AUSTRALIAN RURAL CAPITAL LIMITED

ABN 52 001 746 710

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

30 JUNE 2019

AUSTRALIAN RURAL CAPITAL LIMITED

ABN 52 001 746 710

DIRECTORY

Directors

James Jackson	Executive Chairman
Wayne Massey	Executive Director
Darren Anderson	Non-Executive Director

Company Secretaries
Mark Licciardo
Adam Sutherland

Registered Office
c/- Broadley Rees Hogan
Level 24
111 Eagle Street
BRISBANE
QLD 4000

Communications

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Share Registry
Boardroom Pty Limited
Level 12
Grosvenor Place
225 George Street
SYDNEY NSW 2000

Shareholder Enquiries: 1 300 737 760 / (02) 9290 9600
Shareholders requiring clarification of holdings, or requesting changes of name or address should contact Boardroom Pty Limited directly. A variety of requisite forms may be downloaded from www.boardroomlimited.com.au

Bankers
National Australia Bank Limited
Level 19
100 Creek Street
BRISBANE
QLD 4000

Auditors
Bentleys Brisbane (Audit) Pty Ltd
Level 9
123 Albert Street
BRISBANE
QLD 4000

Controlled Entities
Australian Rural Capital Management Pty. Limited
ARC Agrivest Limited

CONTENTS

In this Annual Report a reference to "Group", "we", "us" "ARC" or "our" is a reference to Australian Rural Capital Limited ABN 52 001 746 710 and the entities that it controls unless otherwise stated.

The ARC corporate governance statement is available on our website (www.ruralcapital.com.au) in the section titled "Corporate Governance" and at the ASX website (www.asx.com.au) under the code "ARC".

EXECUTIVE CHAIRMAN'S REVIEW

Dear Fellow Shareholders,

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

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

Namoi Cotton Investment

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

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

The Drought and Namoi Cotton

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

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

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

The Murray Darling Basin Plan

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

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

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

Funds Management Opportunity

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

Cattle Market and Livestock Financing

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

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

Cash Levels and Directors Fees

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

Summary

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

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

Yours Sincerely,

James A Jackson
Executive Chairman
August 15, 2019

DIRECTORS' REPORT

The Directors present their annual report on Australian Rural Capital Limited ("**the Company**") and its controlled entities ("**Group**" or "**Economic Entity**") for the financial year ended 30 June 2019.

DIRECTORS

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

James Andrew Jackson *(Executive Chairman) (appointed 25 July 2014)*
James Jackson has background and experience in both capital markets and agribusiness. He worked for JB Were in Australia and SG Warburg & Co in both London and New York over a ten year period in Equity Capital Markets and Institutional Sales transacting with significant American and European institutional investors. He is now a company director and professional investor and was a director and Deputy Chairman of the ASX listed Elders Limited from 2014 to 2017 and MSF Sugar Limited (known formerly as The Maryborough Sugar Factory Ltd) from 2004 and Chairman from 2008 until the agreed takeover in 2012. This was during a period of significant growth and shareholder value creation for the company. The skills and expertise relevant to the position of director include a deep knowledge of agribusiness, financial risk management, strategic analysis and development and implementation of strategy and corporate governance. He has strong interest in agriculture and a large network in rural Australia and the capital markets. James holds a Bachelor of Commerce from the University of Queensland, completed the Program for Management Development at Harvard Business School and is a Fellow of the Australian Institute of Company Directors.

Darren Anderson *(Non-Executive Director) (appointed 5 June 2015)*
Darren Anderson has significant legal and commercial experience and expertise gained over a 30 year career to date. He is a partner of Brisbane legal firm Broadley Rees Hogan Lawyers and specialises in providing legal services to the property industry. He has particular expertise in major acquisitions and disposals in residential, industrial and rural property, structured property development, due diligence and property finance arrangements.

Darren brings extensive legal knowledge and background particularly in real property transactions, and the structuring of finance and due diligence. He has a good understanding of corporate governance, financial accounting and risk assessment.

He holds a Bachelor of Commerce and Bachelor of Laws (Second Class Honours) from the University of Queensland and is admitted as a Solicitor in the Supreme Court of Queensland.

Wayne Massey *(Executive Director)* (*appointed 14 December 2015*)
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). Wayne 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.

COMPANY SECRETARY

Mark Licciardo B Bus(Acc), GradDip CSP, FGIA, FCIS, FAICD

Experience and special responsibilities

Mark Licciardo is Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed and unlisted public and private companies.

Prior to establishing Mertons, Mark Licciardo was Company Secretary of the Transurban Group and Australian Foundation Investment Company Limited. Mark has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mark Licciardo is a former Chairman of the Governance Institute Australia (GIA) in Victoria and the Melbourne Fringe Festival, a fellow of GIA, the Institute of Chartered Secretaries (CIS) and the Australian Institute of Company Directors (AICD) and a Director of ASX listed Frontier Digital Ventures Limited, Ensogo Limited and Mobilicom Limited as well as several other public and private companies.

Adam Sutherland (*joint company secretary resigned 7th May 2019*)

Experience and special responsibilities

Adam Sutherland is an experienced legal and corporate compliance officer and has supported senior legal and company secretarial executives with Crown Resorts Limited. He has expertise in corporate compliance obligations, including ASX and ASIC requirements.

Adam also assisted with the application and maintenance of local and international gaming licenses for Crown. Prior to Crown Resorts Limited, Adam was a member of the internal legal team at Crown Melbourne Limited. Adam is a current Company Secretary of various public and private companies.

Interests in the Shares of the Company and Related Bodies Corporate
The relevant interests of each director in the share capital of the Company shown in the Register of Directors' Shareholding as at the date of this report is:

	Ordinary Shares - (ARC)	***ASX Listed Option -(ARCO)s***
Mr James Jackson	2,380,417	1,500,266
Mr Darren Anderson	344,905	229,788
Mr Wayne Massey	135,088	-

PRINCIPAL ACTIVITIES

The group's primary activities are:

(A) Equity investment – investment in rural and agricultural companies, securities, schemes and entities;

(B) Funds management and financial services – operation of a wholesale funds management business.

Other than the re-focus of activity on investment in the rural and rural related area, there were no significant changes in the nature of the economic entity's principal activities during the financial year.

RESULTS AND DIVIDENDS

The net loss after income tax for the financial year to 30 June 2019 was $2,478,952 (2018: profit $1,281,178). No dividends were paid or declared during the year.

TRADING IN COMPANY SHARES

During the 12 months to 30 June 2019, the Company's shares traded in the following ranges:

Quarter ending	*High price*	*Low price*	*Closing price*	*Volume*
30th September 2018	0.69	0.64	0.66	58,610
31st December 2018	0.66	0.56	0.625	85,580
31st March 2019	0.625	0.475	0.475	6,580
30th June 2019	0.475	0.32	0.36	26,610

Source: ASX

REVIEW OF OPERATIONS

A full review of operations is given on pages 2, 3 and 4 which include the Executive Chairman's Review.

SIGNIFICANT EVENTS DURING THE YEAR

The Company continued to examine various new investments and funds management opportunities during the year.

OPTIONS

At the date of this report, the unissued ordinary shares of Australian Rural Capital Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
31 July 2015	31 August 2020	$0.50	7,930,863
4 August 2014	31 December 2020	$0.70	450,000
11 November 2016	31 October 2019	$0.70	133,333
11 November 2016	31 October 2020	$0.70	133,334

Option holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity.

