

AUSTRALIAN RURAL CAPITAL LIMITED

ABN 52 001 746 710



**AUSTRALIAN  
RURAL CAPITAL**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**30 JUNE 2021**

# AUSTRALIAN RURAL CAPITAL LIMITED

ABN 52 001 746 710

## DIRECTORY

### Directors

James Jackson	Chairman
Harley Grosser	Managing Director (appointed 1 July 2021 as a Non-Executive Director and 22 July 2021 as Managing Director)
Wayne Massey	Executive Director
Darren Anderson	Non-Executive Director

### Company Secretary

Mark Licciardo

### Registered Office

c/- Mertons Corporate Services  
Level 7  
330 Collins Street  
Melbourne VIC 3000

### Communications

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**email:** info@ruralcapital.com.au  
**mail:** and C/- James A Jackson, P O Box 100  
Federal NSW 2480  
**website:** [www.ruralcapital.com.au](http://www.ruralcapital.com.au)

### 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](http://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

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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](http://www.ruralcapital.com.au)) in the section titled “Corporate Governance” and at the ASX website ([www.asx.com.au](http://www.asx.com.au)) under the code “ARC”.

## **CHAIRMAN'S REVIEW**

**Dear Fellow Shareholders,**

This past year has been one of significant positive transition for your company. The ongoing drought and continued economic uncertainty of the Covid 19 Pandemic experienced at the start of this past financial year resulted in your company undertaking a series of defining initiatives over the past 12 months, which have now been completed and to date have been value accretive for our shareholders.

ARC is now a more financially robust company, with a new major shareholder, a new and exciting strategy and executive resources and capability, to help us capture the growth opportunities identified in our new strategy. I will now cover these elements in more detail below.

### **Financial Results**

The company recorded an after-tax loss of \$577,486 for the full year to June 30, 2021. This was a result of the operating costs of a listed public company and the professional fees incurred in a series of corporate transactions of approximately \$397,000 and the reduced valuation of our investment in Namoi Cotton of approximately \$180,000, explained further below. These results are not surprising as the company continues to have a focus on operating costs. The company's cash levels at balance date were \$3.4 million.

### **Namoi Cotton Investment and Return of Capital**

In January this year, our shareholders approved an in- specie distribution of 91.7 %, or 11,651,531 shares of our holding of 12,700,000 shares in Namoi Cotton Limited as a return of capital. This was completed in February on a pro rata basis of 9 Namoi Cotton shares for every 10 ARC shares held at the record date. The value attributed to these shares at the time was 30 cents per share.

The capital return and a subsequent further sale of Namoi Cotton shares reduced our holding from 12,700,000 to now 63,649 shares. This exercise concluded our strategic investment in Namoi Cotton with value preserved, and the majority of the investment now held directly by our shareholders. The accounting impact was to reduce the value of the holding against the previous period by \$180,000.

### **Share Placement**

Following the distribution, in March, we received a number of unsolicited approaches to help recapitalise the company. Following consideration of the series of alternatives, we proceeded to undertake a 15% placement of new shares at 20 cents a share to raise approximately \$388,000 (before costs) to boost our working capital and cash position. This resulted in Capital H Management and Mr Harley Grosser becoming substantial shareholders of the company.

### **Entitlement Offer and Recapitalisation**

In May, the board received a proposal from Taylor Collison Limited to fully underwrite an entitlement offer to raise approximately \$3.127 million in new equity. The board proceeded with the capital raising to replenish the company's capital base, provide working capital and further funds to undertake new investments and acquisitions. The offer was done on a 1 new share for 1 share held ratio to existing shareholders at a price of 21 cents per share. The board wishes to thank all shareholders for your support, the issue was completed successfully in June with the introduction of several new shareholders and Capital H Management increasing its shareholding to 32.7%. The company wishes to thank Taylor Collison Limited for their services in conducting the offer.

## **Appointment of New Director and Managing Director**

Following the increase in the shareholding of Capital H Management the board considered and appointed Mr Harley Grosser as its representative and Non- Independent Director to the board in early July. The company then worked on the refining a new strategic direction which resulted in the appointment of Harley as the new Managing Director of the Company, a role he commenced in late July. As noted in the ASX announcement, the board believes Harley brings extensive knowledge and skills in capital markets, financial analysis, valuation, building and operating an investment management business and investor relations, developed over the past 12 years.

I will now make the transition from the role of Executive Chairman to Non- Executive Chairman as the executive duties of the company will now rest with the role of Managing Director. This will be facilitated as previously announced during August of 2021. I look forward to working with Harley and enabling him, to focus on the development and growth of the business.

## **Development of a New Strategic Direction**

Last week, we were able to finalise our New Vision and Strategy. Put simply this is as announced.

“To build a listed boutique funds management platform and investment company by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies”.

We believe a significant opportunity exists in the marketplace to execute on this strategy in identifying and partnering with emerging and existing talent and supporting them to grow and succeed. The positive fundamentals of this business model are compelling, as it is highly scalable, capital light and can leverage existing and new technologies to contain operating costs and potentially facilitate growth in funds. More detail is covered by Harley in his letter in this report, also please refer to our ASX release on August 12, 2021. “The New ARC “

## **Merewether Capital Investment**

In the first transaction under our new strategy, we also announced on August 12 that we had entered into an agreement to acquire a 40% interest of the newly created fund manager, Merewether Capital Management. The remaining 60% will be held by Founder, Luke Winchester. Luke is a well- regarded investor and portfolio manager with a focus on ASX listed micro-cap and small cap stocks. We are excited by the opportunity to work with Luke and support Merewether to become a successful boutique manager. More details on this investment are also covered in a previous ASX release, “ARC makes First Investment under New Strategy”

## **Name Change**

In recognition of our new strategic direction and focus, the board is in the process of considering a change of company name for the company. The new name we are proposing is ARC Funds Limited. This name is more representative of our activities, and potentially enables us to retain our current ASX ticker code of ARC. This change, which requires regulatory approvals to progress, will also require shareholder approval at our upcoming Annual General Meeting.

