

Dear valued shareholders,

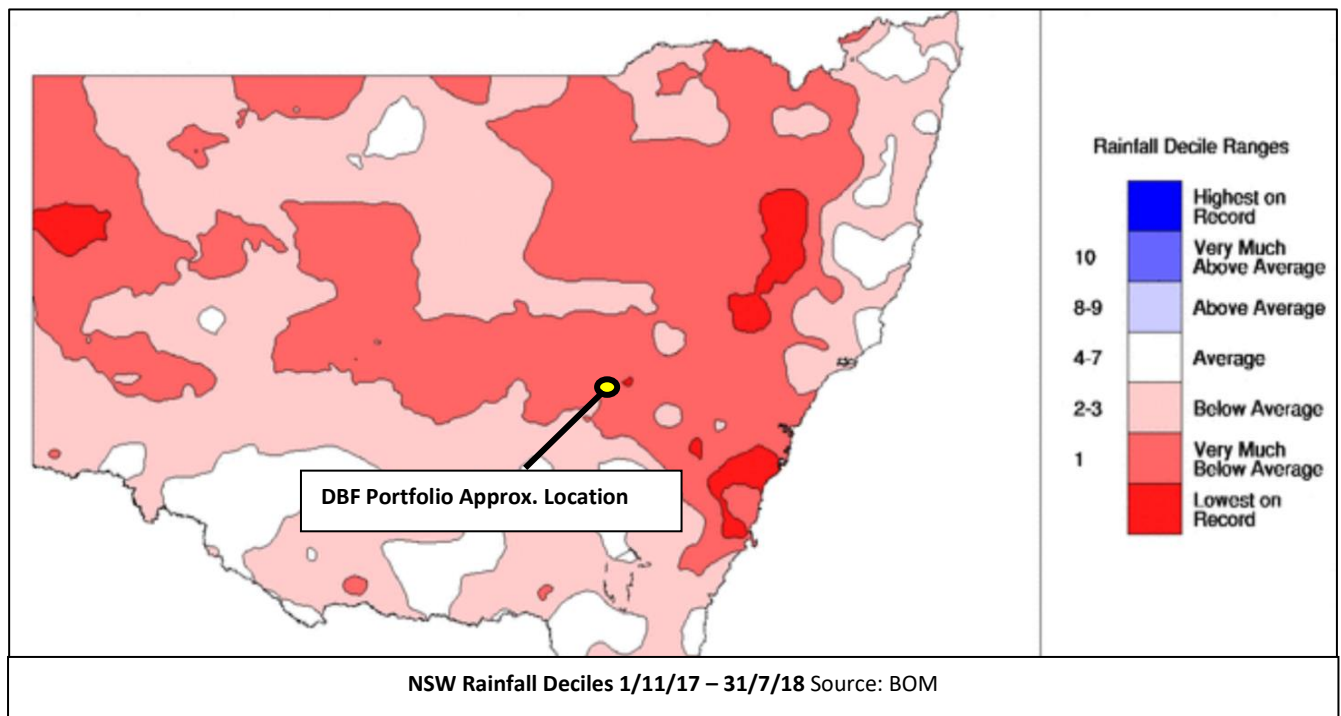
## RE: AUSTRALIAN DROUGHT

As you may be aware drought conditions have been declared across the entire state of NSW. Subsequently as a broadacre farming business operating in central NSW, it is important to contextualise the potential impact on the business, along with the strategies implemented to mitigate adverse performance and promote shareholder value.

### Drought Overview

Whilst 'drought' has no universal definition, the Australian Bureau of Meteorology ("BOM") defines the phenomena as a 'prolonged, abnormally dry period where the amount of available water is insufficient to meet our normal use', which is measured chiefly by rainfall deficiency over a specific period.

As of July 2018, the entire state of NSW has been classified as being under drought conditions, with this deficiency in rainfall being below long-term averages extending between 6-12 months dependent on region (as shown in the diagram below). This lack of rain has created challenges for farmers and has had a negative impact on some rural communities who have experienced both social and economic pressure as a result of the drought.



