Rural Funds Management Limited Independent Expert's Report

24 July 2019

McGrathNicol

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24 July 2019
Independent Directors
Rural Funds Management Limited
2 King Street
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1 Executive summary

Independent Expert's Report

Dear Directors,

1.1 Introduction

1.1.1 Rural Funds Management Limited ("**RFM**") is the responsible entity and manager of three unlisted almond funds/schemes that operate as effective managed investment schemes ("**MIS**"):

(a) RFM Almond Fund 2006 ("**AF06**");

(b) RFM Almond Fund 2007 ("**AF07**"); and

(c) RFM Almond Fund 2008 ("**AF08**") (collectively, "**the Schemes**").

1.1.2 On 1 May 2019 RFM announced to the investors in the Schemes (referred to as **Growers**) that it is proposing to merge the Schemes along with a small holding by RFM Farming Pty Ltd ("**RFMF**"), a wholly owned subsidiary of RFM, into a unit trust ("**Trust**"). For this report we refer to the proposed merger as the "**Proposed Transaction**". The terms of the Proposed Transaction are set out in the accompanying Explanatory Memorandum of which this report forms part.

1.1.3 Should the Proposed Transaction occur:

(a) Growers will be referred to as unitholders;

(b) AF06 will be the "head" trust and will alter its constitution to convert its Growers' interest to units;

(c) AF07 and AF08 Growers will be offered units in the Trust via a product disclose disclosure statement in exchange for their existing interest; and

(d) following the merger, the Trust will acquire the interests of RFMF.

1.1.4 The potential benefits to the Growers under the Proposed Transaction include:

(a) reduced management fees and corporate management expenses per hectare due to the consolidation of the Schemes and RFMF;

(b) elimination of future shortfall invoices and personal liability of the Growers;

(c) distributions to Growers can be paid out of net cash inflows and future profitability of the Trust;

(d) simplified taxation structure for the Growers as they will no longer be required to claim goods and services tax ("**GST**") refunds;

(e) liquidity for the Growers' interest as RFM intends to list the Trust on the National Stock Exchange;

(f) diversification benefits because production risk will be spread across a larger asset base.

1.2 Purpose

1.2.1 In accordance with Australian Securities and Investment Commission ("**ASIC**") Regulatory Guide 76 'Related Party Transactions' ("**RG 76**"):

(a) RFM require an Independent Expert's Report to be provided to the non-associated Growers; and

(b) the non-associated Growers will need to approve, by special resolution, the constitutional changes to merge the Schemes and RFMF under the Proposed Transaction.

1.2.2 The Directors of RFM have requested that McGrathNicol Transaction Advisory Pty Ltd ("**McGrathNicol**") provide an Independent Expert's Report in relation to the Proposed Transaction, indicating whether in our opinion the merger of the Schemes and RFMF is fair and reasonable for the non-associated Growers.

1.2.3 Our Independent Expert's Report has been prepared to assist the non-associated Growers form the view as to whether to approve the Proposed Transaction. McGrathNicol is independent of RFM and has no involvement with, or interest in, the outcome of the Proposed Transaction other than the preparation of this Report.

1.3 Summary and conclusion

1.3.1 In our opinion, the Proposed Transaction is fair and reasonable to the non-associated Growers.

1.3.2 In assessing if the Proposed Transaction is fair, we compared:

(a) our assessment of the value per hectare of each scheme before the Proposed Transaction; and

(b) our assessment of the value per hectare of each scheme after the Proposed Transaction.

1.3.3 The Proposed Transaction is fair because the value to the non-associated Growers per hectare is greater if the Proposed Transaction occurs compared to the value per hectare if the Proposed Transaction does not occur.

1.3.4 A comparison of the undiscounted post-tax cash flows per hectare to the non-associated Growers and the value per hectare using the DCF methodology is set out below:

	AF06		AF07		AF08	
	Scheme	Trust	Scheme	Trust	Scheme	Trust
30-Sep-19	(6,003)	-	657	-	(580)	-
30-Sep-20	(969)	333	(2,495)	633	(1,939)	601
30-Sep-21	(1,579)	343	-	652	-	619
30-Sep-22	4,107	353	157	672	1,312	638
30-Sep-23	(1,807)	364	-	692	-	657
30-Sep-24	4,034	375	(244)	713	965	677
30-Sep-25	(2,024)	386	-	734	-	697
30-Sep-26	4,462	397	402	756	1,668	718
30-Sep-27	18,833	409	-	779	-	740
30-Sep-28	-	422	3,744	802	3,170	762
30-Jun-29	-	10,639	19,184	20,247	19,500	19,220
Total (undiscounted)	**19,053**	**14,020**	**21,405**	**26,681**	**24,095**	**25,329**
Value	**416**	**3,339**	**2,805**	**6,354**	**3,506**	**6,032**

Source: RFM and McGrathNicol analysis. Note, numbers may not add due to rounding

1.3.5 In assessing if the Proposed Transaction is reasonable we first considered whether the Proposed Transaction is fair. Additionally, we compared the potential advantages and disadvantages to the non-associated Growers should the Proposed Transaction proceed. Pursuant to RG 111, an offer is reasonable if it is fair. Accordingly, we have concluded that the Proposed Transaction is reasonable. Notwithstanding the above, in forming our assessment of the reasonableness of the Proposed Transaction, we have compared the advantages and disadvantages of the Proposed Transaction, as detailed below.

1.3.6 The key benefits to the non-associated Growers by combining the Schemes include:

(a) Distributions to unitholders will be a function of net cash inflows and future profitability of the Trust. This contrasts to the current scheme arrangement whereby operating surpluses and shortfalls are distributed and invoiced respectively to each Grower.

(b) The cash flows to the Growers are less influenced to weather events, in particular the earlier years, because distributions are paid out of net cash inflows, which includes debt financing.

(c) The Growers will no longer be personally liable for cash shortfalls or be required to make additional contributions. Under the Proposed transaction the Growers are not required to provide further funding.

(d) The returns to the Growers are more consistent and are not at any stage negative nor require funding of shortfalls.

(e) A simpler tax structure. Despite the benefits of GST registration to a Grower's return, many remain unregistered.

(f) A larger and more diverse pool of almonds, thereby spreading production risk. Impact of isolated events, such as hail and frost, will be minimised in the larger Trust.

(g) Growers have an opportunity to use up any carry forward tax losses they may have built up over the past few years.

(h) Corporate cost savings.

(i) the Trust will seek to list on the National Stock Exchange, providing Growers with liquidity;

(j) Whilst Growers will be invoiced the FY19 and July and August 2019 shortfall, the shortfall will be paid out of the Trust.

(k) RFM will reduce the management fee to $500 per hectare based on the forecast price and yields.

1.3.7 The key disadvantages to the non-associated Growers by combining the Schemes include:

(a) The Growers may have a tax bill on disposal of their assets/interest in the Schemes. Preliminary analysis indicates that this will be offset in part by carried forward losses and some of the Growers may also be covered by GST refunds.

(b) AF06 Growers are currently able to withdraw their working capital in 2027. This will be partly delayed in the Trust as it will be distributable across all unitholders.

(c) In the event of a catastrophe, where there is a serious disruption to the almond growing business, the Trust may seek to raise funding by issuing new units in the Trust. This may dilute the holding of unitholders. This contrasts to the current arrangements where Growers are required to make shortfall payments.

(d) The costs involved in the merging of the Schemes will be borne entirely by the Schemes and therefore impacts the cash flows of the Trust.

1.4 Consent and other matters

1.4.1 Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum in which this report is included, and is prepared for the exclusive purpose of assisting the non-associated Growers. This report should not be used for any other purpose.

1.4.2 McGrathNicol consents to the issue of this report in its form and context and consents to its inclusion in the Explanatory Memorandum.

1.4.3 This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to the non-associated Growers as a whole. We have not considered the potential impact of the Proposed Transaction on individual Growers. Individual Growers have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual Growers.

1.4.4 The decision of whether or not to approve the Proposed Transaction is a matter for each Grower based on their own views of the value of each fund and expectations about future market conditions, risk profile and investment strategy. If Growers are in doubt about the action they should take, they should seek their own professional advice.

1.5 Other

1.5.1 This letter is a summary of McGrathNicol's opinion on the Proposed Transaction. This letter should be read in conjunction with the detailed report and appendices as attached. Unless the context requires otherwise, references to "we", "our" and similar terms refer to McGrathNicol.

Yours faithfully

McGrathNicol Transaction Advisory

McGrathNicol Transaction Advisory Pty Ltd

Contents

Appendices

2 Details of the Proposed Transaction

2.1 Background

2.1.1 RFM is the responsible entity and manager of three unlisted almond funds/schemes that operate as effective MIS'. The Schemes are aimed at providing Growers the opportunity to operate an almond growing business. Growers have a licence to occupy and operate an area of the Mooral property in Hillston, New South Wales. The duration of the Schemes is to June 2026 for AF06 and to June 2028 for AF07 and AF08.

2.2 Proposed Transaction

2.2.1 On 1 May 2019, RFM announced to the Growers that it is proposing to merge the Schemes along with RFMF into a unit trust, being a single almond growing entity. Should the Proposed Transaction occur:

(a) Growers will be referred to as unitholders;

(b) it is expected that approximately 9,474,425 units will be issued;

(c) AF06 will be the "head" trust and will:

(i) alter its constitution;

(ii) convert its Growers' interest to units; and

(iii) be renamed to RFM Almond Fund; (which is referred to as the "Trust" in this report).

(d) AF07 and AF08 Growers will be offered units in the Trust via a product disclose disclosure statement in exchange for their existing interest; and

(e) following the merger, the Trust will acquire the interests of RFMF.

2.2.2 The non-associated Growers will need to approve, by special resolution, the constitutional changes to merge the Schemes and RFMF under the Proposed Transaction. If approved, according to RFM the key benefits to Growers include:

(a) Distributions to unitholders will be a function of net cash inflows and future profitability of the Trust.

(b) Growers will no longer be personally liable for cash shortfalls or be required to make additional contributions.

(c) A simpler tax structure. Despite the benefits of GST registration to a Grower's return, many remain unregistered.

(d) A larger and more diverse pool of almonds, thereby spreading production risk. Impact of isolated events, such as hail and frost, will be minimised in the larger Trust.

(e) Growers have an opportunity to use up any carry forward tax losses they may have built up over the past few years.

(f) Corporate overhead cost savings.

(g) The Trust will seek to list on the National Stock Exchange, providing Growers with liquidity.

(h) Whilst Growers will be invoiced the FY19 and July and August 2019 shortfall, the shortfalls will be paid out of the Trust.

(i) RFM will reduce the management fee to $500 per hectare based on the forecast price and yields.

2.2.3 The key disadvantages to the non-associated Growers by combining the Schemes include the following:

(a) Growers may be liable for tax on disposal of their assets/interest in the Schemes. RFM's independent tax advice indicates this will be offset by carried forward losses, payments in kind made by the Trust, shortfalls and expense not passed onto the Growers and GST refunds.

