related opportunities in order to create value for our shareholders. This process commenced with the initial investment in Namoi Cotton Co-operative Capital Units . We are now seeking to grow the company in order to capture more opportunities in the sector. But first let me update you on our progress and actions to date.

Namoi Cotton Investment

We now own just over 11.8 m Namoi Units and are the second largest holder of these units, our average cost is 33 cents per unit. It has been our long held and public view that Namoi Cotton needs to address the limitations to growth imposed by the current capital structure of the Co-operative. Namoi Cotton at their July 2015 AGM, released a new strategic growth plan to expand the existing cotton, cotton services and other commodity operations of the current business. They also announced that the "Successful implementation of the plan requires capital to be raised and invested and that work will now commence on developing the capital structure to facilitate delivery of the strategic plan" We are encouraged by these comments which are consistent with our own views and look forward to constructively participating in this process. We believe a new capital structure for Namoi Cotton has the potential to create greater visibility and clarity of the operations of the business, redress the implied financial risk of the entity, further align shareholders and capital unit's holders and create a platform for the funding of growth. We also believe the correct structure will work towards narrowing the significant gap between the market price of 27 cents per capital unit and the stated assets of 113 cents per unit. However, the short-term outlook for Namoi earnings is impacted by the lack of available irrigation water for cotton crops in the Central West and North West regions of New South Wales.

This reduces the volumes of cotton to process and market and will limit profitability for the 2015 and 2016 years. However, notwithstanding this weather induced setback , we believe our Namoi Investment is now moving in the right direction.

Fund Opportunity

As we seek to grow ARC and capture more investment opportunities, we will require more capital to execute. To facilitate this growth and accommodate more capital, we are in the process of establishing an investment fund in which ARC will be the manager and have a direct investment. I have a presentation on this fund, which I will now speak to, which is attached to this address.

What this means for ARC shareholders is the creation of a revenue stream for ARC in the form of management fees and performance fees along with a direct ownership stake in the fund. ARC will participate in any income and capital growth generated by the fund via this direct investment.

Loyalty Options Issue

We successfully raised \$390,000 in August and September in our rights offering to existing shareholders. I wish to thank shareholders for your support, our cash levels are now circa \$690,000 which is sufficient for us to launch our fund business and cover expected operating expenses for the next 2 years based on our current cost base.

Macro Agribusiness Landscape

Water availability and the return on water continue to dominate the agricultural theme in the Australia and particularly in the Murray Darling Basin, which produces 40% of Australia's agricultural and pastoral production by value. The Murray Darling Basin accounts for 78% of the water entitlements in Australia. Further corporate capital is being employed to acquire, convert and upgrade existing operations to higher returning crops, which includes cotton. This capital is long term, committed and capable of making profound changes to farm ownership, crop selection, business practices and agribusiness supply chains, based on economics and capital allocation and greater ownership aggregation. This development creates great opportunities for a capable Namoi Cotton as a leading service provider in this sector.

Food security and food safety continue as significant drivers in agribusiness as new consumers in Asia seek out our clean, green and quality produce. The pricing signals, which have been recently seen in the beef and cattle markets, underline the fact that for too long Australian produce and food product has been under priced and undersold and that considerable potential exists to capture higher prices and larger returns across the entire supply chain. We will seek opportunities to participate in this theme as a value investor and with a counter cyclical approach.

Currently we are evaluating opportunities in Sugar, Beef, Wine, and Nuts.

Directors

This year we welcome Darren Anderson as a new director, and we are already benefitting from his contribution and counsel and we recommend Darren for your election to the board at this meeting. I also wish to thank our existing hard working director and Company Secretary, Andy Brown particularly in his efforts in the capital raising documentation and his diligence in fulfilling our general and constantly growing ASX compliance obligations.

Closing

In the next year , we will be progressing the following initiatives as we seek to grow the company and create value for our shareholders.

- Constructively engage with Namoi Cotton on capital restructure and recapitalisation
- Establish, seed and launch our Fund
- Identify new opportunities for investment by the fund and ARC
- Seek to appoint a Director with agribusiness expertise and experience
- Relocate our registered office and operations to a Brisbane base

I wish to thank all shareholders for your continued support and patience and look forward to reporting on our progress in the coming year.

