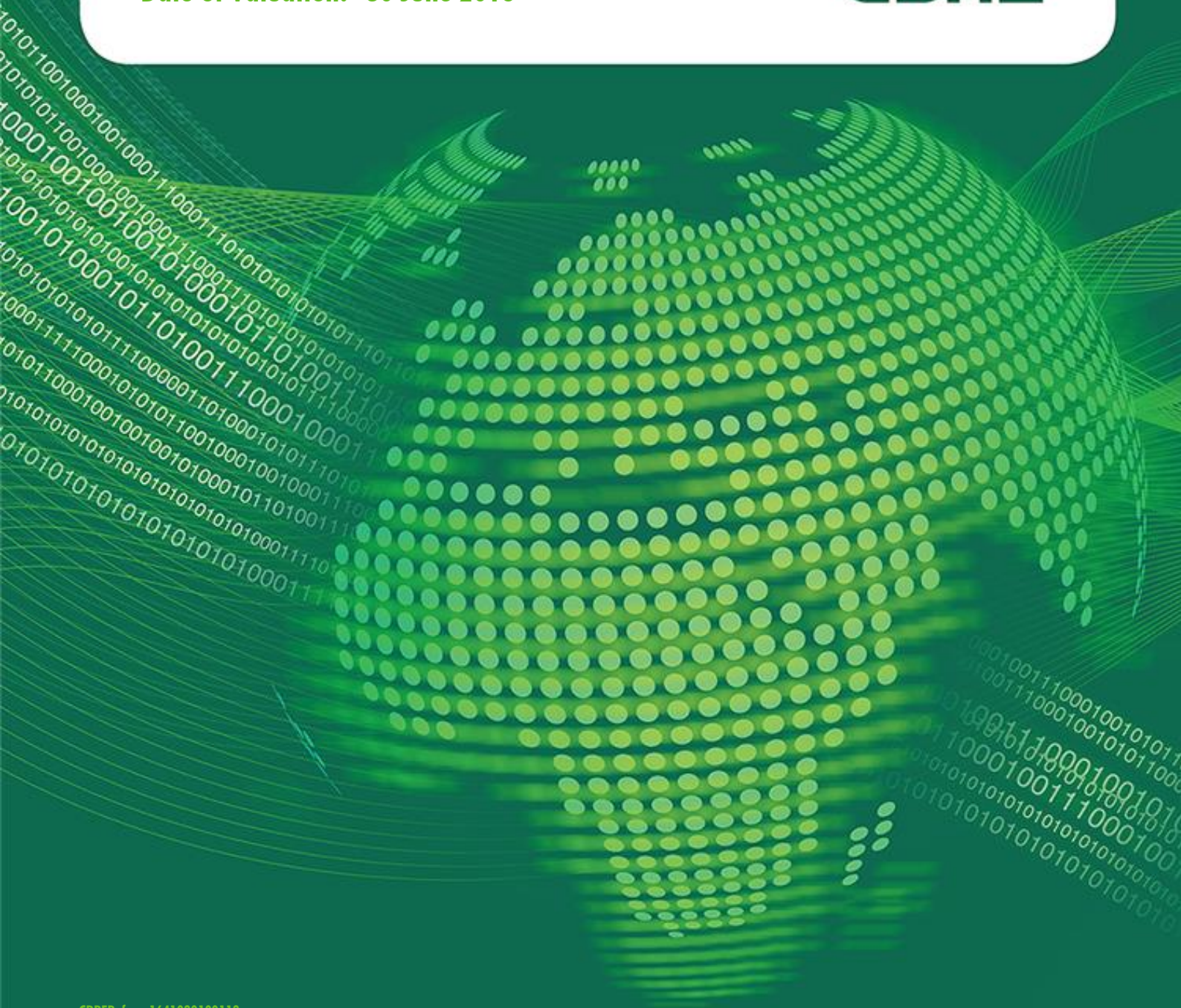
AGRIBUSINESS – VALUATION REPORT

"Duxton Water Portfolio"

Duxton Water Limited

Date of Valuation: 30 June 2016

CBRE



CBRERef: 1641030100113
Version: 20160628E-W20160628

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1 Executive Summary

INSTRUCTIONS / RELIANCE

Instructing Party	Mr Max Toovey, Director, Duxton Capital Australia Pty Ltd.
Instruction Date	11 July 2016.
	CBRE Valuations Pty Limited ("CBRE") accepted instructions dated 11 July 2016 to prepare a Market Valuation for the interest in the water entitlement portfolio described herin. The Valuation is to be relied upon for Prospectus purposes only and is specifically addressed for use and reliance upon by the parties named above. The Valuation is prepared in accordance with the Australian Property Institute Australia and New Zealand Valuation and Property Standards January 2012, having regard to ANZVGN 8, Valuations for use in Offer Documents. The instructions specifically request us to provide our opinion of the market value of the water entitlements as at 30 June 2016 on the following basis: - Market Value – As Is – Vacant Possession We have also been instructed us to confirm or otherwise comment on the appropriateness of the initial yields adopted within the proposed lease agreements.
Reliant Party/Purpose	Duxton Water Ltd for Initial Public Offering purposes only.

PROPERTY PARTICULARS

Asset Description	Large irrigation water entitlement portfolio held in the Southern-Connected Murray-Darling Basin and the Lachlan Regulated River.
Title Details	Refer to body of report.

ASSESSMENT

Valuation Approaches	Direct Comparison – Summation;
Date of Report	14 July 2016
Date of Valuation	30 June 2016

ADOPTED VALUE

Market Value - As Is - Vacant Possession

Water Rights Sale Agreement 1
$10,424,780
(Ten Million, Four Hundred and Twenty Four Thousand, Seven Hundred and Eighty Dollars)

Water Rights Sale Agreement 2
$2,717,985
(Two Million, Seven Hundred and Seventeen Thousand, Nine Hundred and Eighty Five Dollars)

Water Rights Sale Agreement 3
$3,702,117
(Three Million, Seven Hundred and Two Thousand, One Hundred and Seventeen Dollars)

Water Rights Sale Agreement 4
$3,399,000
(Three Million, Three Hundred and Ninety Nine Thousand Dollars)

Water Rights Sale Agreement 5
$14,535,450
(Fourteen Million, Five Hundred and Thirty Five Thousand, Four Hundred and Fifty Dollars)

This valuation is exclusive of GST.

Principal Valuer



Michael Mobilio
Certified Practising Valuer / API Accredited Specialist Water Valuer
Associate Director - Agribusiness
Property Inspection - Yes

Secondary Valuer



Ben Grice
Valuer - Agribusiness
Valuation & Advisory Services
Property Inspection - No | Job Involvement - Valuation & Analysis Assistance

Cosignatory *



Tim McKinnon
Senior Director - Agribusiness
Property Inspection - No | Job Involvement - Co-Signatory in capacity of Director

** The Co-Signing Director/Peer or Quality Assurance Reviewer confirms having reviewed the valuation methodology and calculations, however the opinion of the value expressed has been arrived at by the Principal Valuer alone/Principal Valuers jointly.*

Conditional Terms

This summary must not be read independently of the valuation report in its entirety. This valuation is subject to all content, assumptions, disclaimers, qualifications and recommendations throughout the report. The report is prepared for the use of and reliance by the Reliant Party only and limited only to the Purpose specifically stated. No responsibility is accepted or assumed to any third party for the whole or any part of the report.

Liability limited by a scheme approved under Professional Standards Legislation.

2 Valuation Synopsis

2.1 Brief Description

Brief Description

- The subject water portfolio is partly under contract via five separate Water Rights Sale Agreements (refer to section 2.4 for further details). For practical valuation purposes we have summarised the portfolio by contract and provide a summary below.
- Water Rights Sale Agreement 1 comprises:
  - 2,900 megalitres of NSW Murray Regulated River Zone 11 High Security water entitlements.
  - 211 megalitres of NSW Murray Regulated River Zone 11 General Security water entitlements.
  - 83 megalitres of NSW Murray Regulated River Zone 11 Supplementary water entitlements.
- Water Rights Sale Agreement 2 comprises:
  - 604 megalitres of Victorian Murray Regulated River Zone 6 High Reliability water shares.
  - 892 megalitres of NSW Murray Regulated River Zone 10 General Security water entitlements.
- Water Rights Sale Agreement 3 comprises:
  - 1,062 megalitres of Victorian Murray Regulated River Zone 7 High Reliability water shares.
  - 201.15 megalitres of Pomona Irrigation Trust Regulated River (High Security) (underlying water entitlement being NSW Murray Regulated River Zone 11 High Security).
  - 20.41 megalitres of Pomona Irrigation Trust Regulated River (General Security) (underlying water entitlement being NSW Murray Regulated River Zone 11 General Security).
- Water Rights Sale Agreement 4 comprises:
  - 2,660 megalitres of Jemalong Irrigation Limited Class C Water Entitlements (underlying NSW Lachlan River General Security).
  - 4,138 megalitres of NSW Lachlan River General Security water entitlements.
- Water Rights Sale Agreement 5 comprises:
  - 2,304 megalitres of Western Murray High Security Water Entitlements (underlying water entitlement being NSW Murray Regulated River Zone 11 High Security).
  - 1,773 megalitres of Murrumbidgee Irrigation Ltd Category 3 (underlying water entitlement being NSW Murrumbidgee Regulated River Zone 13 High Security).

2.2 Reliance & Liability

Liability

- Liability limited by a scheme approved under Professional Standards Legislation.

(a) CBRE is not operating under an Australian Financial Services Licence when providing the full Valuation Report and those documents do not constitute financial product advice. Investors should consider obtaining independent advice from their financial advisor before making any decision to invest Duxton Water Limited.

(b) CBRE disclaims any liability to any person in the event of an omission from, or false and misleading statements included in the Prospectus, other than in respect to this full Valuation Report.

(c) The Valuation Report are strictly limited to the matters contained within those documents, and are not to be read as extending, by implication or otherwise, to any other matter in the Prospectus. Without limitation to the above, no liability is accepted for any loss, harm, cost or damage (including special, consequential or economic harm or loss) suffered as a consequence of fluctuations in the market subsequent to the date of valuation.

(d) CBRE has prepared the full Valuation Report relying on and referring to information provided by third parties in including financial and market information ("Information"). CBRE assumes that the Information is accurate, reliable and complete and it has not tested the information in that respect.

(e) The full Valuation Report may be reproduced in whole or in part without prior written approval of CBRE.

(f) CBRE charges a professional fee for producing valuation reports, and the fee paid by Duxton Water Limited for the Valuation Report Letter was $33,000 inclusive of GST.

(g) We confirm that the valuers do not have a pecuniary interest that would conflict with a proper valuation of the interest in the property.

(h) This document is for the sole use of persons directly provided with it by CBRE. Use by, or reliance upon this document by anyone other than those parties named above is not authorised by CBRE and CBRE is not liable for any loss arising from such unauthorised use or reliance.

Reliance

- This valuation is strictly and only for the use of the Reliant Party and for the Purpose specifically stated in the Instructions section.

Valuation Date

- The water portfolio is valued for initial public offering as at 30 June 2016.

Consent:

- CBRE provides it consent for the inclusion of this Valuation Report within the Prospectus for Duxton Water Limited making recipients of the Prospectus aware of the following liability disclaimers.

Transmission

- Only an original valuation report received by the Reliant Party directly from CBRE or through a Panel Management System authorised by the client can be relied upon.

Restricted

- No responsibility is accepted or assumed to any third party who may use or rely on the whole or any part of the content of this valuation.

Copyright

- As between CBRE, the Instructing Party and the Reliant Party, all intellectual property rights in this valuation report are owned by CBRE. Neither the whole nor any part of the content of this valuation may be published in any document, statement, circular or otherwise by any party other than CBRE, nor in any communication with any third party, without the prior written approval from CBRE, and subject to any conditions determined by CBRE, including the form and context in which it is to appear.

Value Subject To Change

- This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movement or factors specific to the particular property). For the avoidance of doubt, this may include global financial crises or force majeure events. We do not accept liability for losses arising from such subsequent changes in value.

Reliance Period

- We do not assume any responsibility or accept any liability in circumstances where this valuation is relied upon after the expiration of 90 days from the date of valuation, or such earlier date if the Reliant Party becomes aware of any factors that have any effect on the valuation.

Disclosure

- CBRE must be advised in the event that the Reliant Party becomes aware of any changes relating to the information and advice provided by the Instructing/Reliant Party during the Reliance Period. This includes, without limitation, any changes to information and advice provided in relation to encumbrances, registered/unregistered interests, title, and land area/dimensions. In any such event, this valuation must not be relied upon without consulting CBRE first to reassess any effect on the valuation.

Valuer's Interest

- We hereby certify that the Principal Valuer is suitably qualified and authorised to practise as a valuer; does not have a pecuniary interest, financial or otherwise, that could conflict with the proper valuation of the property; and accepts instructions to value the property only from the Responsible Entity/Instructing Party.

2.3 Market Value Definitions

Market Value Definition

- In accordance with the International Valuation Standard, the definition of market value is:

  "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently, and without compulsion."

Highest & Best Use

- In accordance with the Australian Property Institute Valuation and Property Standards, the definition of highest and best use is:

  "The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued."

Highest & Best Use Comment

- When determining the highest and best use, there are a number of factors which must be considered including:
  - Existing use.
  - Profitability and marketability.
  - Financial and social constraints.
  - Legal constraints and regulatory controls.
  - Physical and functional limitations.
  - Zoning provisions.
- The highest and best use of the "Water Portfolio" is deemed to be the current use.