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of a committee of Directors) attended by each of the Directors of the Company for the 12 months to 30 June 2019 was:

	Directors' Meetings held during period in office		Audit Committee Meetings held during period in office	
	No. of meetings eligible to attend #	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
James Jackson	6	6	2	2
Darren Anderson	7	7	2	2
Wayne Massey	7	7	2*	2*

the Directors also assented to one written resolution during the year
*In attendance ex-officio

REMUNERATION REPORT (AUDITED)

(A) Key Management Personnel

The names and positions of key management personnel of the Company who have held office during the financial year are:

Directors

James Jackson	Executive Chairman
Darren Anderson	Non-Executive Director
Wayne Massey	Executive Director

(B) Directors Remuneration for the financial years ended 30 June 2019 and 30 June 2018

	Short-Term Benefits			*Post Employment Benefits*		*Share Based Payments*	
2019	**Salaries & fees**	**Cash bonuses**	**Non Monetary Benefits**	**Super-annuation**	**Other**	**Options**	**Total**
James Jackson	$151,436	-	-	$14,250	-	$6,149	$171,835
Darren Anderson	$25,000	-	-	$2,500	-	-	$27,500
Wayne Massey	$50,000	-	-	$5,000	-	$2,050	$57,050
TOTAL	**$226,436**	**-**	**-**	**$21,750**	**-**	**$8,199**	**$256,385**
2018							
James Jackson	$100,000	-	-	-	-	$8,880	$108,880
Darren Anderson	$25,000	-	-	$2,500	-	-	$27,500
Wayne Massey	$50,000	-	-	$5,000	-	$2,833	$57,833
TOTAL	**$175,000**	**-**	**-**	**$7,500**	**-**	**$11,713**	**$194,213**

(C) Specified Executives Remuneration for the years ended 30 June 2019 and 30 June 2018

	Short-Term Benefits			*Post Employment Benefits*		*Share Based Payments*	
2019 and 2018	**Salaries & fees**	**Cash bonuses**	**Non Monetary Benefits**	**Super-annuation**	**Other**	**Options**	**Total**
There were no specified executives in the period from 1 July 2018 to 30 June 2019 and 1 July 2017 to 30 June 2018.							

REMUNERATION REPORT (AUDITED) (continued)

(D) Remuneration Policy

The Non-Executive Directors annually review and recommend the remuneration packages of senior management. The payment of bonuses, options and other incentive payments are annually reviewed by the Non-Executive Directors as part of the review of Executive Directors and Specified Executives.

The Non-Executive Directors can exercise their discretion in relation to approving bonuses, options and incentives but will do so by reference to measurable performance criteria, and are able to seek independent advice on the appropriateness of remuneration packages.

The remuneration policy, which sets the terms and conditions for senior executives, was developed by the remuneration committee after seeking professional advice from independent consultants and was approved by the Board. Executives have historically received a base salary, superannuation, performance incentives and retirement benefits. Remuneration is reviewed annually by reference to Company performance, executive performance, comparable information from industry sectors and other listed Companies and independent advice, but has regard to expected significant share ownership in the Company. The policy is designed to attract appropriate executives and reward them for performance that results in long-term growth in shareholder value.

As a result of an overall reduction in operations, some of the services to the Company are provided on an outsourced basis by third parties, including the provision of services of the Executive Chairman.

The current remuneration for Non-Executive Directors is set by resolution of shareholders at a maximum $400,000 per annum in aggregate. This amount of remuneration includes all monetary and non-monetary components. There are no schemes for retirement benefits for Non-Executive Directors.

(E) Service Agreements

In July 2018, the Company signed an employment agreement with James Jackson, the key terms of which are payment of $150,000 per annum payable monthly. In July 2016, the Company signed an agreement with Wayne Massey, the key terms of which are payment of $50,000 per annum payable monthly.

(F) Options held by Specified Directors and Specified Executives

James Jackson was granted a total of 450,000 options by approval of a General Meeting held on 25 July 2014. These options vest in three tranches of 150,000 options on 25 July 2015, 25 July 2016 and 24 July 2017 providing Mr. Jackson remains in the employ of the Company. The options are exercisable at $0.70 per share until 31 December 2020. The conditions for the issue of all three tranches of 150,000 options have been met, which means they have now vested and are held by Mr. Jackson.

On 11 November 2016, the company issued 400,000 unlisted options each exercisable into one new share of ARC at a price of $0.70 per share as per the following table (300,000 to James Jackson and 100,000 to Wayne Massey);

Issue	Number of Options	Vesting Condition
Tranche 1	133,333	If ARC Share Price is $0.80 by 31 October 2018 based on the VWAP for the month of October 2018
Tranche 2	133,333	If ARC Share Price is $0.90 by 31 October 2019 based on the VWAP for the month of October 2019
Tranche 3	133,334	If ARC Share Price is $1.00 by 31 October 2020 based on the VWAP for the month of October 2020

REMUNERATION REPORT (AUDITED) (continued)

The options vest in three tranches of 133,333 on 31 October 2018, 31 October 2019 and 31 October 2020 providing James Jackson and Wayne Massey are still an employee of the company. The options relating to tranche 1 expired at 31 October 2018 and a transfer to account for this was made between the share based payments reserve and retained earnings of $9,304.

(G) Shareholdings by Specified Directors and Specified Executives

Directors	Balance at 1/7/18	Received as Remuneration	Options Exercised	Net change – other	Balance at 30/6/19
James Jackson	2,380,417	-	-	-	2,380,417
Darren Anderson	344,905	-	-	-	344,905
Wayne Massey	135,088	-	-	-	135,088
TOTAL	2,860,410	-	-	-	2,860,410

(H) Performance of Australian Rural Capital Limited

The Company's initial aim of generating shareholder wealth through investment in micro-cap companies and financial services businesses has changed since 2009 mainly because of two investments in the wine sector proving problematic and thereby significantly reducing the Economic Entity's access to capital. Consequently, the Company returned capital to shareholders in the form of large fully franked dividends and capital returns, via distribution of underlying investments. In turn, this led to a high fixed cost base relative to capital investment and significant investment concentration of the Company's remaining capital, producing volatile returns. In July 2014, the Company refocused its investment strategy onto the rural, agricultural and related sectors. These factors ensured that the Company's share price has traded in the 50 cent range over the last 3 years. In the last 12 months the Company's investment in Namoi has decreased in value and this has resulted in a reduction in the share price during this period and is currently trading below 50 cents.

The table below shows the performance for the Company as measured by its share price, market capitalisation, distributions via dividends and capital returns and profit from all operations (discontinued or ongoing) over the last five financial years.

	30 June 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019
Share price (adjusted)	$0.52	$0.57	$0.50	$0.69	$0.36
Market capitalisation ($000's)	4,595	5,143	6,246	8,620	4,850
Dividends paid ($000's)	-	-	-	-	-
Capital returns ($000's)	-	-	-	-	-
Profit/(loss) for the year ($000's)	(717)	263	(29)	1,281	(2,473)

This concludes the Remuneration Report, which has been audited.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Pursuant to Access and Indemnity deeds signed by the parties when each Director was appointed, the Company has agreed to indemnify each Director against any liability incurred by being a Director of the Company and to pay all of the Directors reasonable defence costs in relation to any claim alleging any liability on the part of the Director as a result of being a Director of the Company. The Company has agreed to maintain Director's and Officers' Liability Insurance upon terms and conditions reasonably satisfactory to the Directors and to pay all reasonable or market premiums in respect to the insurance for a period of 7 years following the date when any Director ceases to be a Director of the Company. Under the terms of the policy, the Company is precluded from disclosing the details of premiums paid.

ENVIRONMENTAL REGULATION

No significant environmental regulations apply to the economic entity.

CHANGES IN STATE OF AFFAIRS

During the financial year, there was no significant change in the state of affairs of the economic entity other than those noted under significant events during the year.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no material legal or other proceedings being made on behalf of the Company or against the Company as at the date of this report.

SUBSEQUENT EVENTS

Nil.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors expect to continue to work towards enhancing the value of the investment in Namoi Cotton Cooperative Limited. The Company is also seeking to expand its funds management activities through the establishment of wholesale funds investing in selected agricultural assets as well as advising outside parties on the restructuring of agricultural company capital structures. The Directors have excluded information on the expected results of the economic entity since financial performance is partly reliant on gains from the sale of investment securities or mark to market adjustments, which inherently cannot be forecast. The Directors have budgeted cash operating costs of approximately $225,000 from the normal operations of the Company, prior to the costs/benefits of any funds management expansion initiatives or dividend receipts.

