



Theodore Water Pty Ltd

Offer Document



IMPORTANT NOTICES

Responsibility for information

The information in this Offer Document has been prepared by the Company and is the responsibility of the Company. The Government Shareholder and the Department (and, as applicable, their directors, officers, employees and advisers) do not assume any responsibility for the accuracy or completeness of any such information, subject to the following:

- (a) the Department has prepared and is responsible for the Department Information. The Company and its directors, officers and advisers:
 - (i) have not verified the Department Information;
 - (ii) have relied on the Department to verify the Department Information;
 - (iii) do not assume any responsibility for the accuracy or completeness of the Department Information; and
 - (iv) accordingly, disclaim responsibility and liability for the Department Information.
- (b) KPMG Transaction Services has prepared the Investigating Accountant's Report (contained in annexure A) and takes responsibility for that report. None of the Company, the Government Shareholder, the Department, or (as applicable) their directors, officers, employees and advisers assume any responsibility for the accuracy or completeness of the information contained in the Investigating Accountant's Report, except in relation to information given to KPMG Transaction Services by them. KPMG Transaction Services does not assume any responsibility for the accuracy or completeness of the information contained in this Offer Document other than that contained in the Investigating Accountant's Report.
- (c) Jacobs has provided and is responsible for the Jacobs Report (contained in annexure B). None of the Company, the Government Shareholder, the Department, or (as applicable) their directors, officers, employees and advisers assume any responsibility for the accuracy or completeness of the information contained in the Jacobs Report, except in relation to information given to Jacobs by them. Jacobs does not assume any responsibility for the accuracy or completeness of the information contained in this Offer Document other than that contained in the Jacobs Report.

Forward looking statements and intentions

Certain statements in this Offer Document relate to future matters.

Customers should be aware that there are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of the Company to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct, results, performance or achievements to be materially different from historical conduct, results, performance or achievements.

These risks, uncertainties, assumptions and other important factors include the risks set out in Sections 3 and 6 of this Offer Document.

None of the Company, the Government Shareholder, the Department, their respective directors, officers or advisers, or any other person, gives any representation, assurance

or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Offer Document will actually occur.

Customers are cautioned about relying on any such forward looking statements. The forward looking statements in this Offer Document reflect views held only as at the date of this Offer Document.

Additionally, statements of the intentions of the Company and the Board reflect present intentions as at the date of this Offer Document and may be subject to change.

To the maximum extent permitted by law, the Company, the Government Shareholder and the Department disclaim any duty to update any forward-looking statements other than with respect to information of which they become aware prior to the Closing Date which is material to the decision of a Customer whether or not to:

- ▶ support the Local Management Proposal; and/or
- ▶ apply for their Share Entitlement.

Your decisions

This Offer Document does not take into account the particular needs, objectives and financial circumstances of each individual Customer or any other person. Before making any decision in relation to whether or not to support the Local Management Proposal or to apply for your Share Entitlement, the Directors encourage you to consider whether that decision is appropriate in light of your particular needs, objectives and financial circumstances, and to consult your financial or legal adviser.

Restrictions on distribution of this Offer Document

This Offer Document does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

The distribution of this Offer Document (including an electronic copy) outside Australia may be restricted by law. If you are a Customer outside Australia and come into possession of this Offer Document, you should observe and seek your own advice on any restrictions. Any failure to comply with such restrictions may contravene applicable laws. The Company and the Government Shareholder disclaim all liabilities to such persons. Customers' trustees or custodians for persons outside Australia are encouraged to seek independent advice as to how they should proceed.

No action has been taken to register or qualify the Shares or to otherwise permit a public offering of the Shares in any jurisdiction other than in Australia.

External websites

Unless expressly stated otherwise, the content of the Company's and the Department's websites, including www.theodorewater.com.au and www.lmairrigation.com.au, do not form part of this Offer Document and Customers should not rely on any such content.

Glossary and defined terms

Capitalised terms used in this Offer Document are defined in the Glossary in Section 9 of this Offer Document. Section 9 also sets out rules of interpretation which apply to this Offer Document.

The calculation of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Offer Document are subject to the effects of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Offer Document.

Date of the Offer Document

This Offer Document is dated 10 April 2018.



ACN 615 708 944

Theodore Water Pty Ltd Offer Document

If you are in any doubt as to how to deal with this document, please consult your financial or legal adviser, or call the LMA Information Line on 0468 960 538 or email admin@lmairrigation.com.au. You can also obtain more information about the Local Management Proposal from the Directors of the Company. Their contact details are included at page iv.

This Offer Document is not a prospectus within the meaning of the Corporations Act and may not contain all of the information that would be required to be in a prospectus.

IMPORTANT DATES AND EXPECTED TIMETABLE

Event	Date and time
Customer information session	6pm on Friday, 20 April 2018 at the Theodore Hotel
Date by which the Support and Acceptance Form must be received in Brisbane	Wednesday, 30 May 2018
Anticipated transition to Local Management	30 September 2018

These dates are indicative only and subject to change. Any changes will be notified on the Company's website.

If I have a question about this document who should I contact?

For further information on the Local Management Proposal and the Offer, please contact the LMA Information Line or a member of the Board. Contact details are provided below.

Name	Position	Contact
Malcolm Finlayson	Chair	0409 765 200
Peter French	Deputy Chair	0428 166 634
Kirk Anderson	Director	0429 181 079
Greg Austin	Director	0409 931 614
Ed Donohue	Director	0418 154 914
Sarah Cox	Director	0418 152 859
LMA Information Line		0468 960 538 or admin@lmairrigation.com.au

LETTER FROM THE CHAIRMAN

10 April 2018

Dear Customers,

It is with great pleasure that I invite you to become a Shareholder of Theodore Water Pty Ltd. Joining this Company will enable you to realise one of the aims and greatest benefits of the transition process – increased involvement in the provision of irrigation services in the local area. I encourage you to support the transition to local management.

This Offer is the culmination of investigations into local management of SunWater's irrigation distribution networks that commenced in 2012 and the result of negotiations with the State Government over the terms of the transition. Those terms include a payment by the Government of \$15.1 million to Theodore Water that will support the ongoing financial viability of your Company.

The Board of Theodore Water unanimously recommends that you vote in favour of the Local Management Proposal and apply for your Share Entitlement. Please return your completed forms as soon as possible.

The Board considers that the Local Management Proposal presents you with an opportunity to gain local ownership and operational control of the distribution system, improve reporting transparency and accountability, increase influence over distribution system prices and crystallise uncertain future subsidies as a separation payment paid in advance.

Your Company will be a not-for-profit company run by a Board elected by local irrigator shareholders for the purpose of supplying distribution services, utilising revenue to provide services to customers and to ensure the long-term sustainability of the distribution infrastructure.

The Offer only relates to the distribution services for the Dawson channel system, with bulk water operations and supply remaining with SunWater. The Theodore weir and other bulk water assets will not be transferred.

This Offer Document contains detailed information about the Offer from Government, including Theodore Water's proposed structure, governance and management arrangements, and its proposed operations and future plans. It also outlines the potential risks associated with the Local Management Proposal which are set out in Section 6.

The Board considers it unlikely that you will receive another chance to move to local management in the foreseeable future.

The Board intends to hold an information session at 6pm on Friday, 20 April 2018 at the Theodore Hotel. I encourage you to attend the information session and to read this document carefully before making your decision.

Yours Sincerely

Malcolm Finlayson
Chair
Theodore Water Pty Ltd

CONTENTS

IMPORTANT NOTICES.....	ii
LETTER FROM THE CHAIRMAN	v
OVERVIEW OF THE OFFER DOCUMENT.....	8
1. THEODORE WATER BUSINESS PROPOSAL.....	10
2. REASONS TO ACCEPT OR NOT ACCEPT THE OFFER	15
3. KEY QUESTIONS AND ANSWERS.....	18
4. FINANCIAL INFORMATION	27
5. THE COMPANY'S PRICING POLICY AND COMPARISONS WITH SUNWATER	33
6. RISK FACTORS.....	39
7. DETAILS OF THE OFFER	46
8. ADDITIONAL INFORMATION.....	49
9. GLOSSARY	62
ANNEXURE A: INVESTIGATING ACCOUNTANT'S REPORT	67
ANNEXURE B: JACOBS REPORT.....	76

OVERVIEW OF THE OFFER DOCUMENT

This Offer Document has been sent to you because you are a Current Customer of the Irrigation Distribution Network. It explains the Local Management Proposal, the proposed governance structures for the Company, reasons to support or not support the Local Management Proposal and reasons why you may or may not choose to accept the Offer for Shares in the Company.

This Offer Document is important and requires your immediate attention, as you are being asked to decide:

- ▶ whether you support the Local Management Proposal, which involves transfer of the Theodore Irrigation Distribution Network from SunWater to the Company; and
- ▶ whether you want to accept the Offer of Shares in the Company (should the transition to Local Management occur).

You need to respond to these questions by completing and returning the Support and Acceptance Form so that it is received in Brisbane by Wednesday, 30 May 2018.

The Directors unanimously recommend that you:

- ▶ SUPPORT the Local Management Proposal; and
- ▶ APPLY for your Share Entitlement.

Each Director who is a Current Customer intends to support the Local Management Proposal and apply for their Share Entitlement.

It is a term of the Transfer Deed provided by the Department that the Local Management Proposal will only proceed if the Customer Support Threshold is achieved. Unless an alternative threshold is agreed between the Company and the Department, the Customer Support Threshold requires:

- ▶ the support of a minimum of 70% of Current Customers by nominal volume of Water Allocations; and
- ▶ a minimum of 50% of Current Customers by nominal volume of Water Allocations accept the Offer of Shares in the Company.

If you support the Local Management Proposal, the Board unanimously recommends that you vote in favour of the Local Management Proposal and accept the Offer of Shares. If you do not do both, there is a risk that the transition to Local Management will not proceed because the necessary percentage of Current Customers do not accept the Offer of Shares.