2.4 Transaction History

Previous Sale

- According to our enquiries, the portfolio has not sold within the last 3 years.

Water Rights Sale Agreement

- We understand the water portfolio is part of a proposed Initial Public Offering by Duxton Water Limited.
- Furthermore, we understand the majority of the water entitlements will be leased back to the vendor, with the consideration being shares in Duxton Water Ltd Entitlements equal to the Market Value – As Is – Vacant Possession of the water entitlements (as assessed).

2.5 Marketability

Buyer Demand/ Purchaser Profile

- In the current market:
  - Anticipated buyer demand/liquidity: moderate.
  - Likely purchaser profile comprises: high net worth investors, overseas investors, owner operators, private investors.
  - Estimated selling period (with a professional marketing campaign) is: 3 months.

2.6 Risk Critical Assumptions

Our valuation is subject to the following critical assumptions:

Title

- The water entitlements are not subject to any encroachments or restrictions on title.

Irrigation Corporation / Trusts

- **We note that various water entitlements are held within irrigation trusts and companies. To transfer such water entitlements, various rules within each irrigation trust / company must be adhered to. It is an express assumption that these water entitlements are transferable / transformable.**
- **Irrigation Corporations/Trusts in which the subject water entitlements are held include:**
  - **Murrumbidgee Irrigation Limited**
  - **Western Murray Irrigation Limited**
  - **Pomona Irrigation Trust**
  - **Jemalong Irrigation Limited**
- **We note that various water entitlements within this portfolio are located within Irrigation Corporations which typically require security for the delivery of water and for irrigation infrastructure maintenance and upgrades to maintain water supply.**

- **This is typically required by way of:**
  1. **Interest in the tradable water component. Typically, a ratio of one permanent water entitlement to 5 water delivery entitlements.**
  2. **Bank guarantee.**
  3. **By agreement with the relevant irrigation trust corporation.**
- **The above security amount by the irrigation corporations, is required at call to retire delivery entitlements by the irrigation trust, with the cost varying from each irrigation corporations specific rules.**
- **We have been advised, and it is an express assumption that to the extent there is a liability for the security requirement by the irrigation corporation, such liability would be at the expense / responsibility of the land owner and that such water entitlements are transformable to Water Access Licences within each respective trading zone and each entitlement's corresponding security.**

Market Movement

- This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular water entitlement). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 90 days from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation. However, it should be recognised that the 90 day reliance period does not guarantee the value for that period; it always remains a valuation at the date of valuation only.

Transferability

- Our valuation assumes that the water entitlements are able to be transferred within the Regulated River Water Source in which the water entitlements are located.

Unencumbered Entitlements

- This valuation assumes that the water entitlements referred to in this report are unencumbered.

Accuracy of Information

- We advise that any objective information, data or calculations set out in the Valuation will be accurate so far as is reasonably expected from a qualified and experienced valuer, reflecting due skill, care and diligence. However, we have not independently verified third party information, adopted it as our own, or accepted its reliability. If any of the information provided by others and referred to in the valuation report is incorrect, it may have an impact on the valuation. The valuation is provided on the proviso that the reliant party accepts this risk.

Jemalong Irrigation

- We have requested formal Certificates of Water Entitlement/Shares held in the Jemalong Irrigation Ltd, however these were not provided, we have however been provided with a letter from Mr Neil Toole, General Manager, Jemalong Irrigation Ltd, stipulating the current volume of water held by Merriment Rural Investments Pty Ltd.

Water Rights Sale Agreement 2

- With respect to WAL4529/37452 we have been instructed to assume that 300 megalitres has been sold to the government and therefore have adopted a volume of 892 megalitres.

2.7 Recommendations

Prior to relying on the report, the Reliant Party is to obtain the following information/additional advice:

Irrigation Corporations/Trusts:

- We recommend that further due diligence be undertaken on the potential transformation of water entitlements held within Irrigation Corporations/Trusts to the relevant trading zone and each entitlement's corresponding security.

3 Water Details

Registered / Unregistered Interests: We have assumed that there are no registered or unregistered interests which may affect market value. In the event that the Reliant Party becomes aware of any current or pending, encumbrances or unregistered interests, this valuation must not be relied upon before first consulting CBRE to reassess any effect on the valuation.

3.1 Water Shares, Licences & Entitlements

3.1.1 Water Rights Sale Agreement 1

Summary:

- We have been provided with an executed Water Rights Sale Agreement comprising the following water entitlements. The water entitlements have been searched between the 3 June 2016 and 1 July 2016 and provided by the reliant party. We have relied on the list of Water Shares, Entitlements and Licences register provided to us by the Reliant Party.

Water Rights Sale Agreement 1 Duxton Vineyards Water Pty Ltd to Duxton Water Ltd	
Reference	Holder/s
WAL4949	Duxton Vineyards Water Pty Ltd
WAL5015	Duxton Vineyards Water Pty Ltd
WAL5232	Duxton Vineyards Water Pty Ltd
WAL9315	Duxton Vineyards Water Pty Ltd
WAL37145	Duxton Vineyards Water Pty Ltd
WAL5016	Duxton Vineyards Water Pty Ltd
WAL9316	Duxton Vineyards Water Pty Ltd
WAL5017	Duxton Vineyards Water Pty Ltd

Water Rights Sale Agreement 1 Duxton Vineyards Water Pty Ltd to Duxton Water Ltd				
Reference	Source	Zone	Category	Ml
WAL4949	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	176.00
WAL5015	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	340.00
WAL5232	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	164.00
WAL9315	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	1,950.00
WAL37145	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	270.00
Subtotal				2,900.00
WAL5016	NSW Murray Regulated River	11 - Below Barmah Choke	General Security	210.00
WAL9316	NSW Murray Regulated River	11 - Below Barmah Choke	General Security	1.00
Subtotal				211.00
WAL5017	NSW Murray Regulated River	11 - Below Barmah Choke	Supplementary	83.00
Subtotal				83.00
Total				3,194.00

3.1.2 Water Rights Sale Agreement 2

Summary:

- We have been provided with an unexecuted Water Rights Sale Agreement comprising the following water entitlements. The water entitlements have been searched between the 26 May 2016 and 28 June 2016 and provided by the reliant party. We have relied on the list of Water Shares, Certificates and Licences provided to us by the Reliant Party.

Water Rights Sale Agreement 2 Hathor Dairies Pty Ltd to Duxton Water Ltd	
Reference	Holder/s
WEE006027	Hathor Dairies Pty Ltd
WEE001374	Hathor Dairies Pty Ltd
WAL4529	Hathor Dairies Pty Ltd
WAL37452	Hathor Dairies Pty Ltd

Water Rights Sale Agreement 2 Hathor Daires Pty Ltd to Duxton Water Ltd				
Reference	Source	Zone	Category	Ml
WEE006027	Victorian Murray Regulated River	6 - Dartmouth to Barmah	High Reliability	103.00
WEE001374	Victorian Murray Regulated River	6 - Dartmouth to Barmah	High Reliability	501.90
Subtotal				604.90
*WAL4529	NSW Murray Regulated River	10 - Above Barmah Choke	General Security	306.00
*WAL37452	NSW Murray Regulated River	10 - Above Barmah Choke	General Security	586.00
Subtotal				892.00
TOTAL				1,496.90

**We have been instructed to assume the volumes outlined in the Water Rights Sale Agreement, refer to Critcial Assumption.*

3.1.3 Water Rights Sale Agreement 3

Summary:

- We have been provided with an executed Water Rights Sale Agreement comprising the following water entitlements. The water entitlement search dates of between 1 April 2016 and 06 May 2016 were provided by the reliant party. We have relied on the list of Water Shares, Entitlements and Licences register provided to us by the Reliant Party.

Water Rights Sale Agreement 3 Duxton Vineyards Pty Ltd to Duxton Water Ltd	
Reference	Holder/s
WEE035396	Duxton Vineyards Pty Ltd
014cDuxHS	Duxton Vineyards Pty Ltd
114cDuxGS	Duxton Vineyards Pty Ltd

Water Rights Sale Agreement 3 Duxton Vineyards Pty Ltd to Duxton Water Ltd					
Reference	Source	Zone	Category	Irrigation Trust	Ml
WEE035396	Victorian Murray Regulated River	7 - Barmah to SA	High Reliability	N/A	1,062.00
Subtotal					1,062.00
*014cDuxHS	NSW Murray Regulated River	11 - Murray	High Security	Pomona Irrigation Trust	201.15
Subtotal					201.15
*114cDuxGS	NSW Murray Regulated River	11 - Murray	General Security	Pamona Irrigation Trust	20.41
Subtotal					20.41
TOTAL					1,283.56

**We note that the Water Rights Sale Agreement refers to these entitlements as being sourced from the Murrumbidgee River, which appears to be incorrectly described and should be the NSW Murray Regulated River; we have assumed this when assessing value.*

3.1.4 Water Rights Sale Agreement 4

Summary:

- We have been provided with an unexecuted Water Rights Sale Agreement comprising the following water entitlements. The water entitlement searches were completed on 12 July 2016 by the reliant party and CBRE in part. We have requested formal Certificates of Water Entitlement/Shares held in the Jemalong Irrigation Ltd, however these were not provided, we have however been provided with a letter from Mr Neil Toole, General Manager, Jemalong Irrigation Ltd, stipulating the current volume of water held by Merriment Rural Investments Pty Ltd (refer to critical assumptions for further details).

Water Rights Sale Agreement 4 Merriment Rural Investments Pty Ltd to Duxton Water Ltd	
Reference	Holder/s
No.332	Merriment Rural Investments Pty Ltd
No.363	Merriment Rural Investments Pty Ltd
No.331	Merriment Rural Investments Pty Ltd
No.306	Merriment Rural Investments Pty Ltd
No.307	Merriment Rural Investments Pty Ltd
WAL1995	Merriment Rural Investments Pty Ltd

Water Rights Sale Agreement 4 Merriment Rural Investments Pty Ltd to Duxton Water Ltd				
Reference	Source	Category	Irrigation Corporation	Volume (Ml)
No.332	NSW Lachlan Regulated River	Clas C / General Security	Jemalong Irrigation Ltd	597.00
No.363	NSW Lachlan Regulated River	Clas C / General Security	Jemalong Irrigation Ltd	226.00
No.331	NSW Lachlan Regulated River	Clas C / General Security	Jemalong Irrigation Ltd	157.00
No.306	NSW Lachlan Regulated River	Clas C / General Security	Jemalong Irrigation Ltd	1,180.00
No. 307	NSW Lachlan Regulated River	Clas C / General Security	Jemalong Irrigation Ltd	500.00
WAL1995	NSW Lachlan Regulated River	General Security	N/A	4,138.00
TOTAL				6,798.00

3.1.5 Water Rights Sale Agreement 5

Summary:

- We have been provided with an executed Water Rights Sale Agreement comprising the following water entitlements. The water entitlement searches dated 15 April 2016 and 23 May 2016 and were provided by the reliant party. We have relied on the list of Water Shares, Entitlements and Licences register provided to us by the Reliant Party.

Water Rights Sale Agreement 5 Duxton Vineyards Water Pty Ltd to Duxton Water Ltd	
Reference	Holder/s
1292W	Duxton Vineyards Water Pty Ltd
1291W	Duxton Vineyards Water Pty Ltd
1293W	Duxton Vineyards Water Pty Ltd
1294W	Duxton Vineyards Water Pty Ltd
1295W	Duxton Vineyards Water Pty Ltd
1296W	Duxton Vineyards Water Pty Ltd
1298W	Duxton Vineyards Water Pty Ltd
N/A (Murrumbidgee Irrigation Limited)	*Duxton Vineyards Water Pty Ltd

**We have sighted the above Entitlement Certificate associated with the Murrumbidgee Irrigation Limited water and note that the certificate states the owner to be Duxton Water Pty Ltd, we are however advised by the reliant party that the current owner of this entitlement is Duxton Vineyards Water Pty Ltd. It is an express assumption that Duxton Vineyards Water Pty Ltd is the owner of the said water entitlement and that is available for transfer.*

Water Rights Sale Agreement 5 Duxton Vineyards Water Pty Ltd to Duxton Water Ltd					
Reference	Source	Zone	Category	Irrigation Corporation	Volume (Ml)
1292W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	822.00
1291W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	37.00
1293W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	651.00
1294W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	103.00
1295W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	116.00
1296W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	236.00
1298W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	112.00
1297W	NSW Murray Regulated River	11 - Below Barmah Choke	High Security	Western Murray Irrigation Limited	227.00
Subtotal					2,304.00
N/A	NSW Murrumbidgee Regulated River	13 - Murrumbidgee	Cat 3 / High Security	Murrumbidgee Irrigation Limited	1,773.00
Subtotal					1,773.00
TOTAL					4,077.00