NON AUDIT SERVICES

During the year the Company's auditors performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Details of the amounts paid to the auditors of the Company for audit and non-audit services provided during the year are set out in Note 5 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 13.

Dated at Brisbane this 15th day of August 2019.

Signed in accordance with a resolution of the Board of Directors of Australian Rural Capital Limited

J A Jackson - Chairman

Bentleys
THINKING AHEAD

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*
TO THE DIRECTORS OF AUSTRALIAN RURAL CAPITAL LIMITED
AND ITS CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Bentleys

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Partner
Brisbane
15 August 2019

FINANCIAL REPORT FOR THE YEAR TO 30th JUNE 2019

NOTES:

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	Economic Entity 2019 $	Economic Entity 2018 $
Continuing operations			
Revenues	2	(2,032,889)	1,699,047
Other expenses	3A	(439,659)	(413,468)
Finance costs	4	(820)	(767)
Profit/(loss) before income tax		(2,473,368)	1,284,812
Income tax benefit	7	(5,584)	(3,634)
Profit/(loss) after income tax		(2,478,952)	1,281,178
Profit/(loss) attributable to non-controlling interests		-	-
Profit/(loss) after income tax and non-controlling interests		(2,478,952)	1,281,178
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income attributable to owners of Australian Rural Capital Limited		(2,478,952)	1,281,178
Basic earnings/(loss) (cents) per share from continuing operations	8	(19.8)	10.3
Diluted earnings/(loss) (cents) per share from continuing operations	8	(19.8)	6.3
Dividends (cents) per share	6	-	-

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	Economic Entity 2019 $	2018 $
CURRENT ASSETS			
Cash and cash equivalents	9	282,154	452,379
Financial assets	10,14	4,714,888	7,004,977
Trade and other receivables	11	3,872	12,042
TOTAL CURRENT ASSETS		5,000,914	7,469,398
NON-CURRENT ASSETS			
Deferred tax assets	7B	6,146	11,730
Goodwill	25	7,709	7,709
TOTAL NON-CURRENT ASSETS		13,855	19,439
TOTAL ASSETS		5,014,769	7,488,837
CURRENT LIABILITIES			
Trade and other payables	15	40,125	51,765
TOTAL CURRENT LIABILITIES		40,125	51,765
TOTAL LIABILITIES		40,125	51,765
NET ASSETS		4,974,644	7,437,072
EQUITY			
Issued Capital	18A	20,003,935	19,995,610
Options Reserve	18B	387,303	388,118
Share based payments reserve	19	74,980	98,353
Accumulated Losses		(15,491,574)	(13,045,009)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF AUSTRALIAN RURAL CAPITAL LIMITED		4,974,644	7,437,072

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

ECONOMIC ENTITY	Issued Capital $	Share Based Payments Reserve $	Options Reserve $	Accumulated Losses $	Total Equity $
As at 30 June 2017	**19,995,610**	**86,640**	**388,118**	**(14,326,187)**	**6,144,181**
Total comprehensive income for the year	-	-	-	1,281,178	1,281,178
Share based payments reserve	-	11,713	-	-	11,713
As at 30 June 2018	**19,995,610**	**98,353**	**388,118**	**(13,045,009)**	**7,437,072**
Total comprehensive income for the period	-	-	-	(2,478,952)	(2,478,952)
Share based payments reserve	-	8,199	-	-	8,199
Contribution of equity from listed options exercised	8,325	-	-	-	8,325
Unlisted options lapsed	-	(31,572)	-	31,572	-
Listed options exercised	-	-	(815)	815	-
As at 30 June 2019	**20,003,935**	**74,980**	**387,303**	**(15,491,574)**	**4,974,644**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	Economic Entity 2019 $	Economic Entity 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Payments to suppliers and employees		(434,030)	(407,011)
Purchases of investments		-	(878,666)
Proceeds from sale of investments		-	49,350
Dividends received		255,951	11,697
Interest received		349	17,443
Finance costs paid		(820)	(767)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	**22 (A)**	**(178,550)**	**(1,207,954)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from equity issuance		8,325	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		**8,325**	**-**
Net (decrease)/increase in cash held		(170,225)	(1,207,954)
Cash at the beginning of the financial year		452,379	1,660,333
Cash at the end of the financial year	**9**	**282,154**	**452,379**

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been approved for issue by the Board of Directors of Australian Rural Capital Limited on 15 August 2019. The functional currency of the entity is measured using the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the economic entity's functional and presentation currency.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements cover the economic entity, consisting of Australian Rural Capital Limited and its subsidiaries and covers the financial year ended 30 June 2019. Australian Rural Capital Limited is a publicly listed entity, incorporated and domiciled in Australia.

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the Group. The principal accounting policies adopted in the preparation of this financial report are set out below.

A. Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ("AASB's"), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that the financial statements also comply with International Financial Reporting Standards.

The Group is a "for-profit" entity, the principal activities of which during the financial year ended 30 June 2019 included 'equity investment' and 'funds management and financial services'. There were no significant changes in the nature of the group's activities during the financial year.

Historical cost convention

These financial statements have been prepared on an accruals basis and are based on historic costs as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Amendments to Accounting Standards

In accordance with Corporations Amendment (Corporate Reporting Reform) Act 2010, the economic entity has dispensed with the inclusion of parent company accounts but discloses the requisite information for the parent company as per note 13.

B. Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Rural Capital Limited (''company'' or ''parent entity'') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Australian Rural Capital Limited and its subsidiaries together are referred to in these financial statements as "group" or "the economic entity".

Subsidiaries are all those entities over which the economic entity has control. The economic entity controls an entity when the economic entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the economic entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the economic entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the economic entity.

Investments in subsidiaries are accounted for at the lower of cost or recoverable value in the individual financial statements of the parent entity.

C. Operating Segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

D. Income Tax
The income tax (expense) revenue for the year comprises current income tax (expense) income and deferred tax (expense) income.

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the reporting date. Current tax (liabilities) assets are therefore measured at the amounts expected to be (paid to) recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the financial year as well unused tax losses.

Current and deferred income tax (expense) benefit is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Australian Rural Capital Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as at 1 July 2003.

The wholly-owned entities have not compensated Australian Rural Capital Limited for deferred tax liabilities assumed by Australian Rural Capital Limited on the date of the implementation of the legislation.

E. Revenue
Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Net gain on investments are recognised when a contract note is issued in the case of a sale of shares or when a signed transfer agreement has been effected with the purchaser.

F. Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component.

Classification and subsequent measurement

Financial liabilities

Financial liabilities are subsequently measured at:

– amortised cost; or
– fair value through profit or loss.

A financial liability is measured at fair value through profit or loss if the financial liability is:

– held for trading; or
– initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period.

The effective interest rate is the internal rate of return of the financial asset or liability, that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if it is:

– incurred for the purpose of repurchasing or repaying in the near term;
– part of a portfolio where there is an actual pattern of short-term profit taking; or
– a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in an effective hedging relationship).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and is not subsequently reclassified to profit or loss. Instead, it is transferred to retained earnings upon derecognition of the financial liability.

If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially measured at fair value (and if not designated as at fair value through profit or loss and do not arise from a transfer of a financial asset) and subsequently measured at the higher of:
– the amount of loss allowance determined in accordance to AASB 9.3.25.3; and
– the amount initially recognised less accumulative amount of income recognised in accordance with the revenue recognition policies.

Financial assets
Financial assets are subsequently measured at:
– amortised cost;
– fair value through other comprehensive income; or
– fair value through profit or loss.