If you do not return the Support and Acceptance Form you will be taken not to support the Local Management Proposal.

The Irrigation Distribution Network includes the Dawson and Gibber Gonyah channel and pipeline systems, which are used to supply water allocations to customers who purchase irrigation services in the Dawson Valley Water Supply Scheme.

The Irrigation Distribution Network does not include the weirs on the Dawson River. These assets, and the associated bulk water business, will remain with SunWater.

What you need to do?

You should read this Offer Document carefully before deciding whether or not to:

- ▶ support the Local Management Proposal; and/or
- ▶ apply for your Share Entitlement.

All Current Customers may complete and return the Support and Acceptance Form in relation to whether or not they support the Local Management Proposal. Only 'Eligible Customers' may apply for their Share Entitlement. You are an Eligible Customer if you:

- ▶ are the registered holder of an Allocation which is delivered to you via the Irrigation Distribution Network on 6 April 2018, (the Initial Record Date); and
- ▶ are located in Australia.

If you wish to support the Local Management Proposal or accept the Offer of Shares, you need to respond to these questions by returning, in the enclosed reply-paid envelope the Support and Acceptance Form which must be received by no later than 5.00 pm (Brisbane time) on Wednesday, 30 May 2018.

If you decide to apply for Shares in the Company, the terms and conditions associated with becoming a Shareholder can be found in Section 7 and 8.4. You will only receive Shares if the Local Management Proposal proceeds. You do not have to pay any cash amount to accept the Offer of Shares.

When making your decision, you should consider the risks associated with the Local Management Proposal, some of which are set out in Sections 2, 3 and 6.

When completing your Support and Acceptance Form, you may decide any of the following:

Alternatives	Action required
Support the Local Management Proposal and take up your Share Entitlement in full	On the Support and Acceptance Form: Mark the "Yes" for question 1; AND Mark the "Yes" for question 2; AND Sign and return the form in the reply-paid envelope.
Support the Local Management Proposal but not take up any of your Share Entitlement	On the Support and Acceptance Form: Mark the "Yes" for question 1; AND Mark the "No" for question 2; AND Sign and return the form in the reply-paid envelope.
Do not support the Local Management Proposal but apply to take up your Share Entitlement in full	On the Support and Acceptance Form: Mark the "No" for question 1; AND Mark the "Yes" for question 2; AND Sign and return the form in the reply-paid envelope.
Do not support the Local Management Proposal and not take up any of your Share Entitlement	No action required. If you do not return your Support and Acceptance Form, you will be taken not to support the Local Management Proposal and will not become a Shareholder.

1. THEODORE WATER BUSINESS PROPOSAL

1.1 Background

For over 20 years, customers of the Irrigation Distribution Network and the Queensland Government have discussed opportunities for water users to own and manage the channels, pumps and pipelines used to deliver water to you. In 2012, the Government began detailed investigations into the feasibility of Local Management for SunWater's irrigation distribution networks.¹ That process has resulted in the formation of the Company and the appointment of the Board (see Section 1.3 for details of the Board).

The Board has been tasked with assessing an offer from the Government setting out the terms on which the Irrigation Distribution Network could be transferred to Local Management. This has included conducting risk based enquiries (supported by external experts) into the assets to be transferred and the assets, liabilities and prospects of the Company should the Local Management Proposal proceed and negotiating the terms of the transfer with the Government. As part of this process, the Board has identified options for how it would run the network under Local Management. This Section sets out the Board's intentions with respect to management and operation of the network and the related business. Further details are provided in subsequent sections of this document.

A Transfer Deed has been executed by the Company under which the Department has agreed to transfer the Irrigation Distribution Network and its associated business to the Company. The transfer will only occur if certain conditions, including the Customer Support Threshold, are met. Should the network transfer to the Company, the Department has agreed to pay the Company a Separation Payment of \$15.1 million. Further details of the terms of the transfer are provided in Section 8.2.

1.2 Intentions in relation to the business of Theodore Water

The Company will be:

- ▶ customer-owned;
- ▶ a not-for-profit entity; and
- ▶ firmly committed to delivering an efficient, cost-effective and sustainable water resource to local irrigators, businesses and the Theodore community.

Through customer ownership, Theodore Water offers a local alternative with an opportunity to drive efficiency gains in water delivery and servicing. The Board's intent is that this will be primarily achieved through a strategic modernisation plan which will replace and upgrade old and inefficient infrastructure, primarily the pump stations. The Board will be elected by Shareholders and will consist of local shareholder irrigators or their nominees and independent directors. The Board will be responsible for guiding the Company to ensure that it is accountable, transparent and considers the rights and interests of shareholder customers.

Continuity of operations: Day-to-day operations of the Company will be conducted by an experienced local team, initially primarily comprising the current SunWater Theodore staff members, who will transfer to the Company on transition to Local Management. These staff will continue to work under the terms of SunWater's existing enterprise agreement, providing continuity and protection of their conditions and entitlements, for at least three years from 1 July 2018 to 30 June 2021. During this time the Board will work with the staff to capture savings and efficiencies in the operation of the business. The Company will be led by a general manager (to be appointed by the Company) who will have strategic and administrative oversight of the Company and its operations. The Company will continue to be based at the former SunWater office at 1, Second Avenue, Theodore.

A customer owned business: Theodore Water will be a customer-owned business, with only holders of Allocations eligible to hold Shares, and a limit on any person and their Associates together holding more than 35% of issued Shares

¹ More information on the history of the Local Management Project is available at <http://lmirrigation.com.au/overview/history/>

in the Company. The Board will be required to hold an annual general meeting, including to report the financial statements and (when elections are required) to elect Directors.

Pricing: In the first financial year of operations, distribution prices will be set so that the total price paid by Customers (for bulk and distribution combined²) will be the same price that would have applied if Local Management did not occur.

The Irrigation Distribution Network currently runs at a loss, with the revenue collected by SunWater through the distribution prices not sufficient to cover the costs associated with operating the network. The Board anticipates, subject to a number of assumptions and variables, that it could take up to 15 years before the revenue received through prices will meet the costs to operate the business (see Section 5.5 for more information). To achieve Cost-reflective Pricing, the Board's intent is to keep costs as low as possible with a view to continually looking for operating efficiencies.

The Board is targeting distribution price increases of an average of 3.9% per year until Cost-reflective Pricing is achieved (see Section 5.5 for more information, other scenarios and the sensitivities association with the modelling), with prices increasing in line with inflation after that time³. This compares with average annual price increases for distribution under SunWater of 6% since 2006. It is the Board's intention to smooth the transition to Cost-reflective Pricing to avoid, wherever possible and subject to any unforeseen events, any significant price jumps.

If transition to local management occurs, the Company will receive a Separation Payment of \$15.1 million. The Board intends to use this Separation Payment to:

- ▶ fund, over a number of years, the modernisation of key assets (see '**Asset Refurbishment and Renewal**' below and section 4.8 for further information); and
- ▶ support the transition to Cost-reflective Pricing.

Initially, prices will be reviewed annually by the Company. Customers will be given 6 months prior notice of any price changes.

A local business: As a locally owned and operated company, the Board is firmly committed to procuring and utilising local services where possible and appropriate.

Customer engagement: Customer engagement and involvement in Board decision-making will be critical to the on-going success of Local Management. It will be imperative for accountability and transparency and will be a key principle under which the Board operates. Each customer will be entitled to hold Shares based on their Allocation. As Shareholders, they will have the right to have a say in how the company is managed, including by voting on the election of the Directors. Additionally, the Constitution provides for the establishment of a Shareholder Advisory Group (SAG) to provide feedback and recommendations to the Board and executive regarding operational matters. The SAG membership will comprise a cross section of shareholders, of varying sizes and from all areas within the Theodore Channel Irrigation Scheme.

Asset Refurbishment and Renewal: As the oldest irrigation scheme in Queensland, the age, condition and the layout of Theodore's Irrigation Distribution Network present challenges to efficient water delivery and use. The Board has developed an Asset Refurbishment and Renewal Strategy which includes a detailed 30-year capital expenditure program which will enable staged refurbishment and replacement of critical irrigation infrastructure assets. In particular, the Board's preferred scenario is to target:

- ▶ the replacement of the Theodore pump station and upgrade to the Channel A pipeline in 2020; and
- ▶ a major upgrade of the Gibber Gunyah pump station in 2030.

The Constitution requires that the Board prepare a five-year Strategic Asset Management Plan, which must be reviewed annually and submitted for approval each year to the annual general meeting.

2 Including fixed and variable charges. That is, the total of the charges that are referred to under SunWater as Parts A, B, C, and D.

3 Assumed to be 3% based on the underlying costs of the business.

Operational efficiencies: A key aim of transitioning to Local Management is to increase efficiency of water distribution to reduce operating costs so that the cost savings can be passed on to customers. The Board's view is that significant efficiencies and savings will need to be realised for the business to transition to Cost-reflective Pricing while also keeping prices at a level that will be acceptable to Customers.

Local ownership and the need to achieve Cost-reflective Pricing will provide a greater incentive for improvements. The Board, working with the manager and staff, will assess all options for improving efficiency and reducing costs for Customers. The Board has identified a number of opportunities for operational and maintenance cost savings. Some of these are expected to be realised during the first phase of modernisation, such as reduced electricity costs as a result of the replacement or upgrades to the pump stations.

Standards of service: The Board is firmly committed to operating an efficient and reliable channel irrigation scheme. This will be achieved through replacement or upgrades of the pump stations, regular maintenance and refurbishment of infrastructure and a streamlined water ordering/invoicing system. One of the benefits of local ownership and management will be having a locally-based team who knows the customers, understands the timing and nature of customers' requirements and has in-depth experience and knowledge of the irrigation network.