4 Market Commentary

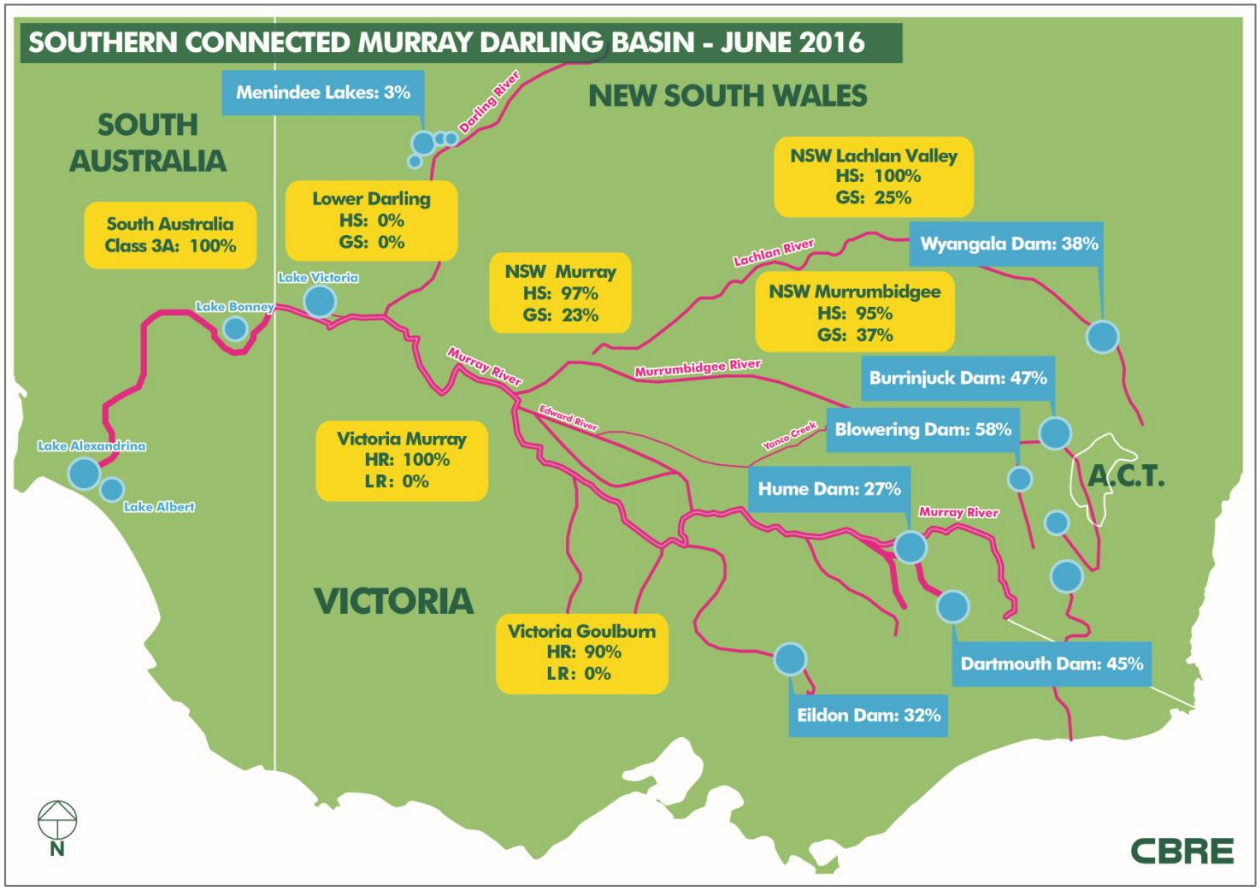
4.1 Subject Market

Murray Darling Basin

- The water entitlements being valued are within the Murray Darling Basin (MDB).
- The MDB comprises 6% of Australia's surface water runoff, however, its contribution to the Australian irrigation industry is much more substantial with over 70% of the irrigation development being located within this catchment.
- In the early stages of development within the irrigation industry, the value of properties was closely related to the cost of land acquisition and the subsequent cost of development. A potential irrigator could buy a property, apply for a licence or buy an allocation at a nominal value, which then gave the irrigator rights to access water.
- In the current climate, there are no new licences being issued, with the Federal Government actually actively buying back water through various plans, via tender processes. The options that now exist, due to water reform, comprise:
  - Purchasing permanent water entitlements.
  - Purchasing allocation (temporary water)
  - Limited Term Transfer (LTT).

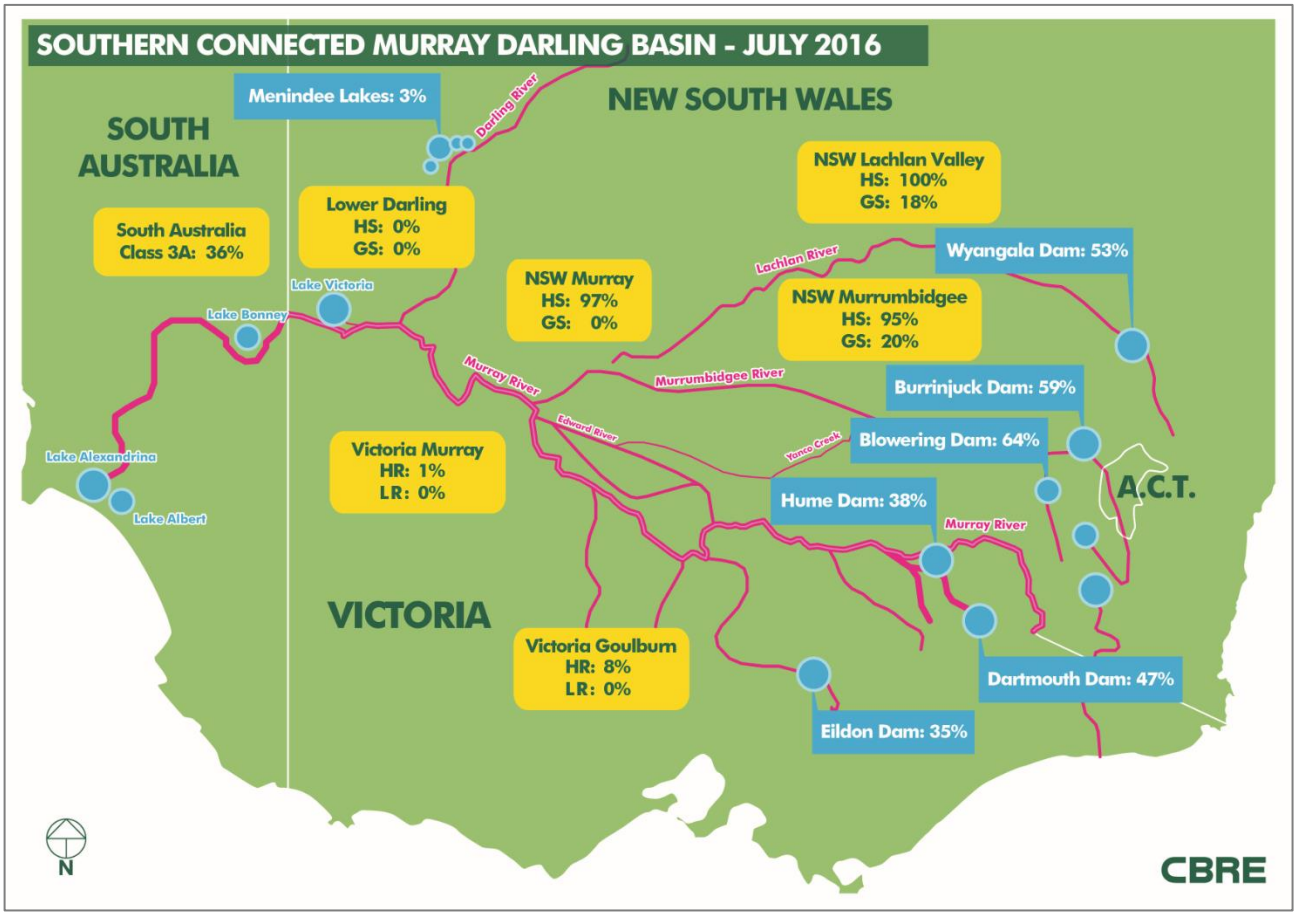
Southern Connected System

- The Southern Connected Murray Darling Basin is a connected resource comprising 13 interstate water trading zones covering parts of South Australia, New South Wales and Victoria. Inter-valley and interstate trade in the southern-connected Basin is possible because of the connected nature of the system. The establishment of irrigation schemes and the building of infrastructure have led to the southern-connected Murray–Darling Basin becoming one of the most mature water markets in the world.
- The map provided below demonstrates the Southern Connected Murray Darling Basin, displaying water allocations and dam capacities for the end of the 2015/16 water year.



Source: Victorian Water Register

- Noting the above, we have displayed the opening water and allocation levels for the 2016/17 water year. The total active Murray Darling Basin Storage levels opened at 38% (3,182 gigalitres) capacity which is down on last year's opening capacity of 4,033 gigalitres or 48%. Notwithstanding a lower opening storage capacity, improved rainfall over the months of May and June have seen system inflows return to their long term average in the shared Murray River which is further complemented by the Bureau of Meteorology forecasting likely average or above average rainfall throughout the Murray Darling Basin for July to September.
- The map provided below demonstrates opening water allocations and storage levels for the Southern Connected Murray Darling Basin for the opening of the 2016/17 water year.



Source: Victorian Water Register

State Variances

- New South Wales water entitlements are called Water Access Licences (WAL), Victorian water entitlements are called Water Entitlement Extracts (WEE) and South Australian water entitlements are called Water Licences.
- Water entitlements throughout New South Wales, Victoria and South Australia (in part) have traditionally been affiliated with land, however water reforms occurring within the last 10 years, has resulted in large volumes of irrigation water becoming unbundled from land, making them a tradable asset which can be permanently sold (without land), temporally sold (on an allocation basis) and mortgaged separately.
- The status and description of each States water management systems is described below.

Land & Water Separation (Victoria)

- Water entitlements were separated from land within Northern Victoria on 1 July 2007. The unbundling of the entitlements occurred in conjunction with the irrigation systems becoming Declared Water Systems under the Water Act 1989. The "unbundling" process describes the water entitlement reform used in declared water systems which involves the separation of traditional entitlements of water rights in districts and take and use licences on waterways into:
  - Water Share: Described as an ongoing entitlement to a share of the water available in your water system. It gives you a right to a share of water in the dams in terms of a volume of water, the type of reliability (high or low) and its subject water system (Goulburn, Murray or Macalister).

  - Delivery Share: A delivery share is an entitlement to have water delivered to land in an irrigation area. The delivery share is tied to the land and stays with the property if it is bought or sold. A delivery Share is only needed if the land is situated in an irrigation area.
  - Water-Use Licence: A water-use licence is an entitlement to irrigate a specific parcel or parcels of land. The licence sets out the conditions for use, such as how much water you can use on your land in a single irrigation season.
- The introduction of "Water Share(s)" has created water entitlements known as High and Low Reliability Water Shares. Allocations are made to high-reliability water shares before low-reliability shares. The Water Shares(s) can be held, mortgaged or leased without the land.
- The annual allocation affiliated with the "Water Share" can be traded on an annual or temporary basis.
- The water that is actually in the dam in any given year is allocated against water shares.
- The seasonal allocation is the percentage of a water share volume available under current resource conditions, as determined by the resource manager.
- For example, in a dry year a 50% allocation to your 100 Ml water share gives you 50 Ml of water available to use or trade. A 100% allocation means that you have your full water share volume available.
- The water entitlements in Victoria included in this valuation are known as "Water Share (s)".

Land & Water Separation (New South Wales)

- Water entitlements, diversion licences, water rights on regulated water systems in New South Wales were unbundled under the Water Management Act 2000. The "unbundling" process describes the separation of land and water.
- NSW water entitlements are known as "Water Access Licence(s)" (WAL). The Water Access Licence (s) can be held, mortgaged or leased without the land.
- The introduction of "Water Access Licence(s)" (WAL) has created water entitlements known as High Security Water, General Security Water or Supplementary Water. Allocations are made to Regulated River High Security Water before Regulated River General Security Water and then Supplementary Water. Supplementary Water was formerly known as off-allocation water and is effectively surplus flow that cannot be conserved.
- A Water Access Licence (WAL) specifies:
  - The shares in the available water within a particular water management area or water source (the share component), and
  - The times, rates or circumstances from specified areas or locations (the extraction component).
  - A clearly defined entitlement listed on a public Water Access Licence Register that is separate from land ownership.
  - A clearly defined right to a share of the available water in a particular water source
- It is important to note that a WAL does not confer a right on any person to use water for a particular purpose or to construct or use a water supply work. Water can only be taken under a WAL by a nominated water supply work. Use of water on land also generally requires a current Water Use Approval, as described below;
  - Water Supply Work Approval: A water supply work approval authorises its holder to construct and use a specified water supply work at a specified location. Approvals cannot be traded to another property or location.
  - Water Use Approval: A water use approval authorises its holder to use water for a particular purpose, such as irrigation, at a particular location. It may also authorise the use within NSW of water taken from a water source outside NSW. Approvals cannot be traded to another property or location.
- WALs may be granted to access the available water governed by a Water Sharing plan under the *Water Management Act 2000*.
- Water Sharing Plan establish rules for sharing water between the environmental needs of the river or aquifer and water users, and also between different types of water use such as town supply, rural domestic supply, stock watering, industry and irrigation.

- The tenure of Water Access Licences is described below:

- The reference to "tenure" on a water access licence certificate indicates the duration of the licence. An access licence ceases to be in force on the date that the cancellation of the licence is recorded in the Access Register.
- A "continuing" water access licence is granted in perpetuity, which means it does not need to be renewed. It is typically used for a commercial purpose (such as irrigation or industrial use). "Continuing" water access licences include supplementary water access licences issued for regulated rivers.
- A specific purpose water access licence (eg for town water or domestic and stock purposes) must be cancelled when the purpose for which the licence was issued ceases.
- Irrespective of the type of tenure, a water access licence can be suspended or cancelled if there is a breach of the licence conditions or other non-compliance.