## **Summary and Thanks**

Again, I wish to thank my fellow directors, Darren and Wayne for their work, wise counsel, and input in a busy period. In a year that has been both demanding and finally rewarding. I welcome Harley and thank him for his support and significant efforts post balance date. We have remained resolute on our goal in preserving and creating value for our shareholders and with this objective in mind, I believe ARC is now better positioned than ever to continue in this quest.

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

Finally, the Board wishes to thank all our shareholders for your interest and support, and we look forward to updating you on our progress.

Yours Sincerely,

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

James A Jackson  
**Chairman**  
August 19, 2021

## MANAGING DIRECTOR'S LETTER

**Dear Fellow Shareholders,**

As I write this, I am only three weeks into the role as Managing Director of ARC, but we have hit the ground running. In this letter, I wanted to give you a brief overview of what you should expect over the next 12 months as a shareholder of ARC.

Firstly, we will be completely focused on our new Company Vision, as outlined by our Chairman in the Chairman's Review.

We have a four-phase business plan designed to achieve this vision, which we have broken down for your viewing in an Investor Presentation shared with the ASX on 12th August, 2021.

Phase 1, which will keep us busy for at least the next 12 months, is all about identifying, investing in, and supporting the best funds management talent in Australia.

When we find them, we will provide them with the capital, support services, infrastructure, and guidance that they require to build successful boutique funds management businesses.

Our investment in Merewether Capital Management and its founder, Luke Winchester, represents the first major step towards achieving this new vision. I could not be more pleased to be partnering with an investor of Luke's calibre and I have every confidence in his and Merewether's success.

Our sole purpose is to ensure that our managers succeed, and we operate knowing that their success leads to our own. In time we hope that this feedback loop helps enforce our position as a Partner-Of-Choice in the boutique funds management industry.

Secondly, you should expect us to keep all shareholders regularly updated. While we won't release news simply for the sake of it, we will be sure to keep you informed and educated as to our progress.

Finally, you should expect us to act as business owners, running the company with a low-cost base and prioritizing capital allocation towards the success of our managers. This Founder-Owner mindset should be no surprise given the ARC board, directly and indirectly, owns 44.3% of the Company.

We are well capitalized, with a healthy balance sheet and sufficient capital to achieve our near-term goals. We have an attractive business model in an area of the market that we know well, and the team required to begin executing on our vision.

I am truly excited by the opportunity ahead of us and I look forward to updating you soon.



Harley Grosser  
**Managing Director**  
August 19, 2021

## 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 2021.

### 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.

**Harley Grosser** *(Managing Director) (appointed 1 July 2021 as a Non-Executive Director and 22 July 2021 as Managing Director)*

Mr Grosser is the Founder, Managing Director and Principal of Capital H Management, a Sydney based specialist small cap funds management company and the manager of the Capital H Inception Fund and Capital H Active Fund. Mr Grosser brings extensive knowledge and skills in capital markets, financial analysis and valuation, building and operating an investment management business and investor relations, developed over the past 12 years. These attributes will complement the existing skills and experience on the board and the Company considers Mr Grosser will add considerable value and energy to the Company. Mr Grosser holds a Bachelor of Commerce from the University of New South Wales and is also currently a Non- Executive Director of Motio Limited (ASX: MXO).

**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 Holding Redlich 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.



## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (continued)

### **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.

### **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:

	<b><i>Ordinary Shares - (ARC)</i></b>	<b><i>ASX Listed Option -(ARCO)s</i></b>
Mr James Jackson	2,722,158	-
Mr Harley Grosser	9,509,909	-
Mr Darren Anderson	438,655	-
Mr Wayne Massey	520,166	-

### **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 2021 was \$577,486 (2020: loss \$1,148,706). No dividends were paid or declared during the year.

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (continued)

### TRADING IN COMPANY SHARES

During the 12 months to 30 June 2021, the Company's shares traded in the following ranges:

<i>Quarter ending</i>	<i>High price</i>	<i>Low price</i>	<i>Closing price</i>	<i>Volume</i>
30 <sup>th</sup> September 2020	0.10	0.08	0.1	1,152,299
31 <sup>st</sup> December 2020	0.11	0.09	0.11	1,421,103
31 <sup>st</sup> March 2021	0.30	0.11	0.25	3,002,415
30 <sup>th</sup> June 2021	0.27	0.18	0.26	2,588,314

Source: ASX

### REVIEW OF OPERATIONS

A full review of operations is given on pages 2 to 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.

