Coldstream Downs Dairy Farm Report

20th May 2015

Hello,

It was good to meet with the 12 shareholders and partners who came to the Coldstream Downs farm visit in March. I think all were impressed with condition of the farm and dairy herd.

Production on all Southland dairy farms is 5% to 10% back on last year's record year and it is pleasing to note that Coldstream Downs is on track to record their second highest production level ever.

As you will no doubt be aware from media reports, 2014/15 has been an increasingly difficult year for New Zealand dairy farmers financially.

For the year just ending we budgeted on a $6.80 payout for Coldstream Downs (the average payout of the previous five years). However, prices paid to us by Fonterra have declined from a record $8.40 per kg Milksolids (MS) last season to an expected $4.50 to $4.70 for the present year closing on 31st May. This is a significant decline in income for Coldstream of around $1 million dollars after adjusting for retrospective payments. Given this, our sharemilker Leo Pekar has worked very hard to reduce our on farm operating costs.

This forecast payout is very close to the cost of production for most New Zealand dairy farms, before any debt servicing costs. Debt servicing costs for the majority of New Zealand dairy farms are assumed to be $1.00 to $1.50 per kg ms. Debt servicing for Coldstream Downs is approximately 35 cents per kg of production.

The outcome of this is, we do not anticipate being in a position to pay a dividend this year.

It is pleasing to note that Dairy Farm prices appear to be holding up signifying confidence in the industry looking forward.

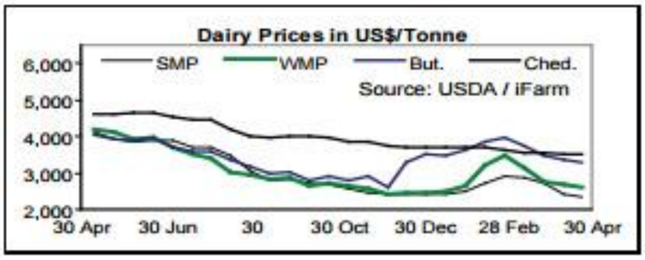
Leo Pekar

We are coming to the end of an era at Coldstream Downs with Leo and Maricel Pekar moving on having found themselves a 50/50 share milking position and this is the next chapter in their step towards farm ownership. During their time with us they have improved the farm and herd and lifted production from 267,000 kg to an average just on 300,000kg.

We are all most appreciative of the efforts made by Leo and Maricel to improve the value of our asset over the last seven seasons and wish them well for their future ventures.

For the season ahead we have appointed Jason Checketts to take over the sharemilking position on the farm. Jason is a young and progressive Southland man and has impressed both Jack Ballam (our farm consultant) and myself with his potential to take Coldstream to the next level. Jason has already visited the farm a number of times meeting with Leo and with Jack Ballam.

The Season ahead. Analysts are predicting next seasons payout climbing as China increases purchases and other competing suppliers reduce production. We await Fonterra's opening price projection and anticipate it will be close to $5.00. Below is a comment from the International Dairy Report.



The short term outlook for dairy prices remains subdued driven by large volumes of European product available on the market, particularly SMP, and the continued lack of presence from Chinese buyers. European SMP is being aggressively traded in key markets, such as Middle East, North Africa and Asia (excl China), at prices below the last GDT auction result. This is expected to continue for at least the next three months. Chinese imports continue to track downwards. While it is believed China will have worked its way through inventories by the end of 2015, import demand will still be lower than 2014 levels, as domestic milk production meets a portion of the demand requirements. On a more positive note, growth in milk supply from major exporters is all tracking downhill, some at a rapid pace, which implies a degree of price recovery later in 2015.

At Coldstream Downs we have a debt to equity ratio of just 35%, which is lower than average level of term debt.

The milking season finishes at the end of this month. At that time we will get the accounts finalised and circulated once audited.

Following is Leo Pekars final farm report.

Regards

Roger Dickie

Farm Report from Leo and Maricel Pekar

This season started with the most challenging Springs we have ever had with really wet conditions from late July till early December. There was a brief break in September for a few weeks. Then as soon as the rain stopped in December, the wind started blowing. This dried the farm right out creating a drought from late December (3 weeks after the last rain) until February. Production as a result of this testing weather fell 7% behind compared to our record season last year.

Stock

Next season we have 865 cows to calve (inc 189 heifers). We are also rearing 224 calves.