Insurance and risk: The Company intends to take out insurance policies related to management liability, general liability and industrial special risks. However not all risks are insurable. Uninsurable costs, for example, typically relate to flood damage that cannot be claimed on insurance (such as erosion of earthen structures) or insurable costs that fall below the excess threshold, or assets which the Company elects to self-insure. The Board intends to establish a self-insurance fund which will attract annual contributions of \$20,000 to draw upon in relation

to such uninsurable risks. The Board anticipates that there will be sufficient funds remaining from the Separation Payment to cover uninsured costs if an event occurs in the first few years after transition to Local Management and prior to building up the self-insurance fund. However, if part of the Separation Payment is used in that way, distribution prices may need to increase to allow the Company to replenish those cash reserves.

Additional revenue opportunities: The Board considers that there may be an opportunity to increase revenue to the business through temporary trading of water associated with surplus distribution loss allocations. The Company will receive a Water Allocation of 600 ML of High priority allocation and 3,405 ML of Medium A priority allocation for distribution losses. The bulk water costs associated with these allocations will be payable by the Company. Over the last 11 years, the average distribution loss has been around 1,758 ML, with a maximum usage in any one year of 2,692 ML. This suggests that, depending on demand, there may be surplus water that could be sold on the temporary water market.

Systems and invoicing: A new system will be developed by the Company for water accounting. Administration and invoicing systems will be operated on-site with oversight from Theodore Water's general manager. It is the Board's intention that these systems will be in place prior to the transfer to Local Management. SunWater will remain responsible for bulk water supply and the Board intends for bulk water charges to continue to be invoiced by SunWater.

Arrangements with SunWater: The Company aims to work closely and collaboratively with SunWater to ensure that water is delivered as efficiently and cost-effectively as possible. SunWater will continue to be responsible for bulk water supply and the operation of the Theodore weir while Theodore Water will manage the operation of the Irrigation Distribution Network.

1.3 Board and Governance

The Constitution provides that the Board will consist of a minimum of three and a maximum of six Directors, with at least one Independent Director and, to the extent practicable, at least two Shareholder Directors. At the first general meeting after the Transfer Day, at least one half of the Directors will retire. Thereafter, at least half the Board will retire on rotation every second year. The Constitution provides that Directors may not serve for longer than a four-year term, without re-election. Directors will be entitled to be paid for their role on the Board. The Directors are currently paid based on rates that have been determined by Government in accordance with its standard rates for board members on an entity of this type and size. Those rates will, subject to review by the Board, continue to apply after the transition to Local Management.

The Board will have the power to manage the business of the Company except for those matters reserved for the Shareholders. The Board may delegate any of its powers to a committee of the Board, a Director or an employee of the Company.

Details of the current Directors are set out below.

Malcolm Finlayson

Chairman

Independent
Director

Malcolm is a finance specialist with over 30 years' experience steering the financial management and strategies of businesses in the agricultural industry. He has a Bachelor's degree in Business (Accounting) and an MBA. He is a CPA and has completed the AICD Company Director course. An experienced director with more than 15 years on the Boards of not-for-profit and commercial companies, Malcolm is currently a director of Plant Health Australia, Grain Trade Australia Ltd (GTA), Wheat Quality Australia Ltd and Turf Breed Pty Ltd. He also chairs their Audit and Finance Subcommittees. He runs his own consultancy firm, Finesse Solutions Pty Ltd, which has assisted clients with systems development and implementation as well as risk management and controls. He has been a CFO for over 20 years, responsible for group-wide reporting and administration, as well as finance and strategy.

Peter French

Deputy Chairman

Shareholder Director

Peter has been growing irrigated crops, particularly cotton, at Theodore for 44 years. He has a strong commitment to the irrigation industry having held all executive positions on the Dawson Valley Cotton Growers Association. His family enterprise is certified under the cotton industry's myBMP program, and Peter was recognized as a finalist in the AgriRisk High Achiever of the Year category of the 2014 Australian Cotton Industry Awards. Peter has been a member of Theodore's Irrigation Advisory Board, since the mid-1980's and is its current chair. He has guided the local management process since 2012, initially as Theodore's representative on the LMA Working Group, and then as director on the Stage 2 Theodore LMA Board. Peter completed the AICD Company Director course in 2015.

Greg Austin

Director,
Shareholder Director

A second-generation Theodore farmer, Greg has been farming since 1968 and is now proprietor of three cotton-growing businesses in the Dawson Valley. Greg and his family are certified under the cotton industry's Best Management Practice (myBMP) environmental program, which contributes to their success. Greg has been actively involved in the irrigation industry as president of the Dawson Valley Cotton Growers Association for four years, and as a member of previous irrigation advisory panels including the Dawson Valley Irrigators' Advisory Committee and the Channel Irrigators' Advisory Group to SunWater. Greg also was a director on the Stage 2 Theodore LMA Board.

Kirk AndersonDirector,
Shareholder Director

Kirk is a third-generation farmer in the Dawson Valley and a director in his family business. Kirk is an active community member and is passionate about the future of irrigation in the Dawson Valley, not only in his own business, but also for the future of the local communities. With a young family, Kirk is particularly committed to sustainable management of all our local resources. Kirk has held many local positions including roles on the management committees of the Dawson Catchment Coordinating Association and the Dawson Valley Cotton Growers and Irrigators Association. Kirk was a director on the Stage 2 Theodore LMA Board.

Ed DonohueDirector,
Independent
Director

A registered professional engineer, Ed Donohue has 40 years' experience in water resource management across the fields of investigation, planning, design, operation and maintenance of irrigation and drainage schemes; water supply; water allocation; policy and legislation. In 1997, after six years as the district manager in charge of the operation of the Burdekin River Irrigation Area, Ed returned to Central Queensland as the Department's Regional Manager, Water Services. In that role he was involved with the development and implementation of the seven Water Resource Plans and Resource Operations Plans in Central West Region as well as the Central Queensland Regional Water Supply Strategy.

Sarah CoxDirector,
Independent
Director

Raised on a beef cattle property near Tenterfield in northern NSW, Sarah now owns and operates an 11,000 ha beef breeding operation near Cracow, 60km south east of Theodore, with her husband Richard. She has a background in rural journalism and spent many years working for Rural Press (Fairfax) publications Queensland Country Life, Australian Farm Journal, Australian Cotton Outlook, Queensland Graingrower and the Queensland Farmer and Grazier. As a senior rural reporter based on the Darling Downs and Central Highlands, she covered issues such as irrigation development and sustainability, grain and cotton research and development, soil fertility, sustainable cropping systems, industry viability and conservation farming practices. Sarah currently works as a senior account director with Cox Inall Communications – Australia's leading public relations agency working in the agribusiness and natural resource management sectors – and helps manage media relations and external communications for the Grains Research and Development Corporation (GRDC)'s northern region.

2. REASONS TO ACCEPT OR NOT ACCEPT THE OFFER

2.1 Introduction

Given the significant resources committed by the Department to investigating and supporting a move to Local Management since 2012, if the Local Management Proposal is rejected by Current Customers, further resources to facilitate a move to Local Management may not be made available for some time, if at all. As such, you should carefully consider the reasons for and against a transition to Local Management before responding to this Offer Document.

If this Local Management Proposal does not proceed, the Department has indicated that the Irrigation Distribution Network will remain within SunWater.

2.2 Reasons to support the Local Management Proposal

Reasons why you may wish **to support** the Local Management Proposal include:

✓ A more flexible and responsive business controlled by a customer-elected Board

Local Management would mean that the Irrigation Distribution Network will be owned and run by a company with a Shareholder-elected Board. The Shareholders will be customers. The Board will be made up of a combination of Shareholder Directors and Independent Directors (see Sections 1.3 and 8.4).

A locally owned Irrigation Distribution Network will mean greater flexibility in how the network is operated, including scope to vary service standards to meet local conditions or distribution pricing structures to respond to local demands, or to modernise the network.

✓ More say over maintenance and replacement/refurbishment of key assets

Local Management will give Shareholders more involvement in decisions on the refurbishment or replacement of assets including critical infrastructure. Decisions will be driven exclusively by the needs of the scheme and no longer influenced by SunWater's corporate or state-wide policies. For example, under Local Management, the Board's intention is to modernise parts of the Irrigation Distribution Network, including the replacement of the Theodore pump station and major upgrades to the Gibber Gonyah pump station. Part of the Separation Payment would go towards this cost.

✓ Greater transparency and local accountability

With a more accessible Board and management team and a Board that is directly accountable to Shareholders, you are likely to benefit from greater transparency relating to the operation, decision-making and finances of the Company and the Irrigation Distribution Network. All costs associated with the network, including overhead, operation and maintenance costs will be accounted for within a local standalone entity.

✓ Greater control over distribution prices

Prices under Local Management for distribution of water will not be regulated by the Queensland Competition Authority (QCA) and the Board of the Company will be responsible for future pricing policy.⁴ This is different to pricing under SunWater which is subject to pricing recommendations from the QCA and subject to the risk that Government policy in relation to pricing may change.

4 Bulk water prices will continue to be set by the Government.

✓ **Subsidy from the Government paid up front**

As part of the transition to Local Management, the Department has agreed to pay the Company a Separation Payment of \$15.1 million. Currently, the price paid by Customers for use of the Irrigation Distribution Network does not cover the cost to operate and maintain the network. The gap between the cost to operate and maintain the network, and the distribution charges paid by Customers, is currently met through Government subsidies. The Separation Payment is effectively a lump-sum subsidy to support a transition to Cost-reflective Pricing and ensure that the Company has a renewal fund at the commencement of operations.

Government has advised that there will be no future subsidies paid to the Company and therefore the Separation Payment is intended as a capped upfront payment. This eliminates the uncertainty about the amount of future subsidies that may be available in connection with the Irrigation Distribution Network under continued SunWater ownership, and will allow the Company to plan and manage its business and any capital works in the future.