Measurement is on the basis of two primary criteria:
– the contractual cash flow characteristics of the financial asset; and
– the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:
– the financial asset is managed solely to collect contractual cash flows; and
– the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:
– the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates; and
– the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:
– it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
– it is in accordance with the documented risk management or investment strategy and information about the groupings is documented appropriately, so the performance of the financial liability that is part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis; and
– it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Equity instruments
At initial recognition, as long as the equity instrument is not held for trading or is not a contingent consideration recognised by an acquirer in a business combination to which AASB 3 applies, the Group made an irrevocable election to measure any subsequent changes in fair value of the equity instruments in other comprehensive income, while the dividend revenue received on underlying equity instruments investments will still be recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group's accounting policy.

Derecognition
Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities
A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.
The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets
A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.
All the following criteria need to be satisfied for the derecognition of a financial asset:
– the right to receive cash flows from the asset has expired or been transferred;
– all risk and rewards of ownership of the asset have been substantially transferred; and
– the Group no longer controls the asset (ie it has no practical ability to make unilateral decisions to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which the Group elected to classify under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Impairment
The Group recognises a loss allowance for expected credit losses on:
– financial assets that are measured at amortised cost or fair value through other comprehensive income;
– lease receivables;
– contract assets (eg amount due from customers under construction contracts);
– loan commitments that are not measured at fair value through profit or loss; and
– financial guarantee contracts that are not measured at fair value through profit or loss. Loss allowance is not recognised for:
– financial assets measured at fair value through profit or loss; or
– equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: *Financial Instruments*:
– the general approach;
– the simplified approach;
– the purchased or originated credit impaired approach; and
– low credit risk operational simplification.

General approach
Under the general approach, at each reporting period, the Group assessed whether the financial instruments are credit impaired, and:
- if the credit risk of the financial instrument increased significantly since initial recognition, the Group measured the loss allowance of the financial instruments at an amount equal to the lifetime expected credit losses; and
- if there was no significant increase in credit risk since initial recognition, the Group measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Simplified approach
The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.
This approach is applicable to:
- trade receivables or contract assets that result from transactions that are within the scope of AASB 15: *Revenue from Contracts with Customers*, and which do not contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables is used taking into consideration various data to get to an expected credit loss (ie diversity of its customer base, appropriate groupings of its historical loss experience, etc).

Recognition of expected credit losses in financial statements
At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value with changes in fair value recognised in other comprehensive income. The amount in relation to change in credit risk is transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (eg loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

G. Trade and Other Receivables
Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at the reporting date plus accrued interest and less, where applicable, any unearned income or provision for doubtful debts.

H. Trade and Other Payables
Accounts payable represent the principal amounts outstanding at the reporting date plus, where applicable, any accrued interest.

I. Finance Costs
Borrowing costs are expensed in the period in which they are incurred.

J. Employee Benefits
Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised as current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

Share based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees and directors in exchange for the rendering of services.

Share based payments are expensed over the period that the payments vest to the employee and directors with a corresponding increase in equity over the vesting period.

K. Cash and Cash Equivalents
For the purpose of the Statement of Cash Flows, cash includes cash at bank and on hand and term deposits, offset by loans from a margin lending or overdraft facility.

L. Goods and Services Tax
Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australia Taxation Office. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to, the Australian Taxation Office is included as part of receivables or payables in the Statement of Financial Position. Cash flows in the Statement of Cash Flows are included on a gross basis. The GST component of cash flows arising from investing and financing activities that are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

M. Contributed Equity
Ordinary shares are classified as equity.

Incremental costs directly attributable to the cost of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as part of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised in equity.

N. Earnings Per Share
Basic earnings per share
Basic earnings per share is determined by dividing net profit/(loss) after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect if interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

O. Intangible Assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

P. Impairment of Non-Financial Assets
Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Q. Fair Value Measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

R. Leases
No assets have been acquired under finance leases.

Lease payments for operating leases or licence assignments, where substantially all the risks and benefits remain with the lessor or assignor, are charged as expenses on a straight line basis.

S. Business Combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

T. Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

U. New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019.

The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).
When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:
- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The consolidated entity will adopt this standard from 1 July 2019 and based on preliminary assessment is not expected to have a material effect.

V. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

W. New and Amended Accounting Policies Adopted by the Group

AASB 9 Financial Instruments and related amending Standards
In the current year, the Group has applied AASB 9 *Financial Instruments* (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives however there was no material impact on adoption of the standard.

In summary AASB 9 introduced new requirements for:
- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

AASB 15 Revenue from Contracts with Customers and related amending Standards
In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios.

There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
In the current year, the Group has applied AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions which is effective for an annual period that begins on or after 1 January 2018.

There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

	Economic Entity	
	2019	**2018**
	$	**$**

2. REVENUES

Interest revenue	349	17,443
Dividend income	255,951	11,697
Change in fair value of investments retained	(2,290,089)	1,670,717
Miscellaneous Income	900	(810)
TOTAL REVENUES	**(2,032,889)**	**1,699,047**

3. PROFIT/(LOSS) FOR THE YEAR

(A) EXPENSES

Auditors remuneration – audit, audit review and accruals	31,600	31,000
Directors fees, employee benefits and costs	248,186	184,500
Share based payments	8,199	11,713
Legal Expenses	1,440	22,385
Office and occupancy expenses - other	12,000	12,000
Other expenses	138,234	151,870
TOTAL EXPENSES EXCLUDING FINANCE COSTS	**439,659**	**413,468**

4. FINANCE COSTS

External	820	767
Total finance costs	820	767

	Economic Entity 2019 $	2018 $
5. AUDITORS REMUNERATION		
Remuneration of the auditors of the parent entity for:		
Auditing and reviewing the financial statements	28,600	28,000
Audit of controlled entities	3,000	3,000
	31,600	31,000

Non-audit services

The auditors of the Company, Bentleys Brisbane (Audit) Pty Ltd, did provide non-audit related services to the Company. The Board of Directors in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the auditor for non-audit services provided during the relevant years:

	2019 $	2018 $
Taxation services		
- Bentleys Brisbane (Audit) Pty Ltd	6,800	-

6. DIVIDENDS AND FRANKING CREDIT BALANCES

	2019	2018
Franking Credits		
Balance of franking account at the reporting date adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.	43,621	26,695

No dividends were declared or paid in respect of the years ended 30 June 2019 or 30 June 2018.

7. INCOME TAX

(A) INCOME TAX

The aggregate amount of income tax expense/(benefit) attributable to the year differs from the amount prima facie payable on the profit/(loss) from ordinary activities. The differences are reconciled as follows:

	Economic Entity 2019 $	Economic Entity 2018 $
Profit/(loss) before tax	(2,473,368)	1,284,812
Prima facie income tax expense/(benefit) on the profit/(loss) before income tax at 27.5% (2018: 27.5%)	(680,140)	353,323
Add/(deduct) tax effect of:		
Tax losses used/(not brought to account)	672,045	(357,729)
Prior year tax adjustment	5,391	-
Franking credits	6,033	5,013
Other permanent differences	2,255	-
Other timing differences	-	3,027
	685,724	(349,689)
Income tax (benefit)/expense attributable to entity	5,584	3,634

The effective tax rate of 0% (2018: 0%) mainly arises from adjustments to past deferred tax balances and a decision not to bring to account tax losses (2018: not to bring to account tax losses) in respect of the current year.

	2019 $	2018 $
Income tax benefit/(expense) is made up of:		
Deferred tax	(5,584)	(3,634)
	(5,584)	(3,634)

(B) DEFERRED TAX ASSETS

	2019 $	2018 $
Deferred tax assets comprise:		
Temporary differences – accruals	6,146	11,730
	6,146	11,730

(C) RECONCILIATIONS

	2019 $	2018 $
The overall movement in the deferred tax account is as follows:		
Opening balance	11,730	15,364
(Debit) to statement of profit or loss and other comprehensive income	(5,584)	(3,634)
Closing balance	6,146	11,730

(D) DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT

As at 30 June 2019, the economic entity had estimated unrecouped operating income tax losses of $12,818,365 (2018: $10,285,438) which are not presented on the Statement of Financial Position. The benefit of these losses has not been brought to account as realisation is not probable. The benefit will only be obtained if:

(i) the companies derive future assessable income of a nature and an amount sufficient to enable the benefits from the deductions for the losses to be realised;
(ii) the companies continue to comply with the conditions for deductibility imposed by the law; and
(iii) no changes in tax legislation adversely affect the companies in realising the benefit from the deductions for the losses.

