PrimeValue
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INVESTMENT UPDATE

JUNE 2020

Prime Value Dairy Trusts

Autumn calves at Aringa Park - May 2020

Dear Investor,

We are pleased to provide you with the latest update on our dairy operations.

Summary

- Despite COVID19 related market volatility, the Australian dairy market remains well positioned.
- Opening minimum prices for FY20/21 have been set by processors just slightly below last year's opening prices and we are comfortable with our income forecasts.
- Milk production at both farms is on target.
- Aringa Park Stage 1 development work is complete.
- Preparations for the settlement and takeover of the Tarkine Dairy farm in NW Tasmania is on track for 1 July.
- We continue to be on target for our forecast distribution of 2.5 cents/unit to investors for the June half year.
- With milk prices now secured for the forthcoming year, we forecast a total distribution of 6-7%p.a. (payable quarterly) for FY20/21.

The Australian dairy market is well positioned with the majority of milk production destined for the domestic market. The uncertainty surrounding the spread of COVID19 however, and the impact on the global demand/supply balance will to some extent affect the local dairy market.

COVID19 has caused a contraction of global dairy commodity prices and a multitude of logistical and distribution issues, but the fall in prices has so far come in below expectations, as fundamentals remain relatively supportive. NZ, the EU, US and Australia are the main suppliers to the export market, China is the largest importer and approximately 12% of Australian milk ends up in the Greater China market. Underlying demand rather than market sentiment is always the key to prices, and food as an essential requirement, is keeping dairy in a relatively stable position. Economies first hit are encouragingly beginning to reopen, however how the pandemic plays out will drive all markets. Nonetheless we are comfortable with our position for the 2020/21 financial year with opening milk prices now confirmed.

Milk supply contract

The Tarkine Dairy in Tasmania has been delivering milk to Saputo for several years and


The milking herd at Country View - May 2020

we have made the decision to step away from Fonterra and contract our SW Victorian and Tasmanian production to Saputo for FY20/21.

Saputo is a large, Toronto listed, Canadian based dairy company with operations in the U.S., South America, U.K. and Australia. It is one of the top ten dairy producers in the world and is now the largest dairy processor in Australia through its acquisition of Murray Goulburn in 2018 and Lion's specialty cheese business in 2019. The Australian division has a 60/40 domestic/export distribution profile and is focused more on value add products rather than commoditised products such as milk powders. Its main Australian exports go to Japan with China comprising circa 5% of its export market.

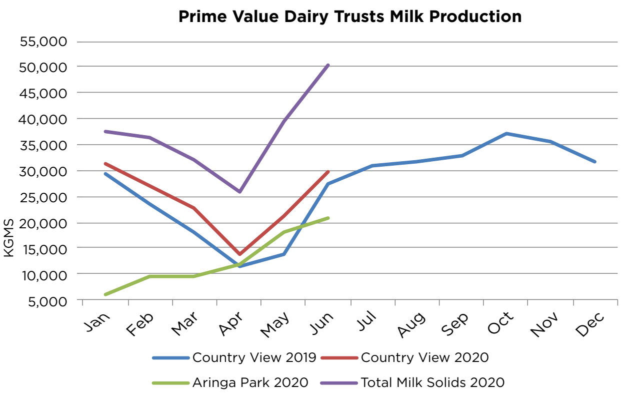
They have offered an attractive opening/minimum price and an investment incentive to the industry. The investment incentive represents a substantial premium over and above their standard farm gate price and is designed to encourage greater investment in dairy production. All three of our farms will be participating in this investment incentive program and additional farms can also be incorporated into the contract throughout the year. As we are in the acquisition phase, this is highly beneficial. The contract establishes a minimum price for our milk with potential for step ups and securing strong income for the year.

Prime Value Dairy Milk Production

The farms have continued to operate normally over the last few months despite the COVID19 restrictions. As we outlined in our last update, milk production is seasonal and we have emerged from our low production period. The variability in milk production over the year relates to calving and the necessity to dry cows off and cease milking for a period of six weeks prior to calving. As our SW Victorian herds are split to calve in both autumn and spring, our production declines rather than comes to a halt.