✓ **Not for profit**

The Company will be a not-for-profit entity and all revenues will be used in operating, maintaining and improving the Irrigation Distribution Network and for associated purposes – there will be no dividends or other distributions paid to Shareholders.

✓ **Other benefits:**

Local economy: Local Management of the Irrigation Distribution Network may result in more network functions being undertaken locally, rather than (as currently) in SunWater's regional centres or in the Brisbane head office. This may provide local economic benefits.

A voice for Customers: The Company will be a vehicle to raise issues with the Government on your behalf, for example during bulk water pricing reviews or water planning processes.

2.3 Reasons not to support the Local Management Proposal

Reasons **to not support** the Local Management Proposal:

✗ **Maintain the status quo and avoid risks associated with Local Management**

There is a risk that the operation of the Irrigation Distribution Network will not be a financially viable business or that distribution prices will need to increase by more than anticipated to ensure its viability. While the network has existed for many years, it will be operating under new management and as a small, stand-alone, privately-owned entity and will have less capacity to withstand unexpected events that have the potential to impact on the viability of the Company. This includes events that increase operating costs or capital requirements or adversely affect customer viability.

Risks associated with Local Management are discussed in detail in Sections 3 and 6.

x **Lost potential to access Government subsidies and support**

The Government has historically capped distribution price rises by subsidising the operation of the Irrigation Distribution Network. Current Government policy is that Customers should ultimately pay the full cost of operating and maintaining the network, but the Government has sought to smooth the transition to Cost-reflective Pricing by limiting the rate at which prices have increased. This support may continue if the network remains with SunWater (although there are no guarantees regarding the Government's future pricing policy).

Under Government ownership through SunWater, the Government has the financial ability, should it choose to do so, to respond to unexpected events and support the Irrigation Distribution Network, including by providing access to debt funding through the Queensland Treasury Corporation.

Under Local Management, the Company will need to rely upon insurance and a self-insurance fund to respond to unexpected events. Where additional funding is required, it will most likely need to be sourced from Customers through an increase in distribution prices charged to them. This is because the lack of operating history and the not-for-profit status of the Company means that obtaining debt funding from financial institutions may be difficult and the Government has advised that debt funding will not be available to the Company through Queensland Treasury Corporation.

x **A need for greater Customer involvement in the operation of the network**

To be successful, Local Management is likely to require greater input from Customers than currently occurs under SunWater. The Constitution provides for minimum of two Shareholder Directors, where reasonably practicable. This will require that Shareholders or their nominees stand for election to the Board and take on the related responsibilities. The Board's proposed approach to Customer consultation is likely to involve greater involvement and time commitment from Customers for it to be effective.

2.4 Reasons to become a Shareholder

Reasons why you may wish **to accept** the Offer and become a Shareholder of the Company include:

✓ **Greater ability to influence local control and management:**

As a Shareholder, you will have the opportunity to directly contribute towards the management of the Irrigation Distribution Network, based on the rights associated with your Shareholding. This would include participating in meetings of the Company and voting on key decisions in accordance with the governance rules, including the appointment of directors. More information on the rights that would attach to your Shareholding is discussed in Section 8.4.

✓ **Greater transparency:**

As a Shareholder, you will have a right to access more detailed financial information about the Company than you would have as a non-Shareholder Customer.

2.5 Reasons not to become a Shareholder

The Directors have not identified any reasons why a Customer may wish to not become a Shareholder if the Local Management Proposal proceeds.

3. KEY QUESTIONS AND ANSWERS

This Section 3 answers some questions Customers may have about the Local Management Proposal and the Offer of Shares, and should be read together with the other sections of this Offer Document.

Question	Answer	Further information
General		
What is the Local Management Proposal?	<p>The Local Management Proposal is the proposal by the Government to transfer the Irrigation Distribution Network and its associated business from SunWater to the Company. The Local Management Proposal includes the payment by the Department of the Separation Payment to the Company.</p> <p>A number of conditions must be satisfied before the transition to Local Management occurs, including meeting the Customer Support Threshold.</p>	Section 8.2
What is the Irrigation Distribution Network and what assets are being transferred?	<p>The Irrigation Distribution Network refers to the Dawson and Gibber Gunyah channel and pipeline systems, the related drainage networks and the Theodore and Gibber Gunyah pump stations.</p> <p>The assets to be transferred include the Irrigation Distribution Network, the office and depot at 1 Second Avenue, and the houses at 8, 34, and 126 The Boulevard.</p> <p>The Fork Farmers Pump will remain the property of the Fork Farmers Association. The Board intends to agree to a memorandum of understanding with the Fork Farmers Association regarding its operation. The Board's intention is that the pump remain in operation until the Theodore Pump Station is replaced.</p>	Section 8.2
Does the Irrigation Distribution Network include Theodore Weir?	No, Theodore Weir, and other SunWater weirs on the Dawson River, will remain with SunWater and bulk water charges will still be payable to SunWater.	Section 8.2
Why are Customers being given the opportunity to transition to Local Management?	<p>During the 2012 QCA SunWater irrigation pricing review, the Queensland Farmer's Federation and CANEGROWERS Queensland, together with local irrigation groups expressed concerns over the long-term sustainability of the irrigation sector, especially in SunWater's distribution systems. They proposed that Local Management could potentially deliver increased efficiencies.</p> <p>This contributed to the Government establishing a process to consider the feasibility of, and level of Customer support for, Local Management. This has ultimately resulted in a decision by the Government to offer Customers in the Irrigation Distribution Network the opportunity to transition to Local Management.</p>	Further information on the history of the Local Management process is available at lmirrigation.com.au/overview/history/

Question	Answer	Further information
Is the Local Management Proposal compulsory?	<p>No, and the Local Management Proposal will not proceed if certain conditions are not met. Critical to the Local Management Proposal succeeding is the Customer Support Threshold being satisfied.</p> <p>If there is not sufficient support from Customers and the Customer Support Threshold is not met, the Irrigation Distribution Network will remain with SunWater.</p> <p>However, if the conditions in the Transfer Deed and the Customer Support Threshold are satisfied, the transition to Local Management will occur whether you support it or not.</p>	Section 8.2
Operation of the Irrigation Distribution Network		
Who will run the Irrigation Distribution Network under Local Management?	<p>The Company, overseen by its Board, will operate the Irrigation Distribution Network. The Company will be owned by those Customers who agree to become Shareholders in the Company.</p> <p>The Board will appoint a general manager prior to the Transfer Day who will oversee the day-to-day operations of the Company.</p> <p>Neither the Government nor SunWater will be involved in the management or decision-making of the Company.</p>	Section 1.3 and Section 8.4
What happens to existing SunWater employees?	All local SunWater staff who work on the Irrigation Distribution Network will transfer on the same employment terms to the Company upon implementation of the Local Management Proposal.	Section 8.2
Will the operation of the Irrigation Distribution Network be different under Local Management?	Initially, the Irrigation Distribution Network will likely be operated by the same staff (except employed by the Company instead of SunWater) and using the same or similar operating rules. Over time, the Board and management may change operating arrangements in response to decisions of the Board and feedback from Customers.	Section 1
How will the assets be maintained and renewed?	<p>The Company has developed an Asset Refurbishment and Renewal Strategy which defines the refurbishment and renewal costs and timeframes for each type of asset in the Irrigation Distribution Network.</p> <p>The Board's proposed approach to capital expenditure includes targeting:</p> <ul style="list-style-type: none"> ▶ the replacement of the Theodore pump station and upgrade to the Channel A pipeline in 2020; and ▶ a major upgrade of the Gibber Gonyah pump station in 2030. 	Section 4.8 and annexure B

Question	Answer	Further information
What will the service standards be under Local Management?	The Company has developed its own Distribution Rules, based on SunWater’s existing rules, and incorporating the similar service standards. The Distribution Rules are provided for under the Customer Contract. The Board plans to review these standards in consultation with Customers after implementation of the Local Management Proposal.	Section 8.3
Water prices under Local Management		
Who will set the water prices under Local Management?	<p>The Board of the Company will set prices for water distribution in the Irrigation Distribution Network and for related services.</p> <p>Under the new deemed Customer Contract between each Customer and the Company, the Company is able to adjust the distribution fixed and variable prices annually on 1 July, provided it has given Customers 6 months’ prior notice.</p>	Section 8.3
What about bulk water prices under Local Management?	Bulk water prices will continue to be set in accordance with legislative and regulatory processes, which currently includes reviews by the QCA with prices set by the Government based on the QCA recommendations.	Section 6.3(a)(ii)(C)
What will the prices be in the first year following transfer?	<p>From the Transfer Day, the total combined price for bulk and distribution⁵ will be the same as the total combined price that would have been charged by SunWater had Local Management not occurred.</p> <p>The result is that in the 2018/19 year, after the Transfer Date, the prices payable to the Company will be:</p> <ul style="list-style-type: none"> ▶ Fixed distribution price⁶: \$55.90 per ML of Water Allocation held; ▶ Variable distribution price⁷: \$32.97 per ML of water used; and ▶ Drainage: \$28.10 per hectare. <p>The bulk fixed price (Part A) payable to SunWater will be \$13.64 per ML of Water Allocation held and the bulk variable price (Part B) will be \$1.97.</p> <p>The basis for determining these prices, including the process of “unbundling” the existing bulk and distribution prices, is described in detail in Section 5.</p>	Section 5.3 and Section 5.4

5 Including both fixed and variable components
6 Currently referred to as Part C under SunWater
7 Currently referred to as Part D under SunWater