- New South Wales water entitlements included in this valuation are known as "Water Access Licence(s)" (WAL).

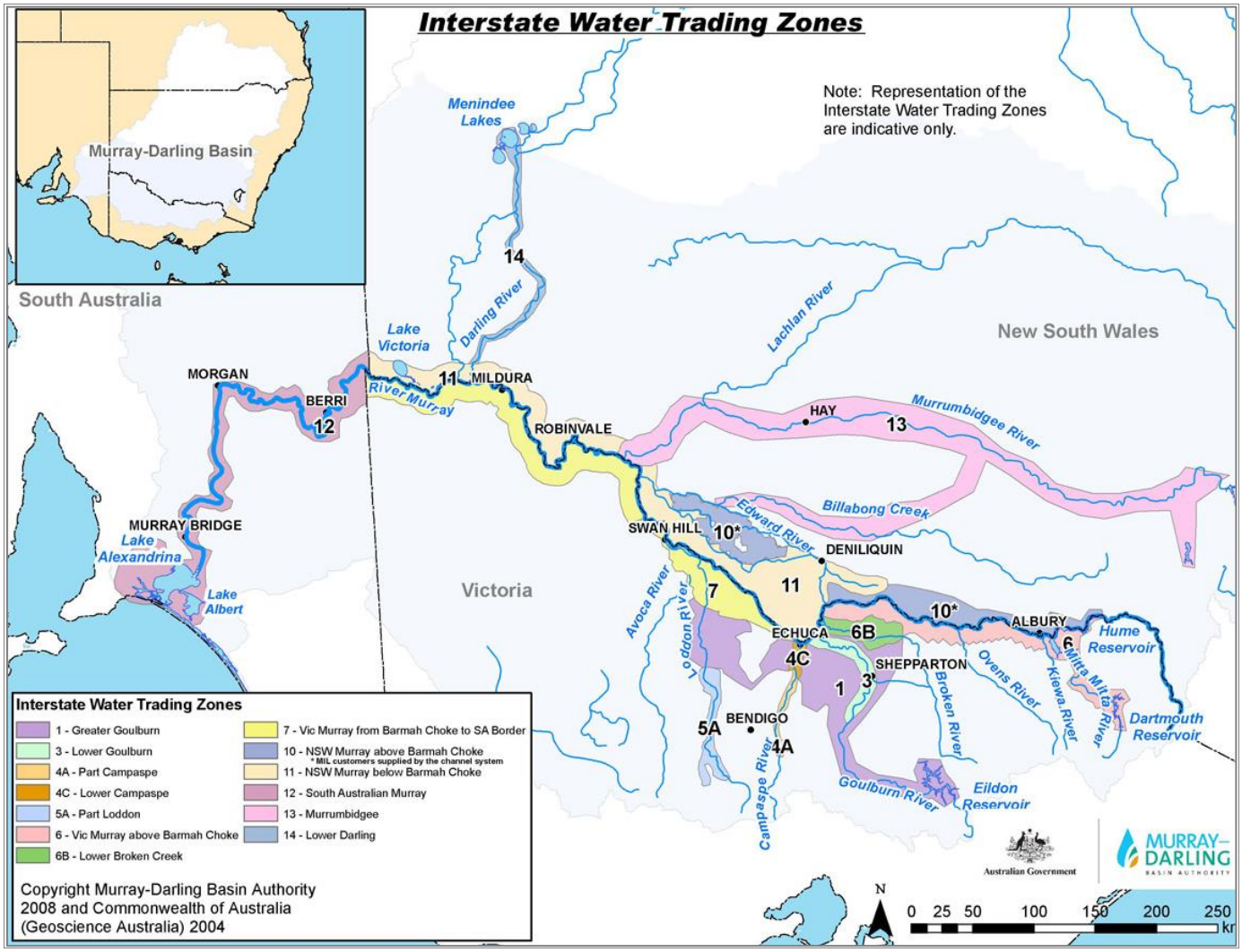
Land & Water Separation (South Australia)

- The unbundling of irrigation water began in 1 June 2009 post an amendment to the Natural Resources Management Act 2004 (NRM Act) came into effect.
- Some existing water entitlements have been unbundled land and separated into four authorisations, as listed and described below.
  - Water Access Entitlement (Water Licence): The ongoing right to a specified share of the water resource expressed in unit shares. It is an asset that can be sold or transferred permanently or for a limited period.
  - Water Allocation: The actual volume of water you are able to take in a water use year. Allocation may vary from year to year depending on how much water is available. It will be represented on a Water Account. The allocation can be temporarily sold or transferred.
  - Water Resource Works: This is permission to construct, operate and maintain works (such as a pump meter, well or dam) to take water in a particular location in a particular way.
  - Site Use Approval: This permission is a permission to use the water in a particular location in particular way. This permission is not transferable to another location.
- Water is managed through Prescribed Water Resources to secure sustainable management and support water dependent ecosystems.
- The annual water allocation can be temporarily sold or transferred on an annual basis.
- The introduction of this system has begun to make water entitlements easier to trade. Water within The River Murray Prescribed Watercourse is now fully unbundled and can be held, mortgaged or leased without the land.
- South Australian water entitlements included in this valuation are known as "Water Licence(s)".

4.2 Southern Connected Murray Darling Basin Water Trading Zones

Summary

- Water entitlement trading within the Interconnected Murray Darling Basin is monitored via various trading zones. The map below demonstrates the geographical location of each trading zone.



Source: Murray Darling Basin Authority 2015.

4.2.1 Victorian Murray River Regulated Water Source – VIC Murray

Summary

- There are 1,200,402 megalitres of High Reliability Water Shares and 305,003 megalitres of Low Reliability Water Shares on issue. The Water Shares are allocated over 3 trading zones, Zone 6, Zone 6B and Zone 7.

Allocation Trading Rules

- Trade may occur from Vic Murray above the Barmah Choke (Zone 6) to the following interstate zones:
  - New South Wales Murray above Barmah Choke.
- Back trade (according to rules set by New South Wales and the MDBA) may occur from Vic Murray above the Barmah Choke (Zone 6) to the following interstate zones:
  - New South Wales Murray below the Barmah Choke; South Australian Murray, Murrumbidgee, Lower-Darling.
- Trade may occur from Lower Broken Creek (Zone 6B) and Vic Murray - Barmah Choke to SA Border (Zone 7) to the following interstate zones:
  - New South Wales Murray above Barmah Choke; New South Wales Murray below the Barmah Choke; South Australian Murray.
- Back trade (according to rules set by New South Wales and the MDBA) may occur from Lower Broken Creek (Zone 6B) and Vic Murray - Barmah Choke to SA Border (Zone 7) to the following interstate zones:
  - Murrumbidgee, Lower-Darling.

Allocation History

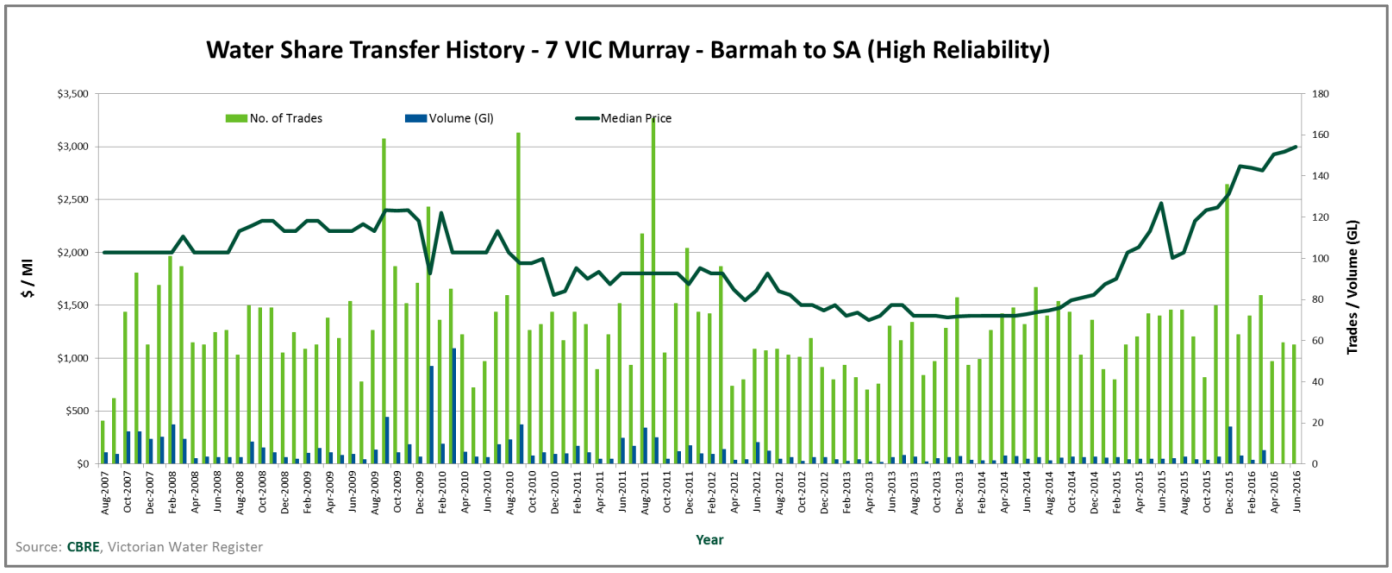
- A summary of the historical ending seasonal allocations is provided in the table below.
- 2016/17 opening water allocations are detailed in the Southern Connected Murray Darling Basin System Map at section 4.1.

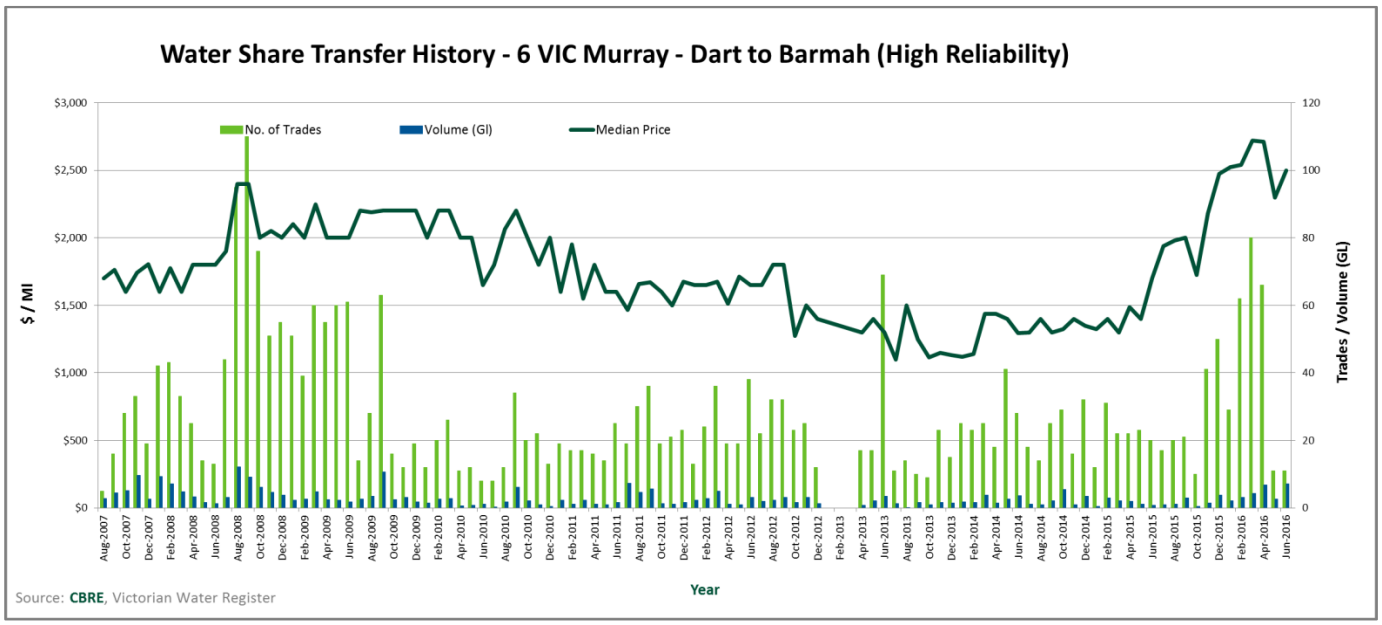
Historic Ending Seasonal Allocations

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Murray High Reliability	43%	35%	100%	100%	100%	100%	100%	100%	100%
Murray Low Reliability	0%	0%	0%	0%	0%	0%	0%	0%	0%

High Reliability Pricing History

- Victorian Murray River Regulated Water Source – VIC Murray High Reliability Zone 7 & 6 trading history is detailed below. The analysis shows pricing trends in conjunction with volume traded and the number of associated trades.





4.2.2 New South Wales – NSW Murray Regulated River

Summary

- There are approximately 191,637 megalitres of High Security and approximately 1,672,097 megalitres of General Security water entitlements available annually.
- The NSW Murray Regulated River Valley is the Murray River downstream of Hume Da0m to the South Australian border (including Wentworth Weir pool on the Lower Darling River; and Lower Darling River downstream of Lake Wetherell to the Wentworth Weir Pool.

Allocation Trading Rules

- Trade may occur from NSW Murray to:
  - Vic Murray above the Choke; Vic Murray from Barmah Choke to SA Border; NSW Murray above Barmah Choke; NSW Murray below the Barmah Choke; South Australian Murray.
- Back trade allowed from NSW Murray:
  - Greater Goulburn; Lower Goulburn, Part Campaspe, Lower Campaspe, Part Loddon; Lower Broken Creek; Murrumbidgee; Lower Darling.