### 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 2021 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	8	8	2	2
Darren Anderson	8	8	2	2
Wayne Massey	8	8	-	-

# 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

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### (B) Directors Remuneration for the financial years ended 30 June 2021 and 30 June 2020

	Short-Term Benefits		Post Employment Benefits		Share Based Payments		Total
	Salaries & fees	Cash bonuses	Super-annuation	Other	Shares	Options	
<b>2021</b>							
James Jackson	\$25,000	-	\$2,375	-	\$50,000*	\$759	\$78,134
Darren Anderson	-	-	-	-	\$25,000*	-	\$25,000
Wayne Massey	\$45,000	-	\$9,750	-	-	\$253	\$55,003
<b>TOTAL</b>	<b>\$70,000</b>		<b>\$12,125</b>		<b>\$75,000</b>	<b>\$1,012</b>	<b>\$158,137</b>
<b>2020</b>							
James Jackson	-	-	-	-	\$100,000	\$3,181	\$103,181
Darren Anderson	-	-	-	-	\$25,000	-	\$25,000
Wayne Massey	-	-	-	-	\$50,000	\$1,060	\$51,060
<b>TOTAL</b>					<b>\$175,000</b>	<b>\$4,241</b>	<b>\$179,241</b>

\* Refer to (E) Shares issued to Directors in lieu of Directors Fees

#### (C) Specified Executives Remuneration for the years ended 30 June 2021 and 30 June 2020

	Short-Term Benefits			Post Employment Benefits		Share Based Payments	Total
	Salaries & fees	Cash bonuses	Non Monetary Benefits	Super-annuation	Other	Options	
<b>2021 and 2020</b>							
There were no specified executives in the period from 1 July 2020 to 30 June 2021 and 1 July 2019 to 30 June 2020.							

#### (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.

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### (E) Shares issued to Directors in lieu of Directors Fees

It was resolved by the Directors that new ordinary shares in the company would be issued in lieu of cash payments for Director's Fees for the following directors: \$50,000 for James Jackson and \$25,000 for Darren Anderson. Shareholder approval is required and will be sought at the Annual General Meeting expected to be held on 21 October 2021.

#### (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. These options expired at 31 December 2020.

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. The options relating to tranche 3 expired at 31 October 2020 and a transfer to account for this was made between the share based payments reserve and retained earnings of \$12,015.

The conditions for the issue of all three tranches totalling 400,000 options have not been met, which means they have not vested.

#### (G) Shareholdings by Specified Directors and Specified Executives

Directors	Balance at 1/7/20	Received as Remuneration	Options Exercised	Net change – other	Balance at 30/6/21
James Jackson	2,708,690	-	-	13,468	2,722,158
Darren Anderson	407,405	-	-	31,250	438,655
Wayne Massey	260,088	-	-	260,088	520,166
TOTAL	3,376,183	-	-	304,806	3,636,261

#### (H) Performance of Australian Rural Capital Limited

In July 2014, the Company refocused its investment strategy onto the rural, agricultural and related sectors and also sought to develop a funds management business. These factors and some positive investment returns ensured that the Company's share price traded in the 50 cents per share range in the following years to 2018.

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### (H) Performance of Australian Rural Capital Limited (continued)

However, over the last 3 years due to the negative investment returns and ongoing operating costs the share price had fallen to the 30 cents level. In the year end June 2020 financial year the Company's investment in Namoi Cotton Limited has decreased in value, as a result of the significant impact of the ongoing drought and this has resulted in a reduction in the share price of ARC during this period.

This resulted in significantly reducing the ability of the company to raise new capital without materially diluting the interests of existing shareholders. Therefore, in the year end June 2021 financial year the company undertook a pro rata in specie distribution of 90% of its shareholding in Namoi Cotton directly to its shareholders, as a distribution of capital. The company has subsequently undertaken a placement of new shares and an entitlement offer to shareholders and has successfully raised over \$3.2m of new additional equity capital.

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 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021
Share price (adjusted)	\$0.50	\$0.69	\$0.36	\$0.29	\$0.26
Market capitalisation (\$000's)	6,246	8,620	4,850	3,754	7,742
Dividends paid (\$000's)	-	-	-	-	-
Capital returns (\$000's)	-	-	-	-	3,374
Profit/(loss) for the year (\$000's)	(29)	1,281	(2,473)	(1,149)	(577)

**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.

## **DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (continued)**

### **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**

#### **Appointment of New Director and Managing Director**

Mr Harley Grosser was appointed as a Non- Independent Director to the board on 1 July 2021. On 22<sup>nd</sup> July 2021 Mr Harley Grosser was appointed as the new Managing Director of the Company.

James Jackson will transition from the role of Executive Chairman to Non- Executive Chairman as the executive duties of the company will now rest with the role of Managing Director.

#### **Development of a New Strategic Direction**

A New Vision and Strategy was announced on the 12<sup>th</sup> August 2021 “To build a listed boutique funds management platform and investment company by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies”.

#### **Merewether Capital Investment**

The first transaction under the new strategy has been entered. An agreement to acquire a 40% interest for a value of \$200,000 for the newly created fund manager, Merewether Capital Management. The remaining 60% will be held by Founder, Luke Winchester.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Company is seeking to develop and expand the funds management activities through the part ownership of fund managers and funds management operations investing in all asset classes. Alongside this, the company is also considering some principal investment in ASX listed companies. The Directors have excluded information on the expected results of the economic entity. The Directors have budgeted annual cash operating costs of approximately \$500,000 from the normal operations of the Company. This is prior to the costs/benefits of any business development or initiatives or any dividend receipts or investment returns from any principal investment

### **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 14.

Dated at Brisbane this 19th day of August 2021.

