Rural Funds Group | ASX: RFF

Notice of Meetings and Explanatory Memorandum

To be held on Friday, 10 August 2018 at 10:30am (AEST) at Primus Hotel Sydney, 339 Pitt Street, Sydney.

This Notice of Meetings and Explanatory Memorandum is issued by Rural Funds Management Limited (ACN 077 492 838, AFSL 226 701) (RFM) as the Responsible Entity of Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805 collectively referred to as Rural Funds Group or RFF.

THIS IS AN IMPORTANT DOCUMENT.

Please read the information in this document carefully. It is important that you either attend the Meetings or complete and lodge the enclosed proxy form.

If you will be attending the Meetings in person, to enable sufficient catering, please contact RFM Investor Services on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday, or email investorservices@ruralfunds.com.au prior to the Meetings.

The Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

Managed by:
Rural Funds Management

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Enquiries

If you have any questions, please consult your financial adviser or other professional adviser, or call Rural Funds Management on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday.

1. LETTER FROM THE CHAIRMAN

Dear Unitholder

On behalf of Rural Funds Management Limited ("**RFM**"), the responsible entity and manager of Rural Funds Group ("**RFF**"), it is my pleasure to invite you to the meetings of Unitholders to be held at 10:30am (AEST) on Friday, 10 August 2018 at the Primus Hotel Sydney, 339 Pitt Street, Sydney ("**Meetings**").

On 12 July 2018, RFM as responsible entity of RFF, announced a transaction involving:

1. the acquisition of JBS Australia's ("**JBS**") five Australian feedlots and associated cropping land ("**Feedlots**") for $52.7 million, inclusive of stamp duty, which will be secured by a 10 year[1] triple net lease to JBS with CPI indexation; and
2. the provision of a $75.0 million limited guarantee ("**Guarantee**") to J&F Australia Pty Ltd ("**J&F**"), a company that will be acquired by RFM. J&F supplies JBS with cattle, feed and associated costs used to stock the Feedlots and following the transaction, it will be funded via bank debt that will be supported by the Guarantee and the cattle. The Guarantee is for a term of 10 years and RFF will be paid a return for this commitment.

The Feedlots and Guarantee reflect a total capital commitment by RFF of $127.7 million ("**JBS Agreements**").

J&F will be acquired and operated by RFM rather than RFF. This structure quarantines operating risks and responsibilities, and ensures RFF remains a Real Estate Investment Trust (REIT) for accounting purposes and in substance. As J&F will be owned by RFM, the Guarantee is considered a transaction with a related party under the ASX Listing Rules and requires Unitholder approval.

The Meetings are being convened to consider the Resolution to approve the Guarantee. The acquisition of the Feedlots is conditional upon Unitholder approval of the Guarantee at the Meetings.

The fully underwritten $149.5 million accelerated non-renounceable entitlement offer ("**Equity Raising**"), also announced on 12 July 2018, will be completed prior to the Meetings and is not subject to Unitholder approval.

The Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

Details of the Resolution and the JBS Agreements are provided in the Notice of Meetings and Explanatory Memorandum accompanying this letter.

1 The Feedlot leases are for a term of 10 years from the commencement of the Guarantee. Feedlot acquisitions are subject to FIRB and other approvals, including two subdivisions, resulting in a lease term of slightly less than 10 years.

Your vote is important

This Notice of Meetings and Explanatory Memorandum contains important information in relation to the JBS Agreements, including information about the Guarantee and a discussion of the benefits and risks of the Guarantee.

Please read the Notice of Meetings and the Explanatory Memorandum carefully in its entirety before making your decision and voting (whether in person, by corporate representative or by proxy) at the Meetings.

If you will be attending the Meetings in person, or have any queries about the Meetings, please contact RFM Investor Services on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday prior to the Meetings.

Yours sincerely,

Guy Paynter
Chairman

2. LOCATION OF MEETINGS AND WHAT YOU NEED TO DO

Location of meetings

10:30am (AEST) on Friday, 10 August 2018 at the Primus Hotel Sydney, 339 Pitt Street, Sydney.

What you need to do

Step 1: Read the Notice of Meetings and Explanatory Memorandum

This Explanatory Memorandum is intended to provide Unitholders with information about the proposed Resolution contained in the Notice of Meetings.

You should read this Explanatory Memorandum in full before making any decision in relation to the Resolution.

Please refer to the Glossary in section 7 for the meaning of any defined terms in this Explanatory Memorandum.

Step 2: Vote on the Resolution

The Meetings will be held at 10:30am (AEST) on Friday, 10 August 2018 at the Primus Hotel Sydney, 339 Pitt Street, Sydney.

You can vote on the Resolution by attending the Meetings and voting in person (or for a body corporate, by a corporate representative voting for you) or by completing and returning the enclosed Proxy Form.

Proxy Forms must be received by the Registry by 10:30am (AEST) on Wednesday, 8 August 2018. For details on how to complete and lodge the Proxy Forms, please refer to the instructions on the Proxy Forms.

3. IMPORTANT NOTICES

Purpose of this document

This Explanatory Memorandum has been prepared by Rural Funds Management Limited ("**RFM**"), as responsible entity and manager of Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805, collectively referred to as Rural Funds Group ("**RFF**"), to provide Unitholders with information regarding the Resolution to be considered at the Meetings.

A copy of this Explanatory Memorandum has been provided to ASX pursuant to the Listing Rules. Neither ASX nor any of its officers takes any responsibility for the contents of this document.

A number of defined terms are used in this Explanatory Memorandum. These terms are explained in section 7.

Not investment advice

The information contained in this Explanatory Memorandum does not constitute financial advice and has been prepared without taking into account the objectives, financial situation or needs of individuals (including financial and taxation issues). If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

Disclaimer as to forward-looking statements

This Explanatory Memorandum contains certain "forward-looking statements".

The forward-looking statements in this Explanatory Memorandum reflect views held only as at the date of this Explanatory Memorandum, and generally may be identified by the use of forward-looking words, such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "predict", "guidance" or "plan" or other similar words. Indications of, and guidance on, future earnings, distributions and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of RFM, Rural Funds Group, and their officers, employees, agents and advisers, that may cause actual results to differ materially from those expressed or implied in any forward-looking statements. Those risks and uncertainties include factors and risks specific to the industry in which Rural Funds Group operates, as well as general economic conditions, prevailing exchange rates and interest rates, and conditions in the financial markets. The historical performance of Rural Funds Group is no assurance of Rural Funds Group's future financial performance (whether the JBS Agreements are implemented or not). Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement. RFM does not guarantee any particular rate of return or the performance of Rural Funds Group, nor does it guarantee the repayment of capital from Rural Funds Group or any particular tax treatment.

Foreign jurisdictions

The release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Explanatory Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Explanatory Memorandum has been prepared in accordance with laws of the Commonwealth of Australia and the information contained in this Explanatory Memorandum may not be the same as that which would have been disclosed if this Explanatory Memorandum had been prepared in accordance with the laws and regulations outside Australia.

Charts, maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Explanatory Memorandum are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at the date of issue of this Explanatory Memorandum.

4. EXPLANATORY MEMORANDUM

4.1 What is being considered at the Meetings?

On 12 July 2018, RFM, as responsible entity of RFF, announced a transaction involving:

1. the acquisition of JBS's five Australian feedlots and associated cropping land for $52.7 million, inclusive of stamp duty ("**Feedlots**"), which will be secured by a 10 year[2] triple net lease to JBS with CPI indexation; and
2. the provision of a $75.0 million limited guarantee ("**Guarantee**") to J&F Australia Pty Ltd ("**J&F**"), a company that will be acquired by RFM. J&F supplies JBS with cattle, feed and associated costs used to stock the Feedlots, and following the transaction it will be funded via bank debt that will be secured by the Guarantee and the cattle. The Guarantee is for a term of 10 years and RFF will be paid a return for this commitment.

The Feedlots and Guarantee reflect a total capital commitment by RFF of $127.7 million ("**JBS Agreements**").

J&F will be owned by RFM. The Guarantee is therefore considered a transaction with a related party under the ASX Listing Rules and requires Unitholder approval, via a meeting to be held on 10 August 2018.

J&F buys cattle, feed and other inputs to supply the JBS feedlots throughout the year. Rather than operate this business itself, RFF will provide J&F a limited Guarantee to enable J&F to finance its operations with bank debt. RFM will acquire J&F to maintain the function and operation of this business. This structure has the effect of separating RFF from the operational and accounting consequences of conducting a business.

RFF is an agricultural REIT, that has accumulated a portfolio of natural resource and infrastructure predominant agricultural assets. Its passive revenue stream is principally derived from the leasing of agricultural properties, free from the operational risks of farming those properties. The JBS Agreements will generate passive income that complements and diversifies its current revenue streams.

The Meetings are being convened to consider the Resolution to approve the Guarantee. The acquisition of the Feedlots is conditional upon Unitholder approval of the Guarantee at the Meetings.

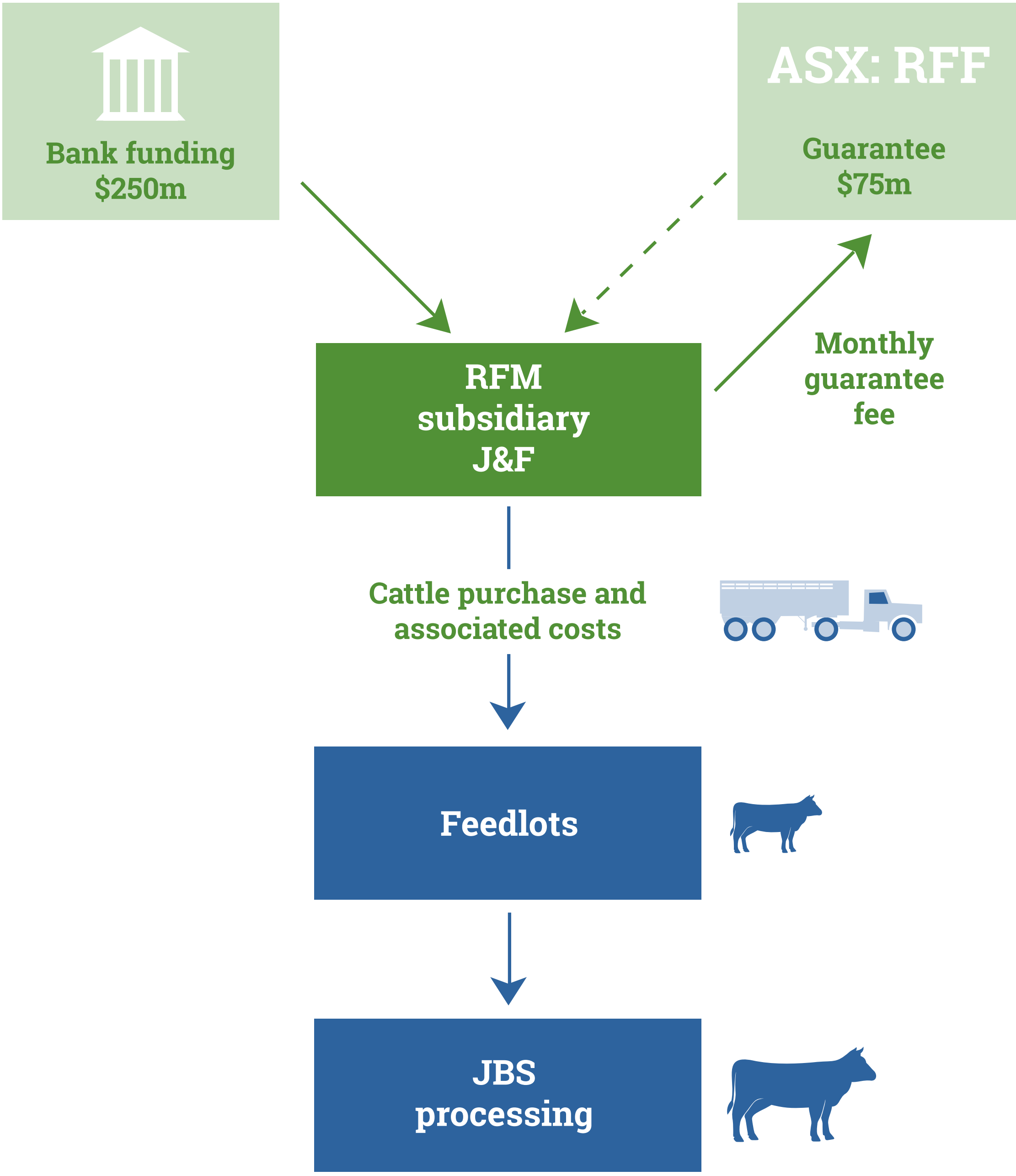
The Equity Raising will be completed prior to the Meetings and is not subject to Unitholder approval.

2 The Feedlot leases are for a term of 10 years from the commencement of the Guarantee. Feedlot acquisitions are subject to FIRB and other approvals, including two subdivisions, resulting in a lease term of slightly less than 10 years.

4.2 Overview of the JBS Agreements

Figure 1 presents a diagramatical representation of the Guarantee. Figures 2 and 3 provide further details on the properties and key documents.

Figure 1: Overview of the Guarantee[3]



3 J&F will be a wholly owned subsidiary of RFM. RFM is also the responsible entity of RFF. The Guarantee therefore is considered a transaction with a related party under the ASX Listing Rules and requires Unitholder approval. Acquisition of the Feedlots is conditional on the Guarantee being approved by Unitholders of RFF.

Figure 2: Feedlots – key property and lease terms

Description	Five feedlots, associated water entitlements and adjacent cropping land acquired for $52.7 million including stamp duty.
Return	Lease payment from JBS Australia Pty Limited (lessee).
Guarantee of obligations	Provided by Baybrick Pty Ltd, a subsidiary of JBS S.A.
Term	The Feedlot leases are for a term of 10 years from the commencement of the Guarantee. Feedlot acquisitions are subject to FIRB and other approvals, including two subdivisions, resulting in a lease term of slightly less than 10 years.
Rent indexation	CPI
Payment	Monthly in advance.
Lease structure	Triple net leases.
Capital expenditure	Lessee responsible for all maintenance capital expenditure required to maintain the same capacity, productivity and functionality of the Feedlots. At JBS' request, RFF may fund capital expenditure to increase the capacity, productivity and functionality of the Feedlots, which will attract additional rent.
Security deposit	Six months rent payable on commencement.
Put and call option	JBS has a call option to acquire the Feedlots for the CPI-adjusted purchase price, inclusive of stamp duty and capex, if: > J&F breaches certain commercial terms; > RFF wishes to dispose of the Feedlots; > a JBS competitor acquires more than 50% of RFF Units on issue; > a change of control of RFM; > RFF makes a warranty claim of more than $1 million; and > at JBS' discretion, from year six to year ten. This will incur a break fee payable to RFF, calculated as $2 million in year six (assuming all five Feedlots are called), reducing proportionally each year to nil at the end of year ten. In this event RFF has the right to terminate the Guarantee. If JBS does not exercise the call option in year ten RFF can: > retain the Feedlots. In this event RFF can exercise a call option to acquire an additional 11,775 ML of water entitlements for the cropping operation associated with the Feedlots; > put the Feedlots to JBS for the CPI-adjusted purchase price, inclusive of stamp duty and capex; or > negotiate to extend the existing arrangements for an additional term.
Settlement	Settlement of the Feedlots will be staged and is expected to occur from October 2018, conditional upon RFF Unitholder approval of the Guarantee, FIRB and other Government approvals (for example subdivisions). If any, or all, of the Feedlots do not settle, RFF will obtain a mortgage over the relevant feedlot. This will not impact the provision of the Guarantee to J&F.
Management fee	1.05% management fee (exclusive of GST), calculated on the asset value, paid by RFF to RFM.