	Economic Entity 2019 $	Economic Entity 2018 $
8. EARNINGS PER SHARE		
Continuing operations		
Earnings used in the calculation of basic EPS	(2,478,952)	1,281,178
Earnings used in the calculation of diluted EPS	(2,478,952)	1,281,178
Weighted average number of ordinary shares outstanding during the year used in calculation of EPS:		
basic EPS	12,503,190	12,492,090
diluted EPS	12,503,190	20,422,953
Basic earnings/(loss) per share (cents)	(19.8)	10.3
Diluted earnings/(loss) per share (cents)	(19.8)	6.3

9. CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash on hand and at bank	282,154	452,379
Net cash and cash equivalents as per Statement of Cash Flows	282,154	452,379

10. FINANCIAL ASSETS (CURRENT)

	2019 $	2018 $
Fair value through profit or loss:		
Listed investments at fair value		
- shares in listed corporations (note 14, 26F)	4,714,888	7,004,977
TOTAL	4,714,888	7,004,977

11. TRADE AND OTHER RECEIVABLES

	2019 $	2018 $
CURRENT		
Other debtors and receivables	3,872	12,042
	3,872	12,042

12. CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2019	Percentage Owned 2018
Parent Entity:			
Australian Rural Capital Limited	Australia		
Controlled Entities of Australian Rural Capital Limited:			
ARC Agrivest Limited*	Australia	100%	100%
Australian Rural Capital Management Pty. Limited	Australia	100%	100%

* Formerly ARC Investor Limited, change in company name occurred on 16/4/2018

	Economic Entity	
	2019	2018
	$	$

13. PARENT ENTITY INFORMATION

Information relating to the parent entity, Australian Rural Capital Limited:

	2019 $	2018 $
Current Assets	4,977,408	7,440,047
Total Assets	5,020,138	7,479,143
Current Liabilities	40,216	51,857
Total Liabilities	40,216	51,857
Issued Capital	20, 003,935	19,995,610
Share Based Payments Reserve	74,980	98,353
Options Reserve	387,303	388,118
Accumulated Losses	(15,486,294)	(13,054,492)
Total Shareholders' Equity	4,979,924	7,427,589
Profit/(Loss) of the parent entity	(2,473,106)	1,286,892
Total comprehensive income of the parent entity	(2,473,106)	1,286,892

As at 30 June 2019 and 30 June 2018, the parent entity had not entered into any guarantees in relation to the debts of its subsidiaries, nor had entered into any contractual commitments for the acquisition of property, plant or equipment.

14. FINANCIAL ASSETS

The Economic Entity's shares in listed corporations include the following interests which account for over 5% of the Economic Entity's shareholders' funds or 5% of the investee company's issued capital:

	2019 $	2018 $
Namoi Cotton Co-operative Limited		
Principal activity is cotton ginning and marketing		
9.6% interest in Namoi Cotton Co-operative Limited (2018: 10.1%)	4,714,888	7,004,977

15. TRADE AND OTHER PAYABLES

CURRENT (UNSECURED)	2019 $	2018 $
Trade creditors	5,686	20,465
Other creditors and accruals	28,997	25,858
Other payables	5,442	5,442
	40,125	51,765

16. BORROWINGS

At any time from 30 June 2018 to 30 June 2019, Australian Rural Capital Limited had no borrowings.

17. CONTINGENT LIABILITIES

The Economic Entity has no outstanding contingent liabilities (2018: nil).

	Economic Entity 2019 $	Economic Entity 2018 $
18. ISSUED CAPITAL		
12,508,740 fully paid authorised ordinary shares (2018: 12,492,090)	20,003,935	19,995,610

Terms and conditions of contributed equity:
Ordinary shares have no par value. Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. The voting rights attached to the ordinary shares at a general meeting of shareholders are such that on a show of hands every member present (in person or by proxy) shall have one vote and on a poll one vote for each share held.

MOVEMENT IN ISSUED SHARES OF THE PARENT ENTITY FOR THE YEAR
(A) ORDINARY SHARES

Date	Details	Number of shares	$
1 July 2018	Opening balance	12,492,090	19,995,610
12 November 2018	Listed options exercised	16,650	8,325
30 June 2019	Closing balance	12,508,740	20,003,935

(B) LISTED OPTIONS (ASX: ARCO) EXERCISABLE AT $0.50 PER SHARE BY 31 AUGUST 2020

Date	Details	Number of Options	Option Reserve $
1 July 2018	Opening balance	7,930,863	388,118
12 November 2018	Listed options exercised	(16,650)	(815)
30 June 2019	Closing balance	7,914,213	387,303

19. SHARE BASED PAYMENTS RESERVE

Executive Remuneration

On 4 August 2014, the company issued 450,000 options each exercisable into one new share of ARC at a price of 70c per share before 31 December 2020 to the Executive Chairman, James Jackson. The options vest in three tranches of 150,000 on 25 July 2015 (now vested), 25 July 2016 and 24 July 2018 providing James Jackson is still an employee of the company. These options had a fair value at the grant date of 12.75c per option. The conditions for the issue of all three tranches of 150,000 options have been met, which means they have now vested and are held by Mr. Jackson. The cost of the options has been amortised over the relevant period to full vesting and equated to $0 for the period ending 30 June 2019 (2018: $383).

On 11 November 2016, the company issued 400,000 unlisted options each exercisable into one new share of ARC at a price of $0.70 per share as per the following table (300,000 to James Jackson and 100,000 to Wayne Massey);

Issue	Number of Options	Vesting Condition
Tranche 1	133,333	If ARC Share Price is $0.80 by 31 October 2018 based on the VWAP for the month of October 2018
Tranche 2	133,333	If ARC Share Price is $0.90 by 31 October 2019 based on the VWAP for the month of October 2019
Tranche 3	133,334	If ARC Share Price is $1.00 by 31 October 2020 based on the VWAP for the month of October 2020

The options vest in three tranches of 133,333 on 31 October 2018, 31 October 2019 and 31 October 2020 providing James Jackson and Wayne Massey are still an employee of the company. These options had a fair value at the grant date of 8c per option. The cost of the options is amortised over the relevant period to full vesting and equated to $8,199 in the period to 30 June 2019 (2018: $11,330). The options relating to tranche 1 expired at 31 October 2018 and a transfer to account for this was made between the share based payments reserve and retained earnings of $9,304.

Advisory Services

On 4 August 2014, the company issued 240,000 options each exercisable into one new share of ARC at a price of 70c per share before 31 December 2018 to Baron Partners Limited. The options fully vested upon issue. These options had a fair value at the grant date of 9.28c per option. The cost of the options of $22,268 were fully expensed in the period ended 30 June 2015. These options expired at 31 December 2018 and a transfer to account for this was made between the share based payments reserve and retained earnings of $22,268.

Set out below are summaries of options movements during the current reporting period:

Grant Date	Expiry Date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/ other	Balance at the end of the year
4/8/2014	31/12/2020	0.70	450,000	-	-	-	450,000
4/8/2014	31/12/2018	0.70	240,000	-	-	(240,000)	-
11/11/2016	31/10/2021	0.70	400,000	-	-	(133,333)	266,667

Weighted average exercise price	0.70	-	-	-	0.70

The weighted average share price during the financial year was $0.59 (2018: $0.65)

The weighted average remaining contractual life of unlisted options outstanding at the end of the financial year was 0.95 years (2018: 1.95 years).