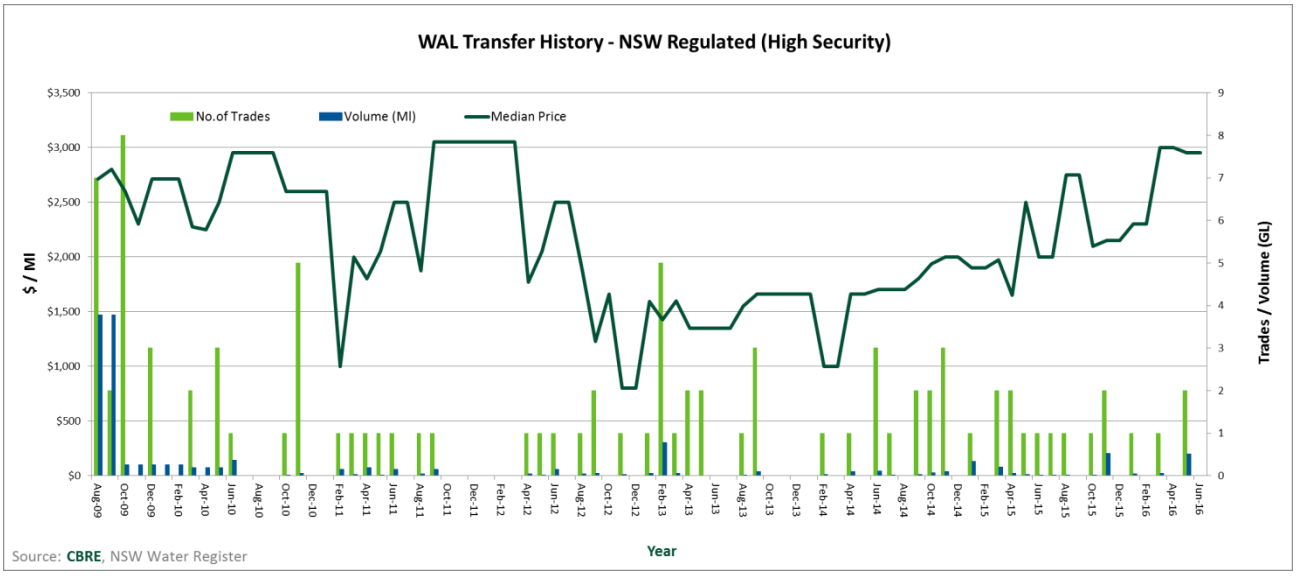
Allocation History

- A summary of the historical ending seasonal allocations is provided in the table below.
- 2016/17 opening water allocations are detailed in the Southern Connected Murray Darling Basin System Map at section 4.1.

Historic Ending Seasonal Allocations	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
NSW Murray High Security	60%	110%	108%	100%	101%	100%	100%	97%	97%
NSW Murray General Security	11%	17%	39%	101%	109%	110%	108%	91%	23%

High Security Pricing History

- The NSW Murray Regulated River trading history is detailed overleaf. The analysis shows pricing trends in conjunction with volume traded and the number of associated trades.



General Security Pricing History

- We have sourced NSW Murray Regulated River trading history for General Security Water however; note the data set is not complete. This is due to a large amount of water held by private irrigation schemes such as Western Murray Irrigation and Murray Irrigation.

4.2.3 New South Wales - Murrumbidgee Regulated River

Summary

- There are approximately 380,830 megalitres of Murrumbidgee Regulated River – High Security water and approximately 1,891,000 megalitres of Murrumbidgee Regulated River – General Security water entitlement on issue.
- The Murrumbidgee Regulated River Valley is the Murrumbidgee River downstream of Burrinjuck and Blowering Dams to the junction of the Murrumbidgee River with the Murray River and the junction of the Billabong system with the Edward-Wakool system

Allocation Trading Rules

- Trade may occur from Murrumbidgee to
  - Vic Murray Above the Choke; Vic Murray from Barmah Choke to SA Border; NSW Murray above Barmah Choke; NSW Murray below the Barmah Choke; South Australian Murray.
- Back trade allowed from Murrumbidgee to:
  - Greater Goulburn; Lower Goulburn, Part Campaspe, Lower Campaspe, Part Loddon; Lower Broken Creek; Murrumbidgee; Lower Darling.

Allocation History

- A summary of the historical ending seasonal allocations is provided in the table below.
- 2016/17 opening water allocations are detailed in the Southern Connected Murray Darling Basin System Map at section 4.1.

Historic Ending Seasonal Allocations	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
NSW Murrumbidgee High Security	96%	96%	95%	100%	100%	100%	95%	95%	95%
NSW Murrumbidgee General Secu	21%	32%	39%	100%	100%	100%	81%	79%	37%

High Security Pricing History

- We have sourced NSW Murrumbidgee Irrigation Regulated River trading history for High Security Water, however note the data set is not complete. This is due to a large amount of water held by private irrigation schemes such as Murrumbidgee Irrigation.

4.2.4 New South Wales – Lachlan River

Overview

- The Lachlan River has the following entitlement volume:
  - High Security Irrigation - 26,472 Ml
  - General Security Irrigation - 592,847 Ml
- The Lachlan Regulated River travels approximately 1,500 kilometres to the Great Cumbung Swamp. Nearly 1,300 kilometres of its length is regulated. Very little water from the Lachlan River catchment reaches the Murrumbidgee or contributes to flows in the Murray, except during major floods. Most is taken up by water users or provides inflows to the wetlands in the lower Lachlan, particularly the Great Cumbung Swamp.

Allocation Trading Rules

- Trade is limited to the Lachlan River. Water allocation accounts of access licences in this water source may not be assigned to the water allocation accounts of access licences in other water sources and water allocation accounts of access licences in other water sources may not be assigned to the water allocation accounts of access licences in Lachlan River water source.

Allocation History

- A summary of the historical ending seasonal allocations is provided in the table below.
- 2016/17 opening water allocations are detailed in the Southern Connected Murray Darling Basin System Map at section 4.1.

Historic Ending Seasonal Allocations

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
NSW Lachlan High Security	29%	30%	10%	100%	100%	100%	100%	100%	100%
NSW Lachlan General Security	7%	6%	6%	116%	136%	138%	81%	50%	25%

High Security Pricing History

- We have sourced NSW Lachlan Regulated River trading history for High Security Water, however note the data set is not complete.

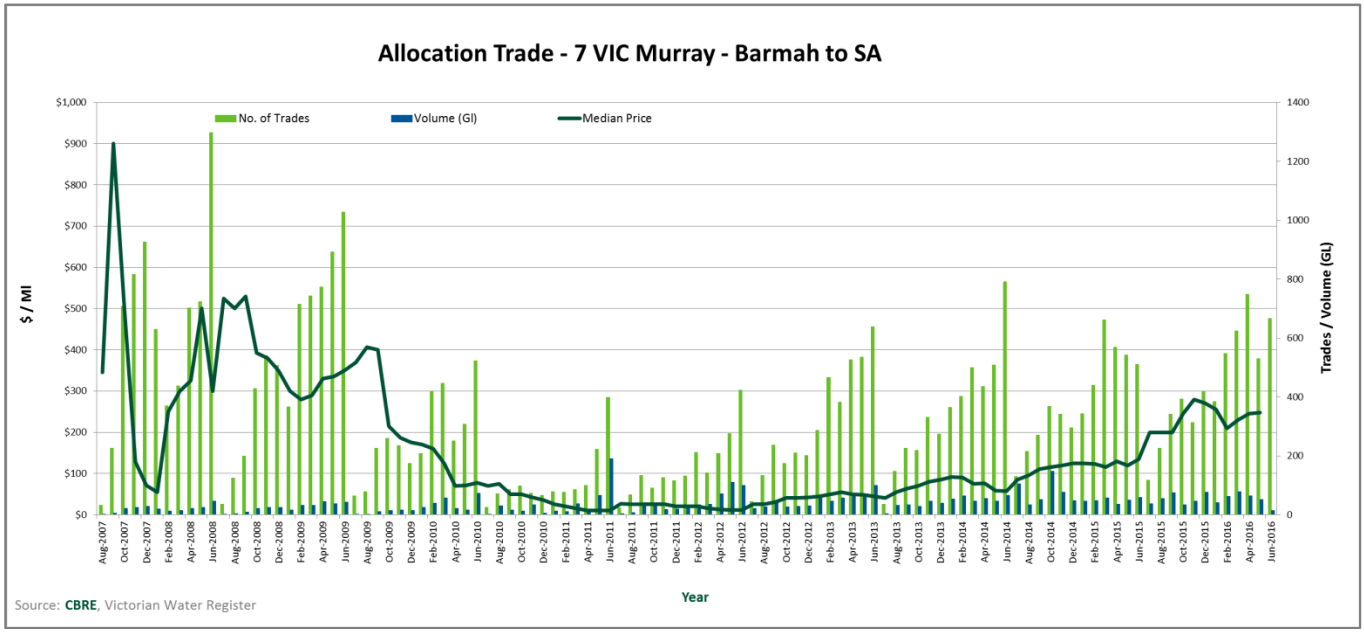
4.2.5 Allocation (Temporary) Trade Water Market

Summary:

- Allocation trade involves transferring a volume of water allocation from a seller to a buyer. Allocation trade is only permitted when the volume of unused allocation available in the seller's allocation account is greater than or equal to the volume of the trade.
- Holders of water allocation are able to make an application to their water corporation to trade it. The water corporation will approve the application if it is complete and meets local trading rules.
- Temporary water can be traded within the authorised trading zones of each water source.

Pricing History

- Generally speaking allocation trade prices throughout the Southern Connected Murray Darling Basin are highly correlated.
- Water allocation prices are relatively correlated across the trading zones.
- We have displayed the allocation trading history of Murray River Regulated Water Source – VIC Murray Allocation - Trade Zone 7. The analysis shows pricing trends in conjunction with volume traded and the number of associated trades.



4.2.6 Overview of Current Allocation Trade Restrictions

Overview

Source: RuralCo Water

- Murrumbidgee Inter Valley trade out of the Murrumbidgee River is closed as of the date of valuation and has subsequently remained closed in the beginning of the 2016/17 water year. Inter valley trade from the NSW Murray, Vic Goulburn and SA Murray into the Murrumbidgee is closed as of the date of valuation however has since opened for the beginning of the 2016/17 water season.
- Trade within New South Wales Irrigation Corporations, NSW Wales Rivers and SA Rivers closed in June prior to the beginning of the new water year.
- Subsequent to the beginning of the new water year, the Barmah Choke rule on the VIC Murray and NSW Murray has been reset and at this stage will only allow a net 26 gigalitres of trade downstream;
  - Trade between upstream NSW Murray (zone 10) and downstream NSW Murray (zone 11) (and/or SA Murray) remains possible subject to there being room in the Barmah Choke rule;
  - Trade between upstream VIC Murray (zone 6) and downstream VIC Murray (zone 7) (and/or SA Murray) remains possible subject to there being room in the Barmah Choke rule;
- Victoria's 200 gigalitres allowance rule of allocation coming from NSW into VIC has been reset and at this stage shall only allow a net 200 gigalitres from NSW trade into the Victorian Murray and Goulburn; and

- Victoria's Goulburn Inter Valley Trade (IVT) account has been reset and at this stage shall only allow a further 125 gigalitres of trade from the Goulburn, Campaspe and Loddon systems into the VIC Murray and/or NSW or SA Murray.

4.2.7 Irrigation Corporations

Overview

- There are five irrigation corporations listed in Schedule 1 of the *Water Management Act 2000:*
  - Coleambally Irrigation Cooperative Ltd
  - Jemalong Irrigation Ltd
  - Murray Irrigation Ltd
  - Murrumbidgee Irrigation Ltd
  - Western Murray Irrigation Ltd
- In NSW, irrigation corporations are private companies holding bulk water entitlements on behalf of their shareholders. Together, the five corporations represent thousands of individual water users who have contractual arrangements with their respective corporation for water delivery. Bulk access licences issued to the five corporations represent some 3,555 gigalitres of water entitlements, which is about 70 per cent of the share of regulated river resource held in New South Wales.
- The subject portfolio holds irrigation water entitlements in Murrumbidgee Irrigation Ltd, Western Murray Irrigation Ltd and Jemalong Irrigation Ltd and Pomona, noting Pamona is a Private Irrigation Trust however is governed the *Water Management Act 2000,* a summary of each is provided below.

4.2.7.1 Jemalong Irrigation Limited

Overview

- Jemalong Irrigation Limited is an unlisted public company controlled by a board of directors. The company diverts on average, more than 40,000 megalitres of water from the Lachlan River each year to 119 shareholders within the district. The district comprises more than 96,000 hectares of farming land of varying soil types capable of supporting a wide range of cropping and livestock enterprises.

Water Classes

- There are 3 categories of water issued within Jemalong irrigation;
  - Class A Water Entitlements – Domestic & Stock Entitlement
  - Class B Water Entitlement – High Security Water Entitlement
  - Class C Water Entitlement – General Security Water Entitlements
- Subject to the Jemalong Irrigation Limited rules, these entitlements may be transformed to Water Access Licenses within the Lachlan Regulated River Water Source (refer to Critical Assumptions).
- A summary of the water entitlements held Jemalong Irrigation are summarised below.