Approximately two thirds of both the Aringa Park and Country View cows calve over autumn. Our autumn calving on Aringa Park was completed in early June, while Country View is just finishing now. We will reach full production for a short period before we commence drying off our spring calvers in July. Peak production for both farms will be reached in October with all cows milking. This is timed to coincide with the peak grass production of spring.

Aringa Park milk production has been rising consistently since we acquired the farm due to the increase in the size of the herd and purchasing additional autumn calvers. The new cows coming into the herd have more than compensated for the usual decline in production. The traditional cyclical pattern will be evident next year.



Country View Farm

Country View continues to operate seamlessly. There are currently 620 cows in the milking herd and this will increase to approximately 675 over the next two weeks as the remaining autumn calvers commence milking. After calving, milk production gradually rises. The number of milking cows is somewhat fluid with new cows entering the herd and older, less productive cows moving out however the farm operates best averaging around 650 milkers. Any excess calves and productive cows on Country View will be moved across to Aringa Park to build its herd.

On both farms the paddocks are grazed on a rotating basis. Pasture cover drops over the cooler months and the speed of rotation decreases to ensure sufficient grass cover is maintained. Silage is incorporated into their diet to balance the lower grass supply over winter. (Silage is our excess grass cut over the year and stored for later use.)


Expanded holding yard at Aringa Park


New paddocks created at Aringa Park - May 2020

As part of a pasture renovation program to improve poorer performing pastures and reduce weed growth, we planted oats in three paddocks earlier this year. The crop is growing exceptionally well and will provide up to 80 tonnes of oaten hay for the herd. This home grown feed will be harvested in summer and substantially reduce our purchase requirements for the year. Next autumn, we will plant out the paddocks with Phalaris and re-establish the permanent grass pasture with much greater productivity expected.

Milk production continues to track very well, we are marginally above forecast and all the cattle are in very good condition.

Aringa Park Farm

We acquired 310 Holstein Fresian cows in calf with the purchase of the farm and acquired a further 107 cross bred cows in calf shortly after settlement. Milk production was tracking slightly below our forecasts due to the farm's poorer quality pastures however the cows' diet was supplemented and milk production is now within the optimal range. The pasture improvement work conducted over the past few months is also beginning to bear fruit with an excellent autumn break of rain spurring grass growth.

Our Stage 1 development work at Aringa Park is now complete. We have made track changes around the dairy to streamline the daily cow flow and joined vehicle access into the track system. We have increased the size of the holding yard at the entrance to the milking platform to facilitate the larger herd and we have completed new track work at the back end of the farm to give access to the paddocks we have subdivided and fenced. These paddocks, previously unused, have been pasture improved and are now being incorporated into the grazing rotation to support the larger herd.

Capital expenditure thus far has been circa $140,000. This development work allows the farm to support 500 milking cows and over the course of the next few months, we will purchase an additional 60 two year old cross bred heifers that will calf and begin milking in Spring. By October we will be at full production and the farm remains on track to produce 3.3M litres of milk and 250,000kgMS for the FY20/21.

We still intend to replace the milking platform and modernise the operations but as it is still operating satisfactorily, we intend to delay this work as long as possible to ensure all options are explored before deciding on the ultimate size of the Aringa Park Dairy.

First Tasmanian Farm – Tarkine Farm

Contracts were exchanged, bank loans are in place and settlement is on track for 1st July 2020 for our first farm in North West Tasmania. The farm comprises 327ha of land of which 311ha is grazing land with 55ha of irrigation. The dairy is a modern 60-unit rotary with automatic cup removers, automatic teat spray and auto-drafting. We will be acquiring approximately 750 cows in calf/milkers with the farm purchase. The cows will be agisted off farm for a period of six weeks to maximise pasture growth during the winter. The yearlings are also agisted off farm for a period of 12 months. This is common practice in Tasmania however we are assessing opportunities to bring these agistment costs in house.

