

Key Investment Facts

Trustee	AAAP Securities Limited (ABN 45 125 223 958, AFSL 314 177)
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
AIM Representatives	John Corbett, Hugh Esler
Price per Stapled Security	\$0.5407
Distributions paid to Date	\$0.0115 per stapled security (inclusive of franking credits)

Fund Valuation Update

The price per Stapled Security as at 31 March 2020 was \$0.5407, down from \$0.5597 as at 31 December 2019.

Argyle continues to work closely with Kialla’s management team to effect a turnaround to restore value in this investment, both at the farm level and the milling business.

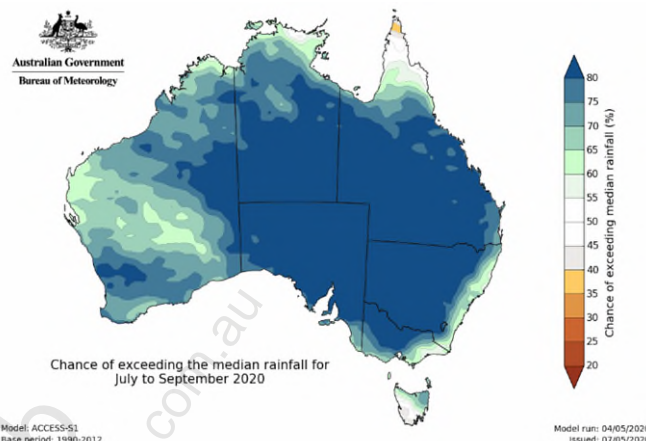
The unit price movement reflects a lower than forecast farm revenue from the drought impacted summer maize crop, and operational and fund expenses incurred during the Quarter.

Key developments this Quarter include:

- The Kialla Pure Foods milling enterprise has benefited from the overall increased consumer demand for flour during COVID-19.
- Organic flour sales showed a significant increase in March – this carried through to the first half of April before showing signs of levelling off.
- Significant rainfall and high flow river events resulted in full on-farm storages at Kialla Farm as at the end of the March Quarter.
- There is sufficient water on farm to complete a 441ha irrigated wheat planting in 2020.
- Field preparation commenced for the winter crop both irrigated (as above) and 80ha of dryland wheat.
- Dryland wheat will be planted into a generally full moisture profile however further rainfall through the growing season will be required to assure yields.
- Given the larger credit exposures due to the sudden spike in demand, mill management instigated a new credit limit management processes to mitigate potential non-payment risk.

- No staff related COVID-19 issues to report across the mill or farm – staff management plans have been in place and operating since mid-March.

Kialla Farm Update



Winter Crop

The focus through the March 2020 quarter has been preparatory work for the planting of the winter crop.

The ‘Lagoon’ property received significant on-farm rainfall throughout February with follow up rains into March and mid-April.

Forward projections by the Bureau of Meteorology (BOM) suggest a significant chance of above average rainfall in the Central Highlands region of Queensland through the crucial crop finishing period of August onwards.

Besides this favourable rainfall outlook, Lagoon enters the winter cropping season with 1,600 megalitres stored on-farm in the two reservoirs and the lagoon. This includes 1,150 megalitres of unsupplemented water pumped from the Dawson River and the balance captured from overland flows from the farm area. The property has a further 1,020 megalitres (51%) of remaining allocation held in the catchment system.

The wet weather caused delays and additional weed control workings in the period. Variations to compost spreading plans were also required. At the time of this report, planting is well underway and will be completed by the end of May.

With the good rainfall through late Summer and into early Spring, weed pressure on the property has been significant under the organic farming program. Although under control at this stage, weeds are expected to remain an ongoing issue for management throughout the winter crop cycle.

Summer Crop Wrap-up

All Summer Maize (487 tonnes) was delivered to the mill during the March quarter. The tonnage was reduced due to the lack of in-crop rainfall and supplementary irrigation in the period prior to harvest.



Figure 2: Flood irrigation field preparation

Source: Argyle Capital, 2020



Figure 3: On-farm storages are full

Source: Argyle Capital, 2020



Figure 4: Lagoon, full storages and preparing for Winter wheat

Source: Argyle Capital, 2020

Kialla Group – Kialla Pure Foods ('KPF')

The March Quarter saw two significant influences on the trading performance of KPF:

1. The successful repricing of product lines to offset the high 2019 crop organic grain costs due to the drought last year and into Summer 2019/20.
2. A spike in flour demand in line with general consumer demand for grocery staples during the first months of COVID-19.

The repricing across product lines has been successful in lifting gross margins back to levels last seen in mid-2019. Management has performed well in managing and maintaining this price increase across the KPF customer base which allows the current high-priced organic grain stocks to be worked down.