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

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

*J A Jackson - Chairman*

**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 2021 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 Brisbane (Audit) Pty Ltd  
Chartered Accountants



Stewart Douglas  
Director  
Brisbane  
19/08/2021



# AUSTRALIAN RURAL CAPITAL LIMITED

ABN 52 001 746 710

## FINANCIAL REPORT FOR THE YEAR TO 30<sup>th</sup> JUNE 2021

**Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2021**

**Statement of Financial Position as at 30 June 2021**

**Statement of Changes in Equity for the year ended 30 June 2021**

**Statement of Cash Flows for the year ended 30 June 2021**

### NOTES:

1. Statement of Significant Accounting Policies
2. Revenues
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**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021**

	Note	Economic Entity	
		2021 \$	2020 \$
<b>Continuing operations</b>			
Revenues	2	(176,912)	(606,105)
Other expenses	3	(423,762)	(537,197)
Finance costs	4	(2,705)	(6,497)
Gain on sale of subsidiary		30,642	-
Loss before income tax		(572,737)	(1,149,799)
Income tax benefit	7	(4,749)	1,093
Loss after income tax		(577,486)	(1,148,706)
Loss attributable to non-controlling interests		-	-
Loss after income tax and non-controlling interests		(577,486)	(1,148,706)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income attributable to owners of Australian Rural Capital Limited		(577,486)	(1,148,706)
Basic loss (cents) per share from continuing operations	8	(3.9)	(9.0)
Diluted loss (cents) per share from continuing operations	8	(3.9)	(9.0)
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 2021**

	Note	Economic Entity	
		2021	2020
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	3,418,035	116,144
Financial assets	10,14	22,900	4,108,688
Trade and other receivables	11	11,838	21,510
<b>TOTAL CURRENT ASSETS</b>		<b>3,452,773</b>	<b>4,246,342</b>
<b>NON-CURRENT ASSETS</b>			
Deferred tax assets	7B	-	7,239
Goodwill	25	-	7,709
<b>TOTAL NON-CURRENT ASSETS</b>		<b>-</b>	<b>14,948</b>
<b>TOTAL ASSETS</b>		<b>3,452,773</b>	<b>4,261,290</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	124,723	56,111
Borrowings	16	-	200,000
<b>TOTAL CURRENT LIABILITIES</b>		<b>124,723</b>	<b>256,111</b>
<b>TOTAL LIABILITIES</b>		<b>124,723</b>	<b>256,111</b>
<b>NET ASSETS</b>		<b>3,328,050</b>	<b>4,005,179</b>
<b>EQUITY</b>			
Issued Capital	18A	20,078,280	20,178,935
Options Reserve	18B	-	387,303
Share based payments reserve	19	-	68,588
Accumulated Losses		(16,750,230)	(16,629,647)
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF AUSTRALIAN RURAL CAPITAL LIMITED</b>		<b>3,328,050</b>	<b>4,005,179</b>

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 2021**

ECONOMIC ENTITY	Issued Capital \$	Share Based Payments Reserve \$	Options Reserve \$	Accumulated Losses \$	Total Equity \$
<b>As at 30 June 2019</b>	<b>20,003,935</b>	<b>74,980</b>	<b>387,303</b>	<b>(15,491,574)</b>	<b>4,974,644</b>
Total comprehensive income for the period	-	-	-	(1,148,706)	(1,148,706)
Share based payments reserve	-	4,241	-	-	4,241
Unlisted options lapsed	-	(10,633)	-	10,633	-
Share based payments	175,000	-	-	-	175,000
<b>As at 30 June 2020</b>	<b>20,178,935</b>	<b>68,588</b>	<b>387,303</b>	<b>(16,629,647)</b>	<b>4,005,179</b>
Total comprehensive income for the period	-	-	-	(577,486)	(577,486)
Share based payments reserve	-	1,012	-	-	1,012
Unlisted options lapsed	-	(69,600)	-	69,600	-
Listed options lapsed	-	-	(387,303)	387,303	-
In specie distribution	(3,374,543)	-	-	-	(3,374,543)
Share placement	388,387	-	-	-	388,387
Rights Issue, net of transaction costs	2,885,501	-	-	-	2,885,501
<b>As at 30 June 2021</b>	<b>20,078,280</b>	<b>-</b>	<b>-</b>	<b>(16,750,230)</b>	<b>3,328,050</b>

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 2021**

	Note	Economic Entity	
		2021	2020
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Payments to suppliers and employees		(333,374)	(359,608)
Proceeds from sale of investments		521,373	-
Dividends received		2,055	-
Interest received		54	95
Finance costs paid		(2,705)	(6,497)
<b>NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES</b>	<b>22 (A)</b>	<b>187,403</b>	<b>(366,010)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from equity issuance		3,273,888	-
Loan from 3 <sup>rd</sup> Party		-	200,000
Repayment of loan to 3rd Party		(200,000)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>22 (B)</b>	<b>3,073,888</b>	<b>200,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of subsidiary – net		40,600	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>22 (B)</b>	<b>40,600</b>	<b>-</b>
Net (decrease)/increase in cash held		3,301,891	(166,010)
Cash at the beginning of the financial year		116,144	282,154
<b>Cash at the end of the financial year</b>	<b>9</b>	<b>3,418,035</b>	<b>116,144</b>

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

# AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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 19 August 2021. 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 2021. 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 2021 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 2021 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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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 as 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 affected with the purchaser.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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.



**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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;

## AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)

#### *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.

## **AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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**

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability is recognised by the Group where the Group is a lessee. However, all contracts classified as short-term leases (with a remaining lease term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- Fixed lease payments less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability as mentioned above, any lease payments made at or before the commencement date, as well as any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of profit or loss and other comprehensive income.

