

Shareholder Update, February 25, 2019

- **Net Loss after Tax of \$1.6m, Solid Cash Reserves in excess of \$450,000**
- **Record drought conditions impact Namoi Cotton Investment valuation**
- **Funds Management deal focus on larger assets to be funded in unlisted structure**
- **Livestock Financing opportunity progressed, loan book funding yet to be secured**

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

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

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

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

Namoi Cotton and this Drought

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

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

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

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

- Gwydir 12 %:
- Border Rivers 12%:
- Lachlan 37%:

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

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

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

Livestock Financing

At last years AGM we outlined the business dynamic's and market size for an investment opportunity in the livestock financing sector here in Australia. We have been working on acquiring an operation with the skills, expertise and experience to advance this investment, however procuring the appropriate source of debt funding for this type of operation has proven to be more time consuming and challenging than first expected and which has delayed our progress. We are also working on our reporting requirements and we have sourced a monitoring provider to monitor the livestock, which will be cattle, with specific software tailored to our reporting requirements. We believe that demand remains strong for the product and the investment opportunity for ARC is attractive, however a series of hurdles remain to be overcome in sourcing economically viable core debt funding to fund the loan book.

Funds Management

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

Summary

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

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