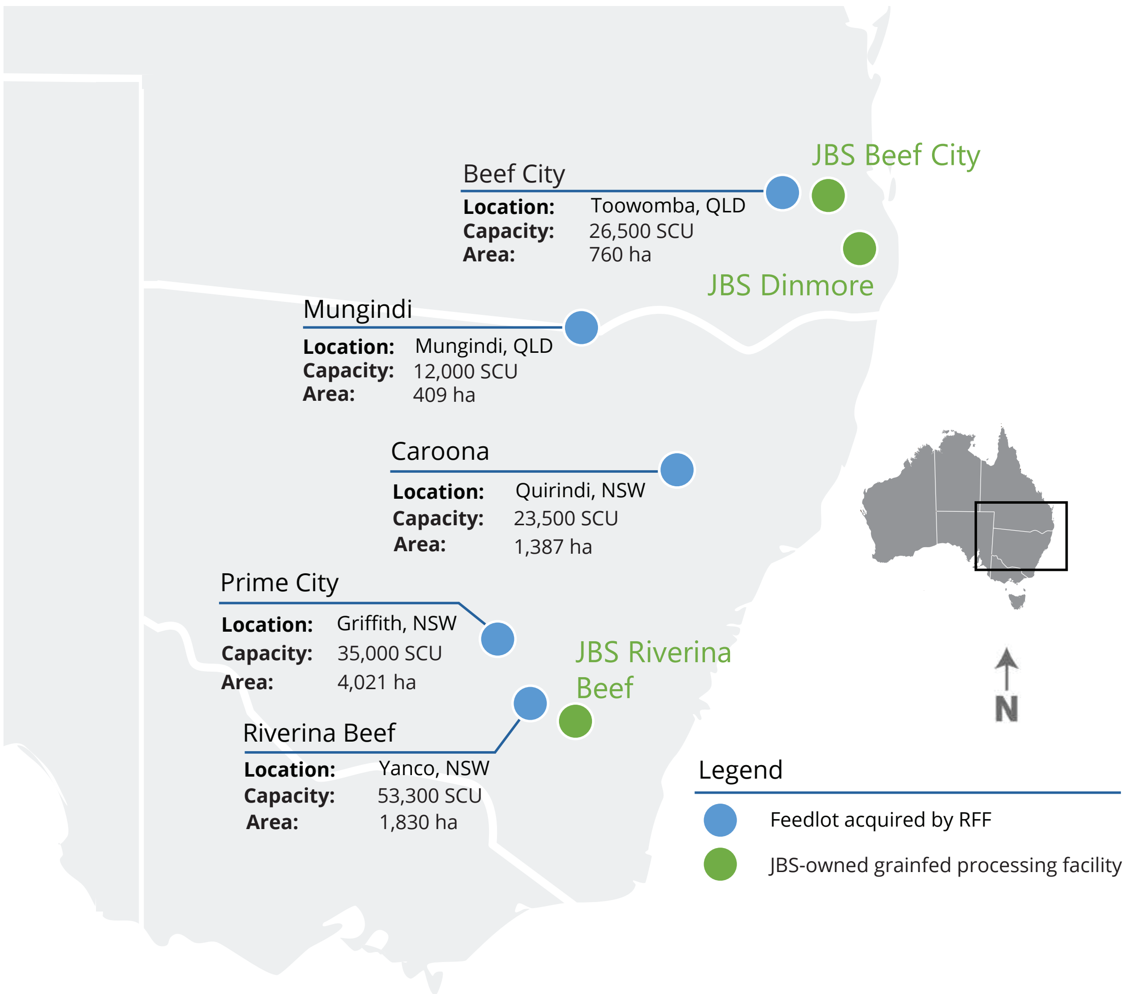
Figure 3: Guarantee and J&F – key terms

Description	A $75 million limited guarantee ("**Guarantee**") is provided by RFF to a special purpose vehicle called J&F Australia Pty Ltd ("**J&F**"). The Guarantee will: > earn a monthly income return, based on a costs plus arrangement, net of RFF's interest savings (see point below); > not require a transfer of cash, and will be used to reduce RFF's debt, in turn reducing RFF's interest costs; > be recorded as a contingent liability within RFF; and > be used as security for $75 million of J&F's debt facility for cattle purchases, feed and other costs associated with finishing the cattle on the Feedlots. Any changes in interest costs are borne by JBS. JBS will retain responsibility for the management of the Feedlots and J&F has appointed JBS as its exclusive agent and manager. The bank loans totalling $250 million (or above that amount at RFM's discretion) are supported by the Guarantee and the cattle. Feedlot utilisation in the near term is expected to be high due to seasonal conditions, and as such, an additional $10 million of funding has been arranged. In the event of a JBS default: 1. the Guarantee would be called but limited to $75 million; 2. J&F would cease buying cattle, and commence selling cattle in the Feedlots; 3. as cattle are sold, J&F bank loans would be repaid. Given that lot-fed cattle can gain 2kg per day, and are sold on a per kg basis, a material fall in the cattle price would be required to crystallise a shortfall; and 4. surplus proceeds will be paid to RFF, limited to $75 million.
Return	The Guarantee will earn a return on equity calculated on $75 million. The return on equity rate will flex between an agreed range, depending on the level of debt drawn within J&F. The minimum Guarantee return on equity rate is calculated on drawn debt of $216 million and the maximum is calculated on drawn debt of $250 million. The return rate is in the range of 9.40% to 11.18%, subject to various adjustments and inclusive of interest rate offset savings in RFF.
Guarantee of obligations	Baybrick Pty Ltd, a subsidiary of JBS S.A., guarantees the obligations of JBS.
Term	10 years
Cattle ownership	Cattle are owned by J&F and act as security until they are acquired by JBS once they have achieved desired weight, typically after 100 – 140 days.
Mortalities	J&F is responsible for mortality of cattle above a certain threshold. RFM intends to arrange insurance for mortality above this threshold. See Risks, Section 4.12.
Operating risk	RFF and J&F will not be exposed to operating risks of the feedlots given the nature of the agreements with JBS. JBS is responsible for cattle and feedlot management under a Cattle Agency Agreement and Cattle Management Agreement.
Management fee and cost recovery	1.05% p.a. management fee (exclusive of GST), calculated on the $75 million Guarantee, plus cost recovery, paid monthly by J&F to RFM. RFM will not charge any additional management fee within RFF and there is no management fee charged on the $250 million loan facilities.
Termination	Bank withdraws the J&F bank loan. JBS exercises the call option over the Feedlots from year 6 (at RFM's option). Default of agreement between J&F and JBS.
Commencement	Commencement of the Guarantee is expected in August 2018, subject to RFF Unitholder approval.

4.3 Details of JBS and the Feedlots

JBS is Australia's largest lot feeder and cattle processor. Feedlots are within close proximity to processing facilities, grain and cattle growing regions and major population centres (see Figure 4).

Figure 4[4]: Feedlots to be acquired by RFF & JBS-owned processing facilities



4 SCU is a Standard Cattle Unit and is a measure of feedlot capacity. One Standard Cattle Unit is equivalent to an animal with a liveweight of 600 kg.

Figure 5: Largest cattle processors[5]

	ENTITY	NO. OF FACILITIES	CAPACITY (HEAD/DAY)
1	JBS	8	8,800
2	Teys Australia	6	5,900
3	NH Food Australia	3	4,300
4	Thomas Foods Int	1	900

Figure 6: Largest lot feeders[6]

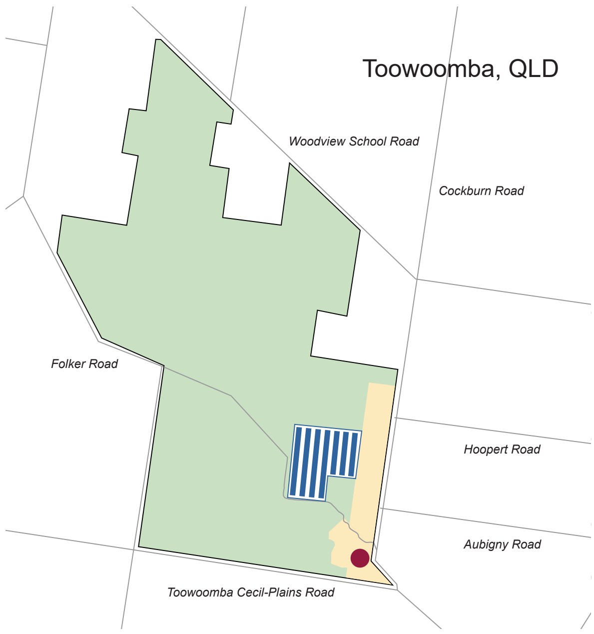
	ENTITY	NO. OF FEEDLOTS	CAPACITY (HEAD/DAY)
1	JBS	5	150,000
2	Teys Australia	3	67,000
3	Whyalla	1	56,000
4	Mort & Co.	3	52,000

Figures 7 and 8 show Australia's only two integrated feedlot and processing facilities. The integration reduces freight costs and market price risk and can improve weight gain performance.

Figure 7: Riverina Beef

Property and cultivation area	1,831 ha developed to irrigation, dryland cropping and grazing land
Feedlots	53,300 SCU feedlot, 72 holding pens
JBS processing facility	600 cattle per day processing facility
Processing facility associated land	Not being acquired by RFF

Figure 8: Beef City



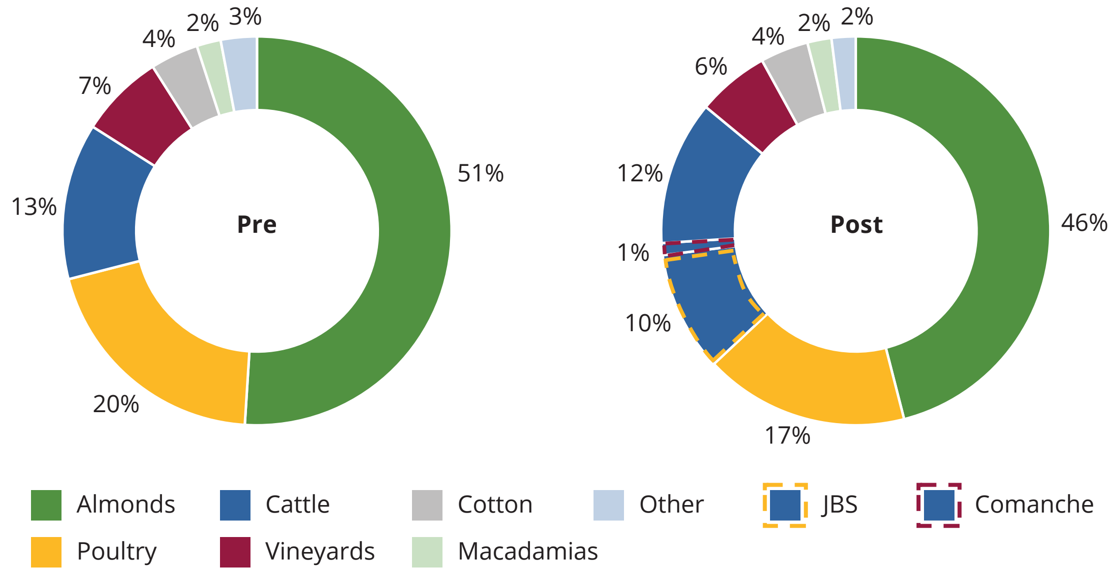
Property and cultivation area	761 ha developed to irrigation, dryland cropping and grazing land
Feedlots	26,500 SCU feedlot, 87 holding pens
JBS processing facility	1,092 cattle per day processing facility
Processing facility associated land	Not being acquired by RFF

5 Source: Internal research and Beef Central. Figures are approximate.
6 Source: Internal research and Beef Central. Figures are approximate.

4.4 What is the impact of the JBS Agreements on RFF?

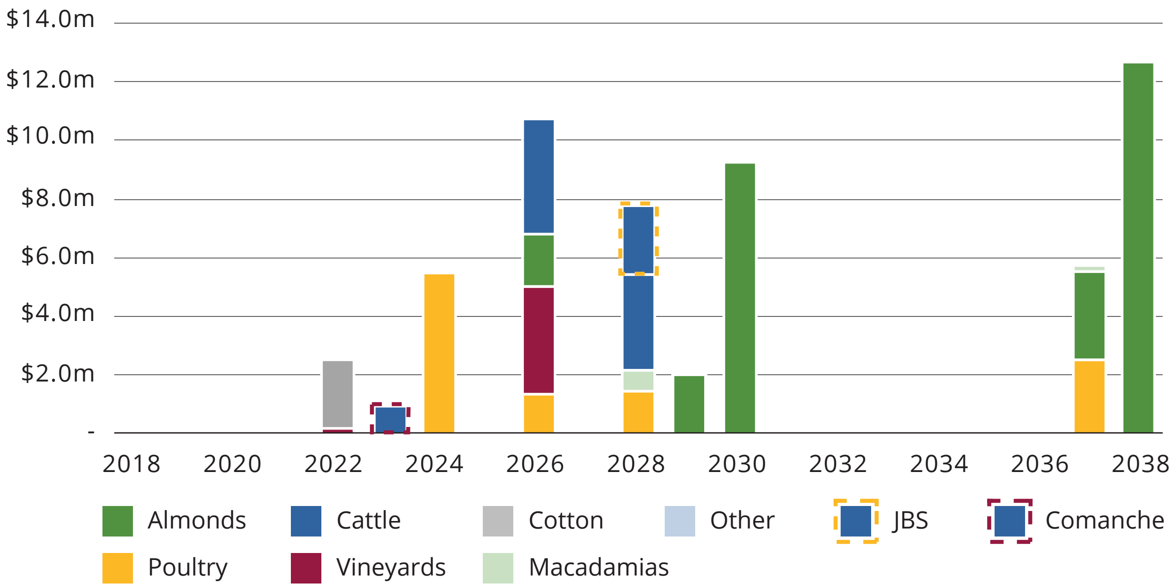
Figures 9 through 12 show changes to key portfolio metrics based on completion of the transaction.

Figure 9: Pre and post-transaction portfolio metrics[7]



Adjusted total assets[8]	$687.4m	$756.7m
Number of properties	38	44
WALE[9]	12.5 yrs	12.6 yrs

Figure 10: WALE expiry profile by lessee[9]



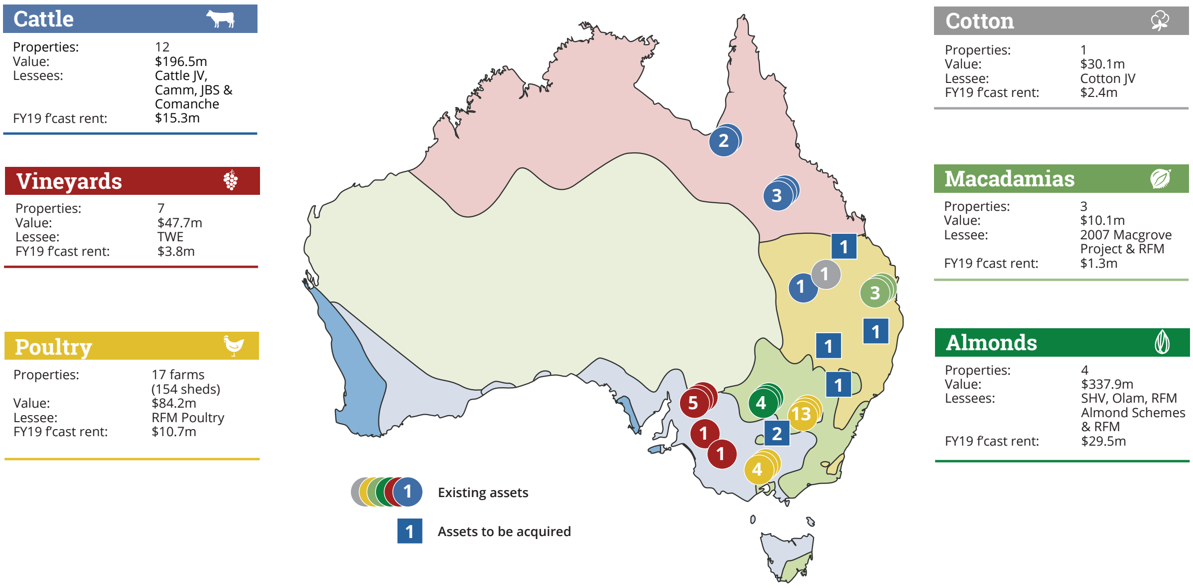
7 Pie charts show FY18f vs FY19f diversification by revenue including Comanche where lease terms are to be finalised (assumes 5-year lease and lease rate consistent with cattle sector).

8 Pro forma 31 December 2017 adjusted total assets $756.7 million.

9 Weighted average lease expiry (WALE) bar chart shows forecast FY19 revenue in the year in which the lease expires. Forecast revenue includes revenue derived from forecast capex, as well as Comanche where lease terms are to be finalised (assumes 5-year lease and lease rate consistent with cattle sector). The WALE increase is due to deployment of almond orchard capex on longer term leases within the portfolio.

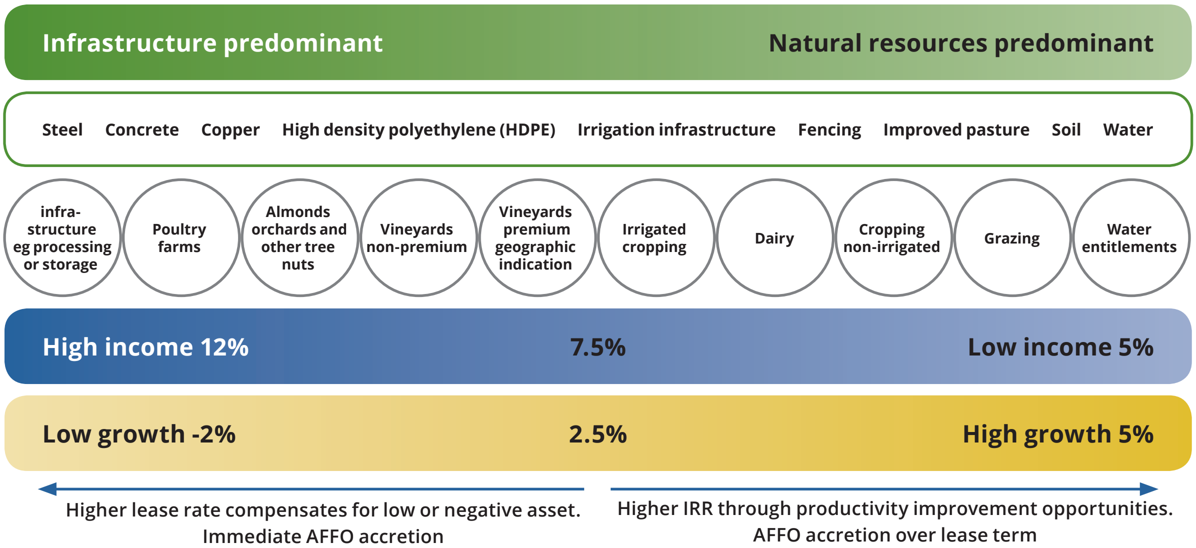
Figure 11: Portfolio assets and lessees[10,11,12]

The RFF portfolio includes 44 properties across six sectors.



RFM's strategy is to invest in infrastructure and natural resource predominant assets with the aim of increasing the DPU growth rate over time. The returns from the Feedlots are consistent with total return noted in the spectrum after taking into account the CPI-adjusted Put and Call Option.

Figure 12: Spectrum of investment of opportunities[13]



10 Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology. Climatic diversification reduces lessee concentration in any one climatic zone and introduces new commodities and counterparts. See RFF Climatic Diversification discussion paper, ASX lodged 20 June 2016.

11 Murrumbidgee High Security (HS) water entitlement valued at $35.8 million not shown in above map. FY19 forecast revenue $1.3 million.

12 Includes Comanche (where lease terms are to be finalised, assumes 5 year lease and lease rate consistent with cattle sector) and JBS. The value is based on pro forma for 31 December 2017 and includes properties, Cattle JV breeder herd lease, Camm loan, JBS Feedlots, $75 million guarantee and plant and equipment leased on cattle properties.

13 The income and growth figures presented in the figure above have been provided to differentiate the profile of income and growth that can be derived from different assets. They are based on RFM's experience and observations of agricultural lease transactions and historical rates of growth. They are neither forecasts nor projections of future returns. Past performance is not a guide to future performance. See RFM Newsletters dated April 2014 and May 2016 for further information.

4.5 Why is Unitholder approval being sought?

ASX Listing Rules require that Unitholders approve the Guarantee before it can be entered into. Unitholder approval is required under ASX Listing Rule 10.1 because the Guarantee:

> is an agreement with a related party, due to RFM acting as both the responsible entity for RFF and also controlling J&F; and

> has a value of $75 million, representing 20.7% of the equity interests of RFF. The Guarantee is therefore a "substantial asset" of RFF, given it exceeds 5% of equity interests in RFF.

The Resolution to approve the Guarantee may be passed by a majority of non-associated Unitholders voting under an ordinary resolution (greater than 50% of votes being cast in favour of the Resolution).

4.6 Funding

On 12 July 2018, RFF announced a fully underwritten $149.5 million accelerated non-renounceable entitlement offer ("**Equity Raising**") to fund the JBS Agreements, as well as the equity funding of a Queensland cattle property for $16.6 million, including stamp duty, announced on 17 May 2018 ("**Comanche**"). Eligible Unitholders will have the opportunity to subscribe for 3 new Units in RFF for each 10 existing Units at an issue price of $1.95.

The Equity Raising will be completed prior to the Meetings and is not subject to Unitholder approval. In the event the Guarantee is not approved, and therefore the condition to purchase the Feedlots is not met, RFF will use the proceeds of the Equity Raising to repay debt, which can later be redrawn and deployed for future capital expenditure and acquisition opportunities.

The decision to undertake the Equity Raising in advance of the Meetings was based on a number of factors, including

> Funding certainty: the Equity Raising is fully underwritten, providing certainty of the availability and cost of the funding for the JBS Agreements. Completion of the Equity Raising provides greater certainty of the earnings impact of the JBS Agreements;

> Funding for the Comanche acquisition: in addition to the JBS Agreements, proceeds from the Equity Raising will be used to repay debt utilised to fund the Comanche acquisition which is expected to settle in July 2018; and

> Reduced execution risk: undertaking the Equity Raising in advance of the Meetings avoids the challenge associated with raising equity after the announcement of a major transaction. Any delay in undertaking the Equity Raising may expose RFF to market movements which could potentially lead to the Equity Raising being conducted at a lower price, which would have a negative impact on certain financial metrics of the JBS Agreements due to the greater number of new Units issued.

