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Dear Sir / Madam

Corporate Update

Alterra Limited (“Alterra”) or (“Company”) is pleased to provide an update in relation to its recent activities.

Overview of Recent Activity

The Company continued to manage its existing agro-forestry projects that generate quarterly cash-flow of circa \$650,000, continued its due diligence and detailed Scoping Study of a System-5 dairy development in Western Australia (“WA”), and investigated other business opportunities.

The focus of the continuing agro-forestry projects work included: science and reporting to support the 2017 generation and delivery of Australian Carbon Credit Units (“ACCUs”), project refinements to maximise future ACCU output; project related risk reduction and rationalisation of assets.

The major business development work has centred around completing a Scoping Study for the development of a large-scale System-5 dairy on the Company owned Dambadgee Springs property in WA. Work on the project is well advanced and while the details around some variables remain to be fully tested, the Company is of the view that given confirmation of those variables and the right market and regulatory conditions, the project is worth pursuing. That said, there are key matters to resolve including: considerable uncertainty around the appetite for milk processors in WA to support the entry of a project delivering what would be a significant increase in available production; State Government policy around water licensing; and on farm variables such as dryland silage productivity and more precise understanding of water source performance.

As such, until there is more clarity around milk-off take arrangements and water licensing policy, the Company will be scaling back its efforts in WA, aside from continuing work in relation to water development and dryland silage production trials. Having developed a deep understanding of System-5 dairying via the detailed planning for a WA project, and given many aspects are transferable to other regions, the Company has begun reviewing dairy opportunities in Victoria and Queensland where milk off-take arrangements are in higher demand. The assessment of potential dairy opportunities remains ongoing.

Further, in actively seeking out new opportunities to grow the Company, other projects (including some that are agribusiness related and others that are non-agribusiness related) have been assessed. Projects have ranged from technology (including Ag tech) to beef, honey, horticulture, speciality grains, carbon credits, renewable energy, waste management and general industrial. While some reviewed projects remain as work in progress, to date it has been challenging to identify quality projects at reasonable value.

The Company is in a strong financial position and has no requirements to raise capital (see Table 1).

Table 1: Company Snapshot

Capital Structure	
ASX Code	1AG
Ordinary shares	143.6m
Cash & Receivables	\$2.5m
Property Investment Equity (Net of Debt)	\$2.6m
Market Cap (@ \$0.032) as at 220/02/18	\$4.6m
Contracted Cash-flow (Agro-forestry)	
Gross contracted cash-flow to 2027 (ex GST)	\$23.5m
Major Shareholders	
Directors & Management	34%

Review of Agro-forestry / Carbon Operations

Alterra continues to manage 18,000 hectares of agro-forestry projects in WA, 17,000 hectares of which are registered with the Clean Energy Regulator to generate ACCUs until December 2039.

The terms of contracts, with blue chip counterparties, linked to the ACCU generating projects extend until 2027 and will generate annual management fees of about \$2.6 million for the Company, while forest productivity, ACCU pricing, and legislative framework risks are borne by clients.

Until 2027, about 10% of generated ACCUs will be on the Company's own account for sale, and from 2028 until 2039 additional ACCUs generated will be on the Company account. The Company currently holds a modest ACCU inventory that it will seek to sell in due course.

Project management activity included:

- The removal of a number of long term land ownership costs and risks (including those associated with boundary fencing, shire rates, statutory maintenance, and absentee landlord) by selling down the free-hold title of remaining owned properties.
- The sale of freehold title in no way diminishes the Company's rights to Plantation Trees or associated sequestered carbon.
- Participation in Emission Reduction Fund auctions.
- The completion of field work measuring the stem diameter and height and crown to support ongoing science around forest performance and CFI project Offset Reports and ACCU claims.
- The science work built on an extensive data and knowledge base of seasonal climate and forest yield. Understanding such relationships feeds into appropriate risk management when participating in ERF Carbon Abatement Contracts, planning changes that will maximise the ACCU output of current projects, and considering new projects.

- The Offset Reports and ACCU Claims resulted in ACCUs being generated, with some delivered against an existing ERF Carbon Abatement Contract and others to the ANREU Accounts of clients.