(b) AF06 Growers' are currently able to withdraw their working capital in 2027. This will be partly delayed in the Trust as it will be distributable across all unitholders.

(c) In the event of a catastrophe, where there is a serious disruption to the almond growing business, the Trust may seek to raise funding by issuing new units in the Trust. This may dilute the holding of unitholders. This contrasts to the current arrangements where Growers are required to make shortfall payments.

(d) Costs are involved in the merging of the Schemes and will be borne entirely by the Schemes.

2.3 Tax status of the Trust

2.3.1 The Trust will become a public trading trust and as such be taxed like a company. Unlike a company it will have the ability to, on an ongoing basis, distribute any capital profits that are available after distributing income first. The tax imputation system and therefore franking credits will apply.

2.3.2 Tax consideration is relevant to the timing of the Proposed Transaction. RFM has been provided independent tax advice which indicates that:

(a) any expenses that have been incurred up to the date of restructure are deductible;

(b) due to the timing of the Proposed Transaction, there is no standing crop on the trees; and

(c) the Proposed Transaction provides Growers an opportunity to utilise any carry forward tax losses accumulated over previous years.

2.4 Taxation on the sale of nuts to the Trust

2.4.1 Upon the Proposed Transaction:

(a) the assets of the Growers will be sold to the Trust;

(b) these assets comprise the value of nuts, harvested and unharvested, as well as the value of each scheme interests transferred, being the value of any future cash flows; and

(c) the Growers will be liable for tax for the sale of the assets to the Trust. The tax liability largely represents the brought forward tax that would have eventually been paid if the Schemes had run their course, and as such is not an additional tax liability for the Growers.

3 Scope of our report

3.1 Purpose of the report

3.1.1 In accordance with RG 76, RFM require an Independent Expert's Report to be provided to the non-associated Growers and the non-associated Growers will need to approve, by special resolution, the constitutional changes to merge the Schemes and RFMF under the Proposed Transaction.

3.1.2 In accordance with the Corporations Act 2001 ("**Corporations Act**"), RFM has appointed McGrathNicol as an independent expert to express an opinion addressing whether or not the terms of the Proposed Transaction are fair and reasonable to the non-associated Growers.

3.1.3 Our Independent Expert's Report has been prepared to assist the non-associated Growers in forming the view as to whether to approve the Proposed Transaction.

3.2 Corporations Act 2001

3.2.1 Section 208 of Chapter 2E of the Corporations Act requires a company to seek approval before giving a financial benefit to a related party unless the benefit falls within an exception provided for in section 210 of the Corporations Act. RG 76 states:

> *"RG 76.104 To ensure that members are provided with sufficient information to assess a proposed related party transaction and decide how to vote, it may be necessary for entities to include a valuation from an independent expert with a notice of meeting for member approval under Ch 2E or Pt 5C.7 where:*
>
> *(a) the financial benefit is difficult to value;*
>
> *(b) the transaction is significant from the point of view of the entity (see RG 76.112); or*
>
> *(c) the non-interested directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit."*

3.3 Basis of evaluation

3.3.1 In evaluating the fairness and reasonableness of the Proposed Transaction, we have considered the requirements of the Corporations Act and relevant Regulatory Guides issued by ASIC.

3.3.2 McGrathNicol has had regard to ASIC Regulatory Guide 111 "Content of expert's reports" ("**RG 111**") in relation to the content of Independent Expert's Report and RG 76 in relation to related party transactions. RG 76 largely refers to RG 111 in relation to the approach to related party transactions (refer to RG 76.113). RG 111:

(a) establishes certain guidelines in respect of Independent Expert's Reports prepared for the purpose of the Corporations Act;

(b) is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer; and

(c) regulates Independent Expert's Reports prepared for related party transactions in clauses 52 to 63, in particular clause 56 which states:

> *"RG 111.56 Where an expert assesses whether a related party transaction is 'fair and reasonable' (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this should not be applied as a composite test— that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal, as we do not consider this provides members with sufficient valuation information (See Regulatory Guide 76 Related party transactions (RG 76) at RG 76.106–RG 76.111 for further details)."*

3.3.3 Regulatory Guide 111 distinguishes "fair" from "reasonable" and considers a proposal to be:

(a) "Fair" if the value of the offer is equal to or greater than the value of the securities subject to the offer. This comparison should be made assuming 100% ownership of the "target" and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage held by the "bidder" or its associates in the target when making this comparison.

(b) "Reasonable" if it is fair. It might also be reasonable if, despite being "not fair", the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

3.3.4 For this Report, McGrathNicol has treated "fair" and "reasonable" as separate concepts.

3.4 Our approach

Fairness

3.4.1 In forming our opinion on whether or not the terms of the Proposed Transaction are fair we have compared:

(a) our assessment of the value per hectare of each scheme before the Proposed Transaction; and

(b) our assessment of the value per hectare of each scheme after the Proposed Transaction.

3.4.2 Under this methodology, if the value per hectare after the Proposed Transaction is greater than the value prior to the Proposed Transaction, there will be a benefit to the non-associated Growers, and as such, the Proposed Transaction would be fair. Conversely, if the value per hectare after the Proposed Transaction is less than the value prior to the transaction, there will be a dilution in value to the non-associated Growers under the Proposed Transaction, and as such, the Proposed Transaction would be unfair.

Reasonableness

3.4.3 Regulatory Guide 111 considers an offer to be reasonable if either the offer is fair, or despite the offer not being fair, but considering other significant factors, security holders should accept the offer in the absence of any higher bid before the close of the offer. In addition to determining whether the Proposed Transaction is fair we have considered the advantages and disadvantages of accepting or rejecting the Proposed Transaction.

3.5 Limitations and reliance on information

3.5.1 McGrathNicol's opinion is based on economic, share market, business and trading conditions prevailing at the date of this Report. These conditions can change significantly over relatively short periods. If they did change materially, the valuation and our opinion could vary significantly.

3.5.2 This Report is based upon financial and non-financial information provided by RFM and its advisers. McGrathNicol has considered and relied upon this information and has no reason to believe that any material facts have been withheld. The information provided to McGrathNicol has been evaluated through analysis, inquiry and review for the purposes of forming an opinion as to whether the Proposed Transaction is fair and reasonable to the Growers. However, McGrathNicol does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or due diligence investigation might disclose.

3.5.3 An important part of the information used in forming an opinion as to fairness and reasonableness is comprised of the opinions and judgement of RFM management. This type of information was evaluated through analysis, inquiry and review. However, such information is often not capable of external verification or validation and has not been independently verified. To the extent that there are taxation and legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, continuous disclosure rules, regulations, and policies, McGrathNicol:

(a) assumes no responsibility and offers no legal opinion or interpretation on any issue; and

(b) has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no legal proceedings, other than as publicly disclosed.

4 The RFM orchard and industry analysis

4.1 The RFM orchard

4.1.1 The almondlots for the Schemes and RFMF are all located on the Mooral orchard, located at Hillston, New South Wales. Each Grower interest has been assigned an almondlot that has an identifiable location and each scheme encumbers a specific area of the orchard. The RFM almond orchard is:

(a) located approximately 20km west of Hillston, New South Wales on Merungle Road within the Lachlan Catchment in the Riverina region of NSW. The Lachlan catchment supports a diverse range of irrigated crops including fruits, vegetables, cotton, rice, fodder and cereals. Suitable soils, Mediterranean climate and a reliable source of good quality water are the key factors associated with the success of horticulture in the region[1];

(b) in a proven almond production region. According to the Almond Board of Australia, the estimated area of almonds in the Riverina region in 2017 was 7,885 hectares and a total of 9,288 tonnes of almonds was produced in the Riverina region in 2016/2017[2]; and

(c) approximately 808 hectares, which is allocated as follows:

(i) the Schemes lease approximately 550 hectares;

(ii) Select Harvests Limited ("**SHV**") leases 215 hectares;

(iii) RFMF leases approximately 42 hectares; and

(iv) RF Active (part of the Rural Funds Group) ("**RFA**") leases 0.5 hectares.

4.1.2 SHV and RFA will not be consolidated into the Trust.

4.2 Expert report prepared by Ben Thomas Consulting

4.2.1 Ben Thomas ("**Mr Thomas**"), from Ben Thomas Consulting, was engaged by RFM to prepare an Independent Agronomic Expert's Report on the RFM almond orchard. The purpose of this report was to compare the almond growing projects within the AF06, AF07, AF08, RFMF and RFA and to provide an opinion as to whether the different projects are comparable. Mr Thomas' report is limited to horticultural aspects of the almond orchard, with no assessment of management costs or budget performance.

4.2.2 In preparing his report Mr Thomas undertook the following tasks[3]:

(a) Detailed inspection of the RFM almond orchard. Mr Thomas inspected the orchard on 6 and 7 May 2019.

(b) Communication with current orchard management staff to discuss potential issues and any management strategies being implemented.

(c) Review of relevant data and documentation including, but not necessarily limited to, yield records, fertiliser programs, soil and leaf analysis data, irrigation records, and pest and disease control programs.

[1] Report of Mr Ben Thomas (paragraph 2.1)

[2] Almond Board of Australia – Almonds Insights 2017-18

[3] Report of Mr Ben Thomas (paragraph 1.1)

4.2.3 Mr Thomas provided the following summary of the yields achieved for the Schemes and RFMF:

	Hectare	2013/14	2014/15	2015/16	2016/17	2017/18
AF06	272.00	3.16	4.18	2.67	3.68	2.61
AF07	72.94	3.41	4.34	3.00	3.76	3.12
AF08	206.30	3.07	4.29	3.14	3.65	3.19
RFMF	41.65	3.50	4.32	2.66	3.88	2.97
Total	**592.89**	**3.18**	**4.25**	**2.87**	**3.70**	**2.90**

Source: Report of Ben Thomas (Table 6). Note, numbers may not add due to rounding

4.2.4 In relation to the above table Mr Thomas states:

"With almond, the yield achieved in a particular season is determined by the number of flower buds (determined in the previous season), the number of fruit (determined by pollination) and kernel growth (weight). Variations in yield occur when any one or more of these components are affected. The data illustrates that yields vary between projects and seasons and, in my experience, such variability is expected in almond orchards. The variability usually reflects soil differences, climatic conditions, bee hive strength etc. that affects one of more of the factors listed above."

4.2.5 Mr Thomas provides further comments in his report explaining the differences between the Schemes and RFMF yield. Selective comments include[4]:

"In 2014/2015, very good yields were achieved in all projects with the highest yield achieved in AF07 followed by RFMF/RFA, AF08 and AF06. Yields for all projects exceeded the industry standard of 3.2 tonnes of kernel per hectare."

"In most seasons, AF06 achieved lower yields than the other projects. My understanding is that storms in 2007/2008 caused significant tree losses in AF06 which required replacement and this has impacted yields as the replacement trees were established."