4.7 Financial impact

The proceeds from the Equity Raising will be used to fully fund the JBS Agreements, Comanche and associated transaction costs. The Equity Raising, JBS Agreements and Comanche are expected to be accretive to FY19 AFFO per Unit, forecast to be 13.2 cents. RFF re-affirms previous FY19 distribution guidance of 10.43 cents per Unit, reflecting a conservative payout ratio of 79%. On completion of the Equity Raising and JBS Agreements, pro forma gearing as at 31 December 2017 will reduce from 37.4% to 24.0%.

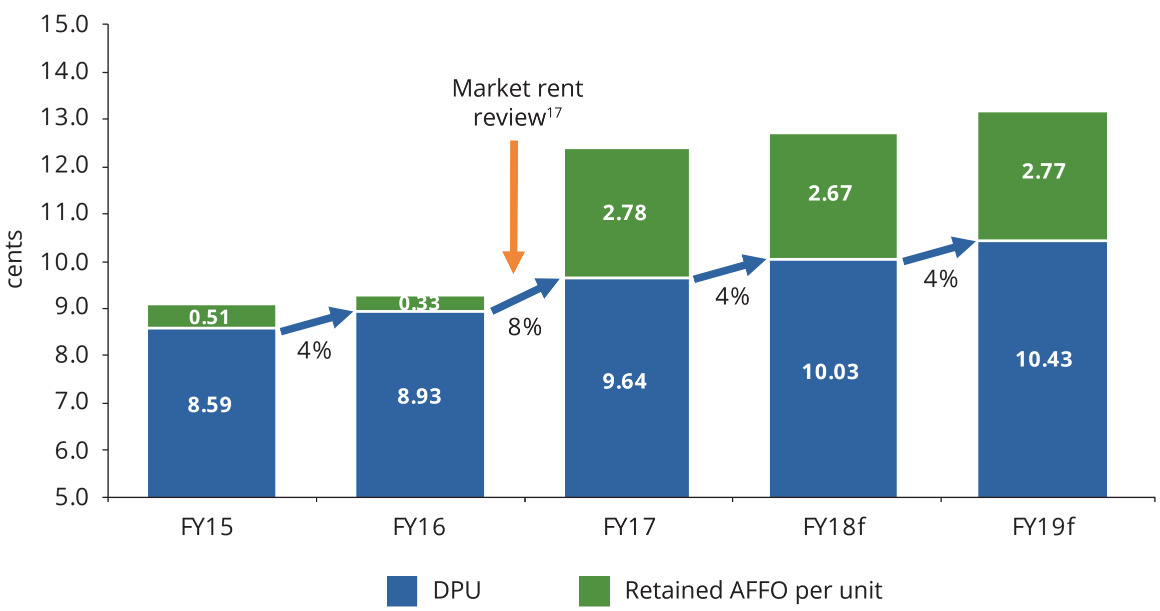
Figure 13: Financial forecasts

	FY18	FY19	CHANGE
AFFO per Unit	12.7 cents	13.2 cents[14]	↑ 3.9%
DPU	10.03 cents	10.43 cents	↑ 4.0%
Payout ratio	79%	79%	n/a
Retained AFFO	$6.8m	$9.0m	↑ 32.4%

Figure 14: Key balance sheet metrics

	31 DECEMBER 2017	PRO FORMA	CHANGE
Adjusted total assets	$687.4m	$756.7m	↑ 10.1%
Adjusted net assets	$409.0m	$553.3m	↑ 35.3%
Adjusted NAV (per Unit)	$1.60	$1.67	↑ 4.4%
Gearing[15]	37.4%	24.0%	↓ 13.4%
LVR[16]	40.1%	36.1%	↓ 4.0%

Figure 15: DPU and retained AFFO per Unit



14 AFFO forecast reflects the impact of the issuance of New Units in July and August 2018 but only a partial year impact of the Transactions, reflecting expected settlement dates.
15 Calculated as external borrowings divided by adjusted total assets.
16 Calculated as term debt drawn plus contingent liabilities relating to the limited guarantee of $75 million divided by directly secured assets based on independent valuations plus the Feedlots and Comanche acquisition values.
17 FY17 AFFO increased, in part, due to a Select Harvests rent review in respect to almond orchards.

4.8 Advantages of the JBS Agreements

The anticipated advantages to RFF of the JBS Agreements include:

1. ***Good assets with a quality counterpart***

> The Feedlots are located in grain and cattle growing regions, and are operated by JBS, Australia's largest beef processor.

> JBS is Australia's largest beef processor and owned by the world's largest protein processor.

2. ***Consistent with REIT structure***

> The Feedlots are underpinned by a 10 year triple net lease with CPI indexation.

> The Guarantee provides a return to RFF underpinned by a 10 year agreement with no direct operating risk.

3. ***Improves sector diversification***

> The JBS Agreements increase RFF's exposure to the cattle sector, a sector in which Australia possesses a comparative advantage and RFM has direct operational knowledge.

4. ***AFFO accretive***

> The JBS Agreements and Equity Raising:

- are accretive to FY19 AFFO per Unit, forecast to be 13.2 cents;
- maintains conservative FY19 forecast distribution payout ratio at 79%; and
- increase retained AFFO to $9.0 million that can be re-invested into income generating assets and support RFF's 4% DPU growth target.

5. ***Balance sheet capacity for acquisitions***

> As a result of the JBS and Comanche transactions being 100% equity funded, on completion of the JBS Agreements and Equity Raising, pro forma gearing as at 31 December 2017 will reduce to 24.0%, below RFF's gearing target of 35%. This provides balance sheet capacity for future acquisition opportunities.

4.9 Disadvantages of the JBS Agreements

The potential disadvantages for RFF as a consequence of the JBS Agreements include:

1. ***Counterparty risk***

The Feedlots are leased to JBS and income from the Guarantee is solely derived from a cattle and agency agreement between J&F and JBS. There is a risk that JBS may default on its financial or operational lease obligations to RFF. Any financial default would reduce RFF's revenue and its ability to meet its debt obligations and to pay distributions. An operational default by JBS may require RFF to meet operating obligations until a new lessee is contracted. In the case of a default by JBS, the health or quality of the Feedlots may be adversely affected.

A guarantee will be provided by Baybrick Pty Ltd which reported net assets of $2.3 billion and net profit after income tax expense of $75.7 million in its FY17 consolidated accounts. Baybrick Pty Ltd is a wholly owned subsidiary of JBS S.A., a company that is listed on the Brazilian stock exchange. The JBS S.A. founders, who control 42% of JBS S.A., have been convicted of bribery and other similar charges in relation to activities associated with the Brazilian Government. RFM is not aware of any other misconduct or potential charges; however it is possible that if further charges were to be laid in the future, the reputation or financial standing of JBS could be negatively impacted.

2. *Variation in RFF's risk profile*

The Guarantee represents a different risk proposition to RFF's existing portfolio. J&F will be financed by $250 million of bank debt, backed by the Guarantee and the cattle acquired. In the event JBS, or Baybrick Pty Ltd as guarantor, is unable to meet its obligations to J&F under the cattle and agency agreement, J&F will commence selling cattle in the Feedlots and use proceeds to repay the loan. If there is a shortfall between proceeds from the sale of cattle and the remaining loan balance, the Guarantee in favour of J&F would be called but limited to $75 million.

3. *Early termination and interest rate changes*

The Guarantee has a term of 10 years, however in the event JBS exercises the call option over the Feedlots between year six and year ten, RFF may elect to terminate the Guarantee. This would result in a shorter investment timeframe for RFF.

There is also a risk of early termination associated with J&F banking facilities. By way of explanation, J&F has secured $250 million of funding from two major Australian banks. The facilities have a term of two years, and although it is likely that they will be renewed, there is no guarantee that the funding will be available for the 10 year term of the cattle agreements. Under the cattle agreements, J&F has the right to terminate those agreements should funding not be available.

It is possible that the interest rate for the facility will be different at the time the facility is renewed. This risk is borne by JBS through a change to the rate paid to J&F under the cattle agreements.

4. *Non-completion*

The acquisition of the Feedlots is subject to FIRB and other government approvals, including two subdivisions, with settlement staged and expected to occur from October 2018. There is a risk that the necessary government approvals are not obtained for one or more of the Feedlots, and fewer than five Feedlots are ultimately acquired by RFF. This would result in a smaller investment for RFF.

5. *Mortality insurance*

The Feedlots being acquired by RFF from JBS will be stocked with cattle that are owned by J&F, a company to be acquired by RFM. All cattle operations will be managed by JBS, who bear responsibility for mortalities up to a certain threshold. RFM intends to mitigate the mortality risk above this threshold through insurance. It is intended insurance be retained for the period of the lease; however, there is no guarantee that it will be obtainable for the entire lease term, or that the insurance will provide cover for all events or diseases that may occur in the future. Any claim on the policy will incur a deductible (excess). In addition, although J&F will meet the cost of insurance, any increase in the cost of the premium would result in a net decrease in the return paid to RFF.

6. *Transaction costs*

Transaction costs of approximately $2.7 million, predominantly comprising stamp duty, are expected to be incurred in relation to the JBS Agreements. However, these costs would be payable irrespective of whether the Guarantee was entered into with a related party or a third party.

4.10 What happens if the Guarantee is approved?

If the Guarantee is approved by Unitholders it is expected that the Guarantee will settle in August 2018. Settlement of the Feedlots is conditional on Unitholder approval for the Guarantee, as well as FIRB and other government approvals. Assuming Unitholder approval for the Guarantee, FIRB and other government approvals are received, the Feedlots are expected to settle from October 2018.

Section 4.7 of this Explanatory Memorandum has details of the expected financial impact on RFF if the Guarantee is approved, and the Feedlots and Equity Raising also completes.

4.11 What happens if the Guarantee is not approved?

If the Resolution is not passed at the Meetings, the Guarantee will not proceed and RFF will not acquire the Feedlots. The Equity Raising will be completed prior to the Meetings and is not subject to Unitholder approval.

In the event the Guarantee is not approved, and therefore the condition to purchase the Feedlots is not met, RFF will use the proceeds of the Equity Raising to repay the debt utilised to fund the purchase of Comanche and repay other borrowings that can later be redrawn and deployed for future capital expenditure and acquisition opportunities. On completion of the Equity Raising and Comanche acquisition, RFF's pro forma gearing as at 31 December 2017 will reduce to 18.3%. Forecast FY19 AFFO per Unit will be 11.3 cents. RFF expects to maintain DPU guidance of 10.43 cents.

4.12 Risks associated with the Guarantee

Counterpart risk

There is a risk that JBS may default on its financial or operational lease obligations to J&F or RFF. Any financial default would reduce RFF's revenue and its ability to meet its debt obligations and to pay distributions. An operational default by a counterpart may require RFF to meet operating obligations until a new lessee is contracted. In the case of a default by a counterparty, the health or quality of RFF's asset may be adversely affected.

Solvency of Baybrick

Baybrick has guaranteed JBS' performance under the various transaction documents. There is therefore a risk that, in the event of insolvency, Baybrick would not be able to honour the guarantee. However, Baybrick is an entity of substance with reported net assets of $2.3 billion and net profit after income tax expense of $75.7 million in its FY17 consolidated accounts.

Reputation risk

JBS Australia is a wholly owned subsidiary of JBS S.A., a company that is listed on the Brazilian stock exchange. The JBS S.A. founders, who control 42% of the JBS S.A. stock, have been convicted of bribery and other similar charges in relation to activities associated with the Brazilian Government. RFM is not aware of any other misconduct or possible charges; however, it is possible that if charges were laid in the future, the reputation or standing of JBS Australia could be impacted.

Cattle mortality risk

The Feedlots being acquired by RFF from JBS will be stocked with cattle that are owned by J&F, a company to be acquired by RFM. All cattle operations will be managed by JBS, who bear responsibility for mortalities up to a certain threshold. RFM intends to mitigate the mortality risk above this threshold through insurance. It is intended insurance be retained for the period of the lease; however, there is no guarantee that it will be obtainable for the entire lease term, or that the insurance will provide cover for all events or diseases that may occur in the future. Any claim on the policy will incur a deductible (excess). In addition, although J&F will meet the cost of insurance, any increase in the cost of the premium would result in a net decrease in the return paid to RFF.

Variation in RFF's risk profile

RFM's business strategy for RFF is focused on building RFF's portfolio and cash yield through the management, acquisition and development of agricultural assets. The provision of the Guarantee is a different risk proposition to RFF's existing portfolio. The Guarantee will be used as security for $75 million of J&F's borrowings. The Guarantee ranks behind the J&F borrowings in the event of J&F default.

4.13 Value of the financial benefit received by RFM

RFM will charge J&F a management fee of 1.05% p.a (exclusive of GST). This management fee is calculated on the value of the Guarantee being $75 million, plus costs recovery, paid monthly by J&F to RFM, and not on the total J&F borrowings. There is no management fee charged on the $250 million loan facilities.

4.14 Directors interests

Mr David Bryant, the Managing Director of RFM, owns 78.79% of the issued shares in RFM. Mr Guy Paynter, the Chairman of RFM, owns 4.15% of the issued shares in RFM. The remaining shares on issue in RFM are held by RFM staff.

Mr Michael Carroll and Mr Julian Widdup are independent directors and do not hold any shares or have any financial interest in RFM.

The Board of RFM (consisting of all directors other than Mr Bryant and Mr Paynter) has considered these disclosures as required by the Directors' Conflict of Interests Policy, having regard to the nature of the interests disclosed and all relevant circumstances, and resolved that Mr Bryant and Mr Paynter should not be disqualified from participating in discussions or decisions of the Board of RFM relating to JBS Agreements, but should abstain from making or participating in any recommendation to Unitholders in relation to the Guarantee.

4.15 Opinion of the Independent Expert

In accordance with the ASX Listing Rules and Corporations Act, RFM engaged Grant Thornton Corporate Finance Pty Ltd ("**Independent Expert**") to review the Guarantee and provide an independent expert's report setting out whether the Guarantee is fair and reasonable to Unitholders not associated with a party to the transaction.

The Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

A copy of the Independent Expert's Report is set out in section 5 of this Explanatory Memorandum. Unitholders should read the Independent Expert's Report in full.

5. INDEPENDENT EXPERT'S REPORT

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Rural Funds Group

Independent Expert's Report and Financial Services Guide

12 July 2018

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12 July 2018

Dear Directors

Independent Expert's Report and Financial Services Guide

Introduction

Rural Funds Group ("RFF" or "the Group") is an Australian real estate investment trust listed on the Australian Securities Exchange ("ASX"). RFF is managed by Rural Funds Management Limited ("RFM"), an agricultural investment manager responsible for six funds, of which two are listed and RFF is the largest.

JBS S.A., is a company that is listed on the Brazilian stock exchange. Baybrick Pty Ltd ("Baybrick") is a wholly owned subsidiary of JBS S.A. Baybrick is the parent company of 26 subsidiaries, including JBS Australia Pty Ltd ("JBS"). The Baybrick group specialises in meat packing and supplying the grain and pasture fed meats to customers in Australia and overseas.

On 12 July 2018, RFF announced the following transaction involving:

- the intended acquisition of JBS' five Australian feedlots and associated cropping land for $52.7 million, inclusive of stamp duty ("Feedlots"). The Feedlots will be leased back from RFF to JBS under a 10 year triple net lease with CPI indexation ("Sale and Leaseback"); and
- the provision of a $75.0 million limited guarantee ("Guarantee") to J&F Australia Pty Ltd ("J&F"), a company that will be acquired by RFM. J&F is a company associated with JBS, and supplies JBS with cattle, feed and associated costs used to stock the Feedlots, and following the transaction it will be funded via bank debt that will be secured by the Guarantee. The Guarantee, provided by RFF, is for a term of 10 years and RFF will be paid a return for this commitment.

The purchasing and selling of cattle and the management of the cattle on the Feedlots will be regulated through a Cattle Management Services and Feeding Agreement ("CMSFA") and Cattle Purchase and Sale Agreement ("CPSA"), together referred to as "Cattle Agreements[1]". These agreements will be between JBS and J&F. RFM will acquire 100% of J&F should the Guarantee be approved by the Unitholders. JBS will manage the Feedlots and the purchasing and selling of cattle on J&F's behalf, in accordance with the Cattle Agreements. The Cattle Agreements also include cost mechanisms which effectively pass through the costs of operations.

J&F proposes to fund the operations of the Feedlots (primarily for the purchase of cattle up to a maximum headcount of 165,000, subject to cattle pricing) by arranging the following finance facilities ("Finance Facilities") with a major Australian bank and specialist agri-business lender ("the Financiers"):

- $185 million working capital facility. The final terms based on the term sheet as at 10 July 2018 are as follows:
    - For working capital purposes relating to the purchase of cattle and costs associated with the management of those cattle and the refinancing of existing debt facilities;
    - A facility term of 2 years;
    - Interest rate is based on a combination of the Bank Bill Swap Bid Rate ("BBSY") and an additional margin;
    - An initial establishment fee for the facility and an unused fee payable on the undrawn portion of the $185 million limit;
    - Security in the form of a General Security Agreement in respect of the assets and undertakings of J&F;
    - The $185m facility drawdown may not exceed 80% of receivables, 85% of inventory (cattle) relating to sales of inventory to JBS and 70% of the value of cash held in a collection account. Receivables may not be more than 30 days overdue.
- $75 million cash advance facility. The Term Sheet details the following terms:
    - A facility term of 2 years;
    - Interest rate based on a combination of the BBSY and an additional margin;
    - An initial establishment fee for the facility and an unused fee payable on the undrawn portion of the $75 million limit;
    - Security in the form of:
        - A limited guarantee of $75 million provided by RFF which only applies for this facility; and
        - A General Security Agreement in respect of the assets and undertakings of J&F.

[1] Refer Section 1.3 for further details on the Cattle Agreements

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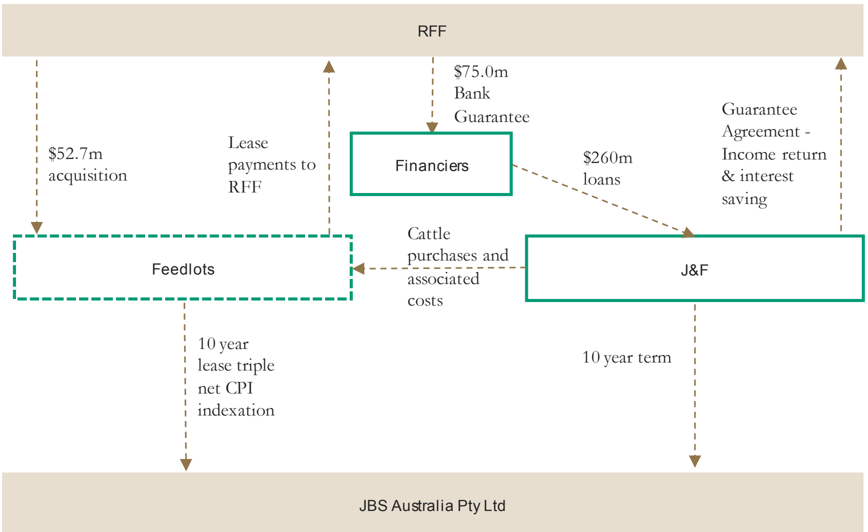
Granting of the Finance Facilities is contingent, amongst other terms, upon RFF conducting an Equity Raising of $135 million ($150 million is the total Equity Raising which includes funding for Comanche[2]).