Review and assessment of potential new carbon credits projects has been ongoing including avoided clearing, reforestation, soils management and methane flaring, however, due to continuing demand and price uncertainty resulting from the lack of supportive federal government policy settings, an investment in any new carbon projects is regarded as unlikely for the foreseeable future.

WA Dairy Project

Dambadgee Springs Property

The Company has been focussed on finalising a Scoping Study for the development of a large-scale System-5 dairy at its Dambadgee Springs property in Dandaragan, Western Australia. Dambadgee Springs is a 1,600ha rural property located in the Dandaragan Shire, 165km north of Perth. It is immediately adjacent to and previously formed part of the iconic property “Yathroo” (11,600ha), which was purchased by interests associated with Alterra’s chairman, Mr Trevor Stoney, in March 2017.

Cash reserves of \$2,300,000 combined with a debt facility of \$2,100,000 was used to complete the \$4,400,000 purchase (incl. stamp duty), and during 2017 surplus cash-flow was used to reduce the loan principle to \$1.75 million.

While the various areas of the Scoping Study have been completed (see Table 2) the Company has leased out the property on commercial terms that generate annual revenue of \$210,000 and, after financing and overheads costs, surplus cash-flow of about \$100,000 p.a.

In 2017, parts of Dambadgee Springs were cropped with traditional small grain crops. And on some of the lighter soils (better suited to pasture than continuous cropping) asset improvements such as the establishment of perennial pastures were completed. During 2018, small grain crop production and grazing for livestock will continue and the Company will continue dryland silage production trials.

Scoping Study - Summary of Findings

Forward Looking Statements

There are significant uncertainties associated with forecasting future revenues and expenses of the WA Dairy Project. In light of the long-term nature of the WA Dairy Project and the various uncertainties that remain including but not limited to; milk off-take agreements and pricing, acquisition of the dairy herd, access to economic and suitable quality water and crop yields, and after considering ASIC regulatory guidance, the Directors do not believe they have a reasonable basis to reliably forecast future production, expected investment and returns.

With those restrictions in mind, we can outline that the Scoping Study has reviewed several scenarios with the base case centering around 3 stages of development (see below) and the status of major areas of the Scoping Study are summarised in Table 2.

- Stage 1 – 2,100 milking Cows with annual milk production of up to 30 million litres.
- Stage 2 – 4,200 milking cows – with annual milk production of up to 60 million litres.
- Stage 3 – 7,300 milking cows – with annual milk production of up to 100 million litres.

Table 2: Summary of Scoping Study – WA Dairy Project

Areas Reviewed	Degree of Confidence*	Comment
Climate & Weather	High	Analysis of significant historical climatic data as well as installation and monitoring of a weather station on the property to collect micro-level data.
Land / Soil / Topography	High	Agronomy experts engaged to evaluate suitability of soils for growing silage and grain crops. Satellite and on ground surveying of topography, and geo-chemical soils analysis relating to siting of infrastructure conducted.
Fodder Requirements: Dryland Crops for Silage	Medium	Production data in the region is effectively non-existent. On-farm dry-land cereal silage trials commenced in 2017 and will continue in 2018.
Fodder Requirements: Irrigated Crops for Silage	Medium - High	Desktop analysis and the observation of limited local production reveals that subject to water availability, on-farm irrigated crops will likely perform within modelled parameters.
Fodder Requirements: Hays, Grains, and Other	High	Extensive analysis of the markets and supply chains of various other fodder components that will be purchased has been completed.
Water Sources	Medium	Extensive desktop reviews revealed the existence of a number of regional level aquifers with the potential to provide the quality and quantity of required water at viable drawing depths and flow rates. Drilling and down hole analysis conducted in 2017 refined knowledge on aquifers and a program to extend testing of aquifer performance including depth, water quality and flow rates has been defined but is yet to be actioned.
Water License Availability	Medium - Low	Discussions with the WA Department of Water and regional holders of water licenses for irrigation, animal health and general purpose remain ongoing.
Power	Medium	An initial study by Wood & Grieve into the economics of power supplies being accessed from 'the grid', or a combination of self-reliant solar and diesel has been completed.
Environmental	Medium - High	Initial study completed.
Engineering Design	Medium - High	Initial designs and site visit by dairy engineers JGMIII completed.
Herd Development	Medium - High	A detailed herd accumulation and management strategy to first milking has been completed.
CAPEX	Medium - High	Detailed financial models developed and assumptions reviewed.
OPEX	Medium - High	Detailed financial models developed and assumptions reviewed.
Management	Medium - High	Engagement with potential managers with suitable experience of System-5 dairy ongoing.
Staff Structure	High	Reviewed by international System-5 dairy expert.
Operations	High	Reviewed by international System-5 dairy expert.
Milk Off-take	Low	Discussions ongoing with local processors.
Finance	Low	Limited discussions as milk off-take required.
Investment structure	Medium	Legal, tax and other advice received.
Development Timeframe	High	Detailed timeframes relating to herd acquisition, silage production and storage and capital works have been developed.