Most farms in Tasmania, including Tarkine, operate with an annual spring calving pattern and we are acquiring the farm during the dry period several weeks ahead of the commencement of calving in late August. Milk production will begin in September and reach full production in November / December, again timed so that peak feed demand is matched with peak grass supply.

Farmland Values

Rural Bank released their 2020 report on farmland values in May and we summarise their findings below. For the full report please see : https://www.ruralbank.com.au/for-farmers/ag-answers/farm-land-values

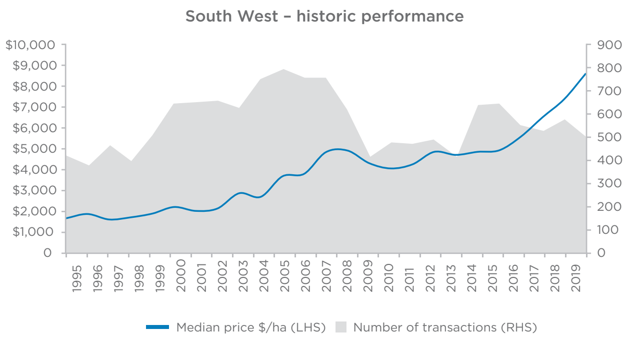
The median price per hectare of Australian farmland increased by 13.5 per cent in 2019 which marks the sixth consecutive year of growth, bringing the 20-year compound annual growth rate to 7.5 per cent. The number of farmland transactions declined with fewer properties coming on the market. Tightening access to suitable parcels of land, and increased competition for fewer parcels is expected to play a role in driving increased values. Land

with consistent access to water has continued to perform far better than land without. Climate risk and reliable rainfall continues to drive investment.

Keeping in-line with the long-term trend, expectations are for farmland values to continue to rise, underpinned by strong demand for agricultural assets and increasing profitability of farming operations in an environment of low interest rates and strong commodity prices.

The median price per hectare of farmland in South West Victoria increased by 16.7 per cent in 2019, which follows an increase of 13.3 per cent in 2018. Larger farms (150ha+) increased by substantially more. Transaction volume was lower in 2019, decreasing by 12.6 per cent. This was driven by high commodity prices for both livestock and grain, resulting in land becoming more tightly held as opposed to being offered up for sale. This trend is expected to continue in 2020.

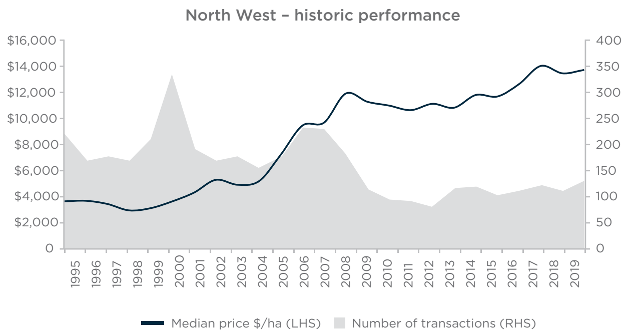
South West Victoria



Tasmanian farmland values recovered in 2019 as stronger demand from buyers exceeded the supply of properties on the market. North West Tasmania, where our first farm is located saw a 2% rise in the median price and annual compound growth over 20 years is sitting at 7.7%. We note much more substantial price rises were seen in larger farm parcels (up over 20%).

Larger farms also have the highest long-term growth rate, they are highly sought after and we expect them to remain so.

North West Tasmania



Distribution forecast

Income from milk sales has been on track over the past five months and pleasingly we continue to be on target for our forecast distribution of 2.5 cents/unit to investors for the June half year. This forecast distribution is despite the dilutive impact of the additional equity raised to settle the purchase of the Tasmanian farm, and it highlights the performance of the two farms we currently own.

Our forecast distribution for FY2020/21 is 6-7% and we intend to switch from semi annual to quarterly distributions.

We are very pleased with progress to date and we are currently assessing two further acquisition opportunities in Tasmania. We will keep you updated as developments unfold.

Warm Regards,

Quek, James, Kirsti and Elizabeth

Prime Value Agriculture Team

Information Memorandum