Question	Answer	Further information
How will the distribution prices be determined?	<p>Prices will be determined based on the Board's assessment of the funds required to operate, maintain and improve the Irrigation Distribution Network over the short and long term.</p> <p>Distribution prices do not currently cover the full cost of operating the Irrigation Distribution Network. Part of the Separation Payment will be used to cover the short-fall between costs and revenues until distribution prices have increased to be cost-reflective.</p>	Section 1.2 and Section 5
Will the Government continue to subsidise water distribution prices under Local Management?	No. A Separation Payment will be paid on or before the Transfer Date, which is a one-off lump sum to assist with the transition of the Irrigation Distribution Network to Local Management. The Government has stated that no further subsidies will be paid by the Government.	Section 8.2
Will prices under Local Management be lower than they would be under SunWater?	<p>The future water distribution prices for the Irrigation Distribution Network will depend on a range of factors, including how the Company operates the network given the costs and the proposed service levels. The Board's intention is to keep costs as low as possible while continually looking for operating efficiencies.</p> <p>Currently, future SunWater prices are only set until 30 June 2019. Beyond that time there is no certainty as to what the price would be for the distribution of water under SunWater.</p> <p>Under Local Management, prices for the period from 1 October 2018 to 30 June 2019, will be set so that the combined total charges for bulk and distribution water supply will be the same as they would have been under SunWater.</p> <p>Section 5.6 includes a discussion of projected prices under Local Management, and how these might compare to historic and potential future prices under SunWater.</p>	Section 1.2, Sections 5.5 and 5.6
Proposed governance arrangements		
What type of entity is the Company?	The Company is a proprietary company limited by shares. Each Shareholder will hold one Share for each ML of the nominal volume of Allocation held by that Shareholder for delivery via the Irrigation Distribution Network, provided that no Shareholder and their Associates may together hold more than 35% of the issued Shares.	Section 8.4

Question	Answer	Further information
<p>What does it mean to be “not-for-profit”?</p>	<p>As a not-for-profit business, all revenue will be used in operating, maintaining and improving the Irrigation Distribution Network and for associated purposes. There will be no dividends or other distributions paid to Shareholders.</p> <p>Whilst the Company is a not-for-profit, if it earns a profit in any financial year it will be required to pay tax on that profit.</p>	
<p>How do I have a say in the decisions of the Company?</p>	<p>To have a say in the decisions of the Company you need to be a Shareholder. If you are a Shareholder:</p> <ul style="list-style-type: none"> ▶ you or your nominee could seek election as a Shareholder Director; ▶ you will be able to attend general meetings of the Company; and ▶ you will be entitled to vote on the election of Directors and certain other decisions set out in the Constitution or where required by the Corporations Act. <p>The Constitution also requires the Board to establish a Shareholder Advisory Group, to provide feedback to the Company’s executive officers on operational matters. The group is required to comprise a cross section of Shareholders of varying sizes and from all areas of the Irrigation Distribution Network.</p>	<p>Section 8.4</p>
<p>Who is eligible to be on the Board?</p>	<p>A Shareholder, a person nominated by a Shareholder or a person identified as having the necessary skills required by the Board is eligible.</p> <p>There must be a minimum of three Directors and a maximum of six Directors. To the extent it is reasonably practicable, at least two must be Shareholder Directors.</p> <p>All candidates for election or appointment as a Director must be nominated by the Nominations Committee, unless they are a retiring Director.</p> <p>A Shareholder Director is a Shareholder, or a director, secretary, employee or shareholder of a Shareholder that is a body corporate, or a unitholder or beneficiary of a Shareholder which holds its shares as a trustee, or any other person who is nominated (with their consent) by a Shareholder to be a Shareholder Director.</p> <p>An Independent Director is a Director who is not eligible to be a Shareholder Director at the time of their appointment or election.</p>	<p>Section 8.4</p>

Question	Answer	Further information
Who is the current Board?	<p>The current Board comprises:</p> <ul style="list-style-type: none"> ▶ Malcolm Finlayson (Independent Director); ▶ Peter French (Shareholder Director); ▶ Greg Austin (Shareholder Director); ▶ Kirk Anderson (Shareholder Director); ▶ Ed Donohue (Independent Director); and ▶ Sarah Cox (Independent Director). 	Section 1.3
How long are Directors appointed to the Board?	<p>The current Board will continue following the transfer to Local Management until the first annual general meeting of the Company, which will be held by the end of November 2018. At that meeting, half the Directors must retire by rotation.</p> <p>At every second annual general meeting after that, half of the directors must retire by rotation. No director can stay in office without re-election beyond the fourth annual general meeting after their election or four years after their appointment, whichever is the longest. A Director appointed to fill a casual vacancy must be elected at the following annual general meeting.</p>	Section 8.4
Terms of the transition to Local Management		
What are the terms of the transition to Local Management?	<p>The terms and pre-conditions of the transition are contained in a Transfer Deed signed by the Department and the Company.</p> <p>The Transfer Deed includes provisions for:</p> <ul style="list-style-type: none"> ▶ the transfer of the business, assets, employees and certain liabilities of SunWater in relation to the Irrigation Distribution Network; and ▶ the payment to the Company of a Separation Payment of \$15.1 million. <p>The Transfer Deed contains a number of pre-conditions which must be satisfied before the transfer to Local Management can proceed, including receiving enough support to satisfy the Customer Support Threshold.</p>	Section 8.2
Why is the Department paying the Separation Payment?	The Separation Payment is to support the financial viability of the Company as it transitions to Cost-reflective Pricing and to support the refurbishment and renewal of the Irrigation Distribution Network assets.	Section 8.2
When will the transition to Local Management happen?	The transition to Local Management is targeted for 30 September 2018 provided that all the conditions in the Transfer Deed are met, including the Customer Support Threshold.	Section 8.2

Question	Answer	Further information
Other questions		
What happens to my existing water contracts with SunWater?	<p>On the Transfer Day, your existing contracts with SunWater for bulk water and for the delivery of water through the Irrigation Distribution Network will be replaced by two new contracts:</p> <ul style="list-style-type: none"> ▶ one with SunWater for your bulk water; and ▶ a new Customer Contract with the Company for the water distribution and drainage services. <p>The new Customer Contract has been based on the existing SunWater channel and pipeline contract.</p>	Section 8.3
Does this mean I will now receive two separate invoices for my water charges?	Yes, the Company intends that it will issue customers with an invoice for the distribution charges (fixed and variable) and SunWater will continue to invoice customers for the bulk water charges.	
What happens if following the transition, the Company does not have sufficient funds to operate the Irrigation Distribution Network?	<p>It will be the responsibility of the Company to ensure that the operation of the network remains viable over the long term. The Company will need to ensure that its prices are set at a rate to cover its costs and build sufficient funds to cover future capital expenses or deal with unforeseen circumstances.</p> <p>The Government has stated that there will be no recourse to the Government for funding support once Local Management is implemented.</p>	Section 6
Under Local Management, could the Irrigation Distribution Network be taken over by another company?	The Constitution prevents a person (and their Associates) from together holding more than 35% of the Shares in the Company at any time. To permit a takeover, the Constitution would need to be amended which can only occur if the Shareholders pass a resolution approved by at least 75% of the votes cast by Shareholders (a Special Majority Resolution).	Section 8.4

Question	Answer	Further information
Will Local Management affect bulk water prices?	<p>There is a risk that moving to Local Management could contribute to higher bulk water prices because Local Management may result in reduced economies of scale for SunWater.</p> <p>The Department has made offers to transition to Local Management to four of SunWater’s distribution networks and is considering making offers to a further two schemes.⁸ Modelling undertaken on behalf of the Government suggests that, if all four distribution networks transition to Local Management, this could increase bulk water costs by approximately 2%. The modelling suggests that, on its own, the transfer of the Theodore Channel Irrigation Distribution Network to Local Management would have an impact of less than 1% on SunWater’s bulk water costs.</p> <p>If all six irrigation schemes transition to local management then the modelling suggests, subject to a Government decision on pricing following a QCA recommendation, there may be a potential increase of Cost-reflective bulk prices by up to 10%. This is subject to significant uncertainty, including whether all six irrigation schemes do transfer to Local Management and whether SunWater is able to identify efficiencies in its business, either of which may reduce the impact on bulk water costs and prices.</p>	Section 6.3(a)(ii)(C)
Accepting the Offer of Share Entitlement		
If I accept the Offer, how many Shares will I receive?	<p>If you accept the Offer, you will receive one Share for each Megalitre of the nominal volume of your Allocation held on the Final Record Date.</p> <p>However, the Constitution prohibits any person and their Associates from together holding more than 35% of the Shares.</p>	Sections 7.1, 7.5 and 8.4
Does it cost anything to become a Shareholder?	No. There is no amount payable for an application for your Share Entitlement.	Section 8.4
Will becoming a Shareholder expose me to financial risk?	In the normal course of business, the Company will pay for its operating and capital costs from customer revenues and reserves. In circumstances where revenues and reserves are insufficient, the Company may consider any additional sources of funds available to it. The most likely source of funding would come from an increase in prices charged to customers.	Section 6

⁸ The offers have been made in relation to distribution systems in Emerald, Eton, St George and Theodore. Boards, acting on behalf of scheme customers, have prepared business proposals with respect to the transition of the Burdekin and Mareeba Schemes to Local Management and these proposals are being considered by Government.

