

Key Investment Facts

Trustee	Melbourne Securities Corporation Ltd (ACN 160 326 545, AFSL 428 289)
Investment Manager	Argyle Investment Management Pty Ltd ('AIM') (ABN 63 127 513 099, AR 343 792)
Investee Company	Kialla Group (incorporating Kialla Pure Foods and Aus Organic Feeds)
Management	Quentin Kennedy, Managing Director
Sector	Agribusiness Private Equity
Date Invested	19 July 2016
Amount Invested	\$12.3 million
Ownership	33.3% of Kialla Group 80.0% of Kialla Farm ('Lagoon')
Anticipated Exit	FY22-24
Location	Kialla Group Factory Greenmount via Toowoomba, QLD Kialla Farms ('Lagoon') Cracow via Theodore, Central QLD
Argyle Representatives	Hugh Esler, Tony Tremlett
Price per Stapled Security	\$0.1555
Distributions paid to Date	\$0.4027 per stapled security (inclusive of franking credits)

Fund Valuation Update

The price per Stapled Security as at 31 March 2021 was \$0.1555, down from \$0.6063 as at 31 December 2020. The unit price movement reflects a decrease in the mill valuation since 31 December 2020 and the return of capital paid to investors in February.

An independent valuation of the Kialla Group entities will be conducted during the June quarter.

Settlement of the sale of "Lagoon" and Kialla Farms Pty Ltd assets was completed on 21 December 2020. A distribution from the Fund's 80% stake in "Lagoon" and Kialla Farms Pty Ltd was paid to Fund investors in February.

The Kialla management team are continuing the implementation of their turnaround strategy for the organic grain milling business. Argyle continues to monitor performance and opportunities to restore value for the Fund's milling investment and influence Kialla management where possible.

Argyle is also taking preliminary steps with respect to pursuing potential exit opportunities as we approach expiry of the anticipated investment term of the Fund.

Key developments this Quarter include:

- The Kialla Farm settlement was completed on 21 December 2020.
- An interim capital distribution to investors of \$4.95m was made in February 2021.

- Both Aus Organic Feeds and Kialla Pure Foods endured a difficult trading period, being slower than even the usual seasonal downturn.
- All casual staff and two permanent workers were dismissed during the quarter to save on wages costs.
- Kialla Pure Foods continued to progress its medium-term (retail focussed) strategic plan engaging with distributors throughout the quarter.
- A significant toll milling opportunity has been secured by Aus Organic Feeds following fire damage to a local conventional feed mill.
- No staff-related COVID-19 issues impacted the mill and appropriate safety management plans remain in place.

Kialla Farm update

Farm Exit

During the March quarter, a distribution of \$4.95m was paid to investors following successful completion of the sale of "Lagoon" and the Kialla Farms Pty Ltd assets. Argyle is finalising the tax affairs of Kialla Farms Pty Ltd and the asset level landholding trust to allow for those entities to be wound up.

20% of the sale proceeds (~\$1.34M) was paid to Kialla Group (which is 33.3% owned by the Fund) to pay down existing debt facilities.

Investors will have received confirmation of the distributions paid by the Fund's Trustee, Melbourne Securities Corporation Limited. Annual tax statements will be issued by the Trustee in due course.

Kialla Group – Kialla Pure Foods ('KPF')

Kialla Pure Foods endured a period of poor financial performance during the March quarter, which is traditionally a slow trading period for the business.

During the quarter management dismissed all casual employees and two permanent staff to save on wages expenses. Kialla's Managing Director also took a reduction in pay in light of the broader staffing decisions within the business.

Australian Bureau of Statistics indicated that Food Retailing fell 3% in February and KPF saw this reflected in disappointing Distributor sales. There was some recovery in trading in March with (traditionally) strong sales to the bakery sector in the lead up to Easter.

Agriculture Fund III

After two months of no orders from Costco Japan (KPF's top customer by sales in the December quarter), KPF has received orders in line with budget projections together with orders for two additional pancake products (chocolate and vegan) which should see that customer return to budget in the short term.

KPF continued with its retail-focused strategic plan during the quarter and engagement with its retail partners and distributors was met with good enthusiasm.

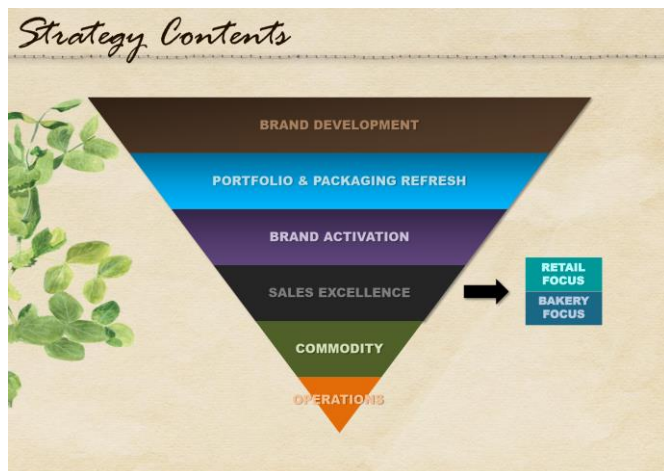


Figure 1: Kialla's immediate focus is on retail and bakery sales.
Source: Kialla Pure Foods

KPF will seek to continue to service and maintain its customer base in its low margin, high throughput wholesale categories but the focus for KPF is to grow higher-margin retail categories (both domestic and export). New product development including overnight oats, porridge and bread mixes will continue into the June quarter to take advantage of the improved retail demand for Kialla's products following the re-branding in 2020.