"In 2015/2016, yields were lower in all projects compared to 2014/2015 and none exceeded the industry standard of 3.2 tonnes of kernel per hectare. My understanding is that poor pollination and wet weather during harvest were key factors affecting yields achieved in the RFM almond orchard in 2014/2015. The very good yields achieved in all projects in 2014/2015 may have also had an impact.

"In 2016/2017, yields were higher in all projects compared to 2015/2016 and all projects exceeded the industry standard of 3.2 tonnes of kernel per hectare. This season illustrates that all project areas have similar yield potential when conditions are conducive."

"In 2017/2018, yields in all projects were lower compared to 2016/2017 and only AF08 achieved the industry standard of 3.2 tonnes of kernel per hectare. My understanding is that the orchard was affected by frosts in spring 2017 which had a major impact on yields, particularly in AF06. In response, frost fans have been installed across the RFM almond orchard with additional frost fans planned."

4.2.6 The cash flow forecasts for the Schemes and RFMF have the same price, yield and harvest processing cost assumptions. Mr Thomas reached the conclusion that there was no significant differences between the Schemes and RFMF in relation to price, yield and processing cost[5] :

[4] Report of Mr Ben Thomas (section 7, page 12)

[5] Report of Mr Ben Thomas (section 7, page 11)

"Overall, there have been some differences (e.g. waterlogging, yields, frost damage etc.) between the projects in the past. However, considering the recent implementation of various management strategies (e.g. irrigation management, frost fans etc.), it is my opinion that there are currently no significant differences between the projects with each project having similar future prospects and facing similar risks."

"...it is my opinion that the future yield potential across all projects is similar with no significant visual differences observed between the projects during my orchard inspection and considering the recent implementation of management strategies to mitigate potential risks such as frost events."

4.3 Overview of the almond growing industry

4.3.1 According to the Almond Board of Australia:

(a) the United States of America is the largest producer and exporter of almonds, with approximately 80% of global almond production originating in California, followed by Spain and then Australia;

(b) as of 2017, there were 39,662 hectares of almond orchards planted along the Murray River corridor in South Australia, Victoria and New South Wales. Rural Funds Group currently owns 4,914 hectares of orchard area in New South Wales, these orchards comprise mature trees, newly planted trees and areas which are under development; and

(c) the commercial life of an almond tree is considered to be between 25 to 30 years with tree bearing nuts in their third year, reaching maturity around seven years.

4.3.2 According to IBISWorld[6]:

(a) the majority of the nuts grown in Australia are exported to Asia and the Middle East with the remainder bound for domestic markets;

(b) 95% of nuts exported to India are almonds;

(c) the majority of nuts exported to Vietnam include almonds and macadamias; and

(d) almond prices are typically quoted in US dollars, which indicates that movements in the Australian dollar can significantly affect the price domestic producers receive. Australian growers generally benefit from a weakening Australian dollar, as it increases the price received for their produce and makes Australian nuts more price competitive in export markets.

4.4 Historical industry performance

4.4.1 According to IBISWorld:

(a) demand for almonds has increased over the last five years due to rising health consciousness and surging consumer demand for almonds in export markets;

(b) approximately 70% of Australia's almonds were destined for export markets in 2018-19;

(c) operating conditions in the 'Tree Nut Growing' industry (of which almonds represent 62.2%) have been volatile over the past five years;

(d) industry revenue growth has benefited from rising global nut consumption and export growth; and

(e) over the five years through 2018-19 industry revenue is expected to increase at an annualised 12.7% to reach $899.6 million (which includes revenue growth of 3.5% in the current year). This is because of the increased demand for tree nuts due to rising health consciousness and a weakening Australian dollar.

[6] IBISWorld Report OD5544 'Tree Nut Growing in Australia' (November 2018) (page 5)

4.5 Industry demand determinants

4.5.1 According to IBISWorld, the key external drivers for the tree nut growing industry (and almonds) include[7]:

(a) weather conditions: Almond orchards require a hot, dry summer and a mild winter. Favourable weather conditions improve industry output, nut quality and revenue. The level of annual rainfall is anticipated to decline in 2018-19 which should benefit almond harvesting;

(b) health consciousness: Rising health consciousness represents an opportunity for the industry, contributing to greater demand for healthy snack options, such as nuts. Health consciousness is expected to rise in 2018-19 which should benefit the demand for almonds;

(c) disposable incomes: Higher disposal incomes should increase demand;

(d) global nut prices and exchange rates: A depreciating Australian dollar tends to boost industry revenue. The trade-weighted index is anticipated to decline in 2018-19, which should benefit Australian exports of almonds; and

(e) domestic price of fertiliser: Fertiliser is an important input for nut growers. Domestic fertiliser prices are projected to increase in 2018-19. This may impact profitability.

4.6 Volatility of industry revenue

4.6.1 According to IBISWorld, revenue volatility in the tree nut growing industry has been higher over the past five years given the high level of industry exports and movements in the Australian dollar.

4.6.2 The prices industry operators receive for their tree nuts is also heavily dependent on the performance of nut growers in competing countries.

4.7 Competitive landscape

4.7.1 According to IBISWorld[8]:

(a) market share concentration is medium, with the four largest operators estimated to account for over 40% of industry revenue in 2018-19;

(b) competition in the industry is medium and the trend is steady. Growers compete on price, reliability of supply and access to markets. The industry is also subject to external competition from imported nuts and substitute products;

(c) barriers to entry are low and steady. Whilst the capital outlay required to commence small scale operations is not prohibitive, the long lag time between three to five years before nuts can be harvested requires alternative revenue stream in the meantime; and

(d) globalisation in this industry is high and the trend is steady.

4.8 Outlook

4.8.1 According to IBISWorld, over the next five years:

(a) the industry is forecast to consolidate;

(b) growing global demand for tree nuts if forecast to increase industry participation;

(c) industry revenue is forecast to reach $1.2 billion (an increase of annualized 5.0% p.a.); and

(d) global tree nut supply is forecast to rise, placing downward pressure on prices and industry profit margins.

[7] IBISWorld Report OD5544 'Tree Nut Growing in Australia' (November 2018) (page 4 and 5)

[8] IBISWorld Report OD5544 'Tree Nut Growing in Australia' (November 2018) (pages 17 to 19)

5 Profile of the Schemes

5.1 Overview

5.1.1 The Schemes are aimed at providing investors the opportunity to operate an almond growing business. Each investor is a 'Grower' with certain rights to maintain their almond trees and harvest their almonds and has been assigned an 'almondlot' that has an identifiable location.

5.1.2 The Schemes do not operate a business in their own right, rather act as a conduit for the receipt of income from the sale of almond produce, and the distribution of the same to the Growers. Under the Schemes:

(a) the Growers have a licence to occupy and operate an area of the Mooral property in Hillston, New South Wales, where the Schemes collectively operate approximately 550 hectares. The duration of the Schemes are to June 2026 for AF06 and to June 2028 for AF07 and AF08;

(b) a Grower can elect (as all Growers do) to pay RFM to maintain and harvest their almonds. The Growers' almonds are then combined with the almonds of other scheme Growers, sold and the net proceeds of sale are proportionally distributed to Growers;

(c) the Growers are responsible for all the costs associated with growing of almonds on their almondlot;

(d) the return to Growers are dependent on the performance of the almond growing business;

(e) the Growers' are able to claim a refund of GST paid by each scheme. GST needs to be claimed personally by the Growers. The Schemes structure require Growers be invoiced and registered for GST;

(f) the Growers are personally liable for any shortfall (when expenses exceed revenue in a financial year) which if unpaid may lead to removal from the individual scheme;

(g) when defaulting Growers have their scheme interest cancelled RFM has operated a confidential tender process in recent years, with defaulted lots offered to other Growers in the scheme. RFM has bought the interests where there are no bids in the tender process. RFM owns 291 groves of the 1,088 originally comprising AF06 due to Growers having their scheme interests cancelled;

(h) tax losses can only be used to offset future scheme income (unless Growers meet certain tests);

(i) tax deductions are supported by the following tax rulings:

    (i) AF06: Australian Taxation Office ("**ATO**") Product Rulings ("**PR**") 2006/24 and PR 2006/25;

    (ii) AF07: ATO PR 2010/27; and

    (iii) AF08: ATO PR 2010/28.

(j) it is not possible to use debt funding for working capital; and

(k) no secondary market exists to facilitate liquidity or valuation of almondlots.

5.2 Historical financial performance of the Schemes and distributions paid to/(contributions from) the Growers

5.2.1 Below is a summary of the financial performance of each scheme and the distributions paid to/(contributions from) the Growers for the four years ended 30 June 2018 and six months ended 31 December 2018:

AF06

A'$000	FY15A	FY16A	FY17A	FY18A	YTDDec18A
Harvest proceeds	5,539	9,376	3,953	5,227	2,362
Other income	-	-	-	-	-
Total revenue	**5,539**	**9,376**	**3,953**	**5,227**	**2,364**
Interest income	36	54	24	2	1
Other income	0	0	0	0	-
Total other income	**36**	**55**	**24**	**2**	**1**
Processing fees	(258)	(251)	(197)	(310)	(294)
Agribusiness operations	(3,195)	(3,361)	(3,369)	(3,438)	(2,152)
Land lease and rental	(1,146)	(1,227)	(1,298)	(1,322)	(691)
Management fees	(180)	(185)	(189)	(97)	(99)
Finance costs	-	-	-	-	(36)
Net profit/(loss)	**796**	**4,406**	**(1,076)**	**62**	**(909)**
Distributions paid/(contributions from) Growers	**864**	**796**	**4,406**	**(396)**	**(587)**

Source: AF06 financial statements. Note, numbers may not add due to rounding

AF07

A'$000	FY15A	FY16A	FY17A	FY18A	YTDDec18A
Harvest proceeds	2,236	3,564	1,625	1,923	1,036
Total revenue	**2,236**	**3,564**	**1,625**	**1,923**	**1,036**
Cost of almonds sold	(2,194)	(3,495)	(1,639)	(1,973)	(1,036)
Gross Profit	**43**	**69**	**(14)**	**(51)**	**-**
Change in fair value of biological assets	2,132	216	619	267	260
Other income	0	0	0	0	-
Interest income	5	14	7	1	0
Performance fees	-	(197)	-	-	-
Management fees	(83)	(84)	(85)	(43)	(43)
Land lease and rental	(423)	(465)	(491)	(501)	(260)
Other expenses	(0)	(0)	(0)	(0)	(0)
Finance costs	-	-	-	-	(13)
Net profit/(loss)	**1,673**	**(447)**	**36**	**(326)**	**(56)**
Distributions paid/(contributions from) Growers	**220**	**390**	**1,386**	**(156)**	**(490)**

