

Budget for Next Financial Year

The Directors have approved the budget for the next financial year, 1 August 2017 to 31 July 2018. MGI water charges cover the cost to operate and maintain the business. We are now formally a Co-Operative Company and we do not budget to make a profit but there is increased pressure on the cost of compliance as we address regulatory issues imposed by the Government and Environment Canterbury, so there is a need to increase the water charges. We are in the lowest quartile of irrigation scheme costs in New Zealand and we have not needed to increase our fees since 2014.

The average increase from 1 August 2017 is about 10% and we are also taking the opportunity to restructure our charges to ensure that every shareholder pays the same rate per volume of water that they are allocated. Every shareholder will be paying \$8.00 per ML for water, which is the same as 8^c per cubic metre of water. The more water a farmer uses per hectare, the more they will pay on a per hectare basis. For example, borderdyke allocation is about 810 mm/year and spray allocation is about 610 mm/year, even though the price for a volume of water is the same the borderdyke irrigator pays more per hectare because they are allocated more water.

As shown in the table below, there are also a number of differential charges that apply if a farm is within the pumped areas of the scheme. These charges cover the cost of electricity, pump insurance and finance. They are not MGI charges, they are the direct recovery of the costs incurred by these areas of the scheme.

1 August 2017 to 31 July 2018,

| | Morven Glenavy & Ikawai | | | | Northern Extension Pumped | Waihao Downs Irrigation |
|-------------------------------------|-------------------------|----------------|----------------|----------------|---------------------------|-------------------------|
| | Borderdyke 17d | Borderdyke 14d | Spray 4mm | Spray 5mm | Spray 4mm | Spray 4mm |
| Water Use | | | | | | |
| Seasonal Depth (mm) | 810 | 1000 | 610 | 770 | 610 | 610 |
| Seasonal Volume (m3/hectare) | 8,100 | 10,000 | 6,100 | 7,700 | 6,100 | 6,100 |
| MGI Water Fee (\$/ML) | \$8.00 | \$8.00 | \$8.00 | \$8.00 | \$8.00 | \$8.00 |
| MGI Fee | | | | | | |
| MGI Water Fee (\$/ha) | \$64.80 | \$80.00 | \$48.80 | \$61.60 | \$48.80 | \$48.80 |
| MGI Telemetry Fee (\$/ha) | \$0.00 | \$0.00 | \$2.00 | \$2.00 | \$2.00 | \$2.00 |
| Total MGI Water Fee (\$/ha) | \$64.80 | \$80.00 | \$50.80 | \$63.60 | \$50.80 | \$50.80 |
| Change from FY17 | | | | | | |
| Previous Charge (FY17) | \$58.60 | \$70.00 | \$48.60 | \$57.75 | \$50.70 | \$50.00 |
| Change % | 10.6% | 14.3% | 4.5% | 10.1% | 0.2% | 1.6% |
| Fixed Annual Charges | | | | | | |
| Sub-total Fixed Charges | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$87.91 | \$68.21 |
| Variable Charges (estimated) | | | | | | |
| Interest | | | | | | \$370.62 |
| Electricity Usage (Forecast) | | | | | \$56.76 | \$253.92 |
| Sub-total Variable Charges | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$56.76 | \$624.54 |
| Grand Total (\$/ha) | \$64.80 | \$80.00 | \$50.80 | \$63.60 | \$195.47 | \$743.55 |

Note: Electricity usage and interest rates are forecasts only. Actual electricity usage may be much lower.

Climate Data

Some users of the MGI website may have noticed that rainfall, temperature and evapotranspiration data from our two climate stations is available there.

Keep an eye on the website because we are also planning to introduce further changes including river flow and pumping

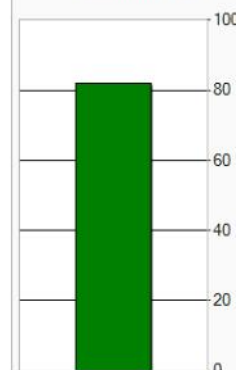


Your Water Use

Your farms spray irrigation and borderdyke water use is available by logging into the shareholder database.

We encourage all shareholders or their representatives to login and to contact MGI if you don't know how.

Annual Water Volume Remaining (%)



In terms of the total costs, spray irrigation is 78% of the land area and 72% of the total water use, and these users pay 72% of the income required to run the business. Similarly, borderdyke is 22% of the land area but 28% of the water usage and so they pay 28% of the income required, consistent with the volume of water that they use.

| | % Water Use | % Land Area | % Revenue |
|------------|--------------------|--------------------|------------------|
| Borderdyke | 28.2% | 22.3% | 28.2% |
| Spray | 71.8% | 77.7% | 71.8% |

Waihao Downs Irrigation

We have recently approved another 335 shares (around 10% growth) in the Waihao Downs Irrigation area. The new shareholding helps to lower costs in that area and distribute the fixed electricity and interest charges over a larger shareholder base.

The new shareholders have a water restriction level in their Water Supply Agreement and so in the event that total water use reaches a certain percentage (%) of the scheme design the new users have to temporarily switch off in order to protect the minimum design pressure of the existing users.

The final project costs are now landing and due to the injection of fresh shareholder capital we do not need to draw-down the loan facility any further. The new shareholding has avoided further loan drawdowns, covered other capital expenditure and reduced interest and other costs for everyone in the Waihao Downs area. We are planning to convene a WDI shareholder meeting in August to inform everyone of these details and to discuss loan repayment strategies.

Events since the AGM in December 2016

Shareholders at the Annual General Meeting (AGM) approved the new Constitution and MGI was officially registered as a Co-Operative Company on 4 January 2017. The Constitution requires all shareholders to enter into a Water Supply Agreement (WSA) but we are only just beginning to roll these new documents out.

Environment Canterbury have released the Plan Change 5 decision regarding nutrient management and MGI is busy assessing what the decision means for MGI shareholders.

Hunter Downs

An announcement from Hunter Downs Water is expected soon. They have experienced delays due to a weaker shareholder response than they had hoped for. If Hunter Downs does proceed, then MGI will still benefit from reduced operating costs by sharing overheads with them under the proposed Operations & Maintenance Agreement and also a Licence Agreement for the use of our intake and canal infrastructure.

Borderdyke Rosters

We are currently reviewing the rosters for the upcoming season and these will be communicated soon. We rely upon the design approval process to find out about properties that are converting to spray irrigation, so please make sure we know about your intentions.

Shareholders and Property Managers are strongly encouraged to enter your borderdyke hours online at the completion of each roster please.

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