For Duxton Broadacre Farms, located between Forbes and West Wyalong in the state's west, the drought has brought with it challenges, but has also presented opportunities, including further development of irrigation. This, along with the core diversification strategy, and through management's ability to skilfully plan and react in constantly changing conditions, helps to insulates the Company from this natural event.

Specifically, we have benefited from the portfolio's geographic, seasonality and farming style diversification which has limited the area that at this stage of the season we expect could experience substantial (greater than 70%) yield penalties to only a small dryland-cropping area that makes up less than 10% of the company's cropped area.

### **Dryland Cropping**

DBF's largest dryland cropping property, Timberscombe, has fared well to date, relative to the broader Western NSW, thus far receiving 89mm of growing season rainfall (1 April – 26 August). Despite rainfall being almost 50% below the long-term regional average, the crop has displayed positive initial development (shown below) as a result of 151mm being received in the preceding four months (1 December – 30 March) which provided subsoil moisture and strong planting conditions. This fortuitous rainfall, coupled with strengthening grain prices places the aggregation, which represents 74% of DBF's land area, in a positive position in the broader context of the drought.

While the company's dryland cropping program has been affected by the drought, at this stage we remain confident that most dryland winter crop area sowed (excluding 830ha at the Yarranlea aggregation) will be harvested. Areas that will not be harvested at Yarranlea will be strategically grazed to utilise the remaining value of these crops to maintain livestock. This is considered a strong result in the context of this challenging season which will see DBF sell its crop at prices which should help to offset reduced production.



### **Irrigated Summer Cropping**

Through the establishment of our Irrigation Development Program, Duxton Broadacre Farms is taking steps to limit the effect of drought on profitability by reducing dryland exposure and rebalancing the portfolio toward irrigated row cropping. The drought has presented opportunity to fast-track these development plans as the dry conditions allowed the Company to bring forward the planned earth works, allowing the conversion of dryland to irrigation. As part of this development, the Company has already converted 455ha of dryland cropping area across the Merriment and Yarranlea aggregations. This development, which should facilitate DBF's largest cotton crop in 2018/19, assists in enabling the business to capitalise on the current strength of cotton prices, which are currently above the 10-year 90<sup>th</sup> percentile. If the conditions had not been so dry, this work would not have taken place until the coming summer, and hence the Company would not have been able to crop until 2019/2020.

This irrigation development plan has also incorporated the purchase of both temporary water allocation and permanent groundwater entitlements to ensure irrigated cropping can be undertaken profitably, even in challenging conditions. Over the past 6 months this has included the purchase of over 2,500ML of reliable groundwater entitlements and 3,300ML of temporary surface water allocation at prices that are now significantly below current market rate. We remain confident that current water holdings will satisfy DBF's water requirement for the upcoming season.

### **Livestock**

The NSW livestock industry has been affected by the extended dry period which has reduced the volume of available feed and forced many graziers to market unfinished, undersized stock. DBF has been able to counter this and capitalise on the significant premium being offered for prime livestock by lot feeding cattle. The Company has been able to draw on by-products to facilitate this, employing canola silage salvaged from an area damaged by frost in 2017 and the Company's own cotton seed to provide a ration suitable for weight gain. Management is also taking extra precautions to manage the welfare of all animals owned by DBF to ensure all are cared for and adequately fed.



**Cowaribin Farm (Merriment)** Ewes Grazing Jul-18

**Cowaribin Farm (Merriment)** Lot feeding Jul-18



According to the NSW Department of Primary Industries, the conditions currently being experienced are statistically some of the most challenging experienced in the state over the last 100 years. The extended period of rainfall deficiency has led to hardship for many in both the agriculture industry and broader regional communities. Despite these challenges, Duxton Broadacre Farms remains well-positioned, underpinned by the expertise of management and the joint resolve to persevere to promote long term shareholder value.

If you have any questions or would like further information, please feel free to reach out to the team at Duxton Capital (Australia).

Kind Regards,

A handwritten signature in black ink, appearing to be 'Ed Peter', is located below the 'Kind Regards,' text. The signature is stylized with a large, sweeping 'E' and a distinct 'P'.

Ed Peter

Chairman