20. KEY MANAGEMENT PERSONNEL

The names and positions held by Key Management Personnel of the economic entity who have held office during the financial year are:

Directors

James Jackson	Chairman - Executive
Darren Anderson	Director – Non-Executive
Wayne Massey	Director – Executive

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019	2018
	$	$
Short-term employee benefits	226,436	175,000
Post-employment benefits	21,750	7,500
Share based payments	8,193	11,713
	256,385	194,213

Shareholding
The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2019	Balance at start of the year	Received as part of remuneration	Additions	Disposals / other	Balance at the end of the year
Ordinary shares					
James Jackson	2,380,417	-	-	-	2,380,417
Darren Anderson	344,905	-	-	-	344,905
Wayne Massey	135,088	-	-	-	135,088
	2,860,410	-	-	-	2,860,410
2018					
Ordinary shares					
James Jackson	2,380,417	-	-	-	2,380,417
Darren Anderson	344,905	-	-	-	344,905
Wayne Massey	135,088	-	-	-	135,088
	2,860,410	-	-	-	2,860,410

Related party transactions
Related party transactions are set out in note 24.

21. CAPITAL AND LEASING COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

The Economic Entity has no outstanding operating lease commitments (2018: nil).

(B) CAPITAL COMMITMENTS

The Economic Entity has no outstanding capital commitments (2018: nil).

(C) SUPERANNUATION

The Company contributes superannuation payments on behalf of directors of the economic entity in accordance with prescribed Government legislation. The Company is not committed to funding any shortfall in the earnings of any of the individual superannuation funds.

22. CASH FLOW INFORMATION

(A) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH OPERATING PROFIT/(LOSS) AFTER TAX

	Economic Entity 2019 $	Economic Entity 2018 $
Operating profit/(loss) after income tax	(2,478,952)	1,281,178
Cash flows excluded from profit/(loss) attributable to operating activities:		
Purchases of investments	-	(878,666)
Proceeds from sales of investments	-	49,350
Non cash flows in operating profit/(loss):		
Change in fair value of investments retained	2,290,089	(1,670,717)
Loss on sale of investments and derivatives	-	810
Share based payments	8,199	11,713
Changes in assets and liabilities net of acquisitions:		
(Increase)/decrease in deferred tax balances	5,584	3,634
(Increase)/decrease in sundry debtors & prepayments	8,170	(3,673)
(Decrease)/increase in trade creditors & accruals	(11,640)	(1,583)
Cash flows (used in)/provided by operations	**(178,550)**	**(1,207,954)**

23. EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to the reporting date.

24. RELATED PARTY INFORMATION AND TRANSACTIONS

Ultimate Controlling Entity
The ultimate controlling entity of the economic entity is Australian Rural Capital Limited (refer notes 12 and 13).

Key management personnel remuneration
During the financial year, total remuneration of $256,385 (2018: $194,213) was paid to Directors and key management personnel by the economic entity, including partially owned controlled entities. Details of the payments and shareholdings in Australian Rural Capital Limited of Directors and key management personnel are shown in the Remuneration Report contained as part of the Directors Report on pages 5 – 12 of this Financial Report.

Australian Rural Capital Limited transactions with controlled entities
During the financial year, Australian Rural Capital Limited advanced and repaid loans, sold and purchased goods and services, and provided management, accounting and administrative assistance to its controlled entities. At 30 June 2019, the parent was owed from controlled entities $24,775 (2018: owed $19,180). All loans advanced to and from these controlled entities are unsecured, subordinate to other liabilities and do not bear interest. Loans between members of the tax consolidated group are not on normal terms and conditions.

No dividends were received from controlled entities in either of the periods to 30 June 2019 or 30 June 2018.

Other related party transactions
In the year to 30 June 2019, the Company paid Broadley Rees Hogan ("BRH") total invoices, including GST, of $2,392 in respect of legal advice and related disbursements. Darren Anderson, a Director of the Company is a Partner of BRH. All fees and charges rendered by BRH were on commercial terms or more advantageous to the Company and were approved by Directors other than Darren Anderson.

In the year to 30 June 2019, the Company paid BRH $11,000, including GST, in respect of licence fees for space within the BRH Brisbane offices. The Company has a licence, cancellable at one months' notice, to maintain an office within the BRH space for a fee of $1,000 per month + GST.

At 30 June 2019, the parent owed BRH $0 (2018: $14,779).

25. INTANGIBLE ASSETS

In 2015, ARC acquired 100% of the issued capital of Australian Rural Capital Management Pty. Limited (**ARCM**) at a premium of $7,709 to net asset value. This amount is recognised as Goodwill within the consolidated financial statements.

26. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT

The economic entity undertakes transactions in a range of financial instruments including:

• listed shares and equity type securities in other corporations;
• cash assets;
• receivables;
• payables;
• deposits; and
• bills of exchange and commercial paper.

As a consequence, the Economic Entity is exposed to a number of financial risks. The Directors believe that these risks fall into two categories:

• “largely controllable risks” including interest rate risk, credit risk, and liquidity and operational risks; and
• “partly controllable risks” mainly arising from financial market risk.

We seek to sensibly mitigate the controllable risks but recognise that our financial performance is likely to be highly volatile as a result of “mark-to-market” accounting conventions, and the economic entity’s portfolio of investments in agribusiness related companies, which may be influenced by global soft commodity markets, currency fluctuations or weather related factors.

The Board provides overall guidance in respect of risk management, mainly in the areas of approving individual security investments, and providing advice and guidance in respect of the economic entity’s debt financing of its activities. The economic entity generally does not enter into derivative contracts as part of its day to day business, and has no major necessity to hedge specific exposures, given its relatively simple debt and equity financing structures and lack of overseas assets and liabilities.

(A) CAPITAL RISK MANAGEMENT
We aim to manage equity and debt capital in order to provide returns for shareholders, whilst maintaining the Economic Entity’s ability to pay its debts as and when they come due. As a smaller corporation, there is limited ability to manage the overall cost of capital, since equity capital may not always be accessible, and if so, only at significant theoretical cost. These costs may result in significant dilution to existing shareholders percentage interest in the economic entity.

In addition, the supply of debt capital is also not always assured as a result of the economic entity’s requirements to use major commercial banks. Since the economic entity’s business is of a specialist nature, commercial banks may not always be willing to lend to support its activities or may do so on terms which are highly constraining. These constraints include not only the price of available credit – referenced by its margin over market based bank bill rates – but also the variable nature of covenants required to be observed by the economic entity.

To manage overall capital risks, it may be necessary for the Board of Directors to adjust the level of dividends paid to shareholders, return capital to shareholders or issue new shares. Capital is monitored on an overall basis, although in the past has had to be done so with an emphasis on maintaining access to debt facilities made available to the economic entity. These have historically required the economic entity to maintain stipulated ratios of total liabilities to total tangible assets, minimum net worth (in dollar terms), restricted the ability to pay dividends in certain circumstances, and required that a parcel of securities be lodged with the economic entity’s debt financier. The economic entity fully repaid facilities which required maintenance of such criteria on 14 July 2010, although it has utilised overdraft facilities, from time to time, since that date.

26. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

(B) LARGELY CONTROLLABLE RISKS – INTEREST RATE RISK AND EXPOSURES

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that we use. Non derivative interest bearing assets are predominantly short term liquid assets, such as interest bearing bank accounts. Historically, our interest rate liability risk arose primarily from drawdowns of bank accepted bills with a maximum of 180 days duration.

At current interest rates, over the course of a full year, an increase of 100 basis points in borrowing rates with an accompanying change in deposit rates would reduce pre-tax loss by $4,525 (2018: increase pre-tax profit by $10,969).

Interest rate risk is not specifically managed since the economic entity has no fixed balance sheet inflow/outflow requirements which would require complex asset-liability management, and the maximum 180 day bill accepted drawdown nature of the previous facility inhibited such a requirement. Given the equity nature of the economic entity's investments, the Directors believe that any increases in the costs of debt finance could be mitigated by the sale of equity investments.