Source: AF07 financial statements. Note, numbers may not add due to rounding

AF08

A'$000	FY15A	FY16A	FY17A	FY18A	YTDDec18A
Harvest proceeds	5,570	9,957	4,781	5,377	2,993
Total revenue	**5,570**	**9,957**	**4,781**	**5,377**	**2,993**
Cost of almonds sold	(5,546)	(9,796)	(4,856)	(5,413)	(2,993)
Gross Profit	**24**	**161**	**(75)**	**(37)**	-
Change in fair value of biological assets	6,213	1,098	1,457	959	734
Other income	0	0	0	0	6
Interest income	10	35	18	2	1
Performance fees	-	(576)	-	-	-
Management fees	(236)	(239)	(241)	(121)	(123)
Land lease and rental	(1,196)	(1,314)	(1,389)	(1,416)	(734)
Other expenses	(32)	(0)	(0)	(0)	(0)
Finance costs	-	-	-	-	(34)
Net profit/(loss)	**4,783**	**(834)**	**(230)**	**(613)**	**(149)**
Distributions paid/(contributions from) Growers	**619**	**598**	**4,049**	**(456)**	**(1,312)**

Source: AF08 financial statements. Note, numbers may not add due to rounding

5.2.2 In relation to the tables above:

(a) revenues and expenses are recognised inclusive of the amount of GST. Growers registered for GST are able to claim input tax credits from the ATO based on the annual invoice;

(b) for AF06, these figures exclude the groves owned by RFM. That is, this only refers to 797 groves and excludes the 291 groves owned by RFM;

(c) harvest proceeds are received in the financial year following harvest. For instance, the 2018 harvest proceeds will be received in FY19;

(d) agribusiness operations include expenses reimbursed to RFM and rent paid;

(e) management fees are paid to RFM. In FY18, the management fee included a rebate of 50%;

(f) licence fees are paid to RFF;

(g) finance costs relate to loans provided by RFM;

(h) the performance fee was a notional distribution amount that was set in the product disclosure statement as a hurdle rate. In FY16 AF07 and AF08 achieved the hurdle and a performance fee was due to RFM; and

(i) harvesting cycles, yield, price and foreign exchange translation have significantly influenced whether Growers received surplus cash as distributions or have been required to make shortfall payments. The 2018 crop was significantly affected by frost with a final yield of 3.12 tonnes per hectare. Combined with a forecast price of $7.5 per kilogram a shortfall loss is anticipated in FY19.

5.2.3 At the date of this report, no accounts were prepared beyond 31 December 2018. RFM has advised that for FY19:

(a) AF06 Growers will be issued with a FY19 shortfall invoice of an estimated $1,632,941 (exclusive of GST) in September 2019;

(b) AF07 and AF08 Growers were respectively issued with shortfall invoices of $191,166 and $356,403 (exclusive of GST) on 19 September 2018. These were paid during April 2019; and

(c) it is forecast that AF07 and AF08 Growers will be respectively issued with FY19 shortfall adjustments of $84,736 and $246,335 (exclusive of GST) in September 2019.

5.3 Distributions paid to/(contributions from) Growers

5.3.1 Harvest proceeds are received in the financial year following harvest. For instance, the 2018 harvest proceeds will be received in FY19. The current year's operating costs are applied against those proceeds.

5.3.2 For the duration of each licence period, Growers are entitled to receive net cash flows arising under the respective scheme, being harvest proceeds from almond sales less operating costs:

(a) when harvest proceeds exceed operating costs, the surplus cash can be distributed to Growers (subject to working capital requirements); and

(b) when operating costs exceed harvest proceeds, the Growers are required to fund the shortfall.

5.3.3 The treatment of paying surplus cash/(invoicing shortfall payments) differs between the Schemes and RFMF.

5.3.4 For AF06, surplus cash/(shortfall payments) are distributed/(invoiced) to Growers after the end of a financial year, usually in September following the financial year end. The amount of surplus cash is distributed.

5.3.5 In contrast, for AF07, AF08 and RFMF, the constitutions enable RFM to:

(a) forecast operating costs and expenses, and in turn shortfalls, for a financial year;

(b) apply the estimated shortfalls against surpluses which have not been distributed to Growers; and

(c) invoice the Growers any forecast shortfalls prior to 30 June of that year. A reconciliation will be undertaken at the end of the financial year, and if necessary, a further invoice for a shortfall adjustment is invoiced in September following the end of that financial year.

5.4 Forecasts distributions paid to/(contributions from) the Growers

5.4.1 The forecast pre-tax distributions to/(shortfall payments from) the Growers per hectare from 1 July 2019 to 30 June 2029 is summarised below (in $):

Date	AF06	AF07	AF08	RFMF
Sep-19	(6,003)	657	(580)	2,158
Sep-20	(969)	(2,495)	(1,939)	(1,500)
Sep-21	(1,579)	-	-	-
Sep-22	4,107	157	1,312	2,146
Sep-23	(1,807)	-	-	-
Sep-24	4,034	(244)	965	1,834
Sep-25	(2,024)	-	-	-
Sep-26	4,556	402	1,668	2,542
Sep-27	26,904	-	-	-
Sep-28	-	3,744	4,399	4,858
Jun-29	-	27,234	27,857	28,574
Total	**27,218**	**29,456**	**33,682**	**40,612**

Source: RFM management. Note, numbers may not add due to rounding

5.4.2 In relation to the table above:

(a) for AF06:

(i) the results include the 291 almondlots owned by RFM; and

(ii) the forecasts cease at 30 September 2027, in accordance with its constitution;

(b) the FY19 shortfalls are treated as follows:

(i) for AF06, included in the shortfall payment in September 2019; and

(ii) for AF07, AF08 and RFMF, the shortfall adjustment is included in September 2019.

5.5 Net asset position of the Schemes

Below is a comparison of the net asset position of each scheme:

	30 June 15	30 June 16	30 June 17	30 June 18	Dec 18
AF06	-	-	-	-	-
AF07	3,684	2,846	1,496	1,325	1,800
AF08	10,106	8,673	4,395	4,238	5,264

Source: Annual and half year statutory accounts

5.5.1 In relation to the table above, under the relevant constitution:

(a) AF06 has no net asset balance; whereas

(b) AF07 and AF08 balance is the value of the year's crop.

5.6 Overview of parties involved

Related party arrangements

5.6.1 A summary of the legal agreements between related parties is set out below:

Agreement	Details
Lease agreement	The RFM almond orchard is owned by, and leased from, the Rural Funds Group ("**RFF**") (the "**Lessor**"). RFM is also the responsible entity of RFF.
Sublease agreement	RFM as the responsible entity for the Schemes ("**Sublessee**") entered into an agreement with Australian Executor Trustees Limited, custodian of RFF ("**Sublessor**"). The lease agreement provides land, water and infrastructure for the each of the Schemes.
Licence to Occupy Agreement	RFM as responsible entity for the Schemes entered into an agreement with the Grower to provide the individual grower with tenure for the specific almondlot.
Farm Management Agreement	RFM as the responsible entity for the Schemes and the Growers entered into an agreement with RFM as independent contractor to manage orchard operations, maintenance, harvesting, pre-processing and delivery, as well as accounting and administrative functions. Growers are responsible for all operating costs, licence and management fees, including an interest component to fund the operation.
Farm Services Agreement	RFM acting as the agent of the Growers for AF06, AF07 and AF08 entered into a contract with RFM Farming to manage the orchard operations, maintenance, harvesting, pre-processing and delivery.

Source: RFM management

Relationship with Almondco

5.6.2 RFM, as the responsible entity for the Schemes, has a long term 'Almond Crop Supply Agreement' with Almondco Australia Limited ("**Almondco**"), whereby the almonds are delivered to Almondco's processing plant where they are graded according to quality, size and colour and Almondco processes, markets and sell the almonds on behalf of the Growers.

5.6.3 The agreement obliges Almondco to use its best endeavours to sell the almonds at the best price available at the time of sale and to determine which value added processes should be applied to maximise the return of the almonds.

6 Valuation methodology

6.1 Fair value under the Corporations Act

6.1.1 Our valuations have been prepared on the basis of fair value. Fair value has a special meaning in connection with Chapter 6 of the Corporations Act, which relates to takeovers. Pursuant to section 667C of the Corporations Act:

"(1) To determine what is fair value for securities for the purposes of this Chapter:

(a) first, assess the value of the company as a whole; and

(b) then allocate that value among the classes of issued securities in the company (taking into account the relative financial risk, and voting and distribution rights, of the classes); and

(c) then allocate the value of each class pro rata among the securities in that class (without allowing a premium or applying a discount for particular securities in that class).

(2) Without limiting subsection (1), in determining what is fair value for securities for the purposes of this Chapter, the consideration (if any) paid for securities in that class within the previous 6 months must be taken into account."

6.1.2 Consequently, for purposes of the takeover provisions of the Corporations Act, fair value is equal to the relevant proportionate interest in the value of the company as a whole. Such a value would commonly differ from the market value, which is likely to reflect a minority discount.

6.1.3 In order to calculate the fair value of the Growers' interest per hectare of each scheme, we have considered the generally accepted valuation methodologies set out below.

6.2 Asset based methods

6.2.1 Asset based methods estimate the fair value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

(a) net tangible assets;

(b) orderly realisation of assets; and

(c) liquidation of assets.

6.2.2 The net tangible assets method is based on the value of the assets of the business less certain liabilities.

6.2.3 The orderly realisation of assets method estimates fair value by determining the amount that would be distributed to shareholders assuming the company is wound up in an orderly manner realising a reasonable value for the assets.

6.2.4 The liquidation of assets method is similar to the orderly realisation of assets method except for the fact that the liquidation of assets method assumes the assets are sold in a shorter period, under a "distressed seller" scenario.

6.2.5 These approaches ignore the possibility that a company's value could exceed the realisable value of its assets. Asset based methods are appropriate when companies are not profitable, not actively trading or a significant proportion of a company's assets are liquid.

6.3 Market based methods

6.3.1 Market based methods estimate a company's fair value by considering the market price of transactions in its shares or the value and valuation metrics of comparable companies and transactions. Market based methods include:

(a) capitalisation of maintainable earnings;

(b) analysis of a company's recent share trading history; and

(c) industry specific methods.

6.3.2 The capitalisation of maintainable earnings method estimates fair value by multiplying the company's future maintainable earnings by an appropriate capitalisation earnings multiple. An appropriate earnings multiple is derived from price earnings multiples and market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable and comparable companies have similar cost structures and growth profiles.

6.3.3 The most recent share trading history provides strong evidence of the fair value of the shares in a company where they are publicly traded in an informed and liquid market.

6.3.4 Industry specific methods estimate value using industry benchmarks. These methods generally provide less persuasive evidence on the value of a company as they may not account for company specific factors. Industry specific methods should only be used as a cross check to the primary valuation methodology.

6.4 Discounted cash flow Method

6.4.1 The discounted cash flow ("**DCF**") method estimates value by discounting a company's future cash flows to their present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence for a period of at least five years or for projects with finite lives. The DCF method is commonly used to value early stage companies with volatile (and negative cash flows) or projects with a finite life.

6.5 Selection of Methodologies

6.5.1 In selecting our methodology, we have considered the following:

(a) the nature of the Proposed Transaction;

(b) specific characteristics of the Schemes, including the finite life of each scheme and the volatile cash flows to the Growers;

(c) availability and reliability of forecast cash flow information; and

(d) access to publicly available valuation benchmarks, comparable company information and comparable company transactions.