Jemalong Irrigation Ltd.	
Lachlan Regulated River Category	
Domestic and stock	1,756
Regulated river (high security)	200
Regulated river (general security)	79,220
Conveyance	17,911

Source: NSW Office of Water

4.2.7.2 Western Murray Irrigation Limited

Overview

- Western Murray Irrigation Ltd serviced a number of landholdings which predominately support permanent horticultural plantings.
- Subject to the Western Murray Irrigation Limited rules, these entitlements may be transformed to Water Access Licenses within the Murray Regulated River Water Source (refer to Critical Assumptions).
- A summary of the entitlements held in Western Murray Irrigation Limited are displayed below.

Western Murray Irrigation Ltd.	
NSW Murray Regulated River Category	Volume (Ml)
Domestic and stock	490
Domestic and stock (domestic)	34
Regulated river (high security)	47,459
Regulated river (general security)	64

Source: NSW Office of Water

4.2.7.3 Murrumbidgee Irrigation Limited

Overview

- Murrumbidgee Irrigation Limited services 3,000 landholdings and is owned by over 2,500 customers within an area of 660,000 hectares. The irrigation water and drainage services provided by Murrumbidgee Irrigation Ltd create the productive agricultural region known as the Murrumbidgee Irrigation Area (MIA).

Water Classes

- Subject to the Murrumbidgee Irrigation Limited rules, these entitlements may be transformed to Water Access Licenses within the Murrumbidgee Regulated River Water Source (refer to Critical Assumptions).
- A summary of the entitlements held in Murrumbidgee Irrigation Limited are displayed below.

Murrumbidgee Irrigation Ltd	
Murrumbidgee Regulated River Category	Volume (Ml)
Town water supply (high security)	19,699
Regulated river (high security)	297,223
Regulated river (general security)	647,140
Supplementary Water	36,814
Domestic and stock	7,345
Conveyance	221,200

Source: NSW Office of Water

4.2.7.4 Pamona Irrigation Trust

Overview

- Pomona Irrigation Trust is an irrigation settlement of approximately 750 hectares, 15 kilometres north of Wentworth, NSW and sourced irrigation water from the Murray River.
- Pomona Irrigation Trust is currently governed by the NSW Water Management Act 2000 No. 92 & Water Management (General) Regulation 2011, Private Irrigation Trusts and the Water Act 2007 Water Market Rules 2009.
- Subject to the Pomona Irrigation Trust rules, these entitlements may be transformed to Water Access Licenses within the Murray Regulated River Water Source (refer to Critical Assumptions).

4.3 Potential Volatility of Water Values

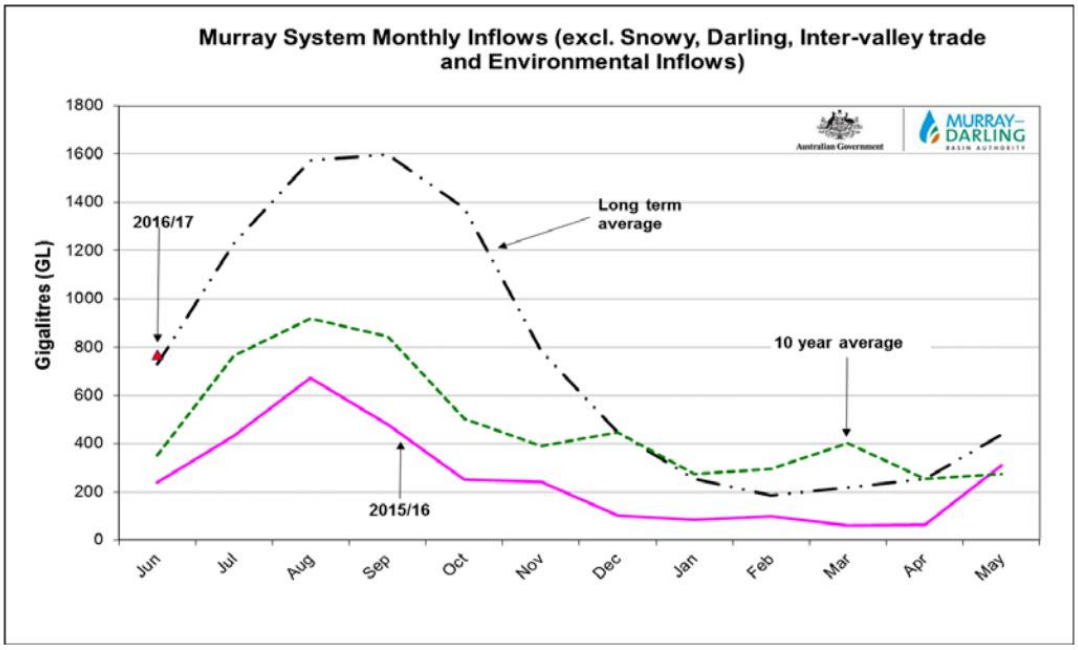
Overview

- The water entitlements included in this valuation are able to be traded separately from the land on an allocation/temporary basis.
- There are a number of factors which impact the value of water entitlements. These include;
  - The proportion of water available in the market and the prevailing demand at the time of sale.
  - Seasonal conditions impact on the expectations of water availability and allocation water prices. The movement in water allocation can have an influence on allocation prices in the short term.
  - Catchment dam storage volumes and long term expectations of water security.
  - Affordability of permanent water entitlements at any given point in time.
  - Pricing of commodities grown within the Murray Darling Basin. For example, the increased revenue associated with pricing of commodities grown in the specific region encourages growers to increase water use to improve yields and consequently can lead to increased prices due to increased demand.

Murray Darling Basin Inflow Volumes

Source: Murray Darling Basin Authority 2016.

- Murray River system inflows during 2015-16 water year were around 3,050 gigalitres putting 2015-16 in the driest 9 per cent of years on record. By comparison, inflows in 2014-15 totalled 4,400 gigalitres, 2013-14 totalled 5,700 gigalitres with 7,400 gigalitres in 2012-13 and the long-term average is around 9,100 gigalitres.
- A summary is provided below.



Source: Murray Darling Basin Authority 2016.

Murray Darling Basin Authority Storage Levels

- Murray Darling Basin Storage Levels increased by 218 GL for the week ending 29 June 2016. The active storage is currently 3,182 GL (38% of capacity). Active storage levels are described as the portion of water that can be utilised for power production, navigation and downstream release.
- Active storage levels have been trending downward since 2012 and are currently below the long term average for June.

4.4 Overview of Price Trends

Long Term Pricing Trends

- The value of water entitlements can fluctuate significantly in relatively short periods of time. Seasonal conditions (extreme wet or extreme dry) impact on expectations of water availability and consequently water allocation prices. The movement (both up and down) in annual allocations and water allocation prices has some influence on water entitlements value in the short term. The volatile nature of commodity prices from irrigated production such as horticulture, vineyards, rice, cotton, cereal crops, pasture, etc, also has an impact on prices. This volatility impacts on return on investment for irrigators and the propensity to increase investment in production assets and water entitlements. In the past the value and security of tenure of water entitlements has been significantly affected by changes in the Government policy in relation to irrigation issues. With the introduction of the National Water Initiative, this risk has been reduced; however, changes in Government policy could still affect the tenure and value of water entitlements.
- Prices for water entitlements in different basins follow similar trends however are quite different in terms of value.
- One of the key factors which increased water prices was the introduction of the CAP in 1995 which limited the total volume of water that can be diverted. This was done to address the concern of water scarcity.
- The CAP is described differently for the various States. A definition of the CAP is provided below and is an extract from the Murray Darling Basin Authority website.
  - *For New South Wales and Victoria, the CAP was defined as "The volume of water that would have been diverted under 1993–94 levels of development,". The annual CAP for a valley is not the volume of water that was used in 1993–94 rather the volume that would have been used with the infrastructure/management rules existing in 1993–94 and climatic conditions experienced during the year in question. South Australia, Queensland and the Australian Capital Territory have agreed to different levels of development as their CAP.*

    Source: MDBA 2015.
- Although water trade was permitted prior to the CAP (primarily between farmers within the same irrigation district), there was little incentive to trade because increased demands for water were largely met through increased allocations.
- The discrepancy in water prices between basins is due, in part to such trade barriers. As permanent trade volumes have increased, regional limits against water trading, designed to maintain regional production have been reached in some instances. These are in addition to physical constraints such as the Barmah Choke. The evolving regulatory structure of the trading system is also likely to be influencing trading patterns. The Barmah Choke is a relatively level narrow section of the Murray River through Barmah-Millewa Forest. The limited capacity of the Barmah Choke contributes to several operational and policy challenges related to transferring water from upstream and downstream of the Barmah Choke.
- There has been a shift in irrigation water use over the past decade. The areas of higher value horticulture crops such as almonds, nectarines and cherries have increased significantly as did broad hectare cotton production whilst there has been a reduction in less valuable crops such as pasture, fodder and wine grapes.
- There has been a relative shift away from lower value pasture production to horticulture activities, however the areas devoted to these crops are still much higher overall and total area under all horticulture related activities remains small (i.e. about 10% of total irrigated area).

5 Sales Evidence

5.1 Victorian Murray River – Zone 7 – High Reliability

Water Broker Sales Data

- Victorian Murray River – Zone 7 - High Reliability sales data sourced from various water brokers is detailed below.
- Victorian Murray River – Zone 7 – High Reliability Water Shares have been trading between $2,870 and $3,150 per megalitre from May to June with the latest analysed sale transacting at $2,900 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
50.00 Ml Vic Murray High Reliability - Zone 7	Jun-16	$2,900
22.50 Ml Vic Murray High Reliability - Zone 7	Jun-16	$2,800
50.00 Ml Vic Murray High Reliability - Zone 7	Jun-16	$2,900
43.60 Ml Vic Murray High Reliability - Zone 7	Jun-16	$2,870
16.00 Ml Vic Murray High Reliability - Zone 7	May-16	$3,150

5.2 Victorian Murray River – Zone 6 – High Reliability

Water Broker Sales Data

- Victorian Murray River – Zone 6 - High Reliability sales data sourced from various water brokers is detailed below.
- Victorian Murray River – Zone 6 – High Reliability Water Shares have been trading between $2,625 and $2,800 per megalitre from January to June with the latest analysed sale transacting at $2,700 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
70.10 Ml Vic Murray High Reliability - Zone 6	Jun-16	$2,700
100.00 Ml Vic Murray High Reliability - Zone 6	May-16	$2,650
79.40 Ml Vic Murray High Reliability - Zone 6	Mar-16	$2,650
500.00 Ml Vic Murray High Reliability - Zone 6	Feb-16	$2,625
50.00 Ml Vic Murray High Reliability - Zone 6	Jan-16	$2,800

5.3 New South Wales - Murrumbidgee River – Zone 13 - High Security

Water Broker Sales Data

- New South Wales Murrumbidgee – Zone 13 - High Security sales data sourced from various water brokers is detailed below.
- New South Wales Murrumbidgee – Zone 13 - High Security entitlements have been trading between $3,350 and $3,700 per megalitre from February to June with the latest analysed sale transacting at $3,700 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
5.00 Ml NSW Murrumbidgee High Security - Zone 13	May-16	$3,700
60.00 Ml NSW Murrumbidgee High Security - Zone 13	Apr-16	$3,500
120.00 Ml NSW Murrumbidgee High Security - Zone 13	Mar-16	$3,650
10.00 Ml NSW Murrumbidgee High Security - Zone 13	Mar-16	$3,500
20.00 Ml NSW Murrumbidgee High Security - Zone 13	Feb-16	$3,350

5.4 South Wales - Murrumbidgee River – Zone 13 - General Security

Water Broker Sales Data

- New South Wales Murrumbidgee – Zone 13 – General Security sales data sourced from various water brokers is detailed below.
- New South Wales Murrumbidgee – Zone 13 - General Security entitlements have been trading between $1,475 and $1,500 per megalitre from February to June with the latest analysed sale transacting at $1,475 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
1,000.00 Ml NSW Murrumbidgee General Security - Zone 13	May-16	$1,475
800.00 Ml NSW Murrumbidgee General Security - Zone 13	Feb-16	$1,500
201.00 Ml NSW Murrumbidgee General Security - Zone 13	Feb-16	$1,500

5.5 New South Wales – Murray River – Zone 11 - High Security

Water Broker Sales Data

- New South Wales Murray River – Zone 11 - High Security sales data sourced from various water brokers is detailed below.
- New South Wales Murray River – Zone 11 - High Security entitlements have been trading between $3,125 and $3,600 per megalitre from March to June with the latest analysed sale transacting at $3,600 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
11.00 Ml NSW Murray High Security - Zone 11	May-16	$3,600
34.58 Ml NSW Murray High Security - Zone 11	May-16	$3,575
30.00 Ml NSW Murray High Security - Zone 11	Mar-16	$3,400
30.00 Ml NSW Murray High Security - Zone 11	Mar-16	$3,300
110.00 Ml NSW Murray High Security - Zone 11	Mar-16	$3,125

5.6 New South Wales - Murray River - Zone 11 - General Security

Water Broker Sales Data

- New South Wales Murray River – Zone 11 - General Security sales data sourced from various water brokers is detailed below.
- New South Wales Murray River – Zone 11 – General Security entitlements have been trading between $1,175 and $1,255 per megalitre from April to June with the latest analysed sale transacting at $1,175 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
61.00 Ml NSW Murray General Security - Zone 11	Jun-16	$1,175
36.00 Ml NSW Murray General Security - Zone 11	May-16	$1,250
60.00 Ml NSW Murray General Security - Zone 11	May-16	$1,255
10.00 Ml NSW Murray General Security - Zone 11	Apr-16	$1,175
27.47 Ml NSW Murray General Security - Zone 11	Apr-16	$1,175

5.7 NSW Murray Regulated River - Zone 11 - Supplementary

Water Broker Sales Data

- New South Wales Murray Zone 11 Supplementary water is rarely traded due to the water source having minimal supplementary flow events when compared to the Murrumbidgee River.
- Notwithstanding the above we have sourced some supplementary sales data sourced from various water brokers which is detailed below.
- The latest trades that we are aware of show $260 per megalitre.