As part of obtaining the $75 million term loan, RFF will provide a $75 million Bank Guarantee to the Financiers and enter into the Guarantee. Key terms of the Guarantee are as follows:

- The term is 10 years, in line with the Cattle Agreements (the expectation is that the above Finance Facilities will extend over the duration of the Cattle Agreements);
- Guarantee fee - effectively a sliding rate depending on the balance of the facility above $216 million adjusted for any cash held as collateral and less insurance costs (“Guarantee Fee”); and
- Second ranking security behind the Financiers on the secured J&F assets.

The acquisition of the Feedlots is conditional upon Unitholder approval of the Guarantee.

The following diagram summarises the transactions:



Source: Management

[2] Comanche is a Queensland cattle property to be acquired by RFF for $16.6 million announced on 17 May 2018

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Purpose of the report

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated Unitholders of a responsible entity if the responsible entity proposes to acquire or dispose of a substantial asset from a related party or a substantial holder. ASX Listing Rule 19, in the definition of 'dispose' includes using an asset as collateral.

Section 208 of Chapter 2E of the Corporations Act requires a responsible entity to seek security holder approval before giving a financial benefit to a related party unless an exception applies.

Given J&F is a wholly owned subsidiary of RFM and RFM is the responsible entity of RFF, the granting of a second ranking security over the assets of J&F ("the Security") for the Guarantee to the sum of $75 million is considered the disposition of a substantial asset to a related party. Further, the terms of the Guarantee provide a financial benefit to a related party. Accordingly, the independent directors of RFM ("Independent Directors") have commissioned Grant Thornton Corporate Finance to provide an independent expert's report to assess whether the granting of the Security Guarantee and the terms of the Guarantee are fair and reasonable to the Unitholders of RFF not associated with RFM ("Non-Associated Unitholders") for the purposes of Chapter 10 of the ASX Listing Rules and Chapter 2E of the Corporations Act (respectively).

Summary of opinion

Grant Thornton Corporate Finance has concluded that the granting of the Security for the Guarantee and the terms of the Guarantee are FAIR AND REASONABLE to the Non-Associated Unitholders.

Fairness Assessment

In forming our opinion in relation to the fairness of the Guarantee, Grant Thornton Corporate Finance has had regard to the position of RFF as it holds the Security. In this regard, should the Financiers call on the Bank Guarantee (at the event of default by J&F), RFF will be required to pay to the Financiers $75 million. RFF will then seek to recoup this money from the sale of the J&F assets ("Secured Assets"). It is this granting of the Security and the realisation of the Secured Assets which requires an independent expert's report.

We have assessed the granting of the Security as fair, given, in our opinion, the potential proceeds from the sale of the Secured Assets under the Security will potentially be equal to or less than the value of the outstanding liability which will be owing to RFF in the event of the Bank Guarantee being called upon by the Financiers. This is mainly due to the following:

- If RFF call upon the Security, the disposal of the Secured Assets are required to be dealt with in a manner which attempts to realise market value as at the time of the sale having regard to the state of the assets at that time.
- RFF will only receive a maximum amount equal to the total amount owing under the Guarantee.

In considering the fairness of the terms of the Guarantee, we have compared the terms of the Guarantee to other forms of financing including bank guarantees, cattle stock finance and equity. In considering the other forms of financing, we have had regard to the position held by RFF, given the Guarantee holds a second ranking security over the Secured Assets.

We have concluded that the terms of the Guarantee are FAIR after considering the following:

- Should J&F default, the Financiers will have first access to any sale proceeds from the sale of assets to extinguish its $175 million loan plus any associated costs. The Financiers would also require RFF to provide the $75 million. RFF would then be able to exercise its rights under the Guarantee. Given RFF will need to provide funding to the Financiers on default and await the clearance of the Financiers claims on any sale proceeds the Guarantee's security position is similar to a mezzanine financing arrangement or quasi equity. Accordingly, we have compared the terms of the Guarantee to similar riskier financing arrangements including the cost of equity.

- The Guarantee Fee Rate is within the range of comparable financing alternatives observed for such a facility and comparable to our assessed cost of equity for an operation such as J&F.

Reasonableness Assessment

ASIC RG111 establishes that an offer is reasonable if it is fair. Given that our assessment of the Guarantee is fair, it is also reasonable. However, we have also considered the following advantages, disadvantages and other factors.

Advantages

Feedlot transaction benefits

The Feedlot transaction requires the approval by Unitholders of the Guarantee. Should the Guarantee be approved and the Feedlot transaction completes, Unitholders will be able to benefit from the advantages of the Feedlot transaction including:

1. *Quality assets and experienced operator*

    - The Feedlots are located in grain and cattle growing regions, and include Australia's only two on-site processing centres

    - JBS is the existing operator of the Feedlots, is Australia's largest beef processor and owned by the world's largest protein processor.

2. *Long term income stream*

    - The Feedlots and Guarantee are underpinned by 10 year agreements.

3. *Improves sector diversification*

    - The Feedlot transaction expands RFF's exposure to the cattle sector.

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Disadvantages

The potential disadvantages for RFF as a consequence of the Guarantee include:

Counterparty risk

The Feedlots are leased to JBS and income from the Guarantee is derived from the Cattle Agreements between J&F and JBS. There is a risk that JBS may default on its financial or operational lease obligations to RFF. Any financial default would reduce RFF's revenue and its ability to meet its debt obligations and to pay distributions. An operational default by JBS may require RFF to meet operating obligations until a new lessee is contracted. In the case of a default by JBS, the health or quality of the Feedlots may be adversely affected.

Reputation Risk

A review of Baybrick's Financial Report for the year ended 31 December 2017 identified that certain officers of one of Baybrick's indirect parent companies in Brazil, J&F Investimentos S.A. had entered into a plea bargain in connection with improper payments made to Brazilian politicians, government officials and other individuals, committed by or on behalf of J&F Investimentos S.A. and other group companies. Notes to the financial statements warn that future outcomes of the trial could have a material adverse effect on the public perception or reputation of the J&F Group, potentially extending to a material adverse impact on the J&F Group's business, financial condition, results of operations and prospects.

Solvency of Baybrick

Baybrick has provided a guarantee of the performance of JBS' obligations to J&F under the various agreements related to the Feedlots (refer Section 1.5 for further detail). Accordingly, should Baybrick become insolvent there is a risk it will not be able to honour the guarantee. We note that Baybrick has reported net assets of $2.3 billion and net profit of $75.7 million in its FY17 consolidated accounts (refer Section 6 for further details on Baybrick).

Variation in RFF's risk profile

The Guarantee represents a different risk proposition to RFF's existing portfolio. J&F will use the Guarantee as security for a $250 million loan from the Financiers. In the instance JBS is unable to meet its obligations to J&F, the bank loan will be repaid ahead of the Guarantee.

Other factors

The implications if the Guarantee is not approved

It is a condition for the settlement of the Feedlots that Unitholders approve the Guarantee. If the Guarantee is approved by Unitholders and other conditions are satisfied then the settlement of the Feedlots will proceed. The other conditions primarily include FIRB approval, successfully conducting the Equity Raising, subdivisions for two feedlot properties (Beef City and Riverina), receipt of a satisfactory Work Health & Safety audit report and approval of finance for J&F.

If the Guarantee is not approved, the Guarantee will not proceed and RFF will not acquire the Feedlots.

However, RFF will seek an Equity Raising. The proceeds from the Equity Raising will be used (other than those used to acquire Comanche[3]) to initially repay debt to be deployed for future capital expenditure and acquisition opportunities.

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[3] Comanche is a Queensland cattle property to be acquired by RFF for $16.6 million announced on 17 May 2018

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Independent Directors' recommendations and intentions

In the absence of a superior proposal and subject to the Independent Expert's opinion that the Guarantee is fair and reasonable, the Independent Directors unanimously recommend that all Non-Associated Unitholders vote for the Guarantee.

Reasonableness conclusion

Based on the quantitative and qualitative factors identified above, it is our opinion that the Guarantee is reasonable to the Non-Associated Unitholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Guarantee is a matter for each Non-Associated Unitholder to decide based on their own views of the Guarantee, the value of the Feedlots, the value of RFF and expectations about future market conditions, RFF's performance, risk profile and investment strategy. If Non-Associated Unitholders are in doubt about the action they should take in relation to the Guarantee, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

HARLEY MITCHELL
Authorised Representative

12 July 2018

Financial Services Guide

1 About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) ("Grant Thornton Corporate Finance" or "GTCF") has been engaged by Rural Funds Group ("RFF" or "the Group") to provide general financial product advice in the form of an independent expert's report ("the Report") in relation to the Guarantee. This report is included in the Notice of Meeting to the non-associated Unitholders of RFF. You have not engaged us directly but have been provided with a copy of the report as a retail client because of your connection to the matters set out in the report.

2 This Financial Services Guide

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the report, and how complaints against us will be dealt with.

3 Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and superannuation products.

4 General financial product advice

The report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail finance product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

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5 **Fees, commissions and other benefits we may receive**

Grant Thornton Corporate Finance charges fees to produce reports, including the Report. These fees are negotiated and agreed with the entity who engages Grant Thornton Corporate Finance to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this report, Grant Thornton Corporate Finance will receive from the Group a fee in the range of $50,000 to $60,000 plus GST, which is based on commercial rates plus reimbursement of out-of-pocket expenses.

Partners, Directors, employees or associates of Grant Thornton Corporate Finance related bodies corporate, may receive dividends, salary or wages from Grant Thornton Australia Ltd.

None of those persons or entities receive non-monetary benefits in respect of, or that is attributable to the provision of the services described in this FSG.

6 Referrals

Grant Thornton Corporate Finance including its Partners, Directors, employees or associates and related bodies corporate, does not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licenced to provide.

7 Associations with issuers of financial products

Grant Thornton Corporate Finance and its Partners, Directors, employees or associates and related bodies corporate may from time to time have associations or relationships with the issuers of financial products. For example, Grant Thornton Australia Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business.

In the context of the report, Grant Thornton Corporate Finance considers that there are no such associations or relationships which influence in any way the services described in this FSG.

8 Independence

Grant Thornton Corporate Finance is required to be independent of RFF in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with RFF (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Guarantee.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Guarantee, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Guarantee. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of experts" issued by the ASIC.

9 Complaints

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Head of Corporate Finance at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for the report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

10 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

11 Contact Details

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

Head of Corporate Finance
Grant Thornton Corporate Finance Pty Ltd
Level 17, 383 Kent Street
Sydney, NSW, 2000

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1 Background

1.1 Brief overview of the parties involved

Rural Funds Management Limited ("RFM")

RFM is responsible for managing two listed funds (including Rural Funds Group ("RFF")) and four unlisted funds, with $740m of assets under management across NSW, QLD, SA and VIC (as at December 2017). RFM is headquartered in Canberra (ACT), with three regional offices[4].

RFM also undertakes various agricultural activities including almond farming, macadamia farming, livestock and cropping operations on leased properties via three wholly owned subsidiaries and one joint venture.

RFM is the responsible entity for Rural Funds Trust ("RFT"), which will be party to the leaseback of the Feedlots ("Leases") and relevant Land Contracts.

Baybrick Pty Limited ("Baybrick") and JBS Australia Pty Ltd ("JBS")

Baybrick Pty Ltd is a wholly owned subsidiary of JBS S.A., a company that is listed on the Brazilian stock exchange. Baybrick is the parent company of 26 subsidiaries, including JBS Australia Pty Ltd ("JBS"). The group specialises in meat packing and supplying the grain and pasture fed meats to customers in Australia and overseas.

JBS' Australian operations comprise 23 facilities and 8,500 employees, supplying beef, pork and lamb[5].

JBS will be the entity responsible for the ongoing management of the feedlot operations following the Transaction.

Baybrick Landco Pty Ltd ("Landco"), Baybrick and JBS are detailed as guaranteeing JBS' obligations under the transaction.

J&F Australia Pty Ltd ("J&F")

J&F, a party associated with JBS, supplies JBS with cattle, feed and associated services used to stock the Feedlots.

RFM will acquire 100% of J&F should Unitholders approve the Guarantee. J&F will then be the party (after novation from RFM) to the Cattle Agreements with JBS.

J&F will also be the entity that obtains the financing of $250 million used to stock the Feedlots and will enter into the Guarantee with RFF.

1.2 Sale and leaseback agreement

The Feedlots transaction incorporates a Sale and Leaseback Agreement between RFF and JBS outlined as follows:

- RFF intends to acquire five feedlots from JBS for $52.7 million (inclusive of stamp duty, excluding GST and subject to final agreement).

[4] https://ruralfunds.com.au/about-rfm/about/
[5] http://jbssa.com.au/

- RFF intends to lease the feedlots back to JBS. The Sale and Leaseback arrangement comprises the Contracts of Sale, Warranty Deed, Lease Agreements, Water Rights Call Option Deeds (Prime City and Riverina) and Financial Agreements.
- The following terms apply to the Sale and Leaseback arrangement:
  - Lease term is approximately 10 years from commencement date;
  - Rent is calculated on the CPI and capital expenditure adjusted property capital base with monthly advancements;
  - The capital base is indexed according to CPI annually; and
  - A cash deposit amounting to six months' rent is payable to RFF as security.
- The Warranty Deed outlines vendor warranties pertaining to JBS and Baybrick, including appropriateness of information disclosed to RFM and RFT.
- The Water Rights Call Option Deeds, pertaining to Riverina and Prime City feedlots, whereby JBS is granting call options to RFF to acquire the water rights to the respective feedlots, commencing on the same day as the associated lease.
- JBS will retain responsibility for the management of the feedlots (the terms of this are dealt with via the Cattle Management Services and Feeding Agreement and Cattle Purchase and Sale Agreement, together referred to as "Cattle Agreements").
- A put and call option will link the Sale and Leaseback with the Cattle Agreements. Should the Cattle Agreements be terminated for any reason, RFF has the right to sell and JBS has the right to buy the Feedlots, and associated rights and licences, back at the CPI and capital expenditure adjusted capital base. JBS may exercise the call option 60 months after commencement of the lease. If the Cattle Agreements are terminated a break fee of $2 million is payable to RFF reducing to zero from year 6 to year 10.

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Below is a summary of the sites proposed to be acquired:

Feedlot	Location	Facilities	Capacity (head)	Other notes
Beef City	Near Toowoomba, SE Queensland	Processing plant and feedlot	Feedlot - 26,500 Processing[6] – 1,092 per day	800 hectare feedlot. Specialised grain fed processing facility.
Caroona	Near Quirindi, Liverpool Plains (NSW)	Feedlot	Feedlot - 23,500	1,390 hectare site - irrigated and dry land farming, supplies feed into on-site storages. Feeder cattle sourced throughout central New South Wales.
Mungindi	Near Mungindi, Western Darling Downs(QLD)	Feedlot	Feedlot - 12,000	400 hectare feedlot.
Prime City	Near Griffith in the Riverina.	Feedlot	Feedlot - 35,000	6,200 hectare feedlot and grain processing facility with three steam flaking mills and 24-hour steeping capacity. Supplies all roughage required by the feedlot water supply and large on-site water storage
Riverina Beef	Near Yanco, New South Wales.	Processing plant and feedlot	Feedlot - 53,000 Processing[7] - 600 per day	2,000 hectare property with cattle sourced throughout SA. The site includes fertile farming land with irrigation roughages

Source: Sale and Leaseback Agreement, www.jbssa.com.au

1.3 Cattle Agreements

The following agreements underpin the Sale and Leaseback agreement:

- Cattle Purchase and Sale Agreement ("CPSA"); and
- The Cattle Management Services and Feeding Agreement ("CMSFA").

The above agreements (collectively the "Cattle Agreements") are linked interdependently both to one another and the Sale and Leaseback agreements. The CMSFA ensures that the cattle purchased under the CPSA can be fed and grown until the subsequent cattle sale, and the cattle will be grown on the feedlots leased by JBS under the Sale and Leaseback agreement.

1.4 Cattle Purchase & Sale Agreement

1.4.1 Terms of the agreement

The CPSA details the agency agreement between J&F (following the novation from RFM) and JBS, whereby JBS is proposed to both source and sell cattle on J&F's behalf.

The following structure is proposed for the CPSA:

- The two parties are JBS and J&F (following the novation from RFM).
- JBS will act as agent to purchase cattle on J&F's behalf in order to populate the Feedlots. Once the cattle is ready to be sold on, JBS will either purchase this from J&F or arrange for it to be sold to a third party.

[6] The processing plant at Beef City and Riverina Beef are not part of the Feedlots transaction.
[7] The processing plant at Beef City and Riverina Beef are not part of the Feedlots transaction.

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- The cattle in the feedlots will be owned by J&F. J&F and its Financiers will therefore be entitled to register a PPSA interest in all cattle owned by J&F ("J&F Cattle"). This includes J&F Cattle held on the Feedlots and any J&F Cattle on alternative sites agreed between J&F and JBS.
- JBS will be responsible for feedlot and cattle management, including refusing to accept cattle deliveries exhibiting symptoms of disease or poor health.
- J&F will be entitled to access and inspect the Feedlots, as well as test and observe treatment of cattle.
- Minimum headcount of J&F owned, JBS managed, cattle is to be 100,000 at any given point in time, although JBS is restricted to a maximum purchase of 165,000. JBS is also required to provide a fortnightly forecast of all proposed purchases in the upcoming two weeks. Exceeding this maximum purchased headcount will not constitute a default, instead J&F and JBS will discuss how to rectify this and mitigate going forward.
- JBS will purchase the finished cattle from J&F under an agreed cost plus a margin arrangement.
- A monthly true up adjustment has been drawn up to compare actual costs incurred by JBS against an expected return on equity by J&F. Should the return on equity exceed the actual costs, JBS will pay this difference to J&F. Should the actual costs exceed the return on equity, J&F will issue a credit note to JBS.
- J&F is responsible for all mortalities exceeding 5% of cattle, with the exception of devastating causes (such as an epidemic) outside either parties control, in which case J&F will bear the cost of mortalities exceeding 15% of all cattle.
- The Cattle Purchase and Sale Agreement term is 10 years from commencement.
- The agreement may be terminated by J&F with 120 days' notice in the event of bank facility termination by J&F's financiers. J&F will be required to pay JBS a penalty of $500,000 (net of GST) in the event that the termination is due to a deterioration in J&F's credit rating or any other reason within J&F's reasonable control.
- Should the CPSA terminate, the CMSFA will terminate simultaneously.