6.5.2 The DCF methodology is the most appropriate method for valuing the Growers' interests because:

(a) the DCF methodology is commonly used to value projects which have a finite life, with volatile (and negative) cash flows, as is the case with the distributions to the Growers;

(b) it is not appropriate to adopt the capitalisation of future maintainable earnings method as this method only produces a reliable valuation where the business has stable earnings and operates into perpetuity, which is not the case for the Schemes; and

(c) it is not appropriate to adopt the asset based methodologies as AF06 is structured to have a $nil equity balance.

6.6 Process in assessing valuation per hectare

6.6.1 Due to the different size units/almondlots of each scheme and RFMF, the clearest basis to compare Growers' interests if the Proposed Transaction occurs or not is on a value per hectare basis.

6.6.2 To value each scheme and RFMF on a per hectare basis requires an assessment of:

(a) the valuation date;

(b) the forecast cash flows generated from the asset, in this instance, the cash inflows and outflows to the Growers and the appropriate tax for those cash flows;

(c) the timing of these cash flows, that is, when the Growers receive distributions or are required to pay shortfalls; and

(d) the discount rate, which reflects the time value of money and risk associated with the cash flow.

6.6.3 For our assessment of the value per hectare of each scheme we have:

(a) adopted a valuation date of 31 August 2019, being the anticipated date prior to the Trust commencing;

(b) adopted the cash flow forecasts to the Growers provided by RFM management, which were prepared in consultation with RFM's tax advisers and Mr Thomas. RFM has referenced its history of operating this orchard to determine the operating and corporate costs adopted in the forecasts. Mr Thomas assessed the physical orchard differences and inputs/requirements and concluded that the current operations were in the bounds of what he would expect. Mr Thomas did not assess the operating costs, only the agronomic requirements/and RFM's application of inputs into the orchard;

(c) calculated the post-tax distributions to/(payments from) Growers assuming a 30% marginal rate of tax. In assessing the tax paid if the Proposed Transaction did not occur, we have assumed tax losses can only be used to offset future income;

(d) assumed that the Growers are registered for GST;

(e) assumed that distributions to/(payments from) the Growers are received/(paid) on 30 September following the end of a financial year. For instance, for the financial year ending 30 June 2020 the distribution is paid to the Growers on 30 September 2020; and

(f) adopted post-tax discount rates of 19.38% if the Proposed Transaction does not occur (in relation to the Schemes) and 19.36% if the Proposed Transaction occurs (for the Trust). These discount rates have been calculated using the capital asset pricing model ("**CAPM**"). Our discount rate calculations are set out at Appendix D of this report.

6.6.4 In assessing the value per hectare if the Proposed Transaction does occur, we also had regard to the tax payable per hectare by the Growers for selling their assets to the Trust.

7 Valuation of the Schemes

7.1 Overview

7.1.1 To calculate the value per hectare of each scheme and RFMF we have had consideration of the projected cash flows to the Growers if the Proposed Transaction does not occur.

7.1.2 A summary of the post-tax value per hectare for each scheme and RFMF is summarised in the table below:

AF06	AF07	AF08	RFMF
416	2,805	3,506	6,595

Source: McGrathNicol analysis

7.1.3 In relation to the values per hectare above:

(a) they are exclusive of GST;

(b) tax to the Growers has been calculated assuming a 30% tax rate;

(c) tax losses (and shortfall payments) can only be used to offset future scheme income;

(d) we have not taken into account individual Grower circumstance in calculating post-tax cash flows;

(e) for AF06, the value includes the FY19 shortfall payment in September 2019;

(f) the value of AF07 per hectare is lower because it has a higher per hectare cost structure; and

(g) for AF07 and AF08, the prepayment of FY19 shortfall is used to offset future income in calculating tax.

7.1.4 We provide details of the methodology adopted and key assumptions below.

7.2 Methodology

7.2.1 To determine the value to the Growers on a per hectare basis for each respective scheme and RFMF, we have adopted the DCF methodology. In doing so we have discounted net cash flows per hectare to the Growers by a discount rate which reflects the time value of money and risks associated with those cash flows.

7.2.2 The DCF methodology requires the estimation of two variables:

(a) **Step 1**: Forecast cash inflows and outflows to the Growers for each respective scheme and RFMF.

(b) **Step 2**: Calculate a discount rate which is used to convert forecast cash flows to a single capital value.

7.3 Step 1: Forecast cash inflows and outflows for each scheme and RFMF

7.3.1 The cash flow forecasts to Growers:

(a) are on a per hectare basis for each individual scheme and RFMF from 1 September 2019 to the end of the license period (30 June 2026 for AF06 and 30 June 2028 for AF07 and AF08);

(b) are presented excluding GST;

(c) represent the post-tax distributions paid to or contributions received from Growers; and

(d) adopt the same revenue and harvest processing expense assumptions for all Schemes and RFMF.

Revenue cash flows

7.3.2 The revenue cash flows received in a financial year are calculated as the difference between the:

(a) revenue of the prior year's harvest (at the prior year's price and yield). For example, the proceeds received in FY19 are for the 2018 harvest at the 2018 price and yield; and

(b) processing cost of the prior year's harvest (at the prior year's yield and harvest costs per hectare).

7.3.3 Based on the findings of Mr Thomas, each scheme and RFMF have the same price, yield and harvest processing cost per hectare assumptions in calculating the revenue cash flows.

Expense cash flows (excluding harvest expenditure and payment of FY19 shortfall)

7.3.4 The cash flow forecasts for each scheme and RFMF include the following cash expenses for each year:

Expense	Comment
Corporate management	This includes insurance, interest on RFM loan, recharges, compliance audit, financial audit, restructure costs and other corporate overheads. These figures differ between the Schemes and RFMF, with RFMF having the lowest and AF07 having the highest cost structure, due to AF07 having the lowest number of hectares.
Orchard maintenance	Whilst AF07, AF08 and RFMF have the same expense per hectare, AF06 has a slightly lower cost structure.
Payroll	This expense per hectare is the same for each scheme and RFMF.
P&E rental	Whilst materially similar for AF07, AF08 and RFM, the expense is higher per hectare for AF06 due to a higher allocation of some licenced equipment costs, namely the first installation of frost fans.
Farm overheads	These figures differ between each scheme and RFMF, where RFMF has the lowest per hectare expense and AF07 has the highest per hectare expense, due to AF07 having the lowest number of hectares.
Freight	This expense per hectare is the same for each scheme and RFMF.
Repair and maintenance	This expense per hectare is the same for each scheme and RFMF.
Licence fees (rental expense)	The licence fee and payment terms are currently different for each scheme and RFMF, where AF06 has the lowest cost per hectare and RFMF has the highest.
Management fees paid to RFM	Whilst AF07, AF08 and RFM have the same management fee expense per hectare, AF06 has a slightly lower expense per hectare due to the lower initial fee at commencement, which is indexed by 2.5%.

Pre-tax distributions to/(contributions from) the Growers (excluding FY19 shortfall)

7.3.5 Distributions to/(contributions from) the Growers (excluding FY19 shortfall) are calculated as follows:

(a) for AF06, surplus cash is paid to/(shortfall contributions are required from) the Growers based on the current year revenue and expense cash flows; and

(b) for AF07, AF08 and RFMF, the constitutions enable RFM to invoice forecast shortfalls, which can be applied against surpluses which have not been distributed. The forecasts prepared assume a shortfall and surplus cash every alternate year.

7.3.6 The forecasts assume that these cash flows occur on 30 September each year.

Treatment of FY19 shortfall

7.3.7 For AF06, the cash flow forecasts are prepared assuming that the Growers are invoiced and pay the FY19 shortfall in September 2019.

7.3.8 For AF07 and AF08:

(a) Growers were invoiced the FY19 shortfall payment on 19 September 2018; and

(b) the cash flow forecasts are prepared assuming that the Growers are invoiced the FY19 shortfall adjustment in September 2019.

Calculation of post-tax cash flows to the Growers

7.3.9 For this report, we have performed our valuation adopting post-tax cash flows to the Growers. We have calculated post-tax cash flows to the Growers:

(a) adopting the forecast pre-tax cash flows to the Growers and assuming a marginal rate of tax of 30%; and

(b) assuming shortfall payments can only be used to offset future scheme income. For AF07 and AF08 we have assumed that the pre-payment of FY19 shortfalls can be used to offset future income of the respective scheme.

7.3.10 Set out below is the forecast pre-tax and post-tax cash flows per hectare to Growers for each scheme and RFMF:

Date	AF06		AF07		AF08		RFMF	
	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
Sep 19	(6,003)	(6,003)	657	657	(580)	(580)	2,158	1,511
Sep 20	(969)	(969)	(2,495)	(2,495)	(1,939)	(1,939)	(1,500)	(1,500)
Sep 21	(1,579)	(1,579)	-	-	-	-	-	-
Sep 22	4,107	4,107	157	157	1,312	1,312	2,146	1,952
Sep 23	(1,807)	(1,807)	-	-	-	-	-	-
Sep 24	4,034	4,034	(244)	(244)	965	965	1,834	1,284
Sep 25	(2,024)	(2,024)	-	-	-	-	-	-
Sep 26	4,556	4,462	402	402	1,668	1,668	2,542	1,780
Sep 27	26,904	18,833	-	-	-	-	-	-
Sep 28	-	-	3,744	3,744	4,399	3,170	4,858	3,401
Jun 29	-	-	27,234	19,184	27,857	19,500	28,574	20,001
Total	**27,218**	**19,053**	**29,456**	**21,405**	**33,682**	**24,095**	**40,612**	**28,428**

Source: RFM and McGrathNicol analysis. Note, numbers may not add due to rounding

7.3.11 In relation to the forecasts above:

(a) the AF06 Growers do not pay tax until September 2026 because of the shortfall payments;

(b) the AF07 Growers do not pay tax until June 2029, largely a result of utilising the pre-payment of the FY19 shortfall. To the extent the Growers are unable to utlise the FY19 prepayment this would result in AF07 Growers paying tax earlier; and

(c) the AF08 Growers do not pay tax until September 2028, largely a result of utilising the pre-payment of the FY19 shortfall. To the extent the Growers are unable to utlise the FY19 prepayment this would result in AF08 Growers paying tax earlier.

7.4 Step 2: Calculate the discount rate

7.4.1 We have adopted a post-tax discount rate of 19.38% in assessing the value per hectare to each Grower assuming that the Proposed Transaction did not occur. A detailed breakdown of our calculation is provided in Appendix D.

We consider this discount rate to be reasonable because of the volatile (and negative) cash flows to the Growers, the lack of diversification and production risks compared to the Trust (which is spread over a larger asset base) and the lack of liquidity, compared to the Trust (which is intended to be listed on the National Stock Exchange).