**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 2021.

The Group anticipates to adopt these standards from their relevant application dates. Based on the preliminary assessment these standards are 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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

	Economic Entity	
	2021	2020
	\$	\$
<b>2. REVENUES</b>		
Interest revenue	54	95
Dividend income	2,055	-
Change in fair value of investments retained	(179,914)	(606,200)
Miscellaneous Income	893	-
<b>TOTAL REVENUES</b>	<b>(176,912)</b>	<b>(606,105)</b>
<b>3. PROFIT/(LOSS) FOR THE YEAR</b>		
<b>EXPENSES</b>		
Auditors remuneration – audit, audit review and accruals	32,000	31,600
Directors fees, employee benefits and costs	157,125	-
Share based payments	1,012	179,241
Legal Expenses	41,157	115,190
Office and occupancy expenses – other	8,000	12,000
Other expenses	184,468	199,166
<b>TOTAL EXPENSES EXCLUDING FINANCE COSTS</b>	<b>423,762</b>	<b>537,197</b>
<b>4. FINANCE COSTS</b>		
External	2,705	6,497
<b>Total finance costs</b>	<b>2,705</b>	<b>6,497</b>

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

	Economic Entity	
	2021	2020
	\$	\$
<b>5. AUDITORS REMUNERATION</b>		
<b>Remuneration of the auditors of the parent entity for:</b>		
Auditing and reviewing the financial statements	32,000	28,600
Audit of controlled entities	-	3,000
	32,000	31,600

**Non-audit services**

The auditors of the Company, Bentleys, 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:

	2021	2020
	\$	\$
Taxation services		
- Bentleys	11,550	2,300

**6. DIVIDENDS AND FRANKING CREDIT BALANCES**

**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.

	48,634	43,621
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No dividends were declared or paid in respect of the years ended 30 June 2021 or 30 June 2020.



**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

	Economic Entity	
	2021	2020
	\$	\$
<b>7. INCOME TAX</b>		
<b>(A) INCOME TAX</b>		
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:		
Profit/(loss) before tax	(572,737)	(1,149,799)
Prima facie income tax expense/(benefit) on the profit/(loss) before income tax at 27.5% (2020: 27.5%)	(157,503)	(316,195)
<b>Add/(deduct) tax effect of:</b>		
Tax losses used/(not brought to account)	161,931	313,936
Franking credits	43	-
Other permanent differences	278	1,166
	<u>162,252</u>	<u>315,102</u>
Income tax (benefit)/expense attributable to entity	<u>4,749</u>	<u>(1,093)</u>

The effective tax rate of 0% (2020: 0%) mainly arises from adjustments to past deferred tax balances and a decision not to bring to account tax losses (2020: not to bring to account tax losses) in respect of the current year.

**Income tax benefit/(expense) is made up of:**

Deferred tax	(4,749)	1,093
	<u>(4,749)</u>	<u>1,093</u>

**(B) DEFERRED TAX ASSETS**

**Deferred tax assets comprise:**

Temporary differences – accruals	-	7,239
	<u>-</u>	<u>7,239</u>

**(C) RECONCILIATIONS**

**The overall movement in the deferred tax account is as follows:**

Opening balance	7,239	6,146
Subsidiary disposal	(2,490)	-
(Debit) to statement of profit or loss and other comprehensive income	(4,749)	1,093
Closing balance	<u>-</u>	<u>7,239</u>

**(D) DEFERRED TAX ASSET NOT BROUGHT TO ACCOUNT**

On 30 June 2021, the economic entity had estimated unrecouped operating income tax losses of \$14,462,843 (2020: \$13,959,947) 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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

	Economic Entity	
	2021	2020
	\$	\$
<b>8. EARNINGS PER SHARE</b>		
<b>Continuing operations</b>		
Earnings used in the calculation of basic EPS	(577,486)	(1,148,706)
Earnings used in the calculation of diluted EPS	(577,486)	(1,148,706)
Weighted average number of ordinary shares outstanding during the year used in calculation of EPS:		
basic EPS	14,996,061	12,783,672
diluted EPS	14,996,061	12,783,672
Basic loss per share (cents)	(3.9)	(9.0)
Diluted loss per share (cents)	(3.9)	(9.0)

**9. CASH AND CASH EQUIVALENTS**

Cash on hand and at bank	3,418,035	116,144
Net cash and cash equivalents as per Statement of Cash Flows	3,418,035	116,144

**10. FINANCIAL ASSETS (CURRENT)**

**Fair value through profit or loss:**

Listed investments at fair value		
- shares in listed corporations (note 14, 26F)	22,900	4,108,688
TOTAL	22,900	4,108,688

**11. TRADE AND OTHER RECEIVABLES**

**CURRENT**

Other debtors and receivables	11,838	21,510
	11,838	21,510

**12. CONTROLLED ENTITIES**

	Country of Incorporation	Percentage Owned	
		2021	2020
<b>Parent Entity:</b>			
Australian Rural Capital Limited	Australia		
<b>Controlled Entities of Australian Rural Capital Limited:</b>			
ARC Agrinvest Limited*	Australia	-	100%
Australian Rural Capital Management Pty. Limited **	Australia	-	100%

\* Formerly ARC Investor Limited, change in company name occurred on 16/4/2018, was deregistered on 08/01/2021

\*\* Australian Rural Capital Management Pty. Ltd disposed 17/09/2020

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

	Economic Entity	
	2021	2020
	\$	\$
<b>13. PARENT ENTITY INFORMATION</b>		
<b>Information relating to the parent entity, Australian Rural Capital Limited:</b>		
Current Assets	3,452,773	4,228,276
Total Assets	3,452,773	4,272,099
Current Liabilities	124,723	256,202
Total Liabilities	124,723	256,202
Issued Capital	20,078,280	20,178,935
Share Based Payments Reserve	-	68,588
Options Reserve	-	387,303
Accumulated Losses	(16,750,230)	(16,618,929)
Total Shareholders' Equity	<u>3,328,050</u>	<u>4,015,897</u>
Profit/(Loss) of the parent entity	(577,486)	(1,143,268)
Total comprehensive income of the parent entity	<u>(577,486)</u>	<u>(1,143,268)</u>

As at 30 June 2021 and 30 June 2020, 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 included the following interests which accounted for over 5% of the Economic Entity's shareholders' funds or 5% of the investee company's issued capital as at 30<sup>th</sup> June 2020:

Namoi Cotton Co-operative Limited

*Principal activity is cotton ginning and marketing*

0.037% interest in Namoi Cotton Co-operative Limited (2020: 9.6%)	22,900	4,108,688
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Following shareholder approval at the Annual General meeting in January 2021, an In Specie Capital Distribution was completed on February 10, 2021. The company distributed 91.7% of its Namoi Cotton holding with eligible shareholders receiving 9 Namoi Cotton shares for every 10 ARC shares held at the record date. This resulted in 11,636,351 shares being disposed of at a share price of \$0.29, with a corresponding decrease in ARC's share capital as shown in Note 18(A).

