Accelerating success.

KIANA STATION
NORTHERN TERRITORY
INFORMATION MEMORANDUM
02 PROPERTY OVERVIEW

PROPERTY DESCRIPTION

<table>
<thead>
<tr>
<th>Kiana Station, Northern Territory</th>
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<tbody>
<tr>
<td>Size</td>
<td>3,318km² (331,800 hectares)</td>
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<tr>
<td>Title and Tenure</td>
<td>NT Portion 1164 – Perpetual Pastoral Lease 1065 – Volume 689 Folio 095</td>
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<tr>
<td>Carrying Capacity</td>
<td>Approximately 12,000 head Adult Equivalent</td>
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<tr>
<td>Average Annual Rainfall</td>
<td>Approximately 785mm</td>
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LOCATION

Situated in the McArthur River Region of the Northern Territory, the property is approximately 1,132 kilometres by road from Darwin. The property is positioned well to enjoy the benefits of the live export marketing to the north, additionally Kiana 792 kilometers by road from Mt Isa Queensland allowing the Kiana owners to feed cattle into the Queensland market to the south east.

ACCESS

Kiana Station is accessed via approximately 67 kilometres of formed gravel road (maintained by local government councils or transport of works), which adjoins the Tablelands Highway, approximately 95 kilometres south of Cape Crawford Road House. The nearest service centres is that of Booroloola approximately 90 kilometres east of the Cape Crawford Road House. The Cape Crawford turnoff is around 300 kilometres east of the Stuart Highway. Access to the property is considered good with a Transport and Works maintained formed gravel road, providing the primary access to the Station and the excised land and Aboriginal community.

SERVICES AND AMENITIES

All Kiana Station services are provided on site and include fully reticulated power generated by a 114 KVA Hino genset and a 114 KVA Hino backup. The primary homestead bore source is provided by Bore RN 31191, which is pumped via submersible to a squatter’s tank and reticulated via pressure pump to the various buildings, within the homestead complex.

Further services include Telstra satellite phone services and a light aircraft landing strip.

SOIL AND TOPOGRAPHY

Kiana Station comprises a significant variety of land systems from dissected high plateau remnants to small termite block soil plains. **Pollyarra** land system (Northern Desert) on approximately 829km² or 25%, **Robinson** land system (Hilly Country) on approximately 855km² or 26%, **Royalat** land system (Coolibalt – Hilly Country) on approximately 471km² or 14%, **Red Bank** land system (Cliffdale, Downs, Emmeragga, Favenc, Cobblechain, Falls Creek, Kangaroo, Leila, Murphy, Pack saddle, Running-Hilly Country) on approximately 375km² or 11% and **Kilgour** land system (Inacumba, Lancewood- Broken Mitchell Grass Country) on approximately 790km² or 24%. 
INFRASTRUCTURE

Kiana Station is divided into approximately 33 paddocks which include smaller squares and holding paddocks. A majority of the fencing is in serviceable condition and typical of that found in the region. Fencing comprises typically 3 to 4 conventional barb wire with steel pickets which are stock proof. Please note some boundary fencing is not constructed due to natural topography providing levels of stock security without a fence.

The property also features a number of improvements, including:

- Manager’s Quarters (1).
- Manager’s Quarters (2)
• Kitchen / Store / Stable.

• Workshop / Community Store.
• Large camp draft facility providing full size ring, steel frame metal clad elevated commentators’ box, steel framed grand stand and ground level ticketing office / shop. (This is to the north of the homestead complex).

• Main station steel yards to the North West of the main homestead and with the use of lane ways.
• Hanger with refuel facilities.

• Earth graded light airstrip at homestead.

• Manager’s Quarters (3).
• Hay Shed / Implement Shed.
CARRYING CAPACITY

Current stocking rates, we comment that the property has previously been running around 12,000 head in a mixed herd configuration. However, it has been significantly destocked in recent times which shows in the feed surpluses apparent on the property.

Assuming standard adult equivalent ratios this equates to a carrying capacity of 12,000 Adult Equivalent (AE) or 1 AE to 25ha on average.