Question	Answer	Further information
Will becoming a Shareholder expose me to any tax risk?	The Australian Taxation Office has issued an Administrative Binding Advice confirming that no income tax liability will arise for Current Customers in respect of becoming a Shareholder of the Company on the Transfer Day. You should obtain your own tax advice in relation to your individual circumstances.	Section 8.1(a)
If I support the Local Management Proposal, do I have to apply for Shares?	No. If you support the Local Management Proposal, you do not have to apply for Shares. The proposal will proceed even if you do not become a Shareholder, provided that the Customer Support Threshold is achieved and other conditions are satisfied. However, by supporting the proposal and applying for Shares, you will assist in the achievement of the Customer Support Threshold.	Pages 8 and 9 and Section 7
If I do not support the Local Management Proposal, can I still apply for Shares?	Yes. Even if you do not support the Local Management Proposal, you may still apply for Shares. The Local Management Proposal will proceed even if you do not support it, provided that the Customer Support Threshold is achieved and the other conditions are satisfied.	Pages 8 and 9 and Section 7
What happens if I don't become a Shareholder?	You will continue to be a Customer under the standard Customer Contract. You do not have to support the Local Management Proposal or to be a Shareholder of the Company to be a Customer.	Pages 8 and 9 and Section 7
Can I become a Shareholder after the Offer lapses?	Yes. You may still become a Shareholder after the transition to Local Management provided you meet the criteria to hold Shares in the Company at the time.	Sections 7 and 8.4
Who will know whether or not I support the Local Management Proposal?	Your Support and Acceptance Form will be collected by an entity called LMA Support Services. LMA Support Services will review all responses and advise the Government and the Company whether the Customer Support Threshold has been met. LMA Support Services will not disclose whether you vote yes or no for the Local Management Proposal to the Company however: <ul style="list-style-type: none"> ▶ If you elect to become a Shareholder of the Company your details will be provided to the Company for the purpose of managing the Share Register; and ▶ If you have not returned your Support and Acceptance Form, then LMA Support Services may provide the Board with your details so that Board members can contact you to discuss the Offer and the Local Management Proposal. 	Section 7.8
Who do I ask if I have further questions?	You can ask questions of any of the members of the Board or call the LMA Information Line on 0468 960 538 or email admin@lmairrigation.com.au <p>A public meeting is planned for 6pm on Friday, 20 April 2018 at the Theodore Hotel.</p>	page iv

4. FINANCIAL INFORMATION

4.1 Introduction

The financial information used by the Directors to inform this Offer Document includes the existing financial information of the Company and SunWater's historical financial information related to the operation of the Irrigation Distribution Network. To understand the initial financial position of the Company, this Section includes:

- ▶ the pro forma historical balance sheet as at 30 June 2017 (**Pro Forma Historical Balance Sheet**). The Pro Forma Historical Balance Sheet has been prepared on the basis that the assets, liabilities and equity of the business to be transferred in the Transfer Deed occurred on 30 June 2017 using asset and liability values provided by SunWater and any subsequent adjustments made by the Department, and
- ▶ information related to the future operating and capital expenditure of the Company, and the Company's revenue.

(collectively, the "**Financial Information**").

The purpose of including the Pro Forma Balance Sheet in this form is to show what the starting position would be for the Company assuming the business was transferred on 30 June 2017.

The Financial Information presented in this Section should be read in conjunction with the risk factors set out in Section 6 and other information contained in this Offer Document.

4.2 Basis of Preparation and Presentation of the Financial Information

The Directors of the Company are responsible for the preparation and presentation of the Financial Information. The Financial Information included in this Offer Document is intended to present potential Shareholders with information to assist them in understanding the impact of the Local Management Proposal on the financial position of the Company.

The Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by Australian Accounting Standards (AAS) applicable to general purpose financial reports prepared in accordance with the Corporations Act.

4.3 Balance Sheet Introduction

During the period from incorporation of the Company (29 November 2016) to 30 June 2017, the Company did not trade and had no assets or liabilities.

4.4 Preparation of the Pro Forma Historical Balance Sheet

The signing of the Transfer Deed in respect of the transfer of the Irrigation Distribution Network and associated assets and liabilities of the business from SunWater to the Company whilst the Company's sole Shareholder is the Government Shareholder, is a transfer between wholly-owned Government entities.

The Pro Forma Historical Balance Sheet for the Company has been prepared solely for inclusion in this Offer Document.

The Pro Forma Historical Balance Sheet for the Company has been derived from the Historical Balance Sheet of the Company as at 30 June 2017 and includes adjustments for the effects of the following group of pro forma transactions:

- ▶ Assets as per the Transfer Deed based on SunWater values and any subsequent adjustments made by the Department as at 30 June 2017;
- ▶ Liabilities as per the Transfer Deed based on SunWater values as at 30 June 2017 and any subsequent adjustments made by the Department; and
- ▶ The Separation Payment.

The Pro Forma Historical Balance Sheet for the Company has been prepared in accordance with the recognition and measurement requirements of AAS other than it includes adjustments which have been prepared in a manner consistent with AAS that reflect the impact of certain transactions as if they occurred as at 30 June 2017. Significant accounting policies of the Company relevant to the Pro Forma Historical Balance Sheet are available on the Company's Website at www.theodorewater.com.au/offer-documents.

The Pro Forma Historical Balance Sheet has been reviewed by KPMG Financial Advisory Services (Australia) Pty Ltd in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information as stated in its Investigating Accountant's Report set out in **annexure A**. You should note the scope and limitations of the Investigating Accountant's Report.

4.5 Pro Forma Historical Balance Sheet

Item	Balances	Notes
Current Assets		
Cash	\$15,349,621	This reflects the Separation Payment to be received by the Company and includes funds for employee entitlements (refer to Employee Benefits below)
Debtors	\$0	All amounts owing to SunWater with respect to the Irrigation Distribution Network at the time of the transfer will remain payable to SunWater
Total Current Assets	\$15,349,621	
Non-Current Assets		
Property, Plant and Equipment	\$279,807	Property, Plant and Equipment has been included at Fair Value, following an impairment assessment process
Inventories	\$52,856	Carrying value of Inventories to be transferred from SunWater
Total Non-Current Assets	\$332,663	
Total Assets	\$15,682,284	
Current Liabilities		
Creditors	\$0	All amounts payable by SunWater with respect to the Irrigation Distribution Network at the time of the transfer will remain payable by SunWater.
Employee Benefits	\$140,876	The Company will receive a cash payment equal to 100% of the accrued annual leave and long-service leave entitlement and 75% of the sick leave entitlement of those employees that transfer across from SunWater
Other Liabilities	\$0	No other liabilities have been identified for transfer
Total Current Liabilities	\$140,876	
Non-Current Liabilities		
Employee Benefits	\$133,657	The Company will receive a cash payment equal to 100% of the accrued annual leave and long-service leave entitlement and 75% of the sick leave entitlement of those employees that transfer across from SunWater
Total Non-Current Liabilities	\$133,657	
Total Liabilities	\$274,533	
Net Assets	\$15,407,751	
Equity		
Issued Contributed Capital	\$0	\$0 per ML of entitlement, issued as fully paid shares
Establishment Reserve	\$15,407,751	
Total Equity	\$15,407,751	

The table above sets out the Pro Forma Historical Balance Sheets of the Company as at **30 June 2017** as if the Transfer Deed was implemented on that date (as opposed to the actual Transfer Date scheduled for 30 September 2018). Adjustments have been made to the **30 June 2017** data to account for impairment and to incorporate more up to date information on employee entitlements.

A summary of significant accounting policies that have been adopted in preparation of the Pro Forma Historical Balance Sheet are included on the Company's Website at www.theodorewater.com.au/offer-documents.

4.6 Management discussion & analysis of future prospects

The Irrigation Distribution Network has operated historically as part of SunWater and not as a single stand-alone entity as proposed under Local Management. Consequently, there is inherent uncertainty surrounding the costs of operating as a standalone company. There are numerous variables which could impact the potential operating and capital costs associated with the network.

However, the Directors have reviewed SunWater's past and present operating costs as the basis for assessing the potential operating costs for the Company. The Directors have developed a Refurbishment and Renewal Strategy for the Company over a 30-year period. The Strategy is based on SunWater's asset management history as well as irrigation industry standards and recommendations from independent engineering advisors. These costs have been used to assist the Directors to understand the prices that may need to be levied on Customers based on a number of different scenarios.

In particular we draw your attention to:

- ▶ Section 4.7 which sets out the Directors' projected summary of operating expenditure of the Company.
- ▶ Section 4.8 which provides information on the Refurbishment and Renewal Strategy.
- ▶ Section 5.5 where the Directors have considered the sensitivity of potential future prices to a range of variables to illustrate the impacts under differing assumptions.

4.7 Operating expenditure of the Company

The Directors have prepared a proposed budget for the first year of the Company's operation post-transition. The cost estimates have been developed from a combination of SunWater's actual costs for the year 2016-17 and independent expert advice.

A high-level summary of the estimated operational costs for the Company for a 12-month period for 2018/19 is set out below. This does not include the cost of capital expenditure discussed in section 4.8.⁹

Item	Indicative costs*
Staff salaries and on costs	636,000
Board Costs	80,000
Electricity	242,000
Insurance	73,000
Other operating costs ⁹	167,000
Sub-Total	\$1,198,000
Bulk water costs associated with distribution loss allocation	76,000
Total	\$1,274,000

*Rounded to the nearest 1000.

This compares with a forecast for 2018/19 of \$1.46 million, based on the SunWater Network Service Plan.¹⁰

The estimate of the Company's costs is based on 12 months of operation. Actual costs for the Company during the 2018/19 financial year will vary depending on the Transfer Date. For example, if the Transfer Date is 30 September 2018, the operating costs are expected to be approximately $\frac{3}{4}$ of the annual amount, or \$950,000.¹¹

As the proposed Asset Refurbishment and Renewal Strategy is implemented, the Board expects there will be a reduction in operating

⁹ Including contractors; materials; and plant, equipment and vehicles.

¹⁰ The 2017/18 NSP includes a budget of \$1.35m. This figure has been escalated by 2.5%, and an additional \$76,000 added to account for bulk water costs associated with distribution losses.

¹¹ Actual costs may be higher or lower over the period, depending on payment schedules. For example, if the Company were to pay for insurance for 12 months upfront, this would increase the costs over the 9 month period. However, the average cost per 12-month period would be unchanged. Additionally, other costs, such as electricity, may not be incurred evenly over a 12-month period.

costs. Notably, independent expert advice suggests that the replacement of the Theodore and Fork Farmers pump stations may reduce electricity costs for those pump stations¹² by approximately 19%.