**15. TRADE AND OTHER PAYABLES**

**CURRENT (UNSECURED)**

Trade creditors	52	23,923
Other creditors and accruals	124,671	26,746
Other payables	-	5,442
	<u>124,723</u>	<u>56,111</u>

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

	Economic Entity	
	2021	2020
	\$	\$
<b>16. BORROWINGS</b>		
Loan from 3rd Party	-	200,000

Term of loan was 6 months due for repayment on 27<sup>th</sup> September 2020. Loan is for \$200,000 and was fully drawn down as 30<sup>th</sup> June 2020. Purpose of the loan is for general corporate purposes. Interest rate is 12% per annum. The Loan was fully repaid on 4th September 2020.

**17. CONTINGENT LIABILITIES**

The Economic Entity has no outstanding contingent liabilities (2020: nil).

**18. ISSUED CAPITAL**

29,776,352 fully paid authorised ordinary shares (2020: 12,946,240)	20,078,280	20,178,935
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**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 2020	Opening balance	12,946,240	20,178,935
4 February 2021	In specie capital distribution	-	(3,374,543)
2 March 2021	Share placement @ 20 cents to Capital H	1,941,936	388,387
11 June 2021	Rights Issue	14,888,176	2,885,501
30 June 2021	Closing balance	29,776,352	20,078,280

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

Date	Details	Number of Options	Option Reserve \$
1 July 2020	Opening balance	7,914,213	387,303
31 August 2020	Options expired	(7,914,213)	(387,303)
30 June 2021	Closing balance	-	-

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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, 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 ended 30 June 2021 (2020: \$0). The options expired at 31 December 2020 and a transfer to account for this was made between the share based payments reserve and retained earnings of \$57,585.

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 \$1,012 in the period to 30 June 2021 (2020: \$4,241). 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. The options relating to tranche 2 expired at 31 October 2019 and a transfer to account for this was made between the share based payments reserve and retained earnings of \$10,633. The options relating to tranche 3 expired at 31 October 2020 and a transfer to account for this was made between the share based payments reserve and retained earnings of \$ \$12,015.

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)	-
11/11/2016	31/10/2020	0.70	133,334	-	-	(133,334)	-

Weighted average exercise price 0.70 - - - 0.00

The weighted average share price during the financial year was \$0.21 (2020: \$0.27)

The weighted average remaining contractual life of unlisted options outstanding at the end of the financial year was 0 years (2020: 0.33 years).

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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:

	<b>Consolidated 2021 \$</b>	<b>2020 \$</b>
Short-term employee benefits	70,000	-
Post-employment benefits	12,125	-
Share based payments	76,012	179,241
	<u>158,137</u>	<u>179,241</u>

**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:

	<b>Balance at start of the year</b>	<b>Received as part of remuneration</b>	<b>Additions</b>	<b>Disposals / other</b>	<b>Balance at the end of the year</b>
<b>2021</b>					
<i>Ordinary shares</i>					
James Jackson	2,708,690	-	13,468	-	2,722,158
Darren Anderson	407,405	-	31,250	-	438,655
Wayne Massey	260,088	-	260,088	-	520,176
	<u>3,376,183</u>	<u>-</u>	<u>304,806</u>	<u>-</u>	<u>3,680,989</u>
<b>2020</b>					
<i>Ordinary shares</i>					
James Jackson	2,380,417	250,000	78,273	-	2,708,690
Darren Anderson	344,905	62,500	-	-	407,405
Wayne Massey	135,088	125,000	-	-	260,088
	<u>2,860,410</u>	<u>437,500</u>	<u>78,273</u>	<u>-</u>	<u>3,376,183</u>

**Related party transactions**

Related party transactions are set out in note 24.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**21. CAPITAL AND LEASING COMMITMENTS**

**(A) OPERATING LEASE COMMITMENTS**

The Economic Entity has no outstanding operating lease commitments (2020: nil).

**(B) CAPITAL COMMITMENTS**

The Economic Entity has no outstanding capital commitments (2020: 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.

	<b>Economic Entity</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>22. CASH FLOW INFORMATION</b>		
<b>(A) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH OPERATING PROFIT/(LOSS) AFTER TAX</b>		
Operating profit/(loss) after income tax	(577,486)	(1,148,706)
<b>Cash flows excluded from profit/(loss) attributable to operating activities:</b>		
Proceeds from sales of investments	521,373	-
Gain on sale of subsidiary	(30,642)	-
<b>Non cash flows in operating profit/(loss):</b>		
Change in fair value of investments retained	179,914	606,200
Share based payments	1,012	179,241
<b>Changes in assets and liabilities net of acquisitions:</b>		
(Increase)/decrease in deferred tax balances	7,239	(1,093)
(Increase)/decrease in sundry debtors & prepayments	9,672	(17,638)
(Increase)/decrease in intangibles	7,709	-
(Decrease)/increase in trade creditors & accruals	68,612	15,986
<b>Cash flows (used in)/provided by operations</b>	<b>187,403</b>	<b>(366,010)</b>
<b>(B) RECONCILIATION OF CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Short-term borrowings</b>		
Opening balance 01 July	200,000	-
Cash flows	(200,000)	200,000
<b>Closing balance</b>	<b>-</b>	<b>200,000</b>

### **23. EVENTS SUBSEQUENT TO REPORTING DATE**

#### **Appointment of New Director and Managing Director**

Mr Harley Grosser was appointed as a Non- Independent Director to the board on 1 July 2021. On 22<sup>nd</sup> July 2021 Mr Harley Grosser was appointed as the new Managing Director of the Company.