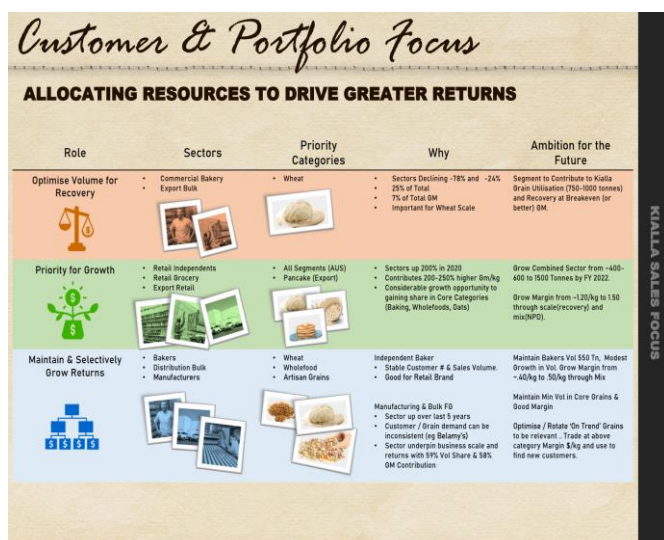


Figure 2: Kialla's priority for growth is the high margin retail categories.
Source: Kialla Pure Foods

Seasonal Outlook

Summer crop seasonal conditions remain favourable in most Kialla supplier growing areas with southern and central Queensland areas receiving above-average rainfall up to 31 March 2021. Kialla has been locking in contracts for summer crops including corn and sorghum at favourable prices with limited reports of weather damage.

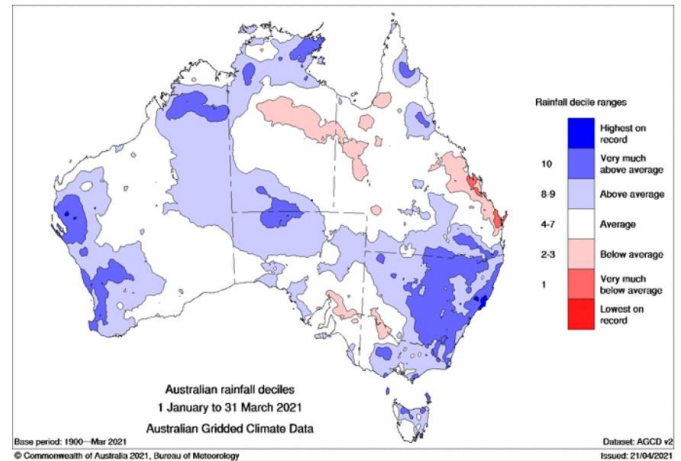


Figure 3: Rainfall Deciles – January 2021 to March 2021
Source: Bureau of Meteorology, 10 May 2021

Kialla Group – Aus Organic Feeds

Aus Organic Feeds endured a difficult quarter that management has attributed to a downturn in the organic poultry market and projections for cattle feed not eventuating.

For the March quarter, Aus Organic Feeds recorded sales of \$1.59m compared to \$1.75m in the prior corresponding period and a loss of \$0.11m (March quarter 2020 was a profit of \$0.54m).

Whilst the management team continues to explore opportunities to increase organic feed sales channels, it has been successful in securing a significant conventional toll milling contract after a nearby feed mill burnt down in March.

The contract is at a competitive rate, but the agreed volumes (240 tonnes per month) will assist in covering feed mill overheads for a proposed 12-18 month term. This will provide a good foundational volume for Aus Organic Feeds for the remainder of 2021 and may provide further conventional feed opportunities to pursue given the ongoing challenges associated with organic feed throughput and sales.

Path to exit

Following completion of the sale of “Lagoona” and its associated assets, our focus has now moved solely to assisting where possible with the turnaround of the underperforming milling business and exploring a path to exit of the Fund’s minority (33%) shareholding in the remaining Kialla Group companies.

At this stage of Kialla’s turnaround, we expect the best outcome for investors will be achieved by identifying a party with an existing interest in the grain production or export markets that could take the place of the Fund as a minority holder in the Kialla Group.

In the short term, we will seek to gauge interest from our networks in an off-market context so as not to impact the ongoing operations of the business.

For more information

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