8 Valuation of the Trust

8.1 Overview

To calculate the value per hectare of each scheme and RFMF we have had consideration of the projected Grower cash flows generated assuming that the Proposed Transaction occurs. A summary of our findings is included in the table below:

	AF06	AF07	AF08	RFMF	Total
Merger ratio	30.9%	15.8%	42.3%	11.0%	100.0%
Value of Trust ($)	908,128	463,459	1,244,386	324,630	2,940,603
Hectares	272.00	72.94	206.30	41.22	592.47
Value per hectare ($)	**3,339**	**6,354**	**6,032**	**7,876**	**4,963**

Source: RFM and McGrathNicol analysis. Note, numbers may not add due to rounding

8.2 Methodology

8.2.1 We undertook the following steps to calculate the value per hectare for each scheme and RFMF:

(a) **Step 1**: Calculated the value of the Trust using the DCF methodology. This requires estimating the post-tax distributions to the Growers on a consolidated basis and a post-tax discount rate.

(b) **Step 2**: Apportioned the value of the Trust to each scheme and RFMF using the 'merger ratio' under the Proposed Transaction.

(c) **Step 3**: Calculated the value of each scheme and RFMF on a per hectare basis by dividing the result in Step 2 above by the number of hectares for each scheme.

(d) **Step 4**: Considered whether there is any tax payable (per hectare) on the date of the Proposed Transaction due to the sale of inventory to the Trust.

8.3 Step 1: Calculate the value of the Trust using the DCF methodology

8.3.1 We have assessed the value of the Trust using the DCF methodology to be **$2,940,603**.

8.3.2 In our valuation of the Trust we have adopted:

(a) post-tax distributions to Growers from September 2019 to June 2029; and

(b) a post-tax discount rate of 19.36%.

Post-tax distributions to the Growers

8.3.3 The forecast post-tax distributions to the Growers under the Trust is set out below ($):

Date	Pre-tax distributions	Tax paid by the Growers	Post-tax distributions
Sep-19	-	-	-
Sep-20	418,770	(125,631)	293,139
Sep-21	431,333	(129,400)	301,933
Sep-22	444,273	(133,282)	310,991
Sep-23	457,601	(137,280)	320,321
Sep-24	471,329	(141,399)	329,930
Sep-25	485,469	(145,641)	339,828
Sep-26	500,033	(150,010)	350,023
Sep-27	515,034	(154,510)	360,524
Sep-28	530,485	(159,145)	371,339
Jun-29	13,385,879	(4,015,764)	9,370,115
Total	**17,640,203**	**(5,292,061)**	**12,348,142**

Source: RFM management and McGrathNicol analysis. Note, numbers may not add due to rounding

8.3.4 The forecast post-tax distributions to the Growers have been calculated assuming:

(a) they are a function of the overall cash flow and debt position of the Trust. This contrasts to the current arrangement whereby operating surpluses and shortfalls are distributed and invoiced respectively to each Grower;

(b) distributions are subject to the franking regime and are paid to Growers annually in September (subject to available cash);

(c) the first distribution is forecast to be $0.0442 per unit payable in September 2020 with 9,474,425 units to be issued;

(d) target distribution growth of 3% per annum; and

(e) the distribution for the final year includes the payout to Growers of the remaining equity in the Trust.

8.3.5 The differences between the cash flow forecasts prepared for the Trust and the Scheme are summarised below:

Category	Scheme	Trust
Individual or consolidated basis	Each scheme and RFMF is valued individually.	The cash flows for the Trust are calculated on a consolidated basis.
AF06 harvest ceasing	Harvest ceases in June 2026.	Harvest ceases in June 2028.
Debt financing	Includes loans provided by RFM only.	Includes loans from RFM and bank financing of $4.5 million ($3.0 million working capital facility and $1.5 million debt facility).
Management fees	Management fee of $1,000 per hectare (indexed by inflation).	Up to $1,000 per hectare per annum indexed at 2% per annum. RFM will waive the fees for FY20, and from FY21 50% of the fee will be waived if the Trust does not achieve revenue in excess of $18 million indexed annually by 2% (representing a yield greater than 3.8t/ha and a price of $8.00/kg). The yield of 3.8 t/ha is greater than the industry average of 3.2 t/ha and the majority of the historical yields indicated by Mr Thomas. The remainder of the RFM management fee ($500/ha) will be charged on each dollar above the threshold capped at the existing total fee ($1,000/ha). The FY21 management fee is forecast to be $0.3 million.
FY20 management fee	RFM will charge the Schemes and RFMF a management fee.	RFM will not charge the Trust a management fee in FY20.
FY20 licence fee	Includes full year licence fee	Due to the differing cost structures between the Schemes and RFMF, there is a one-off transitionary change to the licence fees invoiced to the Growers in FY20.
Listing fees	Not applicable if Proposed Transaction does not occur.	Listing fees on the National Stock Exchange.
Tax	The Schemes do not pay tax.	The Trust is taxed at 27.5%.
Tax liability on restructure	Not applicable if Proposed Transaction does not occur.	Growers may have to pay tax on disposal of their assets/interest.

Source: RFM and McGrathNicol analysis

Discount rate

8.3.6 We have adopted a post-tax discount rate of 19.36% in assessing the value per hectare to each Grower assuming that the Proposed Transaction does occur. A detailed breakdown of our calculation is provided in Appendix D. We consider this discount rate to be reasonable because of:

(a) the steady and positive cash flows to the Growers should the Proposed Transaction occur compared to the volatile and negative cash flows to the Growers if the Proposed Transaction does not occur;

(b) the diversification benefits should the Proposed Transaction occur because production risk will be spread across a larger asset based; and

(c) the increased liquidity as the Trust which will be listed on the National Stock Exchange.

8.4 Step 2: Apportioned the value to each individual scheme and RFMF

8.4.1 The Trust will be apportioned to each individual scheme and RFMF based on 'merger ratios' set out in the Explanatory Memorandum. The merger ratios used in apportioning the value of the Trust to each scheme and RFMF is set out below:

AF06	AF07	AF08	RFMF	Total
30.9%	15.8%	42.3%	11.0%	100.0%

Source: RFM. Note, numbers may not add due to rounding

8.5 Step 3: Calculate the value of each scheme and RFMF on a per hectare basis

8.5.1 The value of each scheme and RFMF on a per hectare basis is set out below:

	AF06	AF07	AF08	RFMF	Total
Merger ratio	30.9%	15.8%	42.3%	11.0%	100.0%
Value of Trust ($)	908,128	463,459	1,244,386	324,630	2,940,603
Hectares	272.00	72.94	206.30	41.22	592.47
Value per hectare ($)	**3,339**	**6,354**	**6,032**	**7,876**	**4,963**

Source: RFM and McGrathNicol analysis. Note, numbers may not add due to rounding

8.6 Step 4: Consider whether there is any tax payable (per hectare) on the date of the Proposed Transaction due to the sale of inventory to the Trust

8.6.1 If the Proposed Transaction is approved, there may be tax consequences for the Growers which may include tax being payable. The tax treatment may vary depending on the nature and characteristics of each Grower and their specific circumstances. Accordingly, each Grower should seek professional tax advice in relation to their particular circumstances.

8.6.2 RFM's independent tax advice indicates that any tax payable will be offset by carried forward losses, payments in kind made by the Trust, shortfalls and expenses not passed onto the Growers and GST refunds. As part of our analysis we analysed the projected tax position to the Growers based on a marginal tax rate of 30% (prepared by RFM). This indicated that there was negligible tax payable by the Growers as a result of the Proposed Transaction.

8.6.3 Accordingly for this report, we have not made any allowance for tax payable by the Growers on the date of the Proposed Transaction.

9 Evaluation of the Proposed Transaction

9.1 Summary conclusions

9.1.1 In our opinion, the Proposed Transaction is fair and reasonable to the non-associated Growers.

9.1.2 Our approach to forming this conclusion and our reasons are set out below.

9.2 The Proposed Transaction is fair

9.2.1 In assessing if the Proposed Transaction is fair, we compared:

(a) our assessment of the value per hectare of each scheme before the Proposed Transaction; and

(b) our assessment of the value per hectare of each scheme after the Proposed Transaction.

9.2.2 The Proposed Transaction is fair because the value to the non-associated Growers per hectare is greater if the Proposed Transaction occurs compared to the value per hectare if the Proposed Transaction does not occur.

9.2.3 A comparison of the undiscounted post-tax cash flows per hectare to the Growers and the value per hectare using the DCF methodology is set out below:

	AF06		AF07		AF08	
	Scheme	Trust	Scheme	Trust	Scheme	Trust
30-Sep-19	(6,003)	-	657	-	(580)	-
30-Sep-20	(969)	333	(2,495)	633	(1,939)	601
30-Sep-21	(1,579)	343	-	652	-	619
30-Sep-22	4,107	353	157	672	1,312	638
30-Sep-23	(1,807)	364	-	692	-	657
30-Sep-24	4,034	375	(244)	713	965	677
30-Sep-25	(2,024)	386	-	734	-	697
30-Sep-26	4,462	397	402	756	1,668	718
30-Sep-27	18,833	409	-	779	-	740
30-Sep-28	-	422	3,744	802	3,170	762
30-Jun-29	-	10,639	19,184	20,247	19,500	19,220
Total (undiscounted)	**19,053**	**14,020**	**21,405**	**26,681**	**24,095**	**25,329**
Value	**416**	**3,339**	**2,805**	**6,354**	**3,506**	**6,032**

Source: RFM and McGrathNicol analysis. Note, numbers may not add due to rounding

9.2.4 In relation to the table above:

(a) the net present values per hectare under the Trust, that is the Proposed Transaction does occur, are greater than the value per hectare under each scheme, that is the Proposed Transaction does not occur;

(b) for AF06, whilst the total undiscounted value is greater under the Scheme, the value per hectare is greater under the Trust because of the large shortfall payments per hectare in the earlier years and the positive cash flows occur towards the end of the scheme, with the effect being a lower net present value due to the time value of money; and

(c) the undiscounted values per hectare for AF07, AF08 and RFMF are greater under the Trust compared to the Scheme.

9.2.5 As a sensitivity, we set out below a comparison of the value per hectare under the Scheme and Trust for different post-tax discount rates:

	AF06		AF07		AF08	
Discount rate	**Scheme**	**Trust**	**Scheme**	**Trust**	**Scheme**	**Trust**
17.50%	1,253	3,751	3,464	7,139	4,280	6,777
19.38%	416	3,335	2,805	6,348	3,506	6,026
20.00%	164	3,212	2,612	6,113	3,277	5,803
22.50%	(747)	2,772	1,937	5,275	2,467	5,008
25.00%	(1,512)	2,411	1,400	4,587	1,811	4,355
27.50%	(2,156)	2,112	973	4,019	1,278	3,816
30.00%	(2,700)	1,864	633	3,547	842	3,367

Source: RFM and McGrathNicol analysis. Note, numbers may not add due to rounding

9.2.6 The table above indicates that if the discount rate for Scheme remained unchanged at 19.38% and the discount rate for the Trust increased from 19.36% to 27.50%, the Proposed Transaction is still fair. The table above also indicates little sensitivity to changes in discount rate.