* Based on Alterra management view.

Much of the work completed in the Scoping Study is of a level of detail that can be transferred into a Feasibility Study for financing purposes. There are several areas that require further work and clarification before the Company can proceed, with the key areas including:

Water

Alterra engaged an experienced hydrologist to consult in relation to water development and licensing for the property. For the past 18 months, extensive desktop research and in-field work have been utilised to understand the aquifers underneath the property and in the region. Four aquifers underlie Dambadgee Springs and Yathroo with three having potential economic usage. The Leederville aquifer (Wanneroo member) is the main target for irrigation purposes. A drill program of 7 holes (440 metres) was completed in April 2017 and confirmed:

- The Leederville aquifer was encountered in all holes.
- Six holes intersected the Wanneroo member at potentially economic depths below surface.
- Surficial aquifers encountered in four holes, from 1m below surface.
- Mirrabooka aquifer encountered in one hole at 20m below surface.
- Likely good water quality – suitable for irrigation, livestock and operational purposes.

A drill program to further prove up the water assets for licensing has been designed and will be completed once either a water licence is available to purchase on commercial terms or the Department of Water (“DOW”) makes more Leederville allocation available. While there are a few unused licences for the Leederville aquifer which might be purchased in this region, we understand the DOW is part way through a reassessment of the allocation limits, which could result in achieving a licence from the increased allocation.

Milk Off-take & Marketing

The most critical component for the Dairy Project to proceed is a milk off-take agreement. Alterra has continued to engage with the 3 main dairy processors in Western Australia and the current views are that an expansion of production is unlikely to be required for a further 2 years. However, the recent purchase of WA’s oldest dairy processor “Brownes” by Shanghai Ground Food Tech is seen as a positive move for the industry with indications of the re-establishment of cheese production facilities and potential for a long-term expansion of the industry for export purposes. As an example, the Brownes infrastructure alone could process an additional 200 million litres of milk should export demand be in place. However, Alterra believes that there is limited capacity for the existing dairy producers to expand to meet significantly higher demand (should that eventuate) without impacting farm gate milk prices and competitiveness. To summarise, we believe the opportunity remains in the medium to long-term but it is not likely available in the short term in WA.

Dryland Silage Production

Nutrition is one of the key components to a successful dairy operation. The Scoping Study has centred around production of dry-land and irrigated silage production with the likely mix determined by the productive capacity of dry-land silage crops and access to water. Dryland silage trials were commenced in 2017 and will continue in 2018 to ascertain the most suitable varieties, planting windows and potential yield and quality outcomes.

Finance

We require more certainty in relation to water and milk off-take to engage in more detailed discussions.

Executive Director Comment

Alterra is in a solid position and we continue to seek out new opportunities to grow the Company while preserving the existing cash-flow generating business. New projects for carbon purposes are unlikely for the foreseeable future and therefore we need to develop new business outside of agro-forestry and carbon to grow the Company. With that in mind, it is crucial that we take the time to ensure that any future investment for growth is done sustainably and without unduly exposing the existing underlying business. Finding growth opportunities and successfully executing the development of new opportunities is not easy. Dairy in WA or other jurisdictions remains a priority, however, the Company is not closed off from seeking projects in agribusiness or potentially outside of agribusiness.

Yours faithfully



Andrew McBain
Executive Director