Water Broker Exchanges

Parcel	Sale Date	Sale Price ($Ml)
220.00 Ml NSW Murray Supplementary - Zone 11	Dec-15	$260
200.00 Ml NSW Murray Supplementary - Zone 11	Dec-15	$260
200.00 Ml NSW Murray Supplementary - Zone 11	Dec-15	$260

5.8 New South Wales – Murray River - Zone 10 - General Security

Water Broker Sales Data

- New South Wales Murray River – Zone 10 – General Security sales data sourced from various water brokers is detailed below.
- New South Wales Murray River – Zone 10 – General Security entitlements have been trading between $1,175 and $1,250 per megalitre from May to June with the latest analysed sale transacting at $1,175 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
400.00 Ml NSW Murray General Security - Zone 10	29/06/2016	$1,175
500.00 Ml NSW Murray General Security - Zone 10	23/06/2016	$1,175
74.00 Ml NSW Murray General Security - Zone 10	11/05/2016	$1,250
256.00 Ml NSW Murray General Security - Zone 10	11/05/2016	$1,250
380.00 Ml NSW Murray General Security - Zone 10	11/05/2016	$1,250

5.9 New South Wales – Lachlan River - General Security

Water Broker Sales Data

- New South Wales Lachlan River General Security sales data sourced from various water brokers is detailed below.
- New South Wales Lachlan River General Security entitlements have been trading between $485 and $500 per megalitre from May to June with the latest analysed sale transacting at $500 per megalitre.

Water Broker Exchanges		
Parcel	Sale Date	Sale Price ($Ml)
500.00 Ml NSW Lachlan General Security	17/06/2016	$500
300.00 Ml NSW Lachlan General Security	7/06/2016	$485
679.00 Ml NSW Lachlan General Security	3/06/2016	$485
40.00 Ml NSW Lachlan General Security	7/04/2016	$500

5.10 Large Scale Water Parcel Transactions

Large Water Transactions:

- We also summarise the various large scale water transaction which have occurred since 2008 below:
  - **Advinco Water (October 2015)** - 4,000 megalitres of Victorian Murray High Reliability Water Shares for circa $11,700,000.
  - **Summit Water Portfolio (October 2015)** – 46,000 megalitres of water entitlements for circa $93,000,000.
  - **Tandou Limited to Websters Limited** (June 2015) - Takeover offer made to Tandou shareholders of 1 Websters share per 2.25 Tandou fully paid shares, which at the date of the offer, valued Tandou at $114 million being notionally $88 million for 85,370 megalitres of various entitlements. Water Entitlements comprising the Tandou Portfolio are as follows;
    - Vic Murray - 6,797 megalitres.
    - Vic Goulburn - 5,554 megalitres.
    - NSW Murray - 4,713 megalitres.
    - Murrumbidgee General - 46,147 megalitres.
    - Lower Darling - 22,159 megalitres.
    - Total - 85,370 megalitres.
  - **AgReserves to Walnuts Australia** (Webster's Limited) (November 2014) – 94,418 megalitres of mixed water entitlements, including Murrumbidgee River Regulated water, Lachlan River Regulated water, Murrumbidgee Groundwater and numerous unregulated water sources, forming part of the sale of the "Kooba" portfolio which included the properties known as "Kooba", "Bringagee/Benerembah" and "Booberoi". The water portion reflected approximately $70,000,000 out of a total transaction of $116,000,000.
  - **Tandou to Westchester** (December 2012) – 16,000 megalitres of Regulated Murrumbidgee River water entitlements for $17,300,000.
  - **TPIF Almond** Portfolio (November 2009) – sale of 48,260.1 megalitres of High Reliability Victorian Murray River Water Entitlements reflecting $2,000 per megalitre ($96,520,200). Formed part of the sale of an almond orchard portfolio of 3,849 planted hectares.
  - **Timbercorp Limited Almond Portfolio** (September 2009) sale of 40,872.9 megalitres of High Reliability Victorian Murray River Water Entitlements reflecting $2,000 per megalitre ($81,745,800). Formed part of the sale of an almond orchard portfolio of 8,097 planted hectares.
  - **Boundary Bend Limited to VicSuper** (October 2009) – sale (in 3 tranches) of 15,438.6 megalitres of High Reliability Goulburn River Water Entitlements and 10,731.8 megalitres of High Reliability Murray River Water Entitlements reflecting $1,882 per megalitre ($49,253,000). This transaction was a sale and leaseback with varying terms years at an 8% initial yield.

6 Valuation Methodology

Overview

- In arriving at our opinion of value, we have considered relevant general and economic factors and in particular have investigated recent sales of comparable entitlements (as previously detailed).

Valuation Approach

- Direct Comparison.

Methodology

- The market evidence detailed in this report, amongst other evidence, has been compared with the subject property in order to assess a market based valuation. This valuation methodology is commonly known as the "Direct Comparison Approach".
- We have not solely relied on water sales evidence derived from the relevant authority's water register for the following reasons:
  - The prices on water registers are for transfers approved by relevant authorities, which may be several months after contracts have been exchanged or when the water sale agreement was first struck. Prices recorded on the relevant registers include inter-entity transactions and related party transactions which often do not reflect market value. When transacted with property it is also common for water to be booked at higher or lower than market conditions for stamp duty calculations.
  - Water trades recorded on the relevant registers do not include transfers that have occurred within Private Irrigation Schemes such as Murrumbidgee Irrigation Limited, Coleambally Irrigation Limited, Murray Irrigation Limited, and Western Murray Irrigation Limited.
- In order to gauge current prevailing market prices, we have relied on recent sales sourced from various water broking firms (namely *Ruralco Water* and *Waterfind*) to determine current prevailing market conditions. We have also spoken to various water brokers trading within the Southern Connected Murray Darling Basin to gauge trading conditions.

Key Comparability Factors

- Given that the comparability of each of the analysed sales is likely to vary, a high degree of value judgement is required by the valuer. The valuer has considered a range of variables which may include:
  - The depth of the market.
  - Potential users.
  - Delivery risk and cost.
  - Various land uses to which it can be applied.
  - Market maturity.
  - The circumstances of the vendor or purchaser.
  - Water source.
- Having regard to the various water broker exchanges as well as sales data sourced from the relevant water registers, we have adopted the rates described overleaf:

6.1.1 Water Rights Sale Agreement 1

SUMMATION BASIS				
Water	Ml		Rate $/Ml	Value
NSW Murray Regulated River - Zone 11 - High Security	2,900.00	@	$3,500	$10,150,000
NSW Murray Regulated River - Zone 11 - General Security	211.00	@	$1,200	$253,200
NSW Murray Regulated River - Zone 11 - Supplementary	83.00	@	$260	$21,580
TOTAL				$10,424,780

6.1.2 Water Rights Sale Agreement 2

SUMMATION BASIS				
Water	Ml		Rate $/Ml	Value
Victorian Murray Regulated River - Zone 6 - High Reliability	604.90	@	$2,650	$1,602,985
NSW Murray Regulated River - Zone 10 - General Security	892.00	@	$1,250	$1,115,000
TOTAL				$2,717,985

6.1.3 Water Rights Sale Agreement 3

SUMMATION BASIS				
Water	Ml		Rate $/Ml	Value
Victorian Murray Regulated - Zone 7 - High Reliability	1,062.00	@	$2,800	$2,973,600
Pomona Irrigation Trust - High Security (NSW Murray Zone 11)	201.15	@	$3,500	$704,025
Pomona Irrigation Trust - General Security (NSW Murray Zone 11)	20.41	@	$1,200	$24,492
TOTAL				$3,702,117

6.1.4 Water Rights Sale Agreement 4

SUMMATION BASIS				
Water	Ml		Rate $/Ml	Value
Jemalong Irrigation Limited - Class C Water Entitlement (Lachlan Regulated River General Security)	2,660.00	@	$500	$1,330,000
Lachlan Regulated River - General Security	4,138.00	@	$500	$2,069,000
TOTAL				$3,399,000

6.1.5 Water Rights Sale Agreement 5

SUMMATION BASIS				
Water	Ml		Rate $/Ml	Value
Western Murray Irrigation Limited - High Security (NSW Murray Zone 11)	2,304.00	@	$3,500	$8,064,000
Murrumbidgee Irrigation Limited - Category 3 (NSW Murrumbidgee Zone 13 High Security)	1,773.00	@	$3,650	$6,471,450
TOTAL				$14,535,450

6.2 Treatment of GST

Treatment of GST

- Our valuation is expressed exclusive of GST.

We are not tax experts and have not been provided with tax or legal advice. The Reliant Party must make its own enquiries if they consider that GST applies.

7 Additional Reporting

7.1 Proposed Water Leases

Overview

- A summary of the 5 Water Leases is provided below:

Schedule Summary	Lease 1	Lease 2	Lease 3	Lease 4	Lease 5
Lessor:	Duxon Water Ltd (ACN 611 976 517)	Duxon Water Ltd (ACN 611 976 517)	Duxon Water Ltd (ACN 611 976 517)	Duxon Water Ltd (ACN 611 976 517)	Duxon Water Ltd (ACN 611 976 517)
Lessee:	Duxton Viticulture Pty Ltd (ACN 609 424 704)	Hathor Dairies (ACN 602 459 638)	Duxton Viticulture Pty Ltd (ACN 609 424 704)	Merriment Rural Investments (ACN 129 249 243)	Duxton Viticulture Pty Ltd (ACN 609 424 704)
Guarantor:	Duxton Vineyards Pty Ltd as trustee of the Duxton Vineyards Unit Trust ACN 608 763 515)	Nil.	Duxton Vineyards Pty Ltd as trustee of the Duxton Vineyards Unit Trust ACN 608 763 515)	Nil.	Duxton Vineyards Pty Ltd as trustee of the Duxton Vineyards Unit Trust ACN 608 763 515)
Commencement Date:	On Settlement of sale agreement entered into between the parties in July 2016 for the sale of the Water Entitlements (as that term is defined in the sale agreement)	On Settlement of sale agreement entered into between the parties in July 2016 for the sale of the Water Entitlements (as that term is defined in the sale agreement)	On Settlement of sale agreement entered into between the parties in July 2016 for the sale of the Water Entitlements (as that term is defined in the sale agreement)	30 September 2016	On Settlement of sale agreement entered into between the parties in July 2016 for the sale of the Water Entitlements (as that term is defined in the sale agreement)
Expiry Date:	30 June 2023	30 June 2023	30 June 2023	30 June 2023	30 June 2023
Rent:	$625,486.80 p.a.	$92,171.64 p.a.	$224,274.18 p.a.	$186,945.00 p.a.	$872,127.00 p.a.
Payment Period:	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Bank Guarantee:	Nil.	Nil.	Nil.	Nil.	Nil.
Water Entitlements:	Refer to Rights Sale Agreement 1	*Refer to Rights Sale Agreement 2	Refer to Rights Sale Agreement 3	Refer to Rights Sale Agreement 4	Refer to Rights Sale Agreement 5
Option Term:	5 years	3 options of 3 years each	5 years	5 years	5 years
Percentage:	6.00% of Current Market Value	5.75% of Current Market Value	6.00% of Current Market Value	5.50% of Current Market Value	6.00% of Current Market Value
Territory:	New South Wales and Victoria	New South Wales and Victoria	New South Wales and Victoria	New South Wales	New South Wales and Victoria

Conditions

- The below conditions are common throughout the abovementioned leases:

Outgoings:

- All costs or fees associated with the registration or revocation of any Term Transfers of the Water Entitlements, or the assignment or transfer of any Water Allocations, which are required or authorized by this Lease.

Use of Water:

- The Lessor and the Lessee acknowledge that the performance of this Lease and the rights and obligations under this Lease are governed by, and subject to, the following:
  a) The Water Regulations; and
  b) The conditions on the Water Entitlements

Assignment by the Lessee:

- Not without the Lessor's consent, which the Lessor may withhold at its absolute discretion.

Assignment by the Lessor:

- The Lessor may assign its rights and obligations under the Lease to any person.

Carryover Water:

- Lessor to retain carryover water with all fees payable to Authorities relating to the transfer of these Water Allocation to the Lessor are to be borne by the Lessor.

Option to extend the Term:

- If the Lessee wishes to exercise its option to extend the Term, it must notify the Lessor in writing no more than six and no less than four months before the Expiry Date that it wishes the Lessor to determine the Current Market Rent.
- Current Market Rent means an amount per annum equal to the Option Percentage (refer to above summary outlining percentage) of the Current Market Value of the Water Entitlements determines in accordance with the Current Market Value Review.