The Board has also identified a number of other opportunities for modernising the Irrigation Distribution Network that are not currently included in the Asset Refurbishment and Renewal Strategy but which may, if implemented, result in further operational efficiencies. The Board intends to assess these options and the costs and benefits in more detail should Local Management be implemented.

4.8 Asset Refurbishment and Replacement Strategy for the Company

The Company has developed an Asset Refurbishment and Renewal Strategy which estimates the refurbishment and renewal costs and timeframes for each type of asset in the Irrigation Distribution Network and underpins the projected 30-year capital expenditure profile.

The Company's Asset Refurbishment and Renewal Strategy is based on the asset refurbishment and renewal strategy described in the business proposal submitted by the Theodore Interim Board to Government in June 2014, which was prepared following extensive engineering due diligence carried out around that time (the Stage 2 strategy).

Acknowledging that this exercise took place several years ago, the Company identified any required adjustments to the Stage 2 strategy and implemented these changes to generate the Company's Asset Refurbishment and Renewal Strategy and projected 30-year capital expenditure profile. The information considered in this updating process was based on further engineering due diligence carried out by Jacobs and included:

- ▶ A quality-assured spreadsheet-based capital expenditure model including updated cost escalation factors;
- ▶ General industry information and standards;

- ▶ A review of SunWater's current asset refurbishment and renewal strategy;
- ▶ A review of the condition and risk of the assets as per SunWater's asset management system;
- ▶ Detailed investigations into service lives for key asset types (Reinforced Concrete Pipelines, Asbestos Cement Pipelines, Plastic Pipelines, Mild Steel Cement Lined Pipelines, Drain Management, Concrete Lined Channels, Synthetic Lined Channels and Earthen Channels); and
- ▶ Specific investigations into the projected costs for the planned replacement of the Theodore and Gibber-Gunyah pump stations as well as associated distribution pipeline infrastructure.

Based on this information, the Directors have modelled a 30-year capital expenditure profile for the Company. The Asset Refurbishment and Renewal Strategy and profile have been prepared to inform the revenue required to maintain and replace assets over the long-term for the purposes of setting prices.

The Company's preferred scenario involves using part of the Separation Payment for modernisation of parts of the Irrigation Distribution Network, notably:

- ▶ the replacement of the Theodore pump station and upgrade to the Channel A pipeline in 2020; and
- ▶ a major upgrade of the Gibber Gunyah pump station in 2030.

In addition, the Board has considered further modernisation options, including the future rationalisation of the channels and drains in the network. However, this work is not presently included in the Asset Refurbishment and Renewal Strategy or the 30-year capital expenditure profile.

In relation to the Gibber Gunyah pump station, the Company has also modelled the impact of bringing forward the upgrade of the pump station to 2021. The modelling suggested that such a change would impact prices paid by Customers by less than 1% and therefore it may be a viable

¹² Historically, the Theodore and Fork Farmers Pump Station combined have accounted for on average approximately 71% of the total electricity usage in the Irrigation Distribution Network.

option to bring this upgrade forward if this is deemed appropriate by the Company in the future.

The Asset Refurbishment and Renewal Strategy has been reviewed by Jacobs who stated the following:

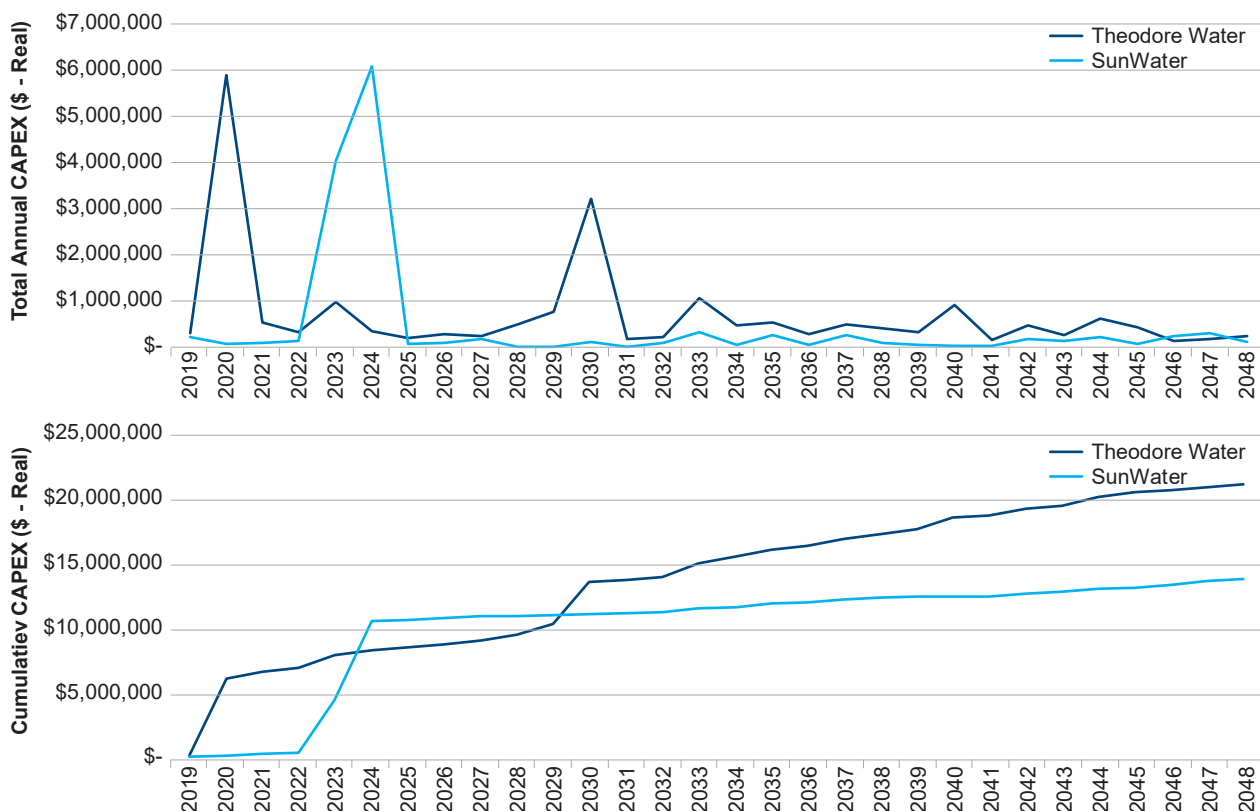
Jacobs considers that the Company's asset refurbishment and renewal strategy is reasonable and prudent and based on a sound interpretation of Jacobs' findings. Where the strategy varies, such as for pump stations and meters, the strategy adopted by the Company is reasonable and the risks are relatively minor.

Jacobs' full executive summary is set out in **annexure B**.

Under the modelled profiles, expenditure varies significantly between years as assets fall due for refurbishment or replacement. The Directors intend to use the profile as the basis for calculating a smooth price path by allowing for the Company to estimate the long-term capital requirements for the business and to include in prices an amount to allow the Company to build cash reserves so that assets can be refurbished or replaced at the appropriate time.

The graphs below show the annual capital expenditure that may be required, based on the Board's preferred profile and its estimates of the timing and cost of asset refurbishment and replacement, and using SunWater's data on the existing condition of the assets. The graphs show both the estimated annual and cumulative capital expenditure. The graphs also include the amounts currently included in SunWater's work management system for future renewals. The actual timing and cost, both under SunWater ownership or under Local Management, is expected to vary from the indicative numbers shown below as circumstances may change in the future away from the assumptions that have been considered in the current modelling.

The Constitution requires that, at least every year, the Board must review the Company's Strategic Asset Management Plan for managing the Company's strategic assets for the subsequent five-year period and table a new or revised plan to the following Annual General Meeting for approval by Special Majority Resolution (see section 8.4). Actual expenditure on replacement and renewals will be based on the Strategic Asset Management Plan, not on the 30-year capital expenditure profile.



4.9 Revenue source for the Company

Following transition to Local Management, legislation will deem a contract to be in place between the Company and each Current Customer (see Section 8.3). This contract will form the basis for the Company to charge Customers for (i) distribution charges, (ii) drainage charges, and (iii) other fees or charges as implemented by the Company from time to time. The Company will also receive interest on any funds held by the Company and (potentially, in some years) revenue from trading any unused part of its distribution loss Allocation.

Indicative revenue for the Company for 2018/19 is shown in the table below. The estimate of the Company's revenue is based on 12 months of operation. Actual revenue for the Company during the 2018/19 financial year will vary depending on the Transfer Date. For example, if the transfer occurs on 30 September 2018, the revenue for the remainder of the financial year is anticipated to be approximately $\frac{3}{4}$ of the annual revenue shown below, or \$1,294,000.¹³

4.10 Proposed accounting policies

A summary of significant accounting policies, which have been adopted in the preparation of the Pro Forma Historical Balance Sheet as set out in Section 4.5 and will be adopted and applied in the preparation of the Financial Statements of the Company following the Transfer Date are available on the Company's Website at www.theodrewater.com.au/offer-documents.

Charge	Basis of charge	Indicative revenue*
Distribution charges (fixed)	15,852 ML @ \$55.90 ¹⁴ per ML	\$886,000
Distribution charges (variable)	15,852 ML by 60% ¹⁵ usage @ \$32.97 per ML	\$313,000
Drainage charges	1,974.8 hectares @ \$28.10 per hectare (which assumes full recovery)	\$55,000
Interest	Interest calculated on deposit held at an interest rate of 3.29% (estimated rate for 2018/19)	\$471,000
Total		\$1,725,000

*Rounded to the nearest 1000. No amount for temporary trading of Allocations for distribution losses has been included for the first financial year of operation. However, for subsequent years the financial modelling assumes 1,200 ML of medium priority water is temporarily traded annually, accounting for additional revenue of approximately \$100,000 per year.

¹³ Actual revenue may vary depending on the period. Income from fixed distribution charges and drainage charges will be payable evenly over a 12-month period. Payments for variable charges will fluctuate with water usage over the year.