James Jackson will transition from the role of Executive Chairman to Non- Executive Chairman as the executive duties of the company will now rest with the role of Managing Director.

#### **Development of a New Strategic Direction**

A New Vision and Strategy was announced on the 12<sup>th</sup> August 2021 “To build a listed boutique funds management platform and investment company by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies”.

#### **Merewether Capital Investment**

The first transaction under the new strategy has been entered. An agreement to acquire a 40% interest for a value of \$200,000 for the newly created fund manager, Merewether Capital Management. The remaining 60% will be held by Founder, Luke Winchester.

### **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 \$158,137 (2020: \$179,241) 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 8 - 11 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 2021, the parent was owed from controlled entities \$0 (2020: owed \$30,370). 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 2021 or 30 June 2020.

#### **Other related party transactions**

In the year to 30 June 2021, the Company paid Holding Redlich total invoices, including GST, of \$93,701 (2020: \$107,507) in respect of legal advice and related disbursements. Darren Anderson, a Director of the Company has been a Partner of Holding Redlich since November 2019. All fees and charges rendered by Holding Redlich



**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**24. RELATED PARTY INFORMATION AND TRANSACTIONS (continued)**

were on commercial terms or more advantageous to the Company and were approved by Directors other than Darren Anderson.

At 30 June 2021, the parent owed Holding Redlich \$0 (2020: \$18,237).

**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. ARCM was disposed of during the financial year, this goodwill is no longer recognised 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.

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

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.

**(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 \$5,349 (2020: reduce pre-tax loss by \$1,806).

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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

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

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 \$
<b>ECONOMIC ENTITY 2021</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	0.05%	-	3,418,035	-	3,418,035
Trade and other receivables	-	-	-	11,838	11,838
Investments	-	-	-	22,900	22,900
		-	3,418,035	34,738	3,452,773
<b>ECONOMIC ENTITY 2021</b>					
<b>Financial Liabilities:</b>					
Trade and other payables	-	-	-	124,723	124,723
		-	-	124,723	124,723
<b>Net Financial Assets</b>		-	3,418,035	(89,985)	3,328,050
<b>ECONOMIC ENTITY 2020</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	0.05%	-	116,144	-	116,144
Trade and other receivables	-	-	-	21,510	21,510
Investments	-	-	-	4,108,688	4,108,688
		-	116,144	4,130,198	4,246,342
<b>Financial Liabilities:</b>					
Trade and other payables	-	-	-	56,111	56,111
Loan from 3 <sup>rd</sup> party	12.00%	200,000	-	-	200,000
		200,000	-	56,111	256,111
<b>Net Financial Assets</b>		(200,000)	116,144	4,074,087	3,990,231

**(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 2021 is \$nil (2020: \$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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

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

**(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.

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 2021, there would be a corresponding positive or negative impact on pre-tax profit/(loss) of \$2,290 (2020: \$410,869).

**(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)

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

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

- 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 2021	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
Financial assets at fair value through profit or loss:				
Shares in other corporations	22,900	-	-	22,900
<b>TOTAL</b>	<b>22,900</b>	<b>-</b>	<b>-</b>	<b>22,900</b>
30 June 2020	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
Financial assets at fair value through profit or loss:				
Shares in other corporations	4,108,688	-	-	4,108,688
<b>TOTAL</b>	<b>4,108,688</b>	<b>-</b>	<b>-</b>	<b>4,108,688</b>

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):

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 2021	30 June 2020				
Held for trading non-derivative financial assets (see notes 10, 14)	Listed Australian equity securities: Agricultural industry - \$22,900	Listed Australian equity securities: Agricultural industry - \$4,108,868	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.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

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

**(G) RECONCILIATION OF NET FINANCIAL ASSETS TO NET ASSETS**

	Economic Entity	
	2021	2020
	\$	\$
Net Financial Assets as above	3,328,050	3,990,231
<b>Non financial assets and liabilities:</b>		
Deferred tax assets	-	7,239
Goodwill	-	7,709
Net assets per balance sheet	3,328,050	4,005,179

**27. COMPANY DETAILS**

The Registered Office and Principal Place of Business of the Economic Entity c/- Mertons Corporate Services, Level 7, 330 Collins Street, Melbourne VIC 3000.

