Murray Creek Dairy Farm Report

21st May 2015

Hello,

We have delayed sending this report to you because we have been waiting for announcements as to next year's forecast dairy payout.

In March, 23 shareholders and partners visited the Murray Creek Farm as part of the shareholders open day. All were impressed with the farm and the passion and knowledge of the young couple we have employed to look after our investment.

Jason, Sandy and their team are doing an extremely good job on the farm. Our consultant Jack Ballam told me Jason has taken to the farm with gusto and has regularly told me the farm is looking better this season than in previous years. Several shareholders who have attended previous visits also commented it is the best they have seen it.

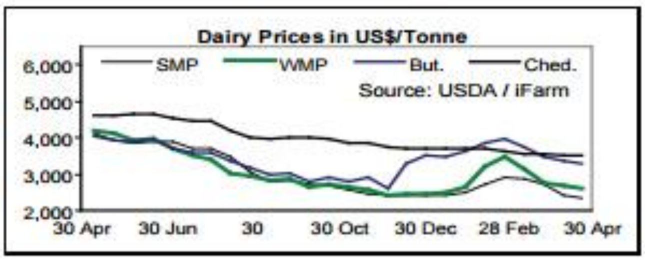
A lot of effort has gone in from Jason and Steve Barr (director) to get the milking plant right up to speed.

We budgeted on a $6.80 payout for Murray Creek (which was the average payout of the previous five years). However, you will be well aware from articles in the media that prices have fallen significantly this year and our milk processor (Open Country Dairy) are forecasting a payout of $4.70-$4.80. This is expected to be slightly higher than the Fonterra payout.

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 at Murray Creek is approximately 38 cents per kg of production.

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

For the season ahead beginning June 1st, there is considerable speculation by analysts predicting next seasons payout climbing as China increases purchases and other competing suppliers reduce production, Open Country (who we supply our milk) have conservatively announced next seasons opening payout at $4.80. It's still early days, but we anticipate that this will climb as the season progresses. 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 Murray Creek we are in a much better situation than many farms as we have a debt to equity ratio of just 39% which is lower than average level of term debt.

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

Following is Jason and Sandy's farm report.

Regards
Roger Dickie

Farm report from Jason and Sandy

Hi all, it has been a challenging year bringing in a whole new herd to the farm as well as a whole new team.

Shareholders visit - out on the farm

Over all we have really enjoyed the farm and the challenges it has put in front of us. Getting to know the directors and Jack Ballam has been a pleasure and they have all been great to work with, the support has been amazing.

We now have the farm in a good operating position and we look forward to the next season to produce a better result production wise, than the first season.

Weather conditions

The start of the season was very wet, with the middle period being dry, but a good growing one. Unfortunately the wet has returned for the later part as well, and has been a challenge to get good condition on the cows and keeping production up with keeping a good feed cover. So far over March April May we have received 270 mm of rain also 50 mm of snow on the 18th of April. A bitter wake up call to where we live and operate.

Stock

M/A Milking cows	845
R2 Heifers (just purchased)	170
R1 Heifers	206

We currently have 15 more cows to be culled which is happening really soon. In addition we have sourced and purchased 170 R2 heifers for replacements for empty and cull cows for next season. They are of high quality and we have bought them for an average price of $1415 per cow.

Animal health has been really good considering the wet season we have had. Of late with the wet conditions, lameness has been our biggest problem. We have trimmed 111 cows in the past 2 weeks.

With only 17% of heifers instead of 34% coming into the herd next season we are confident production will increase.

Feed

At the moment our grass cover is 2150 Kg DM per Ha which we will require for the next week. This coupled with the wet weather means our goal of milking till the end of May is looking unlikely.

Jason standing in the winter feed crop. Note the Heifers in the background!

With conditions being wet we are unable to feed supplements out onto paddocks (the cows and machinery do too much damage to the pasture), therefore the cows main diet at present is Palm Kernel in the cowshed and grass in the paddock.