James A Jackson

Executive Chairman

Australian Rural Capital Limited



ANNUAL GENERAL MEETING

Brisbane

16 October 2015

The Vision

“To become the leading
specialist agribusiness investment manager
in Australia
delivering superior returns for our investors
and our shareholders ”



The Opportunity

- Australian agricultural output is approximately **\$60 billion per annum**, a significant business sector.
- **\$45 billion is exported** - enough to feed and clothe 80 million people
- Currently **136,000 farm businesses are rapidly consolidating** into corporate and larger operations seeking economies of scale and improved returns and greater specialisation.
- Significant Investment opportunities are available to fund growth, consolidation, supply chain integration and specialist services in the hard assets or “agristructure” and operations in the supply chain that these producers use as the route to market for product
- These assets and businesses are akin to mining services companies or the “**picks and shovels**” approach to investment in the food and fibre theme and the growth in volumes and value of this sector.



Funds available continue to grow and Investors are seeking exposure to Real Assets

- Australian Superannuation Assets are currently **\$2 trillion**, and are set to grow by **50%** to **\$3.1 trillion by 2020**
- The 10 year consensus private sector forecast is for assets to total between **\$4.2 and \$5.0 trillion dollars by 2025**
- Investors are seeking greater exposure to non market correlated “real assets” as investment alternatives to existing equities and fixed interest
- Agribusiness and “Agristructure” are classic “Real Assets”



Direct investment opportunities remain limited...

- The sector remains **primarily privately owned** with limited investment options
- Those **existing** listed investments contain high implied volatility as they are generally **single commodity focussed** (e.g beef, dairy, nuts etc) and very climate exposed with specific company risk increasing risk..
- Small market capitalisations and **limited free-float** also tends to deter investors and access to capital
- Industry **knowledge** and expertise is very specific and generally not available in mainstream funds and given the limited opportunities, **resources are limited**
- No available portfolio approach investment company or product is available to investors with a specific focus on this sector and opportunity



The Investment Manager

- **Australian Rural Capital Management (ARCM) AFSL# 302802**
- Establishing a **Wholesale Unlisted Fund**
- Seeking to raise **up to \$100m**
- Once \$100m raised and invested into the portfolio, conversion to a LIC and seek an **ASX listing** as a liquidity and further access to capital
- ARC to **maintain investment** in the fund and receive management fees and performance fees



The Investment Approach

- Proactive investment style
- Portfolio of 5 to 10 holdings
- Position size \$10m to \$20m
- Strategic Stakes of 10% to 50%
- Board position if required
- Public and Private enterprises
- Industry, Climate, Commodity diversification
- Value Based
- Income and capital growth
- Absolute returns focus



How the fund will find investments

- Identify **economically sustainable production** and regions, seeking low cost producers or products with a point of difference like high growth in demand, or premium pricing
- Assess the **strategic infrastructure** (we call them Agristructure assets), like the processing, packing, storage and handling, terminals and shipping or the Intellectual Property that the investment captures
- Acquire, **partner** with capital injection to promote greater efficiency, volume growth and increased returns
- Seek out and **solve complex** and inefficient **capital structures**



The Investment Themes

- Ownership of **strategic real assets** at discount to replacement costs
- **Consolidation opportunities** both horizontal and vertically in the supply chain - actions to drive full capacity utilisation
- Understanding and **recognition** of the deep and pronounced **cyclical nature** of soft commodity prices and weather patterns on valuations.
- Work with **partners** with **aligned** goals, which includes supplier and grower owned enterprises
- **Unlock value** from capital structure and value creation strategy



Basic Investment Screens

1. Quality and nature of the **assets** and/or business model must be strategic and **economically** and environmentally **sustainable**
2. A **defined strategy** to create and/or unlock value and enable growth
3. **Low** levels of **debt** within the entity unless a recapitalisation is part of the investment proposition
4. Capable **aligned** operational **management**
5. History and capability of **dividend** or distribution **payments**
6. **Attractive** entry point **valuation**



Investment Types

- Equity in listed public companies and co-operatives
- Equity or shares in unlisted public companies & co-operatives
- Convertible Bonds or Notes
- Direct Asset Ownership
- Equity in private companies with public company governance standards



Expected Returns

- These assets should produce **cash returns** of **10-12% per annum** and free cash flow (after stay in business capex) of 8 % per annum.
- We are **targeting** capital **value increases** of compound **10% to 12% per annum** over a 5 year period and income to be 3% to 5% per annum (50% payout ratio)
- Total **Target Return** is **15% per annum**



Competitive Advantage & Unique Opportunities available to ARCM

- **Specific Sector knowledge**
- **Experience** from asset valuation anomalies and **unusual** and complex capital structure and **ownership structures**.
- **Track record** in creating value for shareholders in Agribusiness and this asset class
- Research, Analysis and Transaction agreement and **alliance** with Baron Partners, Sydney based boutique investment bank