In addition, the spike in consumer demand for grocery staples has seen a substantial lift (100%) in sales for KPF's lines of organic flour through March. This necessitated the introduction of an additional shift at the mill as well as need to source additional packaging materials. The boost to demand was largely confined to the flour products and has not extended more broadly.

KPF has seen an increase in sales of organic flour to both speciality and mainstream retailers as well as to specialist bakers. Whilst this is seen as temporary, it has seen increased market penetration and brand recognition for KPF's organic flour products. Management are working through strategies to retain the benefits of this unexpected demand surge well into the future.

Given general rains across cropping districts in the past Quarter, the positive outlook for East Coast cereal crop production this year should result in increased organic grain supply and downward pressure on input costs for the milling business.

Argyle has previously identified that a turnaround in KPF's performance is not likely to occur in the short-term. Fortunately, improved rainfall and external events (COVID-19 shuttering) increasing market demand has moved KPF in a positive direction, albeit with substantial work required from the KPF team to effect a restoration of value eroded in recent drought affected years.

Kialla Group – Aus Organic Feeds

The March Quarter saw the feed mill trade in line with budget (up 22% for the same Quarter last year) and maintain its gross margins. However, the sales growth was price related, with volumes for the Quarter only slightly higher than the prior corresponding period.

Opportunities to increase the utilisation of the expanded feed mill infrastructure remains a central focus of management. This has become more challenging in the near-term due to widespread improvement in pasture conditions, enhanced prospects for forward grain supply and a marginal reduction in beef cattle numbers in feedlots (due to breeder restocking).

COVID-19 disrupted management's attention to securing new customers for the Aus Organic Feeds business, however this remains the intent in the period ahead.

Management Forecasts – Kialla Group

The fluid nature of the demand spike created by COVID-19 is creating some uncertainty in establishing forward projections into FY21. However, the outlook is generally positive with both domestic and export demand lifting in recent months.

Argyle continues to closely monitor Kialla's performance and work closely with its managing director on strategic options to maximise the near-term opportunities within the business as part of the broader strategic direction for the milling business.

Seasonal Conditions and Supply

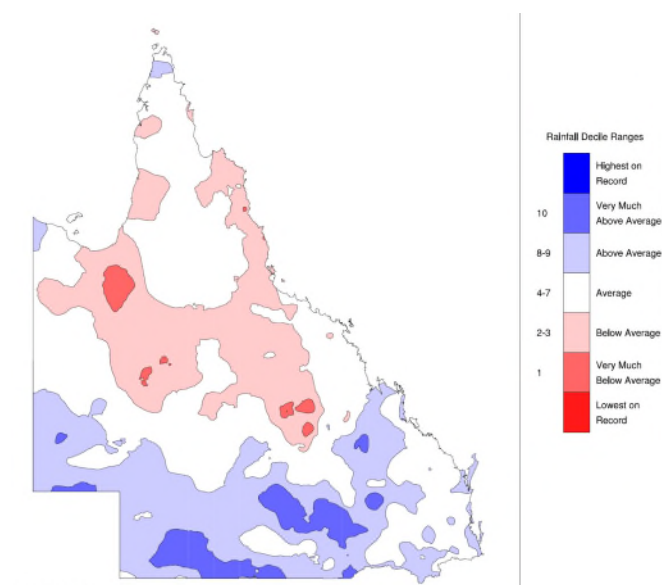


Figure 5: Rainfall Deciles – Feb' 2020 to May 2020
Source: Bureau of Meteorology, 2020

Rainfall in the Kialla Grower Areas significantly improved in the past Quarter finally alleviating the prevailing severe drought condition. While the drought in Queensland is not yet broken, the rainfall outlook bodes well for the forthcoming winter cropping period.

After several consecutive drought years, farmers across all the major cropping areas within the Kialla catchment intend to maximise

traditional wheat, barley, and canola areas in 2020/21 season. Seed suppliers have reported a substantial lift in planting seed demand in the past eight weeks in line with the favourable outlook.

Path to Exit

As part of an ongoing comprehensive review of both the farm and mill assets over the past few months, Argyle continues to review exit options in the best interests of unitholders.

Lagoona farm has proven very challenging to operate as an organic-only enterprise. Weed control in the region is particularly difficult and costly. So too is access to suitable organic fertilisers in the region. Given these challenges, the Kialla Board agreed to commence a process of sounding out local interest in a potential sale of the property.

Initial interest has confirmed our belief that the farm is well-located with secure water and efficient infrastructure. The farm is attractive to local farmers seeking to expand their holdings.

We will explore the existing interest in Lagoona in the short term in line with previously advised strategy to work towards a potential early exit of this asset as a market opportunity arises.

The Kialla Group milling assets presently are working through a medium-term turnaround timeline and as such, we remain focussed on execution of this turnaround before progressing an exit in the normal course. However, we remain alert to any suitable exit options that may opportunistically arise in the meantime.

For more information

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