The following table summarises interest rate risk, for the economic entity with weighted average interest rates at reporting date:

	Interest Rate	Fixed Interest Rate $	Floating Interest Rate $	Non Interest Bearing $	Total $
ECONOMIC ENTITY 2019					
Financial assets:					
Cash and cash equivalents	0.05%	-	282,154	-	282,154
Trade and other receivables	-	-	-	3,872	3,872
Investments	-	-	-	4,714,888	4,714,888
		-	282,154	4,718,760	5,000,914
Financial Liabilities:					
Trade and other payables	-	-	-	40,125	40,125
		-	-	40,125	40,125
Net Financial Assets		-	282,154	4,678,635	4,960,789
ECONOMIC ENTITY 2018					
Financial assets:					
Cash and cash equivalents	0.05%	-	452,379	-	452,379
Trade and other receivables	-	-	-	12,042	12,042
Investments	-	-	-	7,004,977	7,004,977
		-	452,379	7,017,019	7,469,398
Financial Liabilities:					
Trade and other payables	-	-	-	51,765	51,765
		-	-	51,765	51,765
Net Financial Assets		-	452,379	6,965,254	7,417,633

26. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

(C) LARGELY CONTROLLABLE RISKS – CREDIT RISK

Credit risk is the risk that a contracting entity will not complete its obligations under an agreement or financial instrument and cause us to incur a financial loss. We have exposure to credit risk on various financial assets included in our statement of financial position.

The economic entity's major theoretical credit risk relates to its exposure to sold securities transactions where Members of ASX Limited are required to settle such transactions in the normal course of business on the Australian Securities Exchange. Members of ASX Limited are generally covered by the National Guarantee Fund for the types of transactions entered into by the Economic Entity. To help manage this risk, we monitor our exposures to individual entities. The maximum amount to which the economic entity is exposed as at 30 June 2019 is $nil (2018: $nil).

The economic entity is also exposed to credit risk through bank deposits and other simple money market instruments. These risks are managed by the economic entity placing short term deposits and bills only with highly rated major domestic commercial banks.

(D) LARGELY CONTROLLABLE RISKS – OPERATIONAL AND LIQUIDITY RISK

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle or recover a financial asset at all.

To help mitigate these risks we maintain constant monitoring of the economic entity's financial position through a series of cross-linked financial programs and attempt to ensure the economic entity has accessible liquidity in the form of cash and readily saleable securities. The contracted cash flows of all financial liabilities (refer note 16) are equal to their carrying value and will mature within twelve months of the reporting date.

(E) PARTLY CONTROLLABLE RISKS – FINANCIAL MARKET AND SECURITIES RISK

Financial market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. In the main, this occurs due to the economic entity's investments in listed ordinary shares whose share prices can fluctuate significantly over short periods of time.

The Board of Directors regard financial market risk as being only partly controllable, since investing in ordinary shares is an inherent component of the economic entity's activities, from which it seeks to profit. The economic entity is subject to significant risks which it is largely unable to control as a result of investing in smaller companies.

Investments in these companies are subject to more volatile price fluctuations as a result of:

- illiquidity of trading in the investee company's securities;
- potential proprietorial conflict from large shareholdings owned by management or Directors;
- concentration of major shareholdings, which can lead to extreme negative fluctuations in share prices when single investors seek to sell their securities in the investee company, irrespective of the business performance of the investee;
- lack of diversification of business activities of the investee company, rendering the investee susceptible to volatility within a single industry; and
- non-voting or restricted voting securities or other restrictive mechanisms enshrined in investee constitutions.

26. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

In respect of individual securities, the Board of Directors monitors and approves significant exposures to individual securities, other than controlled entities. In addition, the inherent risks of significant exposures to individual entities are, on occasion, partly mitigated by board representation on the investee company. Due to the nature of securities owned, there is limited correlation with traditional stock market indices.

In the event that the listed company portfolio increased or decreased in value by 10% from the levels of 30 June 2019, there would be a corresponding positive or negative impact on pre-tax profit/(loss) of $ 471,489 (2018: $700,498).

(F) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

As of 1 July 2009, the group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

30 June 2019	Level 1 $	Level 2 $	Level 3 $	TOTAL $
Financial assets at fair value through profit or loss:				
Shares in other corporations	4,714,888	-	-	4,714,888
TOTAL	4,714,888	-	-	4,714,888

30 June 2018	Level 1 $	Level 2 $	Level 3 $	TOTAL $
Financial assets at fair value through profit or loss:				
Shares in other corporations	7,004,977	-	-	7,004,977
TOTAL	7,004,977	-	-	7,004,977

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

26. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

(F) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets/financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
	30 June 2019	30 June 2018				
Held for trading non-derivative financial assets (see notes 10, 14)	Listed Australian equity securities: Agricultural industry - $4,714,888	Listed Australian equity securities: Agricultural industry - $7,004,977	Level 1	Quoted bid prices in an active market	N/A	N/A
Held for investment non-derivative financial assets	Unlisted Australian equity security: biotechnology industry - $nil	Unlisted Australian equity security: biotechnology industry - $nil	Level 2	Directors' valuation adjustments to Observable prices in private transactions	N/A	N/A

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Other data on net fair values of assets and liabilities is presented in notes 10 and 14 to the financial statements.

(G) RECONCILIATION OF NET FINANCIAL ASSETS TO NET ASSETS

	Economic Entity	
	2019	**2018**
	$	**$**
Net Financial Assets as above	4,714,888	7,417,633
Non financial assets and liabilities:		
Deferred tax assets	6,146	11,730
Goodwill	7,709	7,709
Net assets per balance sheet	4,728,743	7,437,072

27. COMPANY DETAILS

The Registered Office and Principal Place of Business of the Economic Entity is c/- Broadley Rees Hogan, Level 24, 111 Eagle Street, BRISBANE, QLD 4000.

28. SEGMENT REPORTING

The Economic Entity has two reportable segments, which both solely operate in one geographic segment, being Australia. Segment results, assets and liabilities include items directly attributable to a segment. Information about each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Executive Chairman, who is also the chief operating decision maker.

Segment profit before income tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of each operating segment. The reportable segments are as follows:

Funds management: management of investment vehicles and provision of funds management services.

Investment: investment in agriculture related entities, schemes and securities; "microcap" Australian companies, and other financial services entities.

2019	Funds Management $	Investment $	Unallocated $	TOTAL $
External revenue	-	(2,033,238)	-	(2,033,238)
Interest revenue	-	349	-	349
Expenses other than finance, depreciation and amortisation	(5,713)	-	(434,766)	(440,479)
SEGMENT RESULT	(5,713)	(2,032,889)	(434,766)	(2,473,368)
Finance Costs	-	-	-	-
PROFIT/(LOSS) BEFORE INCOME TAX	(5,713)	(2,032,889)	(434,766)	(2,473,368)
Income tax expense	-	-	(5,584)	(5,584)
PROFIT/(LOSS) AFTER INCOME TAX	(5,713)	(2,032,889)	(440,350)	(2,478,952)
Segment Assets	49,768	4,948,145	16,856	5,014,769
Segment Liabilities	240	-	39,885	40,125
Capital Expenditure	-	-	-	-

2018	Funds Management $	Investment $	Unallocated $	TOTAL $
External revenue	-	1,681,604	-	1,681,604
Interest revenue	-	17,443	-	17,443
Expenses other than finance, depreciation and amortisation	(5,713)	-	(408,516)	(414,229)
SEGMENT RESULT	(5,713)	1,699,047	(408,516)	1,284,818
Finance Costs	-	-	(6)	(6)
PROFIT/(LOSS) BEFORE INCOME TAX	(5,713)	1,699,047	(408,522)	1,284,812
Income tax expense	-	-	(3,634)	(3,634)
PROFIT/(LOSS) AFTER INCOME TAX	(5,713)	1,699,047	(412,156)	1,281,178
Segment Assets	52,376	7,407,470	28,991	7,488,837
Segment Liabilities	240	-	51,525	51,765
Capital Expenditure	-	-	-	-

AUSTRALIAN RURAL CAPITAL LIMITED

DIRECTORS DECLARATION

In accordance with a resolution of the Board of directors of Australian Rural Capital Limited, we declare that:

(a) The financial statements and notes of the Economic Entity are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Economic Entity's financial position as at 30 June 2019 and of its performance for the year ended on that date;

   (ii) complying with Accounting Standards and Corporations Regulations; and

   (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements; and

(b) In the opinion of the directors, there are reasonable grounds to believe that the Economic Entity will be able to pay its debts as and when they become due and payable.