**AUSTRALIAN RURAL CAPITAL LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 (continued)**

**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.

2021	Funds			TOTAL
	Management	Investment	Unallocated	
	\$	\$	\$	\$
External revenue	-	(146,324)	-	(146,323)
Interest revenue	-	54	-	54
Expenses other than finance, depreciation and amortisation	-	-	423,762	423,762
SEGMENT RESULT	-	(146,270)	(423,764)	(570,032)
Finance Costs	-	-	(2,705)	(2,705)
PROFIT/(LOSS) BEFORE INCOME TAX	-	(146,270)	(426,469)	(572,737)
Income tax expense	-	-	(4,749)	(4,749)
PROFIT/(LOSS) AFTER INCOME TAX	-	(146,270)	(431,216)	(577,486)
Segment Assets	-	22,900	3,429,873	3,452,773
Segment Liabilities	-	-	124,723	124,723
Capital Expenditure	-	-	-	-
2020	Funds			TOTAL
	Management	Investment	Unallocated	
	\$	\$	\$	\$
External revenue	-	(606,200)	-	(606,200)
Interest revenue	-	95	-	95
Expenses other than finance, depreciation and amortisation	(5,595)	-	(531,602)	(537,197)
SEGMENT RESULT	(5,595)	(606,105)	(531,602)	(1,143,302)
Finance Costs	-	-	(6,497)	(6,497)
PROFIT/(LOSS) BEFORE INCOME TAX	(5,595)	(606,105)	(538,099)	(1,149,799)
Income tax expense	-	-	1,093	1,093
PROFIT/(LOSS) AFTER INCOME TAX	(5,595)	(606,105)	(537,006)	(1,148,706)
Segment Assets	49,791	4,175,041	36,458	4,261,290
Segment Liabilities	-	-	256,111	256,111
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 2021 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 11 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: 19 August 2021



**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 2021 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 2021 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.

Key Audit Matter	How our audit addressed the key audit matter
<p>As disclosed in Note 14 Following shareholder approval at the Annual General meeting in January 2021, an In Specie Capital Distribution was completed on February 10, 2021. The company distributed 91.7 % of its Namoi Cotton holding with eligible shareholders receiving 9 Namoi Cotton shares for every 10 ARC shares held at the record date. This resulted in 11,636,351 shares being disposed of at a share price of \$0.29, with a corresponding decrease in ARC's share capital.</p> <p>This was considered to be a key audit matter as due to the impact on the company's Financial Assets.</p>	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none"> <li>• Reviewing relevant Notices of Meetings;</li> <li>• Evaluating the accounting treatment of the transaction; and</li> <li>• Assessing the adequacy of the disclosure in Note 14 and 18 to the Financial Report</li> </ul>

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF AUSTRALIAN RURAL CAPITAL LIMITED  
(Continued)**



**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 2021 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF AUSTRALIAN RURAL CAPITAL LIMITED  
(Continued)**



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

- 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.
- 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF AUSTRALIAN RURAL CAPITAL LIMITED  
(Continued)**



**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Australian Rural Capital Limited, for the year ended 30 June 2021, 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.

A handwritten signature in blue ink that reads "Bentleys".

Bentleys Brisbane (Audit) Pty Ltd  
Chartered Accountants

A handwritten signature in blue ink that reads "Stewart Douglas".

Stewart Douglas  
Director  
Brisbane  
19 August 2021

## AUSTRALIAN RURAL CAPITAL LIMITED.

### OTHER REQUIRED INFORMATION – YEAR ENDED 30 JUNE 2021

#### A. Range of Shares Issued as at 12 August 2021

As at 12 August 2021 there were 29,776,352 ordinary shares held by xxx shareholders, all of which were quoted on the ASX.

Range	Holders	Shares held	% of capital
1-1,000	285	45,988	0.15
1,001-5,000	52	140,049	0.47
5,001-10,000	23	181,639	0.61
10,001-100,000	77	3,288,074	11.04
100,001-9,999,999,999	41	26,120,602	87.73
<b>Totals</b>	<b>478</b>	<b>29,776,352</b>	<b>100.00</b>

There are 255 shareholders owning a total of 27,556 shares who own unmarketable parcels of the Company's securities.

#### B. Top Twenty shareholders as at 11 August 2021

Holder	Shares held	% of capital
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,565,000	22.048%
CAPITAL H MANAGEMENT PTY LTD	2,852,621	9.580%
AGRICO PTY LTD <PALM SUPER FUND A/C>	1,553,604	5.218%
DR EWAN RODERICK NIXON	1,428,000	4.796%
FEDERAL PACIFIC HOLDINGS PTY LTD	1,250,000	4.198%
AGRICO INVESTMENTS PTY LIMITED	1,231,511	4.136%
MISTOVER PTY LTD <MISTOVER A/C>	1,000,000	3.358%
POAL PTY LTD <BARAIN SUPER FUND A/C>	997,164	3.349%
PETHOL (VIC) PTY LTD <MACDY NO 5 SUPER FUND A/C>	945,618	3.176%
PUNTERO PTY LTD	711,972	2.391%
P K CAPITAL PTY LTD	700,000	2.351%
CLAPSY PTY LTD <BARON SUPER FUND A/C>	600,000	2.015%
WAYNE MASSEY & RUTH MASSEY <WARM SUPER FUND>	520,176	1.747%
FEDERAL PACIFIC HOLDINGS PTY LTD	450,000	1.511%
CROMMO PTY LTD	371,700	1.248%
DATALA INVESTMENTS PTY LTD <DEEP NORTH SECURIT S/F A/C>	344,905	1.158%
SAILORS OF SAMUI PTY LTD	344,638	1.157%
CALAMA HOLDINGS PTY LTD <MAMBAT SUPER FUND A/C>	341,836	1.148%
LOCOPE PTY LTD	300,000	1.008%
CITICORP NOMINEES PTY LIMITED	273,411	0.918%
<b>Total Securities of Top 20 Holdings</b>	<b>22,782,156</b>	<b>76.511%</b>

#### 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.

## OTHER REQUIRED INFORMATION – YEAR ENDED 30 JUNE 2021 (CONTINUED)

### D. Top Twenty listed option holders.

Options have expired.

### 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 11 August 2021:

Substantial Shareholder	Shares Held	Holding
Capital H Management Pty Ltd	9,734,909	32.7%
Agrico Investments Pty Limited	3,167,657	10.6%
James Andrew Jackson (relevant interests)	2,722,158	9.14%
Paul Young	1,829,706	6.1%

### F. 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](http://www.ruralcapital.com.au/investors-centre).