Option to Purchase:

- The Lessor grants the Lessee the option to purchase the Water Entitlements free from encumbrances.
- If the Lessee wishes to exercise its option to purchase the Water Entitlements, it must notify the Lessor in writing no more than six and no less than four months before the Expiry Date that it wishes the Lessor to determine the Current Market Value.
- Current Market Value means the current market value of the water entitlements determined by an independent review conducted by a registered value appointed by the Lessor to determine the fair value in dollars per ML basis of the Water Entitlements.

Conditions

- The below condition is common Lease 1, Lease 3, Lease 4 and Lease 5 only:

Right of First Refusal:

- Should the Lessee have not have exercised their option to renew and/or their option to purchase under (1) Option to extend the (2) Term or Option to Purchase, then the Lessor covenants with the Lessee not to sell or lease or agree to sell or lease the Water Entitlements to any person other than the Lessee unless the Lessor has offered in writing to the Lessee to sell or lease the Water Entitlements on terms not less favourable to the Lessee than the terms upon which the said Water Entitlements are actually sold or leased, or the Lessee has not accepted that offer within 14 days after receipt of that offer.

7.2 Appropriateness of Adopted Initial Yields

7.2.1 Instructions

Overview:

- We have been instructed to confirm or otherwise comment on the appropriateness of the initial yields adopted within the proposed lease agreements. Given the dearth of investment transactions, we have sought to reconcile on the following bases:
  1. Investment or Sale/Leaseback transactions.
  2. Rental evidence.
  3. Historical allocation price relative to permanent water price.

7.2.2 Sales/Rental Evidence

Overview

- These sales, amongst others, demonstrate investment activity during the last 6 years. Not all of the sales are considered to be directly comparable, however they do provide a range of evidence and set the parameters upon which we have based our assessment of value of the subject water portfolio.
- In our efforts to provide the most recent sales data, there may be occasions where we utilise sales that have not settled, have delayed settlement, or are not registered on third party databases. Separate enquiries are made of the parties to the transaction or their agents to verify this data.
- In situations where there is a lack of comparable sales data in a particular locality, we draw upon sales evidence from other agricultural regions and make necessary adjustments for comparability considerations.
- Third party databases do not specify transactions as GST inclusive or exclusive, and where we have been unable to verify the GST status we have assumed the sale price is GST exclusive. Should further enquiries reveal the status to be incorrect, we reserve the right to adjust our analysis and if necessary our valuation.

Sales Evidence:

- A summary of investment transactions (sale/leaseback) is provided below:

Investment Sales Evidence							
	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Sale 7
Vendor/Lesee:	Confidential	Confidential	Confidential	Confidential	Confidential	Confidential	Confidential
Purchaser/Lessor:	Confidential	Confidential	Confidential	Confidential	Confidential	Confidential	Confidential
Sale Price:	$11,733,400	$3,123,900	$2,653,500	$768,770	$13,895,100	$13,895,100	$21,463,600
Sale Date:	Nov-15	Aug-15	Jul-15	Jul-14	Oct-09	Oct-09	Oct-09
Water Source:	7 Vic Murray	NSW Lachlan	1A Goulburn	1A Goulburn	1A Goulburn	1A Goulburn	7 Vic Murray
Reliability:	High Reliability	High Security	High Reliability	High Reliability	High Reliability	High Reliability	High Reliability
Volume:	4,049 Ml	2,402 Ml	1,500 Ml	590 Ml	7,719 Ml	7,719 Ml	10,732 Ml
Rental:	$676,183	$187,356	$172,500	$50,852	$1,222,769	$1,222,769	$1,888,797
Term:	5 years	4 years, 7 months	5 years	5 years	3.5 years	5.5 years	4.5 years
Option:	2 further terms of 5 years each	2 further terms of 5 years each	Nil.	Nil.	1.0 years + 5.0 years + 5.0 years	1.0 years + 5.0 years + 5.0 years	1.0 years + 5.0 years + 5.0 years
Analysis							
Rental:	$167/Ml	$78/Ml	$115/Ml	$86/Ml	$158/Ml	$158/Ml	$176/Ml
Initial Yield	5.76%	6.00%	6.50%	6.61%	8.80%	8.80%	8.80%

Commentary:

- We make the following observations:
  - Leases ranging from 3.5 to 5.5 years.
  - Lease volumes ranging from 590 megalitres to 10,732 megalitres.
  - Commencing rates ranging from $78 to $176 per megalitre.

Analysis:

- Initial yields ranging from 5.70% to 8.80%.

Rental Evidence:

- A summary of rental evidence is provided below:

Water Source	Reliability	Commencing Date:	Term:	Option/s:	Volume Leased:	Commencing Rent	Reviews:	Permanent Water Price ($/Ml)	Reversionary Yield
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	440 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	160 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	300 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	200 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	400 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	300 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
Murrumbidgee Irrigation Limited	Class A	1 July 2013	3 years	Nil.	500 Ml	$100/Ml	N/A	$1,600/Ml	6.25%
1A Goulburn	High Reliability	1 July 2014	5 years	Nil.	590 Ml	$86/Ml	Annually	$1,303/Ml	6.61%
1A Goulburn	High Reliability	1 July 2014	3 years	Nil.	1,000 Ml	$90/Ml	Annually by CPI	$1,400/Ml	6.43%
SA Class 3a	High Security	1 July 2014	10 years	Nil.	720 Ml	$95/Ml	Annually by 2.0%	$1,700/Ml	5.59%
1A Goulburn	High Reliability	1 July 2015	5 years	Nil.	1,500 Ml	$115/Ml	Annually	$1,769/Ml	6.50%
7 VIC Murray	High Reliability	1 July 2015	5 years	Nil.	2,400 Ml	$141/Ml	N/A	$2,500/Ml	5.64%
7 VIC Murray	High Reliability	30 June 2016	5 years	1 x 5 years	4,046 Ml	$167/Ml	N/A	$2,900/Ml	5.76%
7 VIC Murray	High Reliability	1 July 2016	5 years	Nil.	5,000 Ml	$210/Ml	N/A	$3,000/Ml	7.00%
7 VIC Murray	High Reliability	1 July 2016	3 years	Nil.	1,000 Ml	$200/Ml	N/A	$3,000/Ml	6.67%
7 VIC Murray	High Reliability	1 July 2016	3 years	Nil.	1,000 Ml	$221/Ml	N/A	$3,000/Ml	7.37%
7 VIC Murray	High Reliability	1 July 2016	3 years	Nil.	2,000 Ml	$221/Ml	N/A	$3,000/Ml	7.37%
NSW Murray Zone 11	High Security	1 July 2016	3 years	Nil.	2,000 Ml	$220/Ml	N/A	$3,500/Ml	6.29%
NSW Murrumbidgee Zone 12	High Security	1 July 2016	3 years	Nil.	2,000 Ml	$190/Ml	N/A	$3,000/Ml	6.33%
SA Class 3a	High Security	1 July 2016	3 years	Nil.	1,000 Ml	$220/Ml	N/A	$3,500/Ml	6.29%

Commentary:

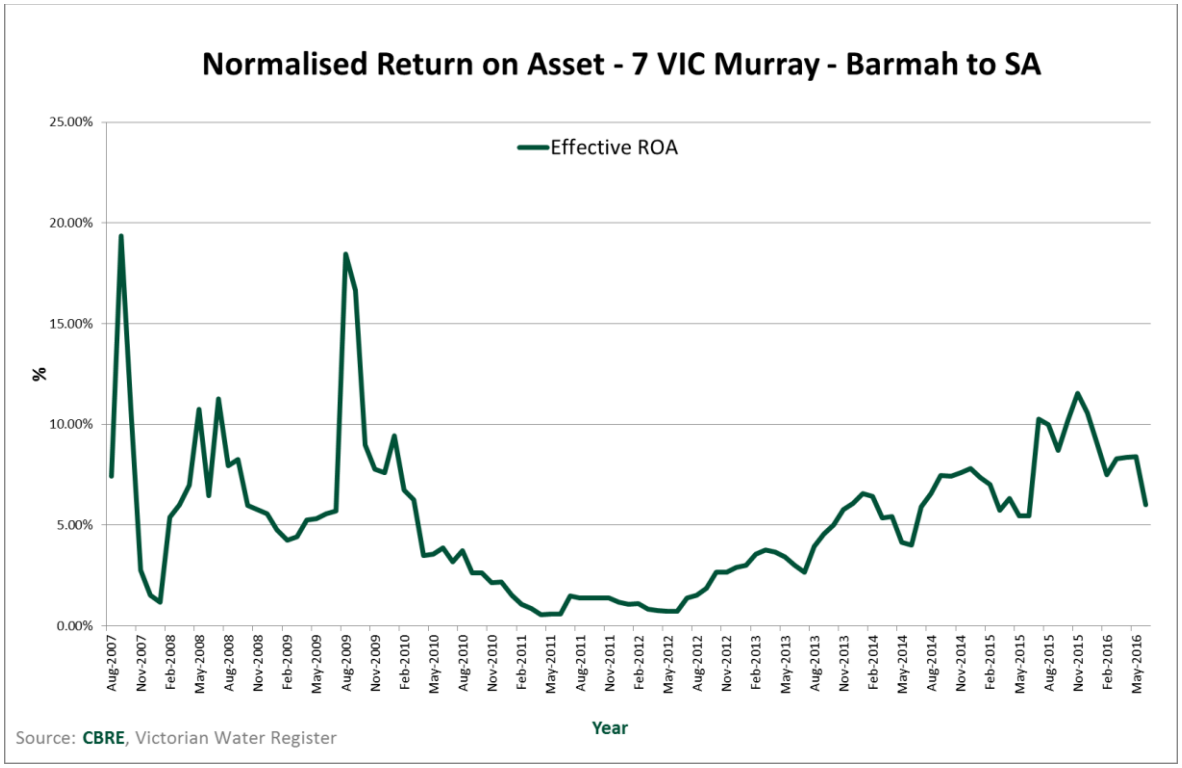
- We make the following observations:
  - Leases ranging from 3 to 10 years.
  - Lease volumes ranging from 160 megalitres to 5,000 megalitres.
  - Commencing rates ranging from $86 to $221 per megalitre.

Analysis:

- Reversionary yields ranging from 5.59% to 7.37%.

Allocation Trading:

- We have also considered the allocation price relative to the permanent water price (Return on Asset), normalised by final season allocation determination. We have adopted the 7 VIC Murray trading zone for the purpose of our analysis which is depicted on the graph below:



Source: **CBRE**, Victorian Water Register

Analysis:

- Average Return on Asset (normalised) since August 2007 of 5.32%.

7.2.3 Conclusion

Discussion:

- As previously mentioned, in considering an appropriate initial yield, the best evidence is that of investment (leased) sales or sale/leaseback of water entitlements. As shown in the above investment sales evidence, there has been a consistent sharpening in initial yields since 2009 to present. By way of example, Sales 5 to 7 in 2009 reflected initial yields of 8.80% and the sale of Sale 1 in November 2015 reflected an initial yield of 5.70%.
- We also note that there has been a significant increase in water leasing in the last 24 months. Our analysis of typical reversionary yields range from 5.59% to 7.37% during this time. Whilst not being comparable to a typical water lease, we have also considered historical allocation trades (normalised by final allocation) within the 7 VIC Murray trading zone relative to permanent water pricing. This reflects an average annual Return on Assets (normalised) of 5.32%.
- We have reviewed the 5 Water Leases and note the commencing rental amounts ranging from 5.50% to 6.0% of the Current Market Value (as assessed).

Conclusion:

- Having considered the aforementioned evidence, we consider the initial yields (percentage) within the proposed leases to be appropriate.

8 Qualifications

The report must be read in accordance with and subject to the following qualifications:

Market Movement	Values vary from time to time in response to changing market circumstances. The valuation is based on available information as at the date of valuation. No warranty can be given as to the maintenance of this value into the future. Therefore, it should be reviewed periodically.
Extent of Investigations	We are not engaged to carry out all possible investigations in relation to the property. Where in our report we identify certain limitations to our investigations, this is to enable the Reliant Party to instruct further investigations where considered appropriate or where we recommend as necessary prior to Reliance. CBRE is not liable for any loss occasioned by a decision not to conduct further investigations.
Assumptions	Assumptions are a necessary part of undertaking valuations. CBRE adopts assumptions for the purpose of providing valuation advice because some matters are not capable of accurate calculation or fall outside the scope of our expertise, or our instructions. Assumptions adopted by CBRE will be formulated on the basis that they could reasonably be expected from a professional and experienced valuer. The Reliant Party accepts that the valuation contains certain specific assumptions, and acknowledges and accepts the risk that if any of the assumptions adopted in the valuation are incorrect, then this may have an effect on the valuation.
Information Supplied By Others	This document contains information which is derived from other sources. Where this information is provided by experts and experienced professionals, we have relied upon the expertise of such experts and by necessity we have relied upon the information provided being accurate, whether prepared specifically for valuation purposes or not. Unless otherwise specifically instructed by you, we have not independently verified that information, nor adopted it as our own. Notwithstanding the above, we have reviewed the provided information to the extent that such a review would be reasonably expected from a professional and experienced valuer having regard to normal industry practice undertaking a similar valuation/consultancy service. The Reliant Party acknowledges that the valuer is not a specialist in the areas from which the expert information is derived and accepts the risk that if any of the information/advice provided by others and referred to in the valuation is incorrect, then this may have an effect on the valuation.
Future Matters	To the extent that the valuation includes any statement as to a future matter, that statement is provided as an estimate and/or opinion based on the information known to CBRE at the date of this document. CBRE does not warrant that such statements are accurate or correct.
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