1.5 Cattle Management Services and Feeding Agreement

1.5.1 Terms of the agreement

The CMSFA is between JBS and RFM (to be novated to J&F), whereby JBS will be responsible for managing the cattle.

- The two parties are JBS and J&F (following the novation from RFM).
- The lease term is 10 years unless it is terminated earlier by either party.
- JBS is to be responsible for all of the responsibilities involved in running the feedlots and caring for the cattle, including the following:
  - Compliance with all appropriate laws, including environmental and employment;
  - Maintaining feedlot accreditation with the National Feedlot Accreditation Scheme ("NFAS") for all of the Feedlots;
  - Paying any applicable government levies in respect of the Feedlots and J&F Cattle;

- Retain detailed cattle records, including tagging cattle with National Livestock Identification System ("NLIS") accredited ear tags;
- Provide and file returns in relation to the J&F Cattle on the Feedlots, as required, to any government agency;
- Discretion of reasonable disposal of non-performing cattle to third parties and report this to J&F.

- J&F will retain title to all cattle in the Feedlots under the CPSA, and is entitled to register this pursuant to the Personal Property Securities Act ("PPSA").
- J&F will have the right to access the feedlots in which J&F Cattle are held to inspect the feedlots and the cattle.
- If J&F terminates the agreement without cause, it will be liable to pay JBS $2 million (GST exclusive) as damages for early termination.

1.5.2 Costs to J&F

J&F will pay JBS on a weekly basis for managing the Feedlots. The charges to be paid by J&F to JBS in relation to growing the cattle under the CMSFA are calculated based on the following:

- Administration and yardage cost per head of cattle at agreed rates; and
- Induction, processing, medicine and feed at cost.

Conditions precedent to the Cattle Agreements are as follows:

- Approval of the Cattle Agreements, Feedlots and Guarantee by the Unitholders;
- RFF conducting a $150m capital raise;
- J&F obtaining sufficient bank facilities to meet all obligations under the Feedlots and Guarantee;
- RFM novating the Cattle Agreements to its wholly owned subsidiary J&F.

1.6 Side Deed

The Side Deed has been drafted to summarise the interlinked agreements pertaining to the Feedlots and to provide for circumstances that will arise upon termination of the contracts. It details the following agreements between JBS, RFM as responsible entity for RFT, RFM and Baybrick and Landco as guarantors. RFM expects to novate the Cattle Agreements to J&F, which is detailed by novation clauses in each of the agreements.

The agreements detailed in the Side Deed (collectively referred to as the "Transaction Documents") are:

- Land Contracts for the sale of the Feedlots;
- Leases to be entered into for the leaseback of the Feedlots;
- The Financial Agreement pertaining to the commercial terms of the Leases;
- The Cattle Agreements; and
- The Side Deed.

Key terms of the Side Deed are as follows:

- Term is aligned to the Cattle Agreements, commencing when the Cattle Agreements commence and terminating on the termination of the Cattle Agreements;
- The Side deed takes precedence over the Transaction Documents;
- If any of the Land Contracts are not completed and/or the Leases are not entered into within 12 months then, unless otherwise agreed between the parties, that particular Land Contract and/or the Lease will not proceed, however, it will have no effect on the remainder of the Transaction Documents. Should the parties be unable to bring the Land Contracts to completion, the relevant owner of the property will retain title and RFM will have no further rights or obligations thereon.
- The termination of the Cattle Agreements will, unless negotiated otherwise between the parties, terminate simultaneously all of the Leases, any Land Contract not yet completed and no further purchases of cattle are to occur and J&F have the right to sell any cattle not sold within 120 days.
- Should the assets of Baybrick (as guarantor) change materially, JBS must replace this with an entity satisfactory to all parties.
- The Guarantors will irrevocably and unconditionally guarantee the performance of JBS' obligations to J&F (following novation from RFM) under the Transaction Documents.
- Baybrick will indemnify J&F (following novation from RFM) against any loss or damage incurred by J&F as a result of JBS or Baybrick not performing their obligations under the Transaction Documents.

1.7 Guarantee Agreement

The agreement pertains to the following parties:

- J&F; and
- RFM as trustee and responsible entity for RFT.

It is proposed that J&F will arrange the following finance facilities ("Finance Facilities") with a major Australian bank and specialist agri-business lender ("the Financiers"):

- $185 million working capital loan; and
- $75 million cash advance facility.

As part of the security for the Finance Facilities, RFF will provide a Bank Guarantee to the Financiers. In exchange for the Bank Guarantee, RFF will enter into a Guarantee with J&F. The key terms of the Guarantee are as follows:

- A 10 year term (the expectation is that the Finance Facilities will extend throughout the Cattle Agreements' 10 year duration);
- A sliding fee based on the facility balance will be payable to RFF by J&F ("Guarantee Fee"), at an agreed rate less adjustments;
- RFF will hold second ranking security over J&F assets behind the Financiers; and
- J&F is required to maintain adequate, comprehensive insurance over the livestock throughout the agreement term. This includes J&F bearing the associated costs of the insurance.

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1.8 Effect of the Guarantee

If the Guarantee is approved, then, subject to Unitholder approval, the Guarantee is expected to settle in August 2018. Settlement of the Feedlots is also conditional on:

- FIRB approval;
- Successfully conducting the Equity Raising;
- Subdivisions relating to:
    - Land for two feedlot properties (Beef City and Riverina); and
    - Easements and water licences (Beef City).
- Receipt of a satisfactory Work Health & Safety audit report
- Approval of finance for J&F; and
- Supply and use of paunch and waste water for composting and irrigation purposes (Beef City).

Assuming Unitholder approval for the Guarantee is received and all conditions are satisfied, it is expected the Feedlots will settle in a staggered manner, commencing in October 2018.

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2 Purpose and scope of the report

2.1 Purpose

Chapter 10 of the ASX Listing Rules

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated Unitholders of a company if the company proposes to acquire or dispose a substantial asset from a related party or a substantial holder.

Chapter 19 of the ASX Listing Rules defines a responsible entity of a trust as a related party and a subsidiary of a responsible entity as a related party. In addition, Chapter 19 includes in the definition of 'dispose' using an asset as collateral. As a result, the granting of the Security is considered the disposition of an asset to a related party.

ASX Listing Rule 10.2 defines a substantial asset as being an asset which is greater than 5% of the equity interests of the entity.

It is noted that J&F is a wholly owned subsidiary of RFM which is the responsible entity for RFF and therefore a related party pursuant to ASX Listing Rule 19.

Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral. As a result, the granting of the Security under the Guarantee is considered the disposition of material assets to related parties. Whilst the Security is second ranking to the Financiers, subject to the Financiers providing consent, RFF may exercise their right in relation to the Guarantee and potentially affect the sale of the Secured Assets.

The Guarantee is to provide security for a $75 million term loan facility. The secured amount of $75 million represents 20.7%[8] of the equity interests of RFF. The Guarantee is therefore a "substantial asset" of RFF, given it exceeds 5% of equity interests in RFF.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated Unitholders.

Chapter 2E of the Corporation Act

Section 208 of Chapter 2E of the Corporations Act requires a company to seek shareholder approval before giving a financial benefit to a related party unless the benefit falls within an exception provided for in section 210 of the Corporations Act.

Regulatory Guide 76 "Related party Transactions" ("RG 76") states that it is necessary for entities to include a valuation from an independent expert with a notice of meeting for member approval under Chapter 2E of the Corporations Act where:

- The financial benefit is difficult to value.
- The transaction is significant from the point of view of the entity (see RG 76.112).
- The independent directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit.

[8] Based on the net assets as at 31 December 2017

Accordingly, the Independent Directors have requested Grant Thornton Corporate Finance to prepare an independent expert's report stating, whether in its opinion the Guarantee is fair and reasonable to the Non-Associated Unitholders under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

2.2 Basis of assessment

Grant Thornton Corporate Finance has had regard to RG 111 in relation to the content of independent expert's report and RG76 in relation to related party transactions. RG76 largely refers to RG111 in relation to the approach to related party transactions.

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG 111 also regulates independent expert's reports prepared for related party transactions in clauses 52 to 63.

We note that RG111 clause 56 states the following:

RG 111.56 Where an expert assesses whether a related party transaction is 'fair and reasonable' (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal, as we do not consider this provides members with sufficient valuation information (See Regulatory Guide 76 Related party transactions (RG 76) at RG 76.106–RG 76.111 for further details).

Accordingly, in the consideration of the Guarantee, the expert should undertake a separate test of the fairness and then analyse the advantages and disadvantages for the Non-Associated Unitholders.

RG 111 notes that a related party transaction is:

- Fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.
- Reasonable, if it is fair, or, despite not being fair, after considering other significant factors, Unitholders should vote in favour of the transaction.

We have assessed the fairness of the terms of the Guarantee in addition to the granting of the Security as detailed below:

- We have assessed the fairness of the granting of the Security by completing a comparison between the proceeds from the sale of the Secured Assets under the Security which would be provided to RFF and the value of the outstanding liability which would be owing to RFF in the event of a default.
- When assessing the fairness of the Guarantee we have compared the key terms of the Guarantee to alternative financing sources (such as equity, bank guarantees and cattle stock financing) to ensure the terms of the Guarantee are fair to the Non-Associated Unitholders and no net financial benefits are accrued to Rural Funds Management.

In considering whether the Guarantee is reasonable to the Non-Associated Unitholders, we have considered a number of factors, including:

- Whether the Guarantee is fair.
- The implications to the Non-Associated Unitholders if the Guarantee is not approved.
- Other likely advantages and disadvantages associated with the Guarantee as required by RG111.

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- Other costs and risks associated with the Guarantee that could potentially affect the Non-Associated Unitholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Guarantee with reference to the ASIC Regulatory Guide 112 “Independence of Expert’s Reports” (“RG 112”).

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Guarantee other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Guarantee.

2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 12 July 2018 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Unitholders in their consideration of the Guarantee. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Guarantee to Non-Associated Unitholders as a whole. We have not considered the potential impact of the Guarantee on individual Non-Associated Unitholders. Individual Unitholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Guarantee on individual Unitholders.

The decision of whether or not to approve the Guarantee is a matter for each Non-Associated Unitholder based on their own views of value of RFF and expectations about future market conditions, RFF’s performance, risk profile and investment strategy. If Non-Associated Unitholders are in doubt about the action they should take in relation to the Guarantee, they should seek their own professional advice.

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3 Profile of the industry

3.1 Introduction

A cattle feedlot is a managed facility providing a grain-fed diet sufficient such that beef is produced to a consistent quality and quantity. Feedlot cattle are purchased from pasture farmers, raised on feedlots and then processed by domestic downstream meat processors and sold to domestic and export markets. According to Australian Lot Feeders Association ("ALFA"), the average period cattle spend in a feedlot is between 50-120 days / 10-15% of their lifespan.

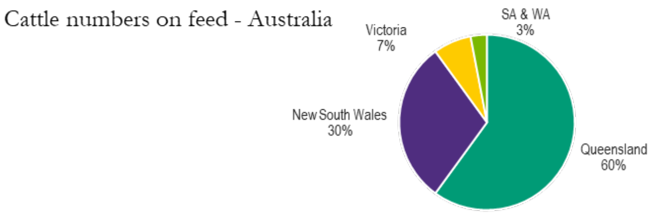
Key statistics on the cattle feedlot industry are as follows:

- Annual revenue of ~$4.6bn
- 28,500 employees (directly and indirectly)
- 2% of Australia's cattle livestock population is contained in feedlots at any one time
- 40% of Australia's total beef supply and 80% of beef sold in major domestic supermarkets is sourced from the cattle feedlot sector
- 2/3 of Australia's beef production is exported to over 100 international markets

Source: IBISworld and ALFA

The benefits of finishing cattle in feedlots are that cattle can be grown consistently when grazing land is of poor quality and/or reduced quantity, whilst affording greater control and flexibility in the production and marketing of livestock.

There are ~450 accredited feedlots throughout Australia; the following chart depicts the geographical concentration of the market:



Source: ALFA

Much of the market's geographical location is dictated by the proximity to cattle and grain supplies to contain costs.

3.2 Market drivers

3.2.1 Consumer demand

Consumer demand is a key driver in the industry as consumer preference for lean beef products increases, which means the cattle are required to remain on the feedlot for a shorter period. However, global consumption is also growing following rising income levels.

3.2.2 Weather

The industry can be heavily impacted by unusually wet or dry seasons.

Extremely dry weather reduces pastures, making it more difficult to feed and grow cattle. Demand for feedlots increases as the pastures deteriorate under dry conditions because the cattle need to be fed out to sell on (cattle is difficult to sell on in poor condition).

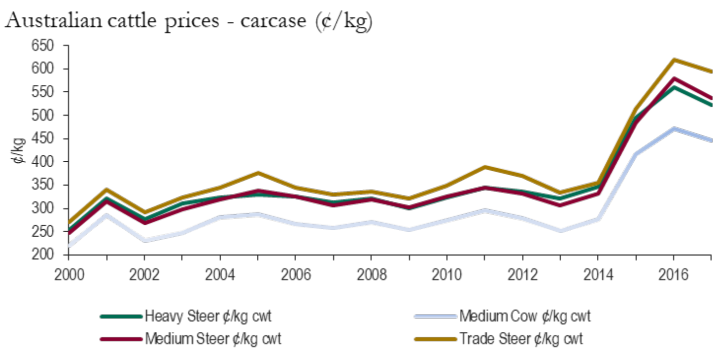
As the land is too dry for cows to graze on, supply of cattle to feedlots increases. This increased supply means that cattle prices reduce for lotfeeders. However, prolonged periods of very dry weather makes it difficult to breed and raise cattle to the point where grass-fed cattle farmers can sell them to feedlots which can actually increase prices of cattle (as availability reduces) in the long term.

Particularly dry conditions also reduce grain yield, and hence the availability of grain feed. This reduces the supply of grain which pushes prices upwards, not only in terms of the purchase of the feed, but also the associated freight.

Limited grain feed availability in northern Australia has previously cost feedlots $100 per tonne to transport grain from southern Australia. Given grain is ~30% of purchase costs (Source: IBISworld.com.au), inflated grain prices can heavily impact margins.

During more favourable weather conditions, irrigated land means crops can be harvested and therefore reverses the grain feed price/supply issue. This weather also improves pasture conditions. Demand for feedlots during these periods reduces as farmers do not need to use feedlots to grow their cattle. As farmers are growing cattle on pastures, the supply of cattle to feedlots reduces, increasing feeder cattle prices.

3.2.3 Price



Source: Meat & Livestock Australia Limited > Australia Saleyard cattle indicators to 29 December 2017

Carcase price has fluctuated significantly in recent years due to extreme weather conditions and demand driven by export countries.

Domestic prices fell between 2012 and 2014 following low rainfall causing farmers to send their cattle to feedlots, which created an oversupply of feeder cattle.

However, a surge in cattle prices from 2014 – 2016 was due to significant growth in overseas demand; Australian beef is particularly sought after in Asian countries such as Japan, South Korea and China. This demand growth increased prices for all forms of cattle, hence prompting farmers to sell their stock. Despite high volumes of feeder cattle entering the market, demand growth for Australian beef remained strong enough to push prices upwards.

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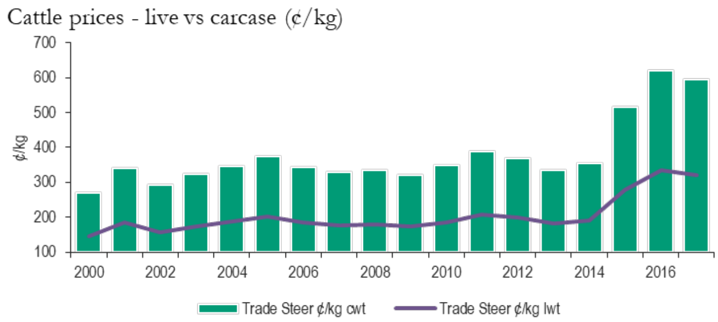


Source: Meat & Livestock Australia Limited > Australia Saleyard cattle indicators to 29 December 2017

Margins are driven largely by prices of grain and feeder cattle (Source: IBISworld) with feeder cattle prices varying depending on the cattle's age, breed, weight and availability. When feeder cattle are scarce (as grass-fed cattle farmers have less cattle to sell), prices rise, substantially increasing purchase costs for lotfeeders and reducing profitability if over-the-hook prices do not also increase at the same rate.

3.2.4 Price Outlook

Forecasts from the Australian Bureau of Agricultural and Resource Economics and Sciences ("ABARES") suggest total cattle numbers will increase, as will supply of feeder cattle. Demand, particularly in export markets, is forecast to remain strong, with forecast A$ depreciation making local products appear more reasonably priced in overseas markets.

Growth in Asian demand for Australian beef is expected to continue over the next five years. Pressure for cattle to finish in feedlots to meet processor demand for slaughter cattle is expected to boost domestic feeder cattle prices over the period. Projections from ABARES suggest cattle slaughter rates are set to grow, stifling upward pressure caused by strong demand for beef. The domestic price of feeder cattle is forecast to rise to $1,177 per head of cattle by 2021-22.

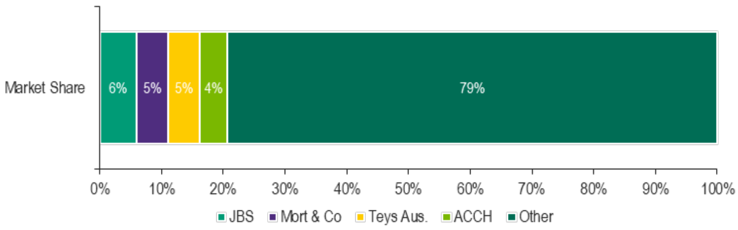
3.3 Key players

There has been a declining number of businesses in the industry in recent years as competition from larger players sees smaller family owned feedlots being pushed out of the market or acquired by larger operators, due to price being the main competitive driver.

Notwithstanding, the feedlot industry remains highly fragmented. The four key players account for 20% of industry revenue and comprise:

- JBS Australia Pty Ltd;
- Mort & Co Ltd;
- Teys Australia Pty Ltd; and
- Australian Country Choice Holdings Pty Ltd.

The chart below reflects the concentration of the market, highlighting the small proportion made up by the largest contenders.



Source: IBISworld Industry Market Research > Australia Industry Reports (ANZSIC) > Beef Cattle Feedlots

3.4 Barriers to entry

Significant initial capital costs in establishing or acquiring a feedlot is the main barrier to entering the feedlot industry. Given there is no alternative use for a feedlot, access to the level of finance required can be difficult.

Ongoing regulation under NFAS is required which is both time consuming and costly, with annual audits undertaken to ensure strict compliance with legislation.

Environmental approvals are also required, as there is typically a high level of waste produced on site due to cattle feeding which can be detrimental to the surrounding area. There are also planning and development approvals to consider in a new feedlot.