WATER

Kiana Station has a significant number of natural waters on site, further to the natural waters there are seven equipped and two unequipped bores and a substantial number of dams. The equipped bores are generally either submersible or Kubota and mono. A number of unequipped bores are available for future development. Troughs are normally steel and in general are fed from either turnkey nest or dam style setups, filled from the main bores.

There are a significant number of natural springs and waterholes dotted over the property. The waters are of good standard and provide year round supplies to the developed areas of Kiana Station.
03 THE OPPORTUNITY

Kiana Station presents a beef cattle opportunity in the Northern Territory with significant upside for prospective purchasers.

Currently the property offers:

- Very good road train access.
- Established infrastructure base.
- Reliable rainfall patterns.
- Economies of scale available.
- Flexibility to capitalise on Queensland’s cattle market or the live export market from Darwin.
- Recognised breeder country.

Potential lies in a number of value-add opportunities available to a successful purchaser of Kiana Station. Among these are:

- Potential to be run in conjunction with fattening properties in the northern flood plains or southern Barkley tablelands.
- Potential to increase current carrying capacity for relatively low capital input.

This list of value-add potential is not exhaustive, and Kiana Station remains a blank canvas to be developed by new owners who see the potential.
04 MARKET COMMENTARY

SURGING COMMODITY PRICES AND INCREASING CAPITAL FLOWS MARK A REVIVAL

The beef cattle market across the north of Australia has been through some significant challenges in recent years. The Global Financial Crisis and the Indonesian live export halt during 2011 being the two most prominent. Producers have experienced the cost price squeeze as production costs increase and commodity prices showed no real improvement relative to long-term averages. These conditions have been exacerbated by a two year drought across Queensland, to the point where the northern cattle sector has been in need of genuine relief.

Asian market opportunities and the depreciating Australian dollar have begun the process of revival for many sectors of Australian agribusiness. For the northern beef sector in particular, the fourth quarter of 2014 produced positive results across a range of indicators. This suggests that some more prosperous times are returning to owner-managers and investors.

Live export statistics for the 2013-14 financial year again exceeded expectations, with total cattle numbers reaching 1.13 million head (up 79 per cent on 2012-13). Indonesia again stamped itself as Australia’s largest market by more than doubling imports from last year.

Commodity prices have surged over the last few months, especially across the domestic market following widespread rain across parts of Queensland. Re-stocker cattle were fetching up to $2.98 per kilogram as producers build cash flow by making purchases while they have productive country. Live export prices rose to $2.65 per kilogram Free On Board (FOB) ex-Darwin in December 2014, and opened in January 2015 with contracts at $2.75 per kilogram for feeder steers destined for Indonesia. This is the highest price reached for export steers since the last peak in 2009 where they were fetching $2.35 per kilogram.

Cattle prices across the north of Australia have risen significantly through most sale venues, while setting some historic milestones in the process. The north Australian market is generally divided by saleyard activity for the domestic and live export markets. Each market is experiencing similar conditions of increased demand with limited supply which has generated historic price peaks.

In Queensland’s Roma saleyard, the largest regional saleyard in Australia, 2015 commenced with cattle buyer optimism demonstrated by record prices for re-stocker cattle and breeders. As the two year long drought receives some relieving rain across parts of Queensland, producers are making a push to bolster this growing season’s cash flows by purchasing large numbers of re-stock breeder and store cattle. In some cases prices have been as high as $2.98 per kilogram for sub-300 kilogram yearling steers. Some producers are anticipating that they can generate value and cash by buying at these prices while expecting good prices again when they sell later in the year.

Should additional forecasted rain during the first quarter come to fruition yarding numbers through regional saleyards should decrease. Competition for cattle is expected to follow this trend and produce a flow-on effect on cattle prices. It is possible that the market will respond by reaching higher prices from reduced numbers of cattle supplied from Queensland cattle stations and potentially draw numbers away from the live export market. In turn this could further exacerbate the supply shortage.