Shareholders visit - discussing milking shed operations

With our animal health we have made great progress on mastitis history. This is because we installed a new teat spraying wand which provides better application and coverage for the cows. Because of this, Cell count (which is a measure of mastitis) dropped drastically with only 11% of the herd treated for mastitis. From our local Vetsclub, this is the lowest on record for all their clients which we are very happy about.

In other animal health BVD has dropped to low levels. Johnnies disease still a problem, causing 1% mortality or culling.

Feed

Average grass cover at the moment is 2200kg of dry matter per hectare, this is just behind target with Jacks (the farm consultants) report. We are drying off 40 of the lightest cows and some low producers. This should leave the farm in a good starting position next season. This slightly lower growth means we haven't quite made as much silage as we would like, but we are still leaving 130 tonnes of silage for spring.

We have had our crop measured and it is showing 14 tonnes of dry matter per hectare. It has been a great growing season for crops, the local area and much of Southland are producing some of the highest yielding crops we've seen. This additional crop cover should leave plenty of feed for the cows to eat over the winter.

Fertiliser

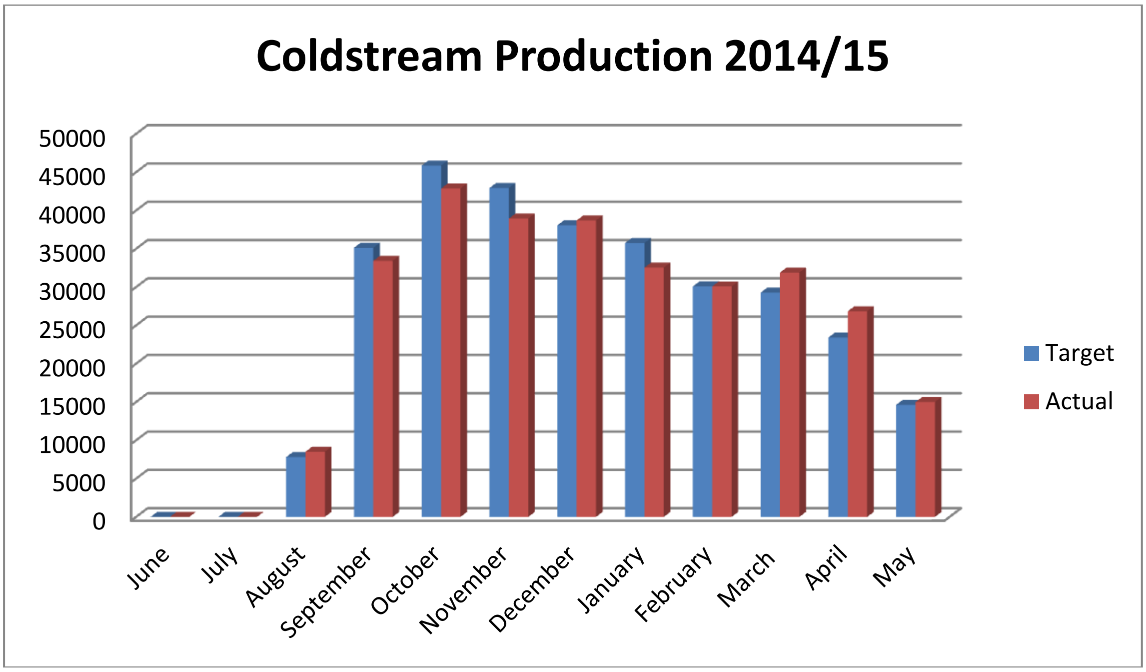
This season in a bid to save costs we individually soil tested every paddock on the farm. This was to ensure that the fertiliser was allocated as efficiently as possible. Fertiliser was applied at the recommended rates.

Mating

Mating has gone very well. Without any intervention we have had an 87% 3 week submission rate. This means we should have a good quick calving, with mid calving expecting to take 18 days. The empty rate is 6.5% All the cows being wintered have been identified by calving date. Cows are then dried off based on their calving date and treated with an antibiotic.

Production

After last season's record production we'll end up doing our second best production this year. Total Milk solids should end up just under 300,000kg.



After a rough start with poor utilization, cows and farm have shown improvements by bouncing back and holding production when under pressure.

Summary

It has been a great autumn after a pretty shaky start of the season weather wise. It has not been cold and we are getting good growths.

We feel the farm is well set up for the next season and wish Jason all the best for the future.

Thank you to all our shareholders for the opportunity to manage Coldstream Downs for the last seven years.

Regards
Leo and Maricel