

21 February 2022

Dear Investor

**Re: Agriculture Fund III – Kialla Farms, confirmation of exit and final distribution**

Argyle Agri Partners Pty Ltd ('Argyle') is pleased to confirm that an exit of Agriculture Fund III's (the 'Fund') investment in Kialla Holdings Pty Ltd and its controlled entities, Kialla Pure Foods Pty Ltd and Aus Organic Feeds Pty Ltd (together, 'Kialla Group') has been achieved, with all sale proceeds now received by the Fund.

A final distribution from the sale of the Fund's interest in Kialla Group of \$0.1313<sup>1</sup> per stapled security<sup>2</sup> will be paid immediately to investors in the Fund. Together with the previously distributed proceeds from the Fund's sale of Kialla Farms and its associated operating entity, Kialla Farms Pty Ltd (together 'Lagoona'), the total net return on your investment will be \$0.5503<sup>1</sup> per stapled security<sup>2</sup> (inclusive of franking credits).

Funds should be available in your nominated bank account by Monday, 21 February 2022. Following payment of the final distribution, the Fund's taxation and accounting affairs will be finalised and the Fund will be wound up. A final record of your income tax position for this Fund and further communication on tax treatment will be provided to you in an end of year taxation statement dated 30 June 2022.

**Decision to Exit**

As set out in our 30 September 2021 Quarterly Report, the targeted short to medium term turnaround of the Kialla Group suffered a significant setback in mid-September, with one of its largest feed mill customers terminating its arrangements with the Group effective immediately. Several smaller customers also giving notice that they were moving out of organics and would not be making further orders.

These developments followed a prolonged period of poor trading and were a significant blow for the Kialla Group, with the ongoing viability of the enterprise a real concern.

The performance of the Kialla Group has tracked below investment case from the outset of the Fund's investment, impacted by agricultural risks associated with years of drought (and higher input prices for the organic flour mill) and execution by Kialla's management team.

The Fund had a minority interest in the Kialla Group (33.3%). The minority position in the Group limited options available to secure an exit in the best interests of Fund investors in contrast to the Fund's majority holding in Kialla Farms Pty Ltd, which Argyle managed an exit in late 2020.

From early 2021, Argyle canvassed interest from third parties with minimal interest expressed in acquiring a minority shareholding in an underperforming business. The very limited interested parties suggested they would only look to acquire the assets of Kialla Group (rather than the business) and would be looking for a bargain in the current market. The majority shareholder in the Kialla Group was steadfast that it did not wish to exit the business at this juncture given the poor performance of the business over the last few years and its inability to secure any kind of premium to the net asset value in the current market.

After considering all available options, including utilising forced sale provisions under the shareholders agreement, Argyle negotiated an acquisition of the Fund's investment by way of a Selective Share Buy-Back by the majority shareholders of Kialla Group. The Share Buy-Back has been facilitated by the majority shareholders offering up personal security in addition to the existing assets of the Kialla Group. The consideration negotiated aligns with the current

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<sup>1</sup> Per stapled security figures in the letter have been rounded to four decimal places.

<sup>2</sup> Stapled securities each comprising of one unit in the Kialla Capital Investments Trust, one unit if the Kialla Capital Investments Trust 2 and one unit in the Kialla Trading Investments Trust.

valuation of the investment, and in Argyle's view is in the best interests of Fund investors given the significant risk of further capital degradation that may result from continuing to hold the investment in pursuit of a turnaround.

We acknowledge it is a great disappointment for investors that we have not been able to return greater than the value of capital subscribed. Argyle has diligently pursued and considered all available options for this investment. Considering recent developments detrimental to the ongoing viability of the enterprise and prospective returns from this investment, it was determined an exit at this time was in the best interest of all Fund investors.

We would like to take this opportunity to thank you for your investment and should you have any questions, please contact our Investor Services team by calling **07 3077 7910** or emailing **investorservices@argylegroup.com.au**.

Yours sincerely

**Argyle Agri Partners Pty Ltd**