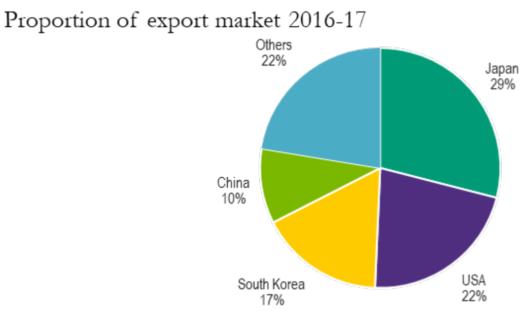
3.5 The market

Domestic

Around 59% of grain fed beef is sold domestically within Australia. Demand in the Australian market in recent years saw domestic beef prices increasing by 30%, with major supermarkets accounting for 75% of the domestic market and 44% of the total market for grain fed beef (Source: IBISworld).

Export

According to United States Department of Agriculture, Australia was the third largest exporter of beef in 2017, after India and Brazil. The following table reflects the key export markets for Australian beef:



Source: Meat and Livestock Australia Factsheet

Japan is Australia's largest beef export market and has seen a shift in consumer preferences from purchasing high quality marbled beef to leaner and less expensive beef as an alternative, following decreased disposable incomes after the GFC and the 2011 Fukushima Daiichi nuclear disaster (Source: IBISworld.com.au).

Market outlook

Growth is mainly anticipated to come from export, as foreign incomes rise and the Australian dollar remains relatively weak.

3.6 Outlook

Slow growth is projected over the next five years, at a rate of 0.9% over the five year forward estimates, with growth expected to be due to a low Australian dollar forecast driving affordability of Australian grown beef in foreign markets. Only marginal increases are forecast in domestic beef, hence limited growth opportunities from the Australian market.

Projected growth comes from markets such as Japan, South Korea and China with whom Australia has recently signed free trade agreements. China, in particular, is anticipated to be a key growth area as personal incomes continue to rise.

Although there is expected to be competition from the USA for the Chinese market after gaining renewed access into China in 2017, the USA will need to comply with some rigorous requirements and therefore volumes are not expected to rise immediately; compliance costs are expected to be high which is unexpected per MLA given China's price sensitivity.

South America is expected to become a particularly competitive supplier to the global market with Australia's beef prices currently at a 50% premium (Source: MLA Industry Projections 2018).

According to MLA, demand for beef from domestic USA consumers has also seen significant increases on the back of various shifts in consumer metrics, following increased consumption of 3-5% of beef per capita in 2016-2017. Industry experts forecast this to continue. Australia's export market depends on US domestic consumption meeting or exceeding US production, otherwise US excess beef will enter Australia's export markets, particularly Japan and Korea

Ongoing consolidation in the sector is anticipated to reduce business numbers. Margins are also expected to drop slightly in the same period, as cost increases are anticipated to catch up with feedlot cattle sale price growth.

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4 Profile of RFF

4.1 Introduction

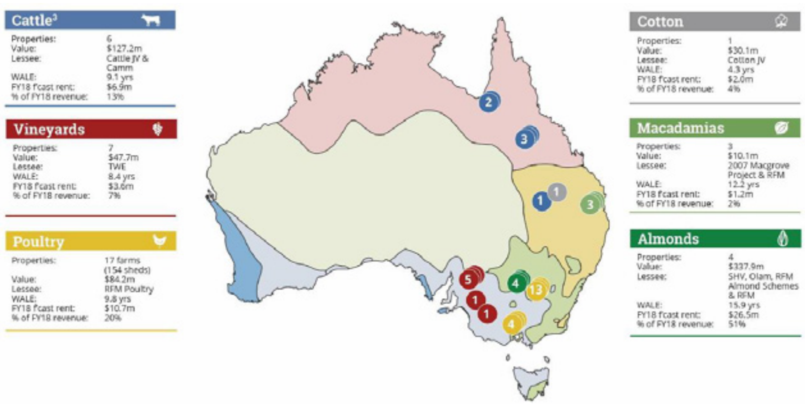
RFF is an ASX listed Real Estate Investment Fund ("REIT") engaged in the leasing of agricultural assets to tenants operating in the agricultural sector, and is managed by RFM. It is a stapled security, comprising two entities which are isolated for tax purposes:

- RFT holds all of RFF's investment properties; and
- RF Active holds assets that generate operational revenues from a tax perspective.

At 31 December 2017, RFF owned 38 properties, valued at $481 million, throughout the following sub-sectors:

- 17 poultry farms (303,216 square metres);
- 4 almond orchards (2,414 planted hectares and 2,500 under development);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 6 cattle properties (633,900 hectares); and
- 1 cotton property (1,272 irrigable hectares).

RFF has geographically diversified its portfolio to reduce exposure to extreme climatic conditions. Assets are located throughout NSW, QLD, SA and VIC, as follows:



Source: RFF Financial results presentation (half year ended 31 December 2017)

The map above reflects different climate classes, with cattle and macadamias located in areas which expect wet summers and dry winters, through to vineyards which see the opposite; wet winters and but low rainfall during the summer.

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4.2 Cattle assets

RFF's cattle property assets, valued at 31 December 2017 at $102 million[9], are all located in Queensland as shown in the following table:

Property	Location	Property type	Size	Acquired
Natal	Far North Queensland	Breeding	390,600 ha	October 2017
Mutton Hole	Far North Queensland	Breeding	140,300 ha	July/August 2016
Oakland Park	Far North Queensland	Breeding	85,500 ha	July/August 2016
Rewan Station	Central Queensland	Backgrounding and finishing	17,500 ha	July/August 2016

Source: RFF Financial Statements

4.2.1 Natal

Leased to DA & JF Camm Pty Ltd, Natal refers to three, adjacent cattle breeding properties in northern Queensland, 115 radial kilometres south west of Charters Towers:

- Natal Downs;
- Longton; and
- Narellan.

The properties contain a mix of developed and undeveloped breeding land, as well as higher value finishing land.

4.2.2 Mutton Hole & Oakland Park

Leased to Cattle JV Pty Ltd, a wholly owned subsidiary of RFM, Mutton Hole and Oakland Park are large-scale breeding properties in far north Queensland, southeast of Normanton on the Gulf of Carpentaria.

4.2.3 Rewan Station

Rewan Station is a backgrounding and finishing property located 55 kilometres south of Rolleston in central Queensland within commercial proximity of multiple market facilities including feedlots, abattoirs, saleyards and ports. Improved pasture on Rewan, including fodder crops, forage legumes and highly productive leucaena provides a quality feed base for fattening.

Since acquisition in 2016, the asset value has increased by $5.4m (17%).

As with Mutton Hole and Oakland Park, Rewan Station is leased to Cattle JV Pty Ltd.

4.3 Financial information

4.3.1 RFF Overview

As at 30 April 2018, RFF has 255,630,515 ordinary units on issue ("RFF units").

[9] Rural Funds Group Financial Statements for the Half Year ended 31 December 2017

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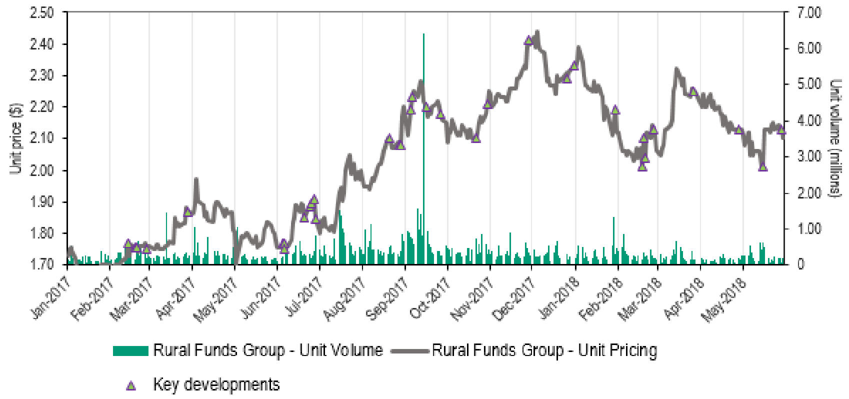
The top 10 unitholders of RFF as at 30 June 2017 are set out below:

Largest unitholders at 30 June 2017	Units held	%
J P Morgan Nominees Australia Limited	42,947,041	16.88
HSBC Custody Nominees (Australia) Limited	19,022,001	7.48
Netwealth Investments Limited (Wrap services)	15,052,089	5.92
Rural Funds Management Limited	8,632,418	3.39
Argo Investments Limited	5,407,750	2.13
Citicorp Nominees Pty Ltd	4,773,138	1.88
Netwealth Investments Limited (Super services)	4,101,633	1.61
National Nominees Limited	3,730,899	1.47
Bryant Family Services Pty Ltd	2,629,493	1.03
Brispot Nominees Pty Ltd	1,751,482	0.69
Total top 10 unitholders	**108,047,944**	**42.47**
Other unitholders	146,332,954	57.53
Total units in issue	**254,380,898**	

Source: RFF Annual Report, 30 June 2017

The daily movements in RFF's unit price and trading volumes for the period from 3 January 2017 to 4 June 2018 are as follows:



Source: S&P Capital IQ > 4 June 2018

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Date	Key Development
1/06/2018	RFF announced dividend of $0.025075 on RFF - Stapled Securities fully paid for the first quarter ended 31 June 2018, payable on July 31 2018. The share price closed at $2.13.
17/05/2018	RFF entered into a contract to acquire Comanche, 7,600 Hectare Cattle Property in Queensland for $15.7million. The transaction will be funded from debt and is expected to be closed in July 2018. The share price closed at $2.01.
8/03/2018	RFF issued a cash dividend of $0.025075. The share price closed at $2.25.
01/03/2018	RFF announced the 3QFY18 dividend of 2.51 cents per unit, payable on 30 April 2018. The share price closed at $2.11.
22/02/2018	RFF announced it would be seeking acquisitions of infrastructure and natural resource predominant assets. The share price closed at $2.04.
21/02/2018	RFF announced 1HFY18 results which included earnings guidance for the 2HFY18 and FY18. AFFO forecast to be higher in 2HFY18 due to revenue from Natal acquisition and Murrumbidgee HS water allocation sales. RFF also provided FY18 and FY19 dividend distribution forecasts of 10.03 and 10.43 cents per unit respectively. The share price closed at $2.10.
31/12/2017	RFF completed acquisition of three cattle properties in Natal Downs, Longton and Narellan from Camm Agricultural Group. The share price closed at $2.31.
28/12/2017	RFF issued a cash dividend of $0.002575. The share price closed at $2.29.
01/12/2017	RFF announced the estimated dividend for 2QFY18, Payable on January 31, 2018. The share price closed at $2.40.
23/10/2017	RFF entered into an agreement to acquire three cattle properties in Natal Downs, Longton and Narellan from Camm Agricultural Group for $50 million. The share price closed at $2.10.
28/09/2017	RFF issued a cash dividend of $0.025008 and $0.000067. The share price closed at $2.18.
18/09/2017	RFF was removed from the S&P/ASX Emerging Companies Index. The share price closed at $2.20.
07/09/2017	RFF Presents at Daiwa Pan Asia REIT Day 2017 - Japan, Sep-07-2017. The share price closed at $2.23.
30/08/2017	RFF announced a 1QFY18 dividend of 2.51 cents per unit, payable on 31 October 2017. The share price closed at $2.08.
22/08/2017	RFF reported results for FY17, with net profit after tax of $43m. The share price closed at $2.10.
29/06/2017	RFF issued a cash dividend of $0.01571 and $0.00839. The share price closed at $1.91.
26/06/2017	RFF completed a Follow-on Equity Offering of $78.6 million. The share price closed at $1.89.
08/06/2017	RFF, 0.9928, Rights Issue, Jun-08-2017. The share price closed at $1.75
07/06/2017	RFF announced a 4QFY17 dividend of 2.41 cents per unit, payable on 31 July 2017 and filed a Follow-on Equity Offering of $78.6 million. The share price closed at $1.77.
30/03/2017	RFF issued a cash dividend of $0.0241. The share price closed at $1.87.
01/03/2017	RFF announced dividend a 3QFY17 dividend of $0.0241, payable on April 28, 2017. The share price closed at $1.75.
21/02/2017	RFF announced H1FY17 results. The share price closed at $1.76.
20/02/2017	RFF provided dividend guidance for FY17. For the period, RFF expects to pay dividends of 9.64 cents per unit, up 8% on FY16. The share price closed at $1.76.
15/02/2017	RFM announced the appointment of Mr. Julian Widdup as an independent, non-executive director, effective February 15 2017, bringing experience to the RFM board having previously served in various directorships. The share price closed at $1.77.

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4.3.2 RFF Financial performance

The following table summarises the audited consolidated statement of comprehensive income of RFF for financial years ended 30 June 2015 ("FY15"), 30 June 2016 ("FY16"), 30 June 2017 ("FY17") and 31 December 2017 (1HY18).

Statements of comprehensive income RFF	FY15 Audited A$'000	FY16 Restated Audited A$'000	FY17 Audited A$'000	1HY18 A$'000
Revenue	22,218	26,549	41,573	24,141
Other income	69	76	72	86
Overheads	(6,113)	(7,184)	(8,360)	(4,804)
EBITDA	**16,174**	**19,441**	**33,285**	**19,423**
EBITDA margin	*73%*	*73%*	*80%*	*80%*
Depreciation	(490)	(939)	(1,568)	(440)
EBIT	**15,684**	**18,502**	**31,717**	**18,983**
EBIT margin	*71%*	*70%*	*76%*	*79%*
Investment income	125	61	1,304	-
Reversal of impairment	2,645	-	-	-
Changes in fair value	(3,715)	22,708	10,815	2,081
Gain / (loss) on disposal of fixed assets	(5)	290	33	12
Finance costs	(5,285)	(5,612)	(7,891)	(4,017)
Earnings before taxes	**9,449**	**35,949**	**35,978**	**17,059**
Income tax	712	(1,175)	(1,740)	(310)
Total comprehensive income	**10,161**	**34,774**	**34,238**	**16,749**

Source: Financial Reports and Management

The above table reflects a FY16 restatement following AASB amendments to the recognition of bearer plant assets, from Biological Assets to Property, Plant and Equipment. Changes in fair value of bearer plants were reallocated from the Profit and Loss account to Other Comprehensive Income in FY16 restated results.

We note the following in relation to RFF's income statements:

FY15

- RFT was stapled to RF Active during the period, collectively called the Rural Funds Group (ASX: RFF).
- A $4.8 million decrease in the fair value of investment property held by RFF was partly offset by other fair value increases, resulting in an overall cost to the income statement of $3.7 million.

FY16

- RFM communicated it intends to expand the scale of the fund through accretive acquisitions to improved liquidity and price, earnings and distribution growth, enhanced diversification, lower operating costs per unit.
- Revenue increased following increased leased assets due to recent capital expenditure.
- One-off costs linked to acquisitions during the period resulted in increased overheads.

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- Finance costs only marginally increased despite significant increase in interest bearing liabilities as a result of lower interest rates and banking margins.

FY17

- Property revenue grew following acquisitions during the year.
- Increased investment income relates to the revaluation and lease income of Perth Markets Ltd, realised for $6.1m in Feb 2017.
- Economies of scale were also achieved on property and overhead expenses on a per unit basis.
- As with FY16, finance costs have increased due to larger facility held, although this is partially offset by lower interest rates.

1HY18

- Revenue increased on a like-for-like basis due to rent from new acquisitions and development capital expenditure, as well as lease indexation following the Natal acquisition.
- EBITDA remains consistent as RFF continues to enjoy scale advantages on property and overhead expenses.
- Changes in fair value dropped significantly, and therefore reduced net profit. These relate to $4 million of upward investment property revaluations primarily of cattle and cotton properties, offset by a $2 million reduction in fair value of interest rate swaps.

Although RFM is loss generating at EBITDA level in FY15 and FY17, the change in fair value of biological assets line should be considered with EBITDA, which changes the loss to profit. The largest movement in FY17 is a $12 million increase in the value of the livestock assets from actual sales and stock on hand.

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4.3.3 RFF Financial position

The audited statement of financial position of RFF as at 30 June 2016, 30 June 2017 and 31 December 2017 are set out below:

Statement of financial position RFF	30-Jun-16 Restated Audited A$'000	30-Jun-17 Audited A$'000	31-Dec-17 A$'000
Current assets			
Cash and cash equivalents	3,034	3,838	2,553
Trade and other receivables	7,239	4,608	8,133
Other current assets	2,501	1,800	400
Total current assets	**12,774**	**10,246**	**11,086**
Non-current assets			
Investments accounted for using the equity method	9,041	-	-
Financial assets	10,078	23,916	36,987
Plant and equipment	4,178	5,127	5,538
Plant and equipment - bearer plants	113,206	121,193	137,411
Investment property	168,951	273,783	343,149
Intangible assets	59,691	108,738	106,947
Deferred tax assets	1,120	-	-
Total non-current assets	**366,265**	**532,757**	**630,032**
Total assets	**379,039**	**543,003**	**641,118**
Current liabilities			
Trade and other payables	6,920	5,138	6,609
Interest bearing liabilities	3,030	3,204	3,260
Distributions payable	3,901	6,368	6,561
Total current liabilities	**13,851**	**14,710**	**16,430**
Non-current liabilities			
Interest bearing liabilities	146,500	164,500	253,500
Other non-current liabilities	1,634	1,634	1,634
Derivative financial liabilities	9,190	3,878	5,849
Deferred tax liabilities	-	603	911
Total non-current liabilities	**157,324**	**170,615**	**261,894**
Total liabilities (excluding net assets attributable to unitholders)	**171,175**	**185,325**	**278,324**
Net assets attributable to unitholders	207,864	357,678	362,794
Total liabilities	**379,039**	**543,003**	**641,118**

Source: Financial Reports and Management

We note the following in relation to RFF's balance sheets as at 31 December 2017:

- Financial assets of $37 million largely comprise the following investments:
  - $14 million breeder herd lease, structured as a finance lease with no price risk impact on lessor associated with movements in value of the breeder herd (approx. 11,000 head).
  - $12.2 million water entitlement investment in Coleambally Irrigation Co-operative Limited ("CICL"), an irrigation company, wholly owned by its farmer members.
  - A $10 million secured loan with a term of ten years to DA & JF Camm Pty Limited as part of the lease of the Natal feedlot.

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- Investment property is comprised of the various land and property owned by RFF and leased out, including almond orchard property ($105 million), cattle property ($102 million) and poultry property ($82 million). The increase to December 2017 was the $53 million acquisition of Natal Downs, Longton and Narellan cattle properties.

- Intangible assets of c.A$107 million relate to water entitlements held by the Group, including those linked to almond orchard properties, poultry property and vineyards.

- The $89 million increase in interest bearing liabilities reflects borrowings from ANZ and Rabobank to invest both fixed assets and investment property.

5 Profile of RFM

5.1.1 Overview

RFM has $740m of assets (as at 31 December 2017) under management across six agricultural investment funds across NSW, QLD, SA and VIC. RFF is the largest of these funds, with a $687m asset portfolio[10].