9.3 The Proposed Transaction is reasonable

9.3.1 In assessing if the Proposed Transaction is reasonable we first considered whether the Proposed Transaction is fair. Additionally, we compared the potential advantages and disadvantages to the non-associated Growers should the Proposed Transaction proceed.

9.3.2 Pursuant to RG 111, an offer is reasonable if it is fair. Accordingly, we have concluded that the Proposed Transaction is reasonable. Notwithstanding the above, in forming our assessment of the reasonableness of the Proposed Transaction, we have compared the advantages and disadvantages of the Proposed Transaction, as detailed below.

Advantages to the Growers from the Proposed Transaction

9.3.3 The key benefits to the non-associated Growers by combining the Schemes include:

(a) Distributions to unitholders will be a function of net cash inflows and future profitability of the Trust. This contrasts to the current scheme arrangement whereby operating surpluses and shortfalls are distributed and invoiced respectively to each Grower.

(b) The cash flows to the Growers are less influenced to weather events, in particular the earlier years, because distributions are paid out of net cash inflows, which includes debt financing.

(c) The Growers will no longer be personally liable for cash shortfalls or be required to make additional contributions. Under the Proposed transaction the Growers are not required to provide further funding.

(d) The returns to the Growers are more consistent and are not at any stage negative nor require funding of shortfalls.

(e) A simpler tax structure. Despite the benefits of GST registration to a Grower's return, many remain unregistered.

(f) A larger and more diverse pool of almonds, thereby spreading production risk. Impact of isolated events, such as hail and frost, will be minimised in the larger Trust.

(g) Growers have an opportunity to use up any carry forward tax losses they may have built up over the past few years.

(h) Corporate cost savings.

(i) the Trust will seek to list on the National Stock Exchange, providing Growers with liquidity;

(j) Whilst Growers will be invoiced the FY19 and July and August 2019 shortfall, the shortfall will be paid out of the Trust.

(k) RFM will reduce the management fee to $500 per hectare based on the forecast price and yields.

Disadvantages to the Growers from the Proposed Transaction

9.3.4 The key disadvantages to the non-associated Growers by combining the Schemes include:

(a) The Growers may have a tax bill on disposal of their assets/interest in the Schemes. Preliminary analysis indicates that this will be offset in part by carried forward losses and some of the Growers may also be covered by GST refunds.

(b) AF06 Growers' are currently able to withdraw their working capital in 2027. This will be partly delayed in the Trust as it will be distributable across all unitholders.

(c) In the event of a catastrophe, where there is a serious disruption to the almond growing business, the Trust may seek to raise funding by issuing new units in the Trust. This may dilute the holding of unitholders. This contrasts to the current arrangements where Growers are required to make shortfall payments.

(d) The costs involved in the merging of the Schemes will be borne entirely by the Schemes and therefore impacts the cash flows of the Trust.

10 Glossary

10.1.1 The defined terms used in this report are set out below:

000's	Thousands
AF06	RFM Almond Fund 2006
AF07	RFM Almond Fund 2007
AF08	RFM Almond Fund 2008
Almondco	Almondco Australia Limited
AFCA	Australian Financial Complaints Authority
AFSL	Australian Financial Services Licence
Almondlot	land on an almond grove of approximately 0.2158 hectares (AF07 and AF08) in size or such other size as notified by the Responsible Entity to the Grower
APES	Accounting Professional & Ethical Standards
APES 225	APES 225 Valuation Services
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
B	Beta
CA ANZ	Chartered Accountants Australia and New Zealand
CAPM	Capital Asset Pricing Model
Corporations Act	Corporations Act 2001
DCF	Discounted cash flow
FYXXA	Financial year 30 June actual
GST	Goods and Services Tax
FSG	Financial Services Guide
Growers	Investors in the Schemes

Grove	separate and distinct portions of land allocated to each Grower pursuant to the AF06 Constitution
ha	Hectares
Ke	Cost of equity
IBISWorld	IBISWorld Report OD5544 'Tree Nut Growing in Australia' (November 2018)
Lessor	Rural Funds Group
McGrathNicol	McGrathNicol Transaction Advisory Pty Ltd
MIS	Managed investment scheme
Mr Thomas	Mr Ben Thomas of Ben Thomas Consulting
Proposed Transaction	Merging of the Schemes and RFMF
Rf	Risk-free rate
RFA	RF Active
RFF	Rural Funds Group
RFM	Rural Funds Management (also Sublessee
RFMF	RFM Farming Pty Ltd
RG 76	ASIC Regulatory Guide 76 "Related party transactions"
RG 111	ASIC Regulatory Guide 111 "Content of expert's reports"
RG 112	ASIC Regulatory Guide 112 "Independence of Expert's Reports"
SHV	Select Harvests Limited
SP	Size premium
Sublessor	RFF
The Schemes	Collectively AF06, AF07 and AF08.
Trust	RFM Almond Trust

11 Qualifications, Declarations and Consents

11.1 Qualifications

11.1.1 McGrathNicol provides transactions advisory services in relation to due diligence, sale assistance, transaction management and valuation services, including the preparation of company and business valuations and the provision of independent advice and expert's reports. Our financial services guide is attached at Appendix A.

11.1.2 Mr. Andrew Fressl, B.Com, CA, F.Fin is jointly responsible for this report. Andrew has over 20 years' experience advising public and private clients on their corporate finance transactions and has specific expertise in relation to acquisition and vendor due diligence, sell-side advisory and valuations. Andrew is also an accredited Business Valuation Specialist with the Chartered Accountants Australia and New Zealand ("**CA ANZ**").

11.1.3 Mr. David Barnaby, B.Com, CA, F.Fin is jointly responsible for this report. David has over 20 years' experience in relevant corporate advisory matters, including valuations. David Barnaby is an authorised representative of McGrathNicol Transaction Advisory Pty Ltd pursuant to its Australian Financial Services Licence (under Part 7.6 of the Corporations Act).

11.2 Compliance with Accounting standards

11.2.1 This report was prepared in compliance with Accounting Professional & Ethical Standards ("**APES**") 225 Valuation Services ("**APES 225**"), and is deemed by APES 225 to be a Valuation Engagement. A summary of the types of valuation engagements prescribed under APES 225 is set out in Appendix B.

11.3 Independence

11.3.1 Prior to accepting this engagement, McGrathNicol considered its independence with reference to the ASIC Regulatory Guide 112 "Independence of Expert's Reports" ("**RG 112**"). McGrathNicol has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of an independent expert. McGrathNicol is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

11.3.2 Except for these fees, McGrathNicol will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

11.4 Consent and other matters

11.4.1 Our report is to be read in conjunction with the Explanatory Memorandum in which this report is included, and is prepared for the exclusive purpose of assisting the Growers. This report should not be used for any other purpose.

11.4.2 McGrathNicol consents to the issue of this report in its form and context and consents to its inclusion in the Explanatory Memorandum.

11.4.3 This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to Growers as a whole. We have not considered the potential impact of the Proposed Transaction on individual Growers. Individual Growers have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual Growers.

11.4.4 The decision of whether or not to approve the Proposed Transaction is a matter for each Grower based on their own views of value of each fund and expectations about future market conditions, risk profile and investment strategy. If Growers are in doubt about the action they should take, they should seek their own professional advice.

11.5 Information relied on and limitations

11.5.1 This report includes all references to information utilised, the valuation approaches and methodologies adopted, assumptions relied upon and conclusions reached.

11.5.2 In preparing this report, we relied on information provided by the management of RFM set out at Appendix B.

11.5.3 An important part of the information used in forming an opinion as to fairness and reasonableness is comprised of the opinions and judgement of RFM management. This type of information was evaluated through analysis, inquiry and review. However, such information is often not capable of external verification or validation and has not been independently verified.

11.5.4 In particular, we relied on the forecasts prepared by RFM, which set out the pre-tax cash flows to the Growers before and after the Proposed Transaction.

11.5.5 We did not perform an audit of the information provided, however, evaluated the information through analysis and discussions with RFM management. McGrathNicol does not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose. The information we relied on was not independently verified.

11.5.6 McGrathNicol has no reason to believe any material facts have been withheld. Should we become aware that information we have relied upon is materially misstated or of any factors that alter our assumptions, we reserve the right to alter our valuation and conclusions.

11.5.7 Should circumstances change, or if new information becomes available post the date of this report, we reserve the right to amend our calculations.

11.5.8 To the extent that there are tax and legal issues relating to assets, properties or business interests or issues relating to compliance with applicable laws, regulations, and policies, McGrathNicol:

(a) assumes no responsibility and offers no tax and legal opinion or interpretation on any issue; and

(b) has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so.

11.5.9 This report has been prepared for the Growers. It should not be disclosed to any other party without our consent in writing. It may not otherwise be reproduced in whole or in part or supplied to any other party, without our consent in writing. We do not assume any responsibility or liability for any losses suffered by the Growers, their investment managers, the investment manager's shareholders, their advisers or any unauthorised user, as a result of circulation, publication, reproduction or other use of this report contrary to the provisions of this paragraph.

A Financial services guide

A.1 Purpose of this guide

A.1.1 This Financial Services Guide ("**FSG**") provides you with important information to assist you in deciding how to use our Report. It provides you with information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

A.1.2 We act on behalf of Rural Funds Management Limited, to whom this report is addressed.; Where you are not the addressee we are required to issue you this FSG under the Corporations Act and the terms of our Australian Financial Services Licence ("**AFSL**") as a result of our client providing you with a copy of our Report.

A.2 Financial services we are authorised to provide

A.2.1 We are authorised to provide general financial product advice in relation to securities, and to arrange for another person to issue, apply for, acquire, vary or dispose of securities to retail and wholesale clients.

A.3 General financial product advice

A.3.1 Our Report provides general financial product advice only. In preparing this Report, we have not taken into account your personal circumstances including financial situation or needs. You should consider whether any advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

A.3.2 We provide no financial services directly to retail clients and receive no remuneration from retail clients for financial services. We do not provide any personal retail financial product advice to retail investors nor do we provide market-related advice to retail investors. You were provided with a copy of our Report because of your connection to the matters in respect of which we have been engaged to report.

A.4 Remuneration for our services

A.4.1 Our fees have been agreed with our client on a fixed fee or a time cost basis, and we may also be reimbursed for our out of pocket expenses. Our fees for this engagement are estimated to be $80,000 plus GST. We will not receive any other commission, fee or benefit in connection with the provision of the Report.

A.4.2 The remuneration provided to our directors, authorised representatives and the partners, officers and employees of our associated entities is based on their overall performance and contribution over the course of a financial year. No commissions are paid in respect of the provision of financial product advice.

A.5 Associations and relationships

A.5.1 McGrathNicol is a group of independent entities operating in association. We and our associated entities do not have any formal associations or relationships with any entities that are issuers of financial products but may provide professional services to issuers of financial products in the ordinary course of business.