The Port of Darwin is the largest live cattle exporting facility. In December total cattle exports for the year reached 493,958 head, up 134,342 on 2013 figures and 246,968 on 2012. It is clear that export volume has now revived and has outgrown pre-export crisis lows of 2010. It is expected that the number of head will grow above 500,000 during the 2015 season with much of this growth to come from emerging markets.

Another notable milestone is the $2.75 per kilogram contracts signed this year for feeder steers into Indonesia. Although this is the highest price paid for Australian export beef in history some industry participants are tipping this figure to reach $3.00 per kilogram by December 2015.

Meanwhile, capital flow from both domestic and abroad has increased into the sector, with transactional activity increasing across the north, including some notable large scale entrants purchasing large tracts of land and expanding along the supply chain. Beef cattle enterprises and the beef industry is becoming an
investment grade asset class again. With increased competition from various high net worth individuals, corporates, family pastoral houses and private equity it is our view that 2015 could be a stellar year for the northern beef sector.

The positive momentum built during 2014 should favour the producers/investors into this year. The following section presents the key factors supporting the market over the near term.

**EMERGING MARKET DEMAND GROWTH**

Since its inception, the Vietnamese live export market has rapidly become the second largest import nation behind Indonesia. It represents an impressive alternative option for exporters. Vietnam has seen exceptional growth year on year for three years, and should this growth continue the destination may be set to become the largest market for Australian exporters. Imports increased from 3,533 head in 2012 to 66,951 in 2013, and again to 169,960 head last year.

The boxed beef and veal market into China grew with astonishing speed between 2009 and 2013, but may be due for a period of leveling off as our supply tries to keep up with our other top import nations, namely the US. National herd numbers in the US are at their lowest since the 1950s, and as such import demand has been driven by falling domestic cow beef production, the bulk of such demand has come from Australia.

This being said, the demand from China has not slowed, and the growth story for China will be determined by global supply, and the ability for Australia to promote its ‘clean and green’ beef, a competitive advantage for now.

**INTERNATIONAL INVESTMENT COMPETITION**

A new buyer group has emerged into the beef cattle property market during the last 18 months, and is showing signs of further growth as reported by property agents. A number of large scale purchases from offshore interests have settled during 2014, and enquiry and contractual activity from international investors, particularly from China, have been a notable shift in the market. The encouraging feedback regarding this buyer group is that asset transactions are completing and growing in volume. Generally international buyers have already made purchases of other commercial property assets in Australia, and wish to diversify the portfolio in line with their sovereign food security and private portfolio planning.

**DEPRECIATING AUSTRALIAN DOLLAR**

From its peak of being just under US$0.95 the beginning of the financial year the Australian dollar has depreciated significantly. Following the release of the Reserve Bank of Australia’s February official cash rate announcement the Australian dollar fell to approximately US$0.76, the lowest value since 2009. A lower Australian dollar should support the competitiveness of the local sector and drive investment into the sector.

Demand for boxed beef from major export destinations has ensured that the underlying strength of beef and veal exports has remained healthy. The graph outlines the dominant countries to which Australian beef and veal is exported.
**ECONOMIC UPDATE**

The Reserve Bank of Australia decided to lower the cash rate by 25 basis points to 2.25%, effective 4 February 2015 at its Board meeting.

Key reasons cited for the decision by the Bank included:

- Growth in the global economy continued at a moderate pace in 2014
- Commodity prices have continued to decline, in some cases sharply. These trends appear to reflect a combination of lower growth in demand and, more importantly, significant increases in supply
- In Australia the available information suggests that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. As a result, the unemployment rate has gradually moved higher over the past year
- The CPI recorded the lowest increase for several years in 2014
- Dwelling prices have continued to rise strongly in Sydney, though trends have been more varied in a number of other cities over recent months
- A lower exchange rate is likely to be needed to achieve balanced growth in the economy.
- NAB business survey in March 2015 indicates another cut may occur in 2015.

**Reserve Bank of Australia Official Cash Rate**

![Cash Rate Graph]

*Source: Reserve Bank of Australia / Colliers International*