RFM's head office is located in Canberra (ACT), with three regional offices in Sydney, regional NSW and Queensland, and was established in 1997.

RFM is responsible for two listed funds:

- RFF; and
- RFM Poultry.

And four unlisted almond and macadamia orchard funds:

- RFM Almond Fund 2006;
- RFM Almond Fund 2007;
- RFM Almond Fund 2008; and
- 2007 Macgrove Project.

RFM also undertakes various agricultural activities including almond farming, macadamia farming, livestock and cropping operations on leased properties via the following associated entities:

- RFM Farming Pty Limited – wholly owned subsidiary;
- RFM Macadamias Pty Limited – wholly owned subsidiary;
- Cattle JV Pty Limited – wholly owned subsidiary; and
- Cotton JV Pty Limited – jointly controlled entity.

[10] www.ruralfunds.com.au

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5.1.2 RFM historical financial results

The audited consolidated financial statements for the three years ended 30 June 2017 are summarised below:

Statement of comprehensive income RFM	FY15 Audited A$'000	FY16 Audited A$'000	FY17 Audited A$'000
Revenue	27,537	30,547	32,767
Cost of sales	(18,634)	(20,209)	(27,194)
Gross profit	**8,903**	**10,338**	**5,573**
Gross margin %	*32%*	*34%*	*17%*
Other income	354	792	905
Overheads	(10,308)	(10,677)	(12,025)
EBITDA	**(1,051)**	**453**	**(5,547)**
EBITDA margin	*-4%*	*1%*	*-17%*
Depreciation	(277)	(280)	(384)
Finance costs	(29)	(111)	(1,360)
Investment income	-	180	154
Goodwill impairment	-	(35)	-
Changes in fair value	4,747	1,633	14,020
Gain / (loss) on disposal of fixed assets	-	336	3
Bad debt expense	(2)	(8)	-
Earnings before taxes	**3,388**	**2,168**	**6,886**
Income tax	(977)	(610)	(1,967)
Net profit after tax	**2,411**	**1,558**	**4,919**

Source: Financial Reports and Management

We note the following in relation to RFM's performance:

- Revenue has increased year on year following an FY17 increase in harvest proceeds of $2.5 million.
- Gross profit margins declined from 34% in FY16 to 17% in FY17, due to the sharp increase in direct agricultural produce costs and expenses exceeding revenue growth.
- Although RFM is loss generating at EBITDA level in FY15 and FY17, a change in fair value of biological assets changes the loss to profit. The largest movement in FY17 is a $12 million increase in the value of the livestock assets held which was offset by an increase in the cost of sales.
- Finance costs increased by $1 million in FY17 due to increased borrowings from ANZ and RF Active.

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Consolidated statement of financial position RFM	30-Jun-16 Audited A$'000	30-Jun-17 Audited A$'000
Current assets		
Cash and cash equivalents	3,789	3,066
Other current assets	15,703	36,879
Total current assets	**19,492**	**39,945**
Non-current assets		
Financial assets	8,420	16,200
Intangible assets	1,416	1,281
Other non-current assets	1,701	2,042
Total non-current assets	**11,537**	**19,523**
Total assets	**31,029**	**59,468**
Current liabilities		
Interest bearing liabilities	7,700	16,737
Other current liabilities	4,277	5,313
Total current liabilities	**11,977**	**22,050**
Non-current liabilities		
Interest bearing liabilities	-	10,517
Other non-current liabilities	321	2,214
Total non-current liabilities	**321**	**12,731**
Total liabilities	**12,298**	**34,781**
Net assets	**18,731**	**24,687**

Source: Financial Reports and Management

- Current assets increased in FY17 following a $20million increase in livestock assets (of which $13 million was additions).
- Financial assets almost doubled due to RFM's $7.8m acquisition of units and revaluation of units in RFF via a capital raise in FY17.
- Interest bearing facilities increased by $19 million following an $8 million increase in drawn down borrowings from ANZ and an $11 million increase in borrowings from Rural Funds Active. At 30 June 2017, the ANZ debt facility is $15.8 million (FY16: $7.7 million).
- Dividends of $0.5 million were issued in FY16 and FY17.

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6 Profile of JBS

6.1.1 Overview

Baybrick is the parent company of JBS' Australian operations. JBS is a 100% subsidiary of Baybrick[11].

6.1.2 Financial results and position

Consolidated income statement Baybrick Pty Ltd	FY16 Audited $'000	FY17 Audited $'000
Revenue and other income	5,645,932	5,753,105
Overheads	5,385,550	5,521,395
EBITDA	260,382	231,710
EBITDA margin	*4.6%*	*4.0%*
Profit after tax	**107,943**	**75,749**

Source: Baybrick Pty Ltd Financial Statements for the year ended 31 December 2017

Points to note regarding the profit and loss account for the two years ended 31 December 2017 are as follows:

- Reduced EBITDA in FY17 was due to increased costs of raw materials and consumables.
- The net profit reduction is largely due to a $20 million increase in foreign exchange losses, a $6 million increase in occupancy costs and $16 million increase in contractor costs.
- These were partially offset by a $25 million decrease in employee benefits.
- Dividends of $50 million were issued in FY17.

Consolidated statement of financial position Baybrick Pty Ltd	FY16 Audited $'000	FY17 Audited $'000
Current assets	898,882	881,614
Non-current assets	1,936,600	1,882,364
Total assets	**2,835,482**	**2,763,978**
Current liabilities	494,297	415,099
Non-current liabilities	30,896	21,836
Total liabilities	**525,193**	**436,935**
Net assets	**2,310,289**	**2,327,043**
KPIs		
Interest cover	43x	24x
Current ratio	1.8	2.1
Acid test ratio	1.1	1.3

Source: Baybrick Pty Ltd Financial Statements for the year ended 31 December 2017

As at 31 December 2017, the following points are noted in relation to the balance sheet:

- Current assets comprise largely inventories ($337 million) and trade and other receivables ($375 million).

[11] JBS Australia Group Organisational Chart as at 31 December 2017

- JBS was cash generative in FY17, with a closing cash balance at 31 December 2017 of $163 million.
- Over half of non-current assets relates to intangibles, largely goodwill and brand names, as well as $780 million of property, plant and equipment.
- Trade and other payables makes up $279 million of the $415 million current liabilities as at 31 December 2017.
- Employee benefit liabilities total $127 million.
- JBS has minimal interest bearing borrowings on its balance sheet, hence calculation of gearing ratios was not meaningful.

6.1.3 Plea bargain

A review of Baybrick's Financial Report for the year ended 31 December 2017 identified that certain officers of one of Baybrick's indirect parent companies in Brazil, J&F Investimentos S.A. had entered into a plea bargain in connection with improper payments made to Brazilian politicians, government officials and other individuals, committed by or on behalf of J&F Investimentos S.A. and other group companies.

Notes to the financial statements warn that future outcomes of the trial could have a material adverse effect on the public perception or reputation of the J&F Group, potentially extending to a material adverse impact on the J&F Group's business, financial condition, results of operations and prospects.

7 Valuation methodologies

7.1 Introduction

In accordance with our adopted valuation approach set out in section 2.2, our fairness assessment involves comparing:

- The potential proceeds from the sale of the assets under the Security which would be provided to RFF and the value of the outstanding liability which would be owing to RFF in the event of a default under the Guarantee.
- The terms of the Guarantee.

Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

7.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

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7.3 Selected valuation method

7.3.1 Granting of the Security

RG 111 suggests that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

The Guarantee will have a second ranking security over the Secured Assets. In other words, the Financiers will have first rights to the Secured Assets and RFF will first need to provide the $75 million to the Financiers before being able to exercise any of their rights pertaining to the Security such as sale of the Secured Assets and accepting payment to recoup the funds provided to the Financiers.

In this case, the proceeds from the sale of the Secured Assets constitute the financial benefit to be provided to RFF. The consideration being provided by RFF to J&F is the value of the Guarantee plus any accrued interests and fees at the time of sale in the event of drawdown.

Having regard to the above, we have assessed the fairness of the granting of the Security by comparing the proceeds from the sale of the Secured Assets to the value of the liability which would be owing to RFF in the event of default.

The granting of the Security is 'fair' if the value of the Security provided to RFF (i.e. the value of the proceeds from the sale of the Secured Assets) is equal to or less than the value of the liabilities to be settled in the event of drawdown under the Guarantee.

7.3.2 Guarantee

If the Guarantee is approved, the Financiers will provide a term loan of $75 million supported by a Bank Guarantee from RFF. RFF will provide the Bank Guarantee and in exchange will enter into the Guarantee with J&F and receive the Guarantee Fee.

Should J&F default, the Financiers will have first access to any sale proceeds from the sale of assets to extinguish its $175 million loan plus any associated costs. The Financiers would also require RFF to provide the $75 million. RFF would then be able to exercise its rights under the Guarantee. Given RFF will need to provide funding to the Financiers on default and await the clearance of the Financiers claims on any sale proceeds, the Guarantee's security position is similar to a mezzanine financing arrangement or quasi equity. Accordingly, we have compared the terms of the Guarantee to similar riskier financing arrangements including the cost of equity.

To assess whether the Guarantee Fee is fair we have compared the Guarantee Fee Rate to a range of financing options:

- Bank Guarantee fees;
- Cattle Stock Financing; and
- Unitholder or equity financing.

Our assessment of fairness has not considered the execution risk associated with obtaining financing on satisfactory terms. Instead we have considered this factor in our assessment of the reasonableness of the Guarantee.

If the key terms of the Guarantee are equal or greater than the terms provided by other financing options, the Guarantee is 'fair'.

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8 Fairness of granting of the Security

If the Guarantee is approved, the Financiers will provide a term loan of $75 million secured by the assets of J&F and in addition RFF will provide a Bank Guarantee to the Financiers. RFF will enter into the Guarantee with J&F and obtain a second-ranking security over the assets of J&F ("Secured Assets").

We note that the Financiers will be able to call upon the Guarantee only if J&F defaults. For J&F to default, given its primary source of income is from payments from JBS, the most likely cause of the default would be as a result of JBS defaulting. Baybrick, JBS's parent, will provide a guarantee under the Side Deed for the performance of JBS. Baybrick has reported assets of $2.3 billion as at 31 December 2017 and a net profit of $75.7m. In addition, forecasts of the operations for FY19 also suggest there are adequate funds to meet the interest repayments from the operations with interest coverage (EBITDA/interest expense) of 1.65x. However, despite the above, should the Financiers call upon the Guarantee, RFF will be required to provide the $75 million to the Financiers and then exercise their rights pertaining to the Secured Assets to recoup the $75 million paid to the Financiers.

It is noted that J&F's main asset is the cattle, which typically gain weight whilst in the Feedlot and are sold on a per kg basis. As such, it would require an adverse movement in the cattle price from time of purchase to sale for a shortfall to be realised, should RFF be required to sell the Secured Assets.

Accordingly, in analysing whether or not the granting of the Security to the Financiers (with RFF standing in the position of the Financiers upon the calling upon of the Bank Guarantee) is fair to the Non-Associated Unitholders, we have considered the following:

- If RFF calls upon the Security, the disposal of the Secured Assets is required to be dealt with in a manner which attempts to realise market value as at the time of the sale having regard to the state of the assets at that time. RFF will receive the following amounts under the following three alternative scenarios:
  - If the realised market value of the Secured Assets is **less than** the total amount owing to RFF under the Guarantee, then RFF will receive the realised market value of the Secured Assets.
  - If the realised market value of the Secured Assets is **the same as** the total amount owing to RFF under the Guarantee, then RFF will receive the realised market value of the Secured Assets.
  - If the realised market value of the Secured Assets is **more than** the total amount owing to RFF under the Guarantee, then RFF will only receive the amount it is owed.

8.1 Conclusion – granting of the Security

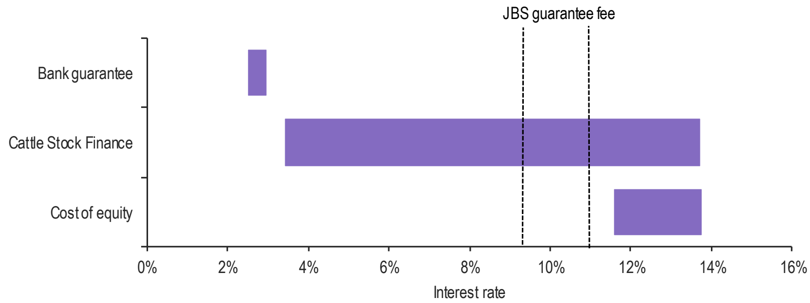
Based on the above considerations, we have assessed the value of the Security provided to be less than or equal to the value of the liabilities settled.

9 Fairness of the Guarantee terms

As discussed in section 7.3.2, we have assessed the fairness of the Guarantee having regard to other forms of financing.

9.1 Guarantee Fee

In order to test whether the Guarantee Fee RFF will receive under the Guarantee Agreement is on a commercial, arms' length basis and fair to Non-Associated Unitholders, Grant Thornton Corporate Finance has observed and benchmarked the cost of alternative financing sources as illustrated below:



Source: ASX announcements, CapitalIQ, GTCF research and GTCF calculations
Note: For further details see below.

In relation to the above, we note that we have considered the raising of funding through equity to be the most comparable given the security provided to RFF is second ranking to the Financiers and effectively places RFF in a mezzanine financing or quasi equity position.

9.1.1 Bank Guarantee Fees

Grant Thornton Corporate Finance contacted a number of financial institutions to obtain indicative rates for a bank guarantee. In relation to the above, we note that the bank guarantee fees are low as they are typically secured by cash held in a term deposit and other security. The above graph shows the gross fee (not net of any interest on cash held). Therefore the actual cost is the net bank guarantee fee and the cost of capital to hold the funds in a term deposit. As the security position (cash held on deposit) is not reflective of the Guarantee (second ranking security) and the fee doesn't reflect the cost of holding that cash (the cost of capital) we have had limited regard to this benchmark.

9.1.2 Cattle Stock Finance

We contacted a range of cattle stock financiers and also had reference to external agreements with RFM and other financiers to compare the interest rates charged. We note the range is wide with smaller facilities and shorter terms being at the upper end of the range. We note the provisional rate proposed from the Financiers for the working capital and term loan facility is at the lower end of the range.

9.1.3 Cost of equity

RFF is providing a Guarantee to support the financing of the operations of the Feedlots. Accordingly, the risks associated with the Guarantee being called upon are tied to, albeit not directly, to the risks of the Feedlots. Also, as discussed, the second ranking security position places RFF in a similar position of a mezzanine finance provider or quasi equity position. Accordingly, to assess an appropriate return for providing the Guarantee and in turn the indirect risks of the operations of the Feedlots we have assessed the cost of equity for the operation.

The range we assessed was 11.56% to 13.76%. A detailed breakdown of the calculation is provided in Appendix B.

9.1.4 Conclusion – Guarantee Fee

Based on the above analysis, we conclude that the Guarantee Fee appears to be on arm's length and on terms not less favourable than alternative funding options.

9.2 Conclusion – the Guarantee

Based on the above considerations and analysis, we are of the opinion that the key terms of the Guarantee (i.e. the Guarantee Fee) are on commercial and arm's length, and not worse than alternative financing options.

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10 Sources of information, disclaimer and consents

10.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Notice of Meeting and Explanatory Memorandum – 12 July 2018
- Memorandum of Understanding
- Annual reports and half-year financial reports of RFF
- Releases and announcements by RFF on the ASX
- Baybrick Pty Ltd Financial Report – 31 December 2017
- Side Deed
- Cattle Management Services and Feeding Agreement
- Cattle Purchase and Sale Agreement
- J&F Share Sale and Purchase Agreement
- Guarantee Agreement v7
- Water Rights Call Option Deed – Riverina
- Water Rights Call Option Deed – Prime City
- Warranty Deed
- Contract of Sale - Beef City
- Contract of Sale - Caroona
- Contract of Sale - Mungindi
- Contract of Sale - Prime City
- Contract of Sale - Riverina
- Financial Agreement - Beef City
- Financial Agreement -Caroona
- Financial Agreement -Prime City
- Financial Agreement -Riverina
- Financial Agreement - SH – Mungindi

- Lease - Beef City
- Lease - Caroona
- Lease - Mungindi
- Lease - Prime City
- Lease - Riverina
- IBISWorld Industry Report
- Market and industry reports made publicly available by livestock and agriculture bodies
- Capital IQ
- Consensus Economics Forecast
- Various broker reports and independent expert's reports
- Other publicly available information
- Discussions with Management of RFF and other relevant documentation

10.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous Proposed Takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to RFF and all other parties involved in the Guarantee with reference to the ASIC Regulatory Guide 112 "Independence of experts" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to RFF, its Unitholders and all other parties involved in the Guarantee.

Grant Thornton Corporate Finance confirm this report has been prepared in accordance with APES 225.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with RFF or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Guarantee.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Guarantee, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Guarantee. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

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10.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by RFF and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by RFF through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of RFF.

This report has been prepared to assist the Independent Directors of RFF in advising the Non-Associated Unitholders in relation to the Guarantee Facility. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Guarantee Facility is fair and reasonable to the Non-Associated Unitholders.

RFF has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by RFF, which RFF knew or should have known to be false and/or reliance on information, which was material information RFF had in its possession and which RFF knew or should have known to be material and which RFF did not provide to Grant Thornton Corporate Finance. RFF will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

10.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting to be sent to RFF Unitholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows ("DCF") is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital ("WACC"). The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to Unitholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to Unitholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Cost of Equity Assessment

The cost of equity was estimated using a model known as the 'capital asset pricing model ("CAPM"). We have considered financial data for similar firms in the industry to provide an estimate of the required return that an equity holder would require for its investment. The CAPM can be expressed as follows:

Ke = RFR + (β x MRP) + SRP

Where:

Ke = the cost of equity

RFR = an appropriate risk free rate

β = the security's beta statistic

MRP = the market return premium over the risk free return

SRP = specific risk premium

RFR

The RFR was approximated using a 5 year average of the 10 year Australian government bond rate of 2.96%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation. For the purpose of this report, we have had regard to the observed betas (equity betas) of companies engaged in the agriculture industry.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Comparable companies' asset betas and capital structures are presented in the table below.

Company	Country	Market cap $'million	Equity Beta	Gearing ratio	Unlevered Beta	Levered Beta
Australian Agricultural Company Limited	Australia	759.5	1.09	47.0%	0.67	0.82
Webster Limited	Australia	653.9	1.36	34.1%	1.00	1.21
Select Harvests Limited	Australia	690.4	2.11	8.3%	1.98	2.41
Ridley Corporation Limited	Australia	418.6	0.6	19.4%	0.51	0.62
Beston Global Food Company Limited	Australia	79.8	0.71	0.0%	0.71	0.86
Australian Dairy Farms Group	Australia	42.5	0.4	25.1%	0.32	0.39
Wingara AG Limited	Australia	31.0	1.71	30.0%	1.32	1.60
Average			1.14	0.23	0.93	1.13
Median			1.09	0.25	0.71	0.86

A brief description of each comparable company is included at the end of this section.