A.6 Complaints process

A.6.1 If you have any concerns regarding our Report, please let us know. If you wish to lodge a formal complaint, you may do so in writing to: The Risk and Professional Practice Partner, McGrathNicol, GPO Box 9986, Sydney NSW 2000 or complaint@mcgrathnicol.com. We will respond to your complaint promptly.

A.6.2 If you are not satisfied with our response or the steps we have taken to resolve your complaint, you may contact the Australian Financial Complaints Authority ("**AFCA**"). AFCA provides free advice and assistance to consumers to assist them to resolve complaints relating to the financial services industry. AFCA can be contacted on 1800 931 678 or GPO Box 3, Melbourne VIC 3001, or info@afca.org.au. Further details may be obtained from www.afca.org.au.

A.7 Compensation arrangements

A.7.1 We hold professional indemnity insurance that covers the services we provide. This insurance as required by section 912B of the Corporations Act 2001 (Cth).

A.7.2 McGrathNicol Transaction Advisory Pty Ltd, ABN 83 160 621 054, AFSL 436347 of Level 12, 20 Martin Place, Sydney, NSW 2000.

B APES 225 – Types of valuation services

B.1 Valuation Engagement

B.1.1 Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time. Where a Member has entered into a Valuation Engagement but during the course of performing the Valuation Engagement the Member becomes aware of a limitation or restriction that, if it had been known at the time the Engagement or Assignment was entered into, would have made the Engagement or Assignment a Limited Scope Valuation Engagement then the Valuation Engagement will become a Limited Scope Valuation Engagement.

B.2 Indicative Valuation Engagement

B.2.1 Indicative Valuation Engagement or Limited Scope Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted. The scope of work is limited or restricted where the Member is not free, as the Member would be but for the limitation or restriction, to employ the Valuation Approaches, Valuation Methods and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value is material.

B.2.2 A limitation or restriction may be imposed by the Client or Employer or it may arise from other sources or circumstances. A limitation or restriction may be present and known at the outset of the Engagement or Assignment or may arise or become known during the course of a Valuation Engagement.

B.3 Calculation Engagement

B.3.1 Calculation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member and the Client or Employer agree on the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will employ. A Calculation Engagement generally does not include all of the Valuation Procedures required for a Valuation Engagement or a Limited Scope Valuation Engagement.

B.3.2 Under APES 225 we are required to state that if we become aware during the course of performing the valuation of a limitation or restriction that could have a material impact on the estimate of value, then the engagement will become a Limited Scope Valuation Engagement.

C Information relied upon

C.1 Background information provided by RFM

C.1.1 Document title "Overview: Proposed restructure of RFM Almond Scheme" dated 1 June 2019

C.1.2 RFM Board Paper dated 19 March 2019, which included the FY19 shortfall information

C.2 Forecasts prepared by RFM

C.2.1 Forecast pre-tax cash flows to Growers of AF06 assuming the Proposed Transaction did not occur (which includes the forecast FY19 shortfall shortfalls from July 2019 to August 2019)

C.2.2 Forecast pre-tax cash flows to Growers of AF07 assuming the Proposed Transaction did not occur (which includes the forecast FY19 shortfall shortfalls from July 2019 to August 2019)

C.2.3 Forecast pre-tax cash flows to Growers of AF08 assuming the Proposed Transaction did not occur (which includes the forecast FY19 shortfall shortfalls from July 2019 to August 2019)

C.2.4 Forecast pre-tax cash flows to Growers of RFMF assuming the Proposed Transaction did not occur (which includes the forecast FY19 shortfall shortfalls from July 2019 to August 2019)

C.2.5 Forecast pre-tax cash flows to Growers (grossed up for franking credits) assuming the Proposed Transaction occurred

C.2.6 Merger ratios, being the ratios which the Trust will be attributed between AF06, AF07, AF07 and RFMF assuming the Proposed Transaction occurred

C.3 Financial statements

C.3.1 AF06 financial statements for FY15, FY16, FY17, FY18 and 1H19

C.3.2 AF07 financial statements for FY15, FY16, FY17, FY18 and 1H19

C.3.3 AF08 financial statements for FY15, FY16, FY17, FY18 and 1H19

C.4 Industry and other information

C.4.1 IBISWorld report OD5544 'Tree Nut Growing in Australia' (November 2018)

C.4.2 "Almonds Insights 2017-18" prepared by the Almond Board of Australia

C.4.3 Independent Agronomic Expert Report prepared by Mr Ben Thomas of Ben Thomas Consulting (cover letter 14 June 2019)

C.4.4 Sirca - Risk Measurement Service (March 2019) (for 4 year monthly beta data)

C.4.5 Reserve Bank of Australia (for 10 year Australian Government Bond Rate)

C.4.6 CapitalIQ for debt to equity information of comparable companies

C.4.7 KPMG Valuation Practices Survey 2017

C.4.8 KPMG Valuation Practices Survey 2018

C.4.9 Duff & Phelps 2015 Valuation Handbook

D Discount rate calculation

D.1 CAPM and discount rates adopted

D.1.1 We have estimated the discount rates for our valuations if the Proposed Transaction does not occur (Scheme) and if it does occur (Trust) using a model known as the 'capital asset pricing model ("**CAPM**"). The CAPM can be expressed as follows:

$$Ke = Rf + (\beta \times MRP) + SP$$

Where:

Ke = the cost of equity

Rf = an appropriate risk-free rate

β = the security's beta statistic

MRP = the market return premium over the risk free return

SP = size premium

D.1.2 We have adopted a discount rate of **19.38%** for the Scheme (assuming the Proposed Transaction does not occur) and **19.36%** for the Trust (assuming the Proposed Transaction occurs). The calculations are set out below:

	Scheme	Trust
Risk-free rate (Rf)	1.35%	1.35%
Market-risk premium (MRP)	6.00%	6.00%
Beta (B)	1.01	1.34
Size premium (SP)	12.00%	10.00%
Cost of equity (Ke)	**19.38%**	**19.36%**

McGrathNicol analysis. Note, numbers may not add due to rounding

D.2 Risk-free rate (RF)

D.2.1 The risk-free rate represents the minimum return an investor will accept from investing in any asset or company. It is commonly considered the return an investor could earn on an equivalent investment in a risk free asset.

D.2.2 The most commonly used proxy for a risk-free rate is the return on a long dated government security. In Australia, the 10-year government bond is typically used as an accepted proxy for the risk-free rate.

D.2.3 For this report we have adopted the spot 10-year Australian Government Bond rate at 19 July 2019 (being the latest rate prior to finalising calculations) of **1.35%**. This rate was sourced from the Reserve Bank of Australia website.

D.3 Market risk-premium (MRP)

D.3.1 The market risk premium is the premium over the risk-free rate that investors require from equity capital, generally measured as the difference between actual long term historical returns on a market share portfolio and long term government bonds.

D.3.2 According to the KPMG Valuation Practices Survey 2018, the majority of respondents (54%) adopted a market risk premium between 6.0% and less than 6.5%.

D.3.3 For this report we have adopted a market risk premium of **6.00%**.

D.4 Beta (β)

D.4.1 The beta for equity reflects the non-diversifiable or systematic risk of a company, with the greater the risk the greater the return and beta.

D.4.2 In our experience it is market practice to estimate an appropriate beta by reference to the betas of the target company and comparable companies. For this report we have identified two ASX listed companies, Rural Funds Group and Select Harvest Limited, which are broadly comparable to the Schemes. We have obtained their four year monthly betas from sirca "Risk Measurement Service March 2019".

Applying target gearing of the Schemes and the Trust

D.4.3 Observed betas in the market place, known as equity betas, are affected by the gearing of the individual company, whereas asset betas reflect only the operational risk.

D.4.4 It is necessary to make adjustments to the observed equity betas to remove the impact of the different levels of gearing in the companies reviewed and to reflect the target gearing of the company being valued. This process is referred to as de-levering, which involves removing the gearing of the comparable companies to arrive at the asset beta and subsequently re-levering in line with the target companies gearing.

D.4.5 We have adopted the following formula to de-lever and re-lever betas as follows:

(a) **Asset beta (un-levered)** = Equity beta (levered)/[1+((1-tax rate) x (D/E)]

(b) **Equity beta (re-levered)** = Asset beta (un-levered) × [1+((1-tax rate) x (D/E)]

where:

E = market value of equity

D = market value of debt

D/E = company's debt to equity ratio

D.4.6 The un-levered betas for the comparable companies is set out below:

	Rural Funds Group	Select Harvest	Average
Levered beta	0.40	1.79	
Market debt to equity	30%	9%	
Un-levered beta	0.33	1.68	1.01

McGrathNicol analysis. Note, numbers may not add due to rounding

Betas adopted

D.4.7 In regearing the betas, we have assumed the target gearing of:

- 0% for the Scheme, as there was no bank debt; and
- 47% for the Trust. We have formed this view based on the level of bank debt and forecasts provided.

D.4.8 For this report we have adopted the following betas in estimating the discount rate for the Scheme (if the Proposed Transaction does not occur) and the Trust (if the Proposed Transaction occurs):

	Scheme	Trust
Un-levered beta	1.01	1.01
Target debt to equity	0%	47%
Re-levered beta	**1.01**	**1.34**

McGrathNicol analysis. Note, numbers may not add due to rounding

D.5 Size premium (SP)

D.5.1 In our experience it is common practice for an equity size premium to be included in assessing the discount rate for smaller companies. This reflects that investors may demand a higher rate of return on small companies than they do for larger companies because of the increased risk associated with small companies.

D.5.2 According to the KPMG Valuation Practices Survey 2017 (pages 13 and 14) small companies tend to be more exposed to risk than large companies, which typically means that an adjustment needs to be made to reflect the inherent risk of smaller companies.

D.5.3 Set out below is a summary of the size premiums referred to in the Duff & Phelps 2015 Valuation Handbook:

	Market capitalisation range (US million dollars)		
Decile	**Low**	**High**	**Size Premium**
1 (largest)	24,429	591,016	-0.40%
2	10,171	24,273	0.60%
3	5,864	10,106	0.90%
4	3,723	5,845	1.10%
5	2,552	3,724	1.60%
6	1,689	2,543	1.70%
7	1,011	1,687	1.70%
8	549	1,011	2.20%
9	301	549	2.70%
10w	232	301	3.20%
10x	191	232	5.50%
10y	116	191	7.50%
10z (smallest)	3	116	12.00%

Source: Duff & Phelps 2015 Valuation Handbook

D.5.4 In our view, the appropriate size premiums to adopt for our report are:

- **12.0%** for the Scheme (Proposed Transaction does not occur); and
- **10.0%** for the Trust (the Proposed Transaction occurs).

D.5.5 We consider that a lower size premium is applicable for the Trust because:

- the steady and positive cash flows to the Growers compared to the volatile and negative cash flows to the Growers;
- the diversification benefits compared to the Schemes because production risk will be spread across a larger asset based; and
- the increased liquidity as the Trust which will be listed on the National Stock Exchange.