

## Water Allocations in the Murray-Darling Basin

There has been considerable media and political commentary over the last six months on the drought and the impacts on the Murray Darling system.

This is an area of considerable interest to AIL and our Investors as the Swan Hill orchard draws its irrigation water from this System.

We have been monitoring the situation closely and feel that the reality (rather than the rhetoric) is becoming clearer and we now provide the following update:

It covers 2 main areas:

Area discussed	Relevance to the Orchard
What we are proactively doing at the orchard to prepare for a potentially lower water availability situation over the current growing season.	This is important as we are planning for the most severe outcomes which will ensure that we maximise the long term health of the trees and their overall cropping potential.
What the orchard actually has available to it in terms of water and the expectations of the Water Authority as to the water available over the rest of the summer period.	Due to the amount of water owned by the orchard asset trusts and the younger age of the trees, we have sufficient water to meet the maintenance needs of the trees.

## On the Orchard - preparations for less water

Graham Johns, AIL’s Orchard Manager, is one of Australia’s most experienced and respected Almond orchardists and over his 26 years of experience has developed a sound understanding of how to manage almond trees under a broad range of growing conditions.

For this potential dry period he has available to him some of the most modern and sophisticated irrigation and fertilising technology in Australia, which he is using to maximise outcomes, even in a reduced water environment. This allows him to carry out a range of actions, in many ways similar to what we do in our home gardens in times of water restrictions, on the large scale of a commercial orchard. His aim is to maintain the health of the almond trees during the current dry period and obtain balanced growth and crop yields in proportion to available irrigation water. This will enable the trees to always be in the best possible condition to quickly return to optimum levels of orchard performance when normal rainfall patterns resume.

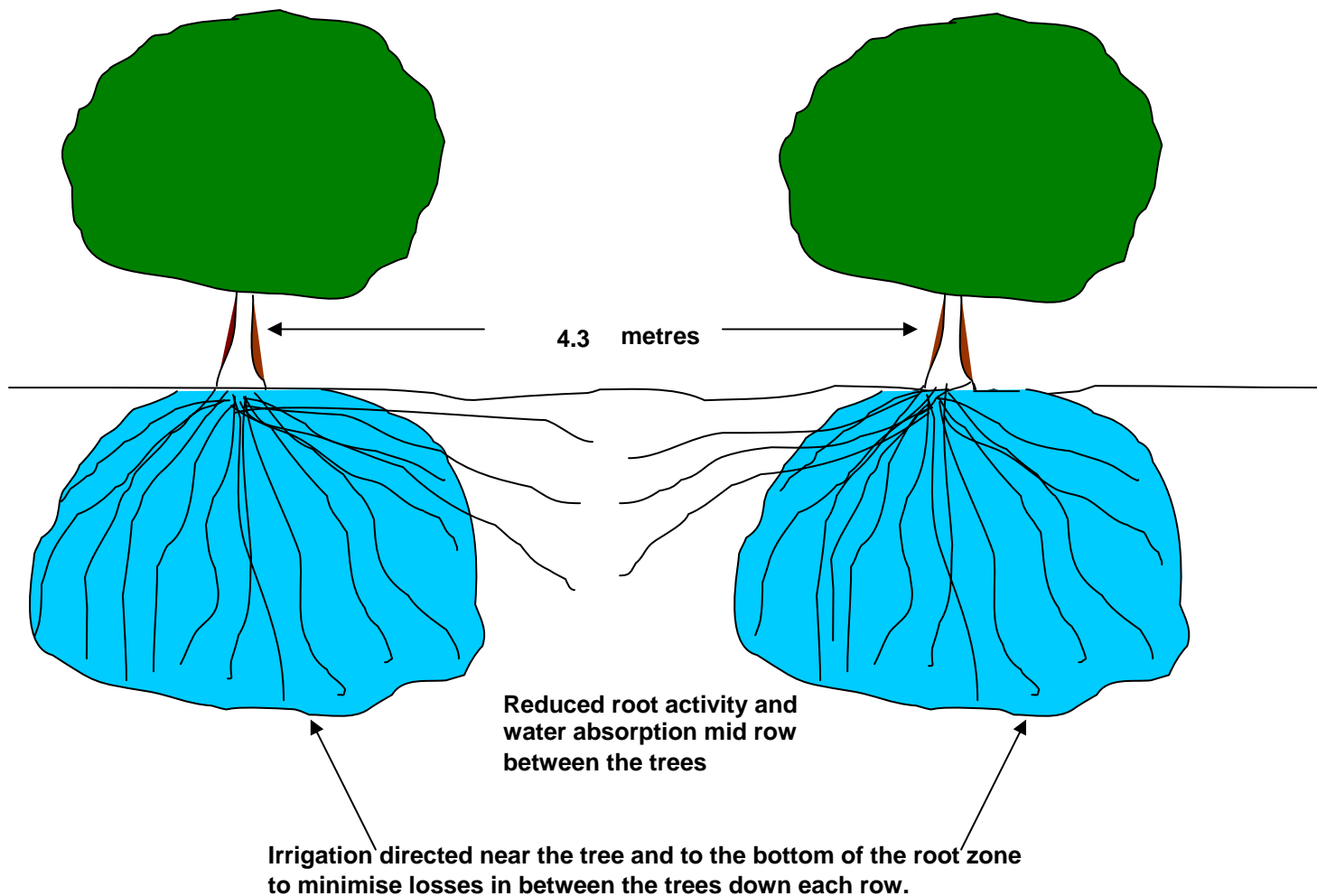
Some of the specific actions include:

### 1. Directing Water Closer To The Tree

Our orchards are between a few months and three years old. Small trees have smaller root zones. We are therefore directing water closer to the trees to limit water losses in the area midway between trees where there is less root growth and therefore uptake of irrigation water. This strategy makes more water available to key areas of the root zone where the trees can get the maximum access to and use of water applied. It is not desirable to maintain this practice over the long term (several seasons) as we need to aim for the broadest possible root spread to support commercial almond yields in a mature orchard. In the short term we do not expect any significant impact on the trees but we will generate a significant water saving and therefore greater water use efficiencies in the orchard. The Diagram on the following page illustrates this approach:-

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Diagram 1 Irrigation Water Applications Directed Closer To The Tree Trunk In The Critical Root Zone To Minimise Water Losses In The Mid Row Area



## 2. Increased Nutrition Leaf Sprays.

In normal circumstances, a considerable amount of fertilizer is delivered to the trees via the irrigation system (i.e. dissolved in the irrigation water). We are able to support the uptake of nutrients through the roots with leaf nutritional sprays to maximise the long term health of the trees. This strategy helps ensure the trees obtain the required nutrition with a reduced root zone area being irrigated. Higher labour and fuel costs are incurred as the sprays are expensive and we need to drive tractors down each row to deliver them. In a period where water is potentially limited this is an important strategy to maintain the nutritional level of the tree as close as possible to optimum.

## 3. Water Pulsing

Our irrigation system has been designed to pulse irrigation in the orchard. Rather than applying required amounts of water to trees over long continuous irrigation periods, (e.g. 12 hours on 12 hours off), we apply irrigation in shorter pulses (e.g. 1 hour on 1 hour off). By utilising this technique we allow time between each pulse for water to penetrate the full depth of the root zone, without passing below the root zone or running off at the surface and being wasted. We also expect evaporation losses will be reduced as a result of pulsing irrigation. These strategies will help greatly in maximising the amount of water available to the almond trees.

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### 4. Actions To Slow Tree Growth

Should water allocations in 2007/2008 not be sufficient to sustain normal tree growth it would be prudent to restrict tree growth and leaf size to reduce water use and stress on the trees. Reduced irrigation and the application of some fertilisers will slow tree growth and the development of the crop so the trees are hardier and better able to manage a dry period. If it is ultimately necessary to take this step, those trees which are due to crop this year (2004 and 2005 project only) will most likely see a smaller than expected crop but the actions would have helped ensure the long term cropping potential.

### Water Availability

The gap between the reality of the water situation and the media reports is considerable. We do however recognise the potential severity of the situation and have taken considerable steps to prepare for the worst.

Here are the current actual water statistics and predictions from our relevant water delivery authorities:

#### Up to the end of June 2007

Despite all the media commentary, we were able to draw 95% of our full water allocation for the irrigation season ended 30 June 2007.

#### What does this mean?

In 2006/2007, we were able to apply all the water the trees demanded and they ended the growing season in the peak of health. This means that they commenced the spring growing season normally and are in the best condition possible to withstand the pressures that would come if we had to reduce the quantity of irrigation applied.

In addition, we accelerated the construction of some dams and filled these to the maximum with excess water we were entitled to. This water is being held as a safety reserve. In addition, in the current irrigation season, the authorities have allowed us to use water we had saved from the 2006/2007 irrigation season; this water is called "carry-over water". Our "carry-over" water was used to meet the almond trees requirements well into October. We therefore did not have to use any of our 2007/2008 water allocation until October this year which has been of significant benefit.

#### Allocations since June 2007

To 15 October 2007, we have been authorised to draw between 16% and 23% of our water entitlements (different categories of licence allow for different allocations). As outlined above, our "carry-over" water was sufficient to supply the trees needs to early October so we have only recently begun to use this allocation. This has meant we have more water available for the trees during the summer months.

The next water allocation announcement is due on 15<sup>th</sup> October. Usually these announcements occur bi-monthly.

For the irrigation season July 2007 to June 2008, the Water Authorities have given the following guidelines regarding anticipated water allocations. We show both the Goulburn and Murray systems as we have licences drawn from both. The source of this information is the Goulburn Murray Water Authority.

## Water – AIL’s Current Planning



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Goulburn System			Murray System		
(% of High-Reliability Water Share at date shown)			(% of High-Reliability Water Share at date shown)		
Inflow Conditions	15 Dec 2007	15 Feb 2008	Inflow Conditions	15 Dec 2007	15 Feb 2008
Wet	87%	100%	Wet	53%	78%
Average	51%	55%	Average	40%	52%
Dry	32%	37%	Dry	23%	24%
Very Dry	24%	25%	Very Dry	18%	19%

The authority states that in its view:

A Wet season is a 10% probability of occurring, an Average season is a 50% probability of occurring, a Dry season is a 10% probability of occurring and a Very Dry season is a 1% probability of occurring.

All our planning and preparations on the orchard for the coming season are based on a Dry season and the relevant allocations. With "Dry" allocation levels, we believe we will be able to maintain healthy trees but would not expect full growth and cropping.

However, while we are planning for a Dry season we are hoping for an Average season and at an "Average" level of allocation, in combination with our water management plans, we believe we would still deliver a year of reasonable tree growth and cropping performance for young trees.

We are happy and available to discuss individual questions or provide more information. We want to assure our investors that we view the current potential situation as serious and have taken very positive steps to prepare for it. The strategies we have employed, we expect, will position our orchards to be able to quickly resume normal growth and yield expectations once the drought ends. During the period of time it takes for normal weather patterns to resume we will keep you fully informed about the progress of our orchards, given the prevailing weather patterns at that time.

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