Australian Agricultural Company Limited and Webster Limited are the most comparable in terms of operations as they both breed livestock however are larger than the potential operations of J&F.

The selection of a beta factor requires a high degree of professional judgement, particularly in circumstances in which the betas for the comparable companies vary widely.

Having regard to the above analysis, for the purpose of the fairness assessment of the Guarantee and the estimate of the cost of equity for the operation of the feedlot, we have adopted equity betas in the range of 1.1 to 1.3.

MRP

The market risk premium ("MRP") represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned.

Empirical studies of the historical risk premium in Australia over periods of up to 100 years suggest the premium is between 6.0% and 8.0%. For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a MRP of 6.0%.

We note that our adopted premium is consistent with the market risk premium used by regulatory authorities in Australia (such as the Australian Competition and Consumer Commission and all other state based regulators).

SRP

When assessing the specific risk premium for J&F, we have considered the nature and size of the business compared to the selected comparable companies. In particular, we note:

- J&F is smaller than the majority of the comparable companies. However, the size of the operation is relatively comparable to the comparable companies.
- An experienced large operator in JBS familiar with the assets and market.
- Risk related to JBS' plea bargain.

Based on the above we have applied a specific risk premium range of 2.0% to 3.0%.

Conclusion

Based on the above we have assessed a cost of equity of 11.56% to 13.76%.

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Company Descriptions

Company	Description
Australian Agricultural Company Limited	Australian Agricultural Company Limited produces and sells cattle and beef in Australia. The company engages in owning, operating, and developing pastoral properties; producing beef, including breeding, backgrounding, feedlotting, and processing cattle; and the production of grass fed beef, grain fed beef, and Wagyu beef. The company operates under the Wylarah, Westholme, Master Kobe, Kobe Cuisine, and Darling Downs Wagyu brands. It operates an integrated cattle production system across 19 owned cattle stations, 2 leased stations, 7 agisted properties, 2 owned feedlots, a beef processing facility, and 2 owned farms covering an area of approximately 7 million hectares of land in Queensland and the Northern Territory. The company also exports its products. Australian Agricultural Company Limited was founded in 1824 and is based in Brisbane, Australia.
Webster Limited	Webster Limited operates as an agribusiness company in Australia. The company operates in two segments, Agriculture and Horticulture. It produces annual row crops, including cotton, wheat, maize, and walnuts, as well as breeds livestock; and other crops, such as corn, cereals, and legumes. The company also exports its products in Europe, the Middle East, and Asia. Webster Limited was founded in 1831 and is based in Leeton, Australia.
Select Harvests Limited	Select Harvests Limited engages in the processing, packaging, marketing, and distribution of edible nuts, dried fruits, seeds, and a range of natural health foods in Australia. The company operates through Food Division and Almond Division segments. It also grows, processes, and sells almonds to the food industry from company owned almond orchards, as well as offers health snacks and muesli. The company has a portfolio of approximately 4,000 hectares of company owned, leased, and joint ventured almond orchards. In addition, it provides management services to external owners of almond orchards, including orchard development, tree supply, farm management, and land and irrigation infrastructure rental services; and markets and sells almonds on behalf of external investors. The company also exports its products to India and China, as well as rest of Asia, Europe, and the Middle East. It provides its products to retailers, distributors, and industrial users under the Lucky, Sunsol, NuVitality, and Soland brands in the retail markets, as well as Renshaw and Allinga Farms brands in the wholesale and industrial markets. The company is headquartered in Thomastown, Australia.
Ridley Corporation Limited	Ridley Corporation Limited, together with its subsidiaries, provides animal nutrition solutions in Australasia. It operates through two segments, AgriProducts and Property. The company provides its animal nutrition solutions to food producers in dairy, poultry, pig, aquaculture, sheep, and beef industries; laboratory animals in the research sector; and the equine and canine markets in the recreational sector. Its animal meals include meat and bone meal, poultry meal, hydrolysed feather meal, blood meal, fish meal, and animal fats. The company offers its products primarily under the Barastoc, Rumevite, Cobber, and Primo brands. It is also involved in the sale of residual properties. The company was founded in 1987 and is headquartered in Melbourne, Australia.
Beston Global Food Company Limited	Beston Global Food Company Limited, together with its subsidiaries, invests in food and beverage businesses in Australia and internationally. It operates in five segments: Dairy, Seafood, Health, Meat, and Distribution. The company owns dairy farms that offer milk, yoghurt, flavoured milk, hard and soft cheese, quark, and butter; harvests, processes, packages, and distributes live, chilled, and frozen seafood; and produces and processes meat products. It also develops and produces health and well-being focused food, beverage, and pharmaceutical products; processes high pH natural spring water; and develops and commercializes end-to-end food traceability and anti-counterfeit technology solutions. The company distributes its products through third parties, as well as its e-commerce platform. Beston Global Food Company Limited was incorporated in 2014 and is based in Adelaide, Australia.

Company	Description
Australian Dairy Farms Group	Australian Dairy Farms Group produces and sells fresh raw milk for conversion to milk and milk products in Australia. The company operates through Dairy Farms and Dairy Processing segments. It also processes and sells dairy products, including milk, yoghurt, and butter in domestic and export markets. The company was founded in 1992 and is based in Brisbane, Australia.
Wingara AG Limited	Wingara AG Limited engages in processing and marketing agricultural products in Australia and internationally. It offers fodders to meat and dairy farmers. The company was formerly known as Biron Apparel Limited and changed its name to Wingara AG Limited in January 2016. Wingara AG Limited was incorporated in 1984 and is based in Carlton, Australia.

Source: CapitalIQ

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Appendix C – Glossary

1HFYXX	First half of the financial year ended 20XX
2HFYXX	Second half of the financial year ended 20XX
1QFYXX	First quarter of the financial year ended 20XX
2QFYXX	Second quarter of the financial year ended 20XX
3QFYXX	Third quarter of the financial year ended 20XX
4QFYXX	Fourth quarter of the financial year ended 20XX
A$ or $	Australian dollar
'000 or k	Thousands
AASB	Australian Accounting Standards Board
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ACT	Australian Capital Territory
AFFO	Adjusted funds from operations
ALFA	Australian Lot Feeders Association
ANZ	Australia and New Zealand Banking Group
APES	Accounting Professional and Ethical Standard Board
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Bank Guarantee	$75m guarantee provided by RFF to the Financiers
Baybrick	Baybrick Pty Ltd
BBSY	Bank Bill Swap Bid Rate
bn	Billions
c.	Circa
CAPM	Capital Asset Pricing Model
Cattle Agreements	Cattle Management Services and Feeding Agreement and Cattle Purchase and Sale Agreement
CPSA	Cattle Purchase and Sale Agreement

CICL	Coleambally Irrigation Co-operative Limited
CMSFA	Cattle Management Services and Feeding Agreement
Comanche	A Queensland cattle property to be acquired by RFF for $16.6 million announced on 17 May 2018.
Corporations Act	Corporations Act, 2001 (cth)
CPI	Consumer Price Index applicable to the property location, published by the Australian Bureau of Statistics
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Equity Raising	$150m non-renounceable entitlement offer to unitholders to fund the JBS Transactions
Feedlots	Five Australian feedlots, including associated cropping land and water entitlements, to be acquired from and leased back to JBS by RFF
Finance Facilities	The finance facilities include a $185 million working capital facility and a $75 million cash advance facility.
The Financiers	A major Australian bank and specialist agri-business lender
FSG	Financial Services Guide
FYXX or FY20XX	Financial year ended 30 June 20XX
GFC	Global Financial Crisis
Grant Thornton Corporate Finance or GTCF	Grant Thornton Corporate Finance Pty Ltd
GST	Goods and Services Tax
Guarantee	Guarantee agreement between J&F and RFF
Guarantee Fee	The fee payable by J&F to RFF for providing the Guarantee.
The Guarantors	JBS Australia Pty Ltd, Baybrick Pty Ltd and Baybrick Landco Pty Ltd
ha	Hectare(s)
Independent Directors	Independent directors of RFM
J&F	J&F Australia Pty Limited
J&F Cattle	Cattle owned by J&F held on JBS feedlots
JBS	JBS Australia Pty Limited
JBS Transactions	The Feedlots and the Guarantee

Landco	Baybrick Landco Pty Ltd
Land Contract	Contract for the sale and purchase of each of the Feedlots
Lease	Contract for the leaseback of the Feedlots
m	millions
MLA	Meat and Livestock Australia
MRP	Market risk premium
NFAS	National Feedlot Accreditation Scheme
NLIS	National Livestock Identification System
Non-Associated Unitholders	Unitholders of RFF that are not associated with the Guarantee
NSW	New South Wales
pa	per annum
PPSA	Personal Property Securities Act
QLD	Queensland
Rabobank	Rabobank Australia Group
REIT	Real Estate Investment Trust
RFF or the Group	Rural Funds Group
RFF Units	Units held in Rural Funds Group
RFM	Rural Funds Management
RFR	Risk free rate
RFT	Rural Funds Trust
RG 76	ASIC Regulatory Guide 76 “Related party Transactions”
RG 112	ASIC Regulatory Guide 112 “Independence of Expert’s Reports”
SA	South Australia
Sale and Leaseback	The acquisition of the Feedlots from and leased back to JBS under a 10 year lease
Security	Second-ranking security over the Secured Assets
Secured Assets	J&F Assets primarily consisting of the cattle
SRP	Specific risk premium
Term Sheet	Term Sheet provided by the Financiers detailing the terms of the Finance Facilities

Transaction Documents	Land contracts for the sale of the Feedlots, leases to be entered into for the leaseback of the Feedlots, financial agreement pertaining to the commercial terms of the leases, the Cattle Agreements, and the side deed
Unitholders	Unitholders of RFF
VIC	Victoria
WACC	Weighted Average Cost of Capital

6. NOTICE OF MEETINGS

Rural Funds Group comprising
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805

Rural Funds Management Limited ("**RFM**"), as responsible entity and manager of Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805 collectively referred to as Rural Funds Group ("**RFF**"), gives notice that Meetings of the Unitholders of Rural Funds Trust and RF Active ("**Meetings**") will be held as follows:

Time: 10:30am (AEST)
Date: Friday, 10 August 2018
Place: Meeting Room #3, Primus Hotel Sydney, 339 Pitt Street, Sydney, NSW.

BUSINESS OF THE MEETING

Resolution: Approval of the Guarantee

To consider and, if thought fit, to pass, with or without amendment, the following as an ordinary resolution:

'That for the purposes of ASX Listing Rule 10.1 and for all other purposes, the Unitholders of Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805 (Rural Funds Group) approve and authorise Rural Funds Management Limited (RFM), as responsible entity of Rural Funds Group, to enter into agreements with J&F Australia Pty Ltd, a wholly owned subsidiary of RFM, a $75 million Guarantee to support the acquisition of cattle to stock the feedlots which will be operated by JBS as described in the Explanatory Memorandum accompanying the notice of meetings.'

Independent Expert's Report: Unitholders should carefully consider the Independent Expert's Report contained in section 5 of this Explanatory Memorandum. The Independent Expert, Grant Thornton Corporate Finance Pty Ltd, has concluded that the Guarantee is fair and reasonable to the Unitholders who are not associated with Rural Funds Management Limited.

By order of the Board

Company Secretary
Rural Funds Management Limited

Voting exclusion statement

RFM will disregard any votes cast on the Resolution by Rural Funds Management Limited and any of its associates.

However, RFM need not disregard a vote if:

> It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or

> It is cast by the chairman of the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form to vote as the proxy sees fit.

Quorum

The quorum for a meeting of members of Rural Funds Trust or RF Active is two Unitholders at all times during the meeting.

Entitlement to vote

The Board of RFM has determined that persons registered as Unitholders of Units as at 7.00pm (AEST) on Wednesday, 8 August 2018 will be entitled to attend and vote at the Meetings (subject to any applicable voting exclusion).

Votes to be disregarded

Under section 253E of the Corporations Act, the responsible entity of a registered scheme and its associates are not entitled to vote their interest on a resolution at a meeting of the scheme's members if they have an interest in the resolution or matter other than as a member. The responsible entity and its associates may vote as proxies if their appointment specifies the way they are to vote and they vote that way. In any case RFM and its associates will not be entitled to vote on the Resolution by virtue of the voting exclusion noted above.

Majority required

As the Resolution is an ordinary resolution, it will be passed if more than 50% of the votes cast by Unitholders entitled to vote on the Resolution are in favour.

Jointly held stapled securities

If a Unit in Rural Funds Trust is held jointly and more than one Unitholder votes in respect of that interest, only the vote of the Rural Funds Trust Unitholder whose name appears first in the register of Rural Funds Trust members counts. Similarly, if a Unit in RF Active is held jointly and more than one RF Active Unitholder votes in respect of that interest, only the vote of RF Active Unitholder whose name appears first in the register of RF Active members counts.

Voting procedure

Voting on the Resolution will be on a show of hands, whereby each Investor present, in person or by proxy, will have one vote on a show of hands. However, if a poll is validly demanded, each Unitholder present in person, by proxy or by corporate representative will have one vote for each dollar value of the value of the total interests they have in RFF.

A Unitholder entitled to two or more votes does not have to exercise its votes in the same way and does not have to cast all its votes.

Voting

You can ensure your vote is cast in one of two ways:

> Attending the Meetings and voting in person, or, if you are a corporate Unitholder, by a corporate representative voting for you; or

> Appointing a proxy to attend and vote for you, using the enclosed Proxy Form and lodging your Proxy Form under the procedures described under "Proxy forms" below.

Proxies

If a Unitholder is unable to attend the Meetings, the Unitholder may appoint a person (either an individual or body corporate) or the Chair of the Meetings to act as its proxy at the Meetings by completing the Proxy Form accompanying the Notice of Meetings.

Rural Funds Management Limited has appointed Mr Sean Robertson of McCullough Robertson to Chair the Meetings. Mr Robertson, as Chair of the Meetings, has indicated he intends to vote all undirected proxies in favour of the Resolution. If a Unitholder appoints a body corporate as its proxy, the proxy will need to appoint an individual to act as its representative at the Meetings and send the authority to the Registry by 10:30am (AEST) on Wednesday, 8 August 2018 or give it by hand when registering as a corporate representative.

If a Unitholder appoints two proxies, the Unitholder may specify the proportion or number of votes each proxy holder is entitled to exercise.

Where two proxies are appointed, and the appointment does not specify the proportion or number of the Unitholder votes, each proxy may exercise half of the votes. A proxy need not be a Unitholder.

Unless the proxy is required by law to vote, the proxy may decide whether or not to vote on any particular item of business. If the appointment of a proxy directs the proxy to vote on an item of business in a particular way, the proxy may only vote on that item as directed. Any undirected proxies on the Resolution may be voted by the appointed proxy as they choose, subject to the voting exclusions set out above.

Proxy forms

The Proxy Form that accompanies this Notice of Meetings includes instruction on how to vote and appoint a proxy. To ensure that all Unitholders can exercise their right to vote on the Resolution, a Proxy Form is enclosed together with a reply paid envelope.

Proxy Forms should be completed and returned by no later than 10:30am (AEST) on Wednesday, 8 August 2018.

The Proxy Form can be lodged as follows:

> by mail using the reply paid envelope and posting it to:
> **Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia**

> by faxing it to:
> **(within Australia) (02) 9290 9655 (outside Australia) +61 2 9290 9655**

> in person:
> **Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000 Australia**.

Power of Attorney

To sign under Power of Attorney, you must lodge the Power of Attorney with the Registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to your Proxy Form when you return it.

Companies

Where the company has a sole director who is also the sole company secretary, the Proxy Form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a company secretary, a sole director can also sign alone.

Otherwise the Proxy Form must be signed by a director jointly with either another director or a company secretary. Please indicate the office held by signing in the appropriate place.

Corporate representatives

A corporate Investor wishing to appoint a person to act as its representative at the Meetings must provide that person with an authority executed in accordance with the Corporations Act authorising him or her to act as the company's representative. The authority must be sent to the Registry by 10:30am (AEST) on Wednesday, 8 August 2018 or given by hand at the Meetings when registering as a corporate representative.

A form of "Certificate of Appointment of Corporate Representative" may be obtained from the Registry. A corporate Unitholder may appoint a proxy.

Registration

Registration will commence at 10:00am (AEST) on the day of the Meetings, with the Meetings scheduled to begin at 10:30am (AEST) on Friday, 10 August 2018. For ease of registration, please bring your Proxy Form to the Meetings (as lodged prior to the Meetings).

7. GLOSSARY

TERM	DEFINITION
AEST	Australian Eastern Standard Time
AFFO	Adjusted funds from operations
ASX	ASX Limited (ABN 98 008 624 691) or the financial market operated by that entity known as the Australian Securities Exchange
ASX Listing Rules or Listing Rules	The official listing rules of ASX
Corporations Act	Means the Corporations Act 2001 (Cth)
DPU	Distributions per Unit
Explanatory Memorandum	This document which sets out the notice of meetings and explanatory memorandum for RFF
FY19	The financial year ending 30 June 2019
Equity Raising	The fully underwritten $149.5 million accelerated non-renounceable entitlement offer announced on Thursday, 12 July 2018
Feedlots	The five Australian feedlots and associated cropping land being acquired by RFF for $52.7 million (inclusive of stamp duty) as part of a sale and lease back transaction with JBS.
FIRB	Foreign Investment Review Board
Independent Expert	Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, AFSL 247140)
Independent Expert's Report	The report produced by the Independent Expert and contained in section 5
JBS	JBS Australia Pty Limited, a wholly owned subsidiary Baybrick Pty Ltd; Baybrick Pty Ltd is a subsidiary of JBS S.A.
JBS Agreements	The Feedlots and Guarantee, reflecting a total investment by RFF of $127.7 million
J&F	J&F Australia Pty Ltd, a special purpose vehicle, wholly owned subsidiary of RFM, and RFF's counterparty to the Guarantee
Guarantee	The $75 million guarantee being provided by RFF to J&F that will enable JBS to replace an existing arrangement for the supply of cattle to its grainfed business
Meetings	The meetings of Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805 to consider the Resolution at 10:30am (AEST) on Friday, 10 August 2018 at Primus Hotel Sydney, 339 Pitt Street, Sydney
Person of influence	Means a person as set out in Listing Rule 10.1 and includes a related party, a subsidiary or other person controlled by the related party, a person who has a relevant interest in at least 10% of the Units in RFF or an associate of any of these persons
Proxy Forms	The form that accompanies this Explanatory Memorandum which provides for Unitholders to give voting instructions and appoint proxies for the Meetings
Resolution	The resolution being put to Unitholders at the Meetings to approve the Guarantee
RFF	Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805 trading as Rural Funds Group (ASX:RFF)
RFM	Rural Funds Management Limited (ACN 077 492 838, AFSL 226 701)
Unitholder	The registered holder of a Unit
Unit	A fully paid ordinary unit in Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805

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