(c) The Managing Director has declared that:

   (i) the financial records of the Economic Entity for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
   (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (iii) the financial statements and notes for the financial year give a true and fair view.

(d) The remuneration disclosures that are contained in pages 8 to 10 of the Directors' Report comply with Australian Accounting Standard AASB 124 Related Parties and Corporations Regulations 2001.

On behalf of the Board

J A Jackson
Chairman

Date: 15 August 2019

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AUSTRALIAN RURAL CAPITAL LIMITED

Opinion

We have audited the financial report of Australian Rural Capital Limited (the Company and its controlled entities (the "Group")), which comprises the consolidated statement of financial position as at 30 June 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the director's declaration.

In our opinion the consolidated financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Australian Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Bentleys
THINKING AHEAD

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
Share Based Payments As disclosed in Note 19 in the financial statements, during the year ended 30 June 2019, the Company incurred share based payments totaling $8,199. Share based payments are considered to be a key audit matter due to: - the value of the transactions; - the complexities involved in recognition and measurement of these instruments; and - the judgement involved in determining the inputs used in the valuation. Management engaged an external valuer to determine the fair value of the options granted. This process involved significant estimation and judgement required to determine the fair value of the equity instruments granted.	Our procedures amongst others included: - Analysing contractual agreements to identify the key terms and conditions of share based payments issued and relevant vesting conditions in accordance with AASB 2 Share Based Payments; - Evaluating the Monte Carlo valuation model used by the external valuer and assessing the assumptions and inputs used; - Assessing the adequacy of the disclosures included in Note 19 to the financial report.

Other Required Information

The directors are responsible for the other required information. The other required information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other required information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other required information and, in doing so, consider whether the other required information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other required information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Bentleys
THINKING AHEAD

Auditor's Responsibilities for the Audit of the Financial Report (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 10 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Australian Rural Capital Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Bentleys

Bentleys Brisbane (Audit) Pty Ltd
Chartered Accountants

Stewart Douglas
Director
Partner
15 August 2019

AUSTRALIAN RURAL CAPITAL LIMITED.

OTHER REQUIRED INFORMATION – YEAR ENDED 30 JUNE 2019

A. Range of Shares Issued as at 6 August 2019

As at 6 August 2019 there were 12,508,740 ordinary shares held by 424 shareholders, all of which were quoted on the ASX.

Range	Holders	Shares held	% of capital
1-1,000	300	47,285	0.38
1,001-5,000	43	109,763	0.88
5,001-10,000	15	131,560	1.05
10,001-100,000	39	1,740,457	13.91
100,001-9,999,999,999	27	10,479,675	83.78
Totals	**424**	**12,508,740**	**100.000**

There are 276 shareholders owning a total of 31,601 shares who own unmarketable parcels of the Company's securities.

B. Top Twenty shareholders as at 6 August 2019

Holder	Shares held	% of capital
Federal Pacific Holdings Pty Ltd	1,193,434	9.54%
Mistover Pty Ltd <Mistover A/C>	1,174,825	9.39%
Agrico Investments Pty Limited	1,024,368	8.19%
E R Nixon Pty Ltd <ER Nixon Retirement Fund A/C>	1,000,000	7.99%
Agrico Pty Ltd <Palm Super Fund A/C>	630,745	5.04%
Poal Pty Ltd <Barain Super Fund A/C>	521,164	4.17%
Abron Management Services Pty Limited <Brown Family Super Fund A/C>	490,750	3.92%
Pethol (Vic) Pty Ltd <Macdy No 5 Super Fund A/C>	472,809	3.78%
Andrew Adcock Investments Pty Ltd <Adcock Family S/F A/C>	405,264	3.24%
Datala Investments Pty Ltd <Deep North Securit S/F A/C>	344,905	2.76%
P K Capital Pty Ltd	311,500	2.49%
Citicorp Nominees Pty Limited	272,896	2.18%
Kanumera Investments Pty Ltd <Mac Super Fund A/C>	250,000	2.00%
East 72 Investments Pty Ltd	240,188	1.92%
Stiletto Investments Pty Ltd	240,000	1.92%
Rombola Superannuation Pty Ltd <Rombola Super Fund A/C>	200,000	1.60%
Ract Super Pty Ltd <Rand Superannuation A/C>	200,000	1.60%
Mr Andrew Alexander Adamovich	200,000	1.60%
Clapsy Pty Ltd <Baron Super Fund A/C>	186,046	1.49%
Crommo Pty Ltd	185,850	1.49%
TOTAL TOP TWENTY SHAREHOLDERS	**9,544,744**	**76.31**

C. Voting Rights

Shareholders are entitled to one vote for each share held. On a show of hands every shareholder present in person or by proxy shall have one vote and upon a poll, every shareholder so present shall have one vote for every share held.

D. Top Twenty listed option holders as at x August 2019

Holder	Options held	% of class
Federal Pacific Holdings Pty Ltd	836,166	10.57%
Agrico Investments Pty Limited	782,469	9.89%
Poal Pty Ltd <Barain Super Fund A/C>	776,473	9.81%
Mistover Pty Ltd <Mistover A/C>	656,000	8.29%
E R Nixon Pty Ltd <ER Nixon Retirement Fund A/C>	637,200	8.05%
Agrico Pty Ltd <Palm Super Fund A/C>	473,121	5.98%
P K Capital Pty Ltd	420,000	5.31%
T B I C Pty Ltd <Crommelin Family Account>	322,400	4.07%
Pethol (Vic) Pty Ltd <Macdy No 5 Super Fund A/C>	315,002	3.98%
Abron Management Services Pty Limited <Brown Family Super Fund A/C>	280,375	3.54%
Andrew Adcock Investments Pty Ltd <Adcock Family S/F A/C>	270,000	3.41%
Datala Investments Pty Ltd <Deep North Securit S/F A/C>	229,788	2.90%
Baron Nominees Pty Limited	200,000	2.53%
Mr Austin Sydney Miller	189,172	2.39%
Daved Investments Pty Ltd <The Brown Super Fund A/C>	120,000	1.52%
HSBC Custody Nominees (Australia) Limited	113,364	1.43%
Stiletto Investments Pty Ltd	104,526	1.32%
Mitchelldangar Pty Ltd	100,000	1.26%
Brian T Donnellan Pty Ltd <BT Donnellan Super Fund A/C>	100,000	1.26%
Pilrift Pty Limited <Cricthley Ret Fund A/C>	90,000	1.14%
TOTAL TOP TWENTY SHAREHOLDERS	**7,016,056**	**88.65**

E. Substantial Shareholders

The company has received the following substantial holder notices from shareholders who hold relevant interests in the company's ordinary shares as at 6 August 2019:

Disclosed Holder	Shares held at time of notice	% of capital disclosed at time of notice
James Andrew Jackson (relevant interests)	2,380,417	19.1%
Agrico investments Pty. Limited	1,655,005	13.3%
E R Nixon Pty. Limited	708,000	7.8%
Andrew John Brown (relevant interests)	566,890	6.3%

E. Corporate Governance Statement and Information

The Company's Corporate Governance Statement and other corporate governance related information including Securities Trading Policy, Board Charter, Risk and Audit Committee Charter and Code of Conduct is available at the Company's website: www.ruralcapital.com.au/investors-centre.