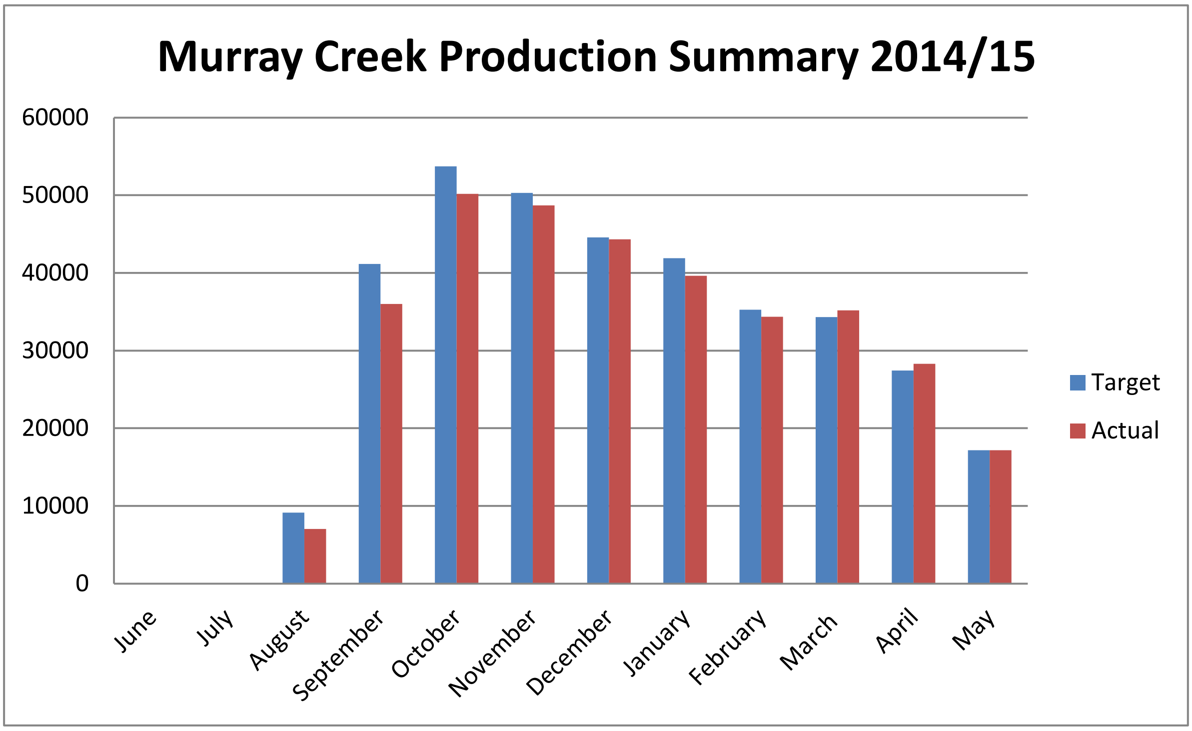
The crops here are looking amazing and we weighed our kale crops at 15.5 tonne/ha so we will have ample feed here for the winter. The crops for the winter at the graziers are also looking really good so everything is getting well set up for the winter, let's pray for some better weather conditions.

Fertiliser

Fertiliser has been a big saving for the farm this season with only putting maintenance on and following milking cows with small but consistent amounts of urea to maintain the cover and quality.

Mating
We had a 9.5% empty rate and have culled all empty cows. We have 72% in calf to AI so we should expect a high heifer replacement rate next spring.

Production
Given the conditions it was difficult to reach the high peak we were aiming for resulting in being slightly down on targets set. However, what has been produced is in accordance with the district averages.



Summary
The last few months have been a challenge but we are looking to end the season on a high so we have momentum going into next season. We are also gearing up now to make the subtle changes to the cowshed over the winter which will have the shed working well.

To put it simply, it has been a challenging learning season and we look forward to next season to see how we can follow up and improve on the current season.

Regards

Jason and Sandy Herrick