¹⁴ See section 5.3 for an explanation. This is the unbundled price and has been increased by the same amount as a decrease that has been applied to the fixed bulk price.

¹⁵ Based on 10 years of historical usage data.

5. THE COMPANY'S PRICING POLICY AND COMPARISONS WITH SUNWATER

5.1 Historic costs and prices under SunWater

Major pricing reviews have been undertaken for SunWater (or its predecessor) in 2000 (by consultants on behalf of Government)¹⁶, 2006 (by SunWater)¹⁷, and in 2012 (by the QCA)¹⁸. These reviews have formed the basis for setting the actual prices paid by customers in the Irrigation Distribution Network. These reviews included an assessment of the Cost-reflective Price¹⁹ for supplying and delivering water in the network at those points in time. SunWater has also provided Government with its estimate of the current (2017/18) Cost-reflective Price for supplying water in the network and this information has been provided to the Company.

Since 2000, the total bulk and distribution price per Megalitre paid by customers²⁰ in the network has increased from \$30.30 to \$99.67, an increase of 6.8% per year on average. This compares with average annual inflation over that period of 2.9%²¹.

While the Board recognises that from a Customer perspective the total (bulk and distribution) price is important, under Local Management the decisions of the Board will only directly affect the distribution price. On that basis, this and the following sections focus primarily on distribution prices. Because of the way bulk and distribution prices have been calculated and defined in the past, it is only possible to present unbundled distribution prices since 2006. Unless otherwise stated, distribution prices shown are the sum of

the fixed and variable distribution prices (currently referred to under SunWater as Part C and Part D). On that basis:

- ▶ Since 2006, the distribution price paid per Megalitre by customers in the network has increased from \$41.64 to \$80.58, an increase of 6% per year on average.
- ▶ Since 2006, the Cost-reflective Price for distribution has increased from \$48.08 to \$135.30, an increase of 9% per year on average.

That is, SunWater's underlying costs have been increasing at a greater rate than prices. These figures are captured in the graph below, which shows:

- ▶ The actual price per Megalitre, for water distribution in the Irrigation Distribution Network since 2006; and
- ▶ The estimated Cost-reflective Price per Megalitre, for water distribution in the network at different points in time (2006, 2013, 2018).

It is current Government policy that bulk and distribution prices move to Cost-reflective Pricing over time. Under that policy, where prices are less than Cost-reflective, prices are to increase at a rate of \$2 + 2.5%²² each year until prices are Cost-reflective. In Theodore, the fixed distribution price (Part C) was less than the Cost-reflective Price during the most recent price path and was increased in that way.²³ The increase of \$2 + 2.5% is intended, over time, to close the gap between costs and revenues such that ultimately SunWater would not require a subsidy from Government and Customers would pay the full cost of the supply of water. In practice, as the chart illustrates,

16 Determination of recommended price paths for rural irrigation schemes operated by State Water Projects, Green, Edwell Consulting Pty Ltd, June 2000

17 SunWater Irrigation Price Paths: 2006/07: Final Report, September 2006.

18 2012-17 prices: Final Report SunWater Irrigation Price Review: 2012-17 Volume 2 Theodore Distribution System, Queensland Competition Authority, April 2012

19 The Cost-reflective Price is the price required to allow a water business to recover costs, including the operational, maintenance and administrative costs and to make provision for future asset refurbishment and renewal.

20 Including total of fixed and variable prices for bulk and distribution combined (i.e. Parts A, B, C, and D as per SunWater's current charges)

21 Australian Bureau of Statistics, 2018, Series ID A2325816R

22 Note that the \$2 is a real \$2 based on 2011/12 values. That is, the \$2 is inflated by 2.5% each year from the base year of 2011/12, as well as the total charge being increased by 2.5%.

23 Bulk prices, and variable distribution prices were already considered at or above Cost-reflective levels

each past pricing review has resulted in an extension of the time frame over which the \$2 + 2.5% pricing applies.

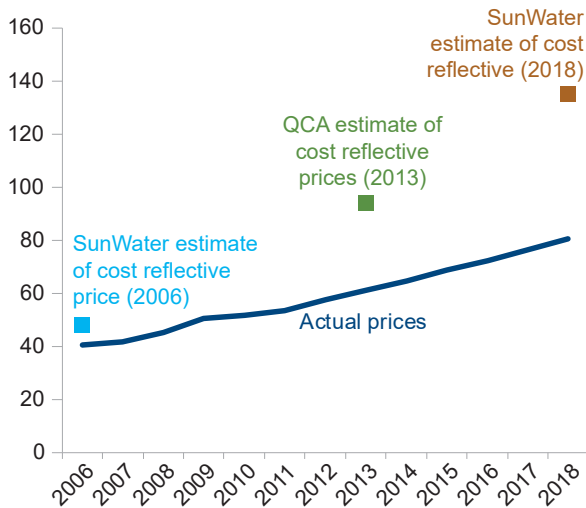


Figure 1: Theodore Total Bundled Prices (bulk and distribution)

Source: Actual prices and 2013 cost reflective prices: Final Report SunWater Irrigation Price Review: 2012-17 Volume 2 Theodore Distribution System, Queensland Competition Authority, April 2012; 2017/18 prices: Fees and Charges Schedule 2017-18, SunWater. 2006 cost reflective price: SunWater Tier 2 process; 2018 cost reflective prices

5.2 The Company's pricing policy

The Board proposes to develop, in consultation with Customers, a pricing policy to set the principles for determining distribution prices and other charges payable by Customers. The Board's view is that prices should be cost reflective, recognising the not for profit status of the Company and allowing for an amount to cover long-term asset refurbishment and renewal, based on a 30-year assessment of capital costs.

The Board proposes that prices be reviewed annually in accordance with the Customer Contract (see Section 8.3) and based on actual operating and capital costs and the financial position of the business. Once the Company has established an operating history the Board may consider setting prices for a longer period of time.

The Board's intent is to keep costs as low as possible with a view to continually looking for operating efficiencies.

5.3 Prices in the first financial year under the Company

In the event that the Local Management Proposal proceeds, the Board has determined that distribution prices for the remainder of the 2018/19 financial year will be:

- ▶ Fixed price²⁴: \$55.90 per ML of Water Allocation held; and
- ▶ Variable price²⁵: \$32.97 per ML of water used.

These prices have been set such that the total price paid by customers per Megalitre, for bulk and distribution water supply combined, will be the same under Local Management as Customers would have paid if Local Management did not happen.

The basis for calculating these prices are set out below.

Drainage prices under Local Management for 2018/19 under the Company will be \$28.10 per hectare, which is the price proposed to be charged by SunWater from 1 July 2018.

5.4 Unbundling the bulk and distribution price in the first financial year under the Company

The bulk price paid by Customers in the Dawson Water Supply Scheme is currently above the Cost-reflective Price, based on the most recent QCA estimate. The fixed bulk price (Part A) for medium priority water is currently \$17.17 per ML. This compares with a Cost-reflective Price of \$13.30 per ML²⁶.

During the last pricing review, the QCA recommended a "bundled" price for Customers in the Irrigation Distribution Network. This price incorporates both bulk and distribution prices. The bundled price was determined based on the Cost-reflective bulk and distribution components. As the (fixed) bulk price payable by Customers was higher than Cost-reflective levels, the QCA allowed for that overpayment to be offset against the (fixed) distribution price as part of the bundling process. That is, the bundled price has targeted the (total)

24 Currently referred to as Part C under SunWater

25 Currently referred to as Part D under SunWater

26 The value shown is the QCA determined Cost-reflective Price for 2016/17 escalated by 2.5%

Cost-reflective Price, but has been effectively made up by an “over” payment on the bulk component and an “under” payment on the distribution component.

To address this anomaly, and as a condition of the Transfer Deed between the Company and Government, SunWater’s existing bundled prices will be unbundled so that by 1 July 2018 the price payable by Customers in the Irrigation Distribution Network will be as follows:

- ▶ The (fixed) bulk price will be **reduced** to the cost-reflective bulk price (based on the QCA 2012 determination); and
- ▶ The (fixed) distribution price will be **increased** by the same amount the bulk price is reduced.

As a result, the apportionment of the price between bulk and distribution components will change but the **total price payable for bulk and distribution components will remain unchanged**.

For the year 2018/19, these (unbundled) prices will be increased as they would otherwise be increased under SunWater. That is, the fixed distribution (Part C) price (which is not yet at cost-reflective levels) would be increased by \$2²⁷ plus 2.5%, and other bulk and distribution prices would increase by 2.5% only.

From the date of transition to Local Management, the distribution prices will be payable to the Company. The bulk water prices will remain payable to SunWater. The following table shows current prices under SunWater; unbundled SunWater prices; prices that will apply for 2018/19 under Local Management; and prices that will apply for 2018/19 under SunWater should the Local Management Proposal not proceed.

	2017/18 Current SunWater Prices	2017/18 Unbundled SunWater Prices, showing Cost- reflective bulk price	2018/19 Prices under Local Management	2018/2019 Prices under SunWater with no Local Management and no unbundling
Fixed Part A (bulk)	17.17	13.30	13.64 (paid to SunWater) ²⁸	17.60
Fixed Part C (distribution)	48.41	52.28	55.90 (paid to the Company) ²⁹	51.94
Total fixed (bundled)	65.58	65.58	69.54	69.54
Variable Part B (bulk)	1.92	1.92	1.97 (paid to SunWater) ³⁰	1.97
Variable Part D (distribution)	32.17	32.17	32.97 (paid to the Company) ³¹	32.97
Total variable (bundled)	34.09	34.09	34.94	34.94
Total price per ML	99.67	99.67	104.48	104.48

27 A real \$2 increased based on 2011/12 dollars, which in 2017/18 equates to \$2.32

28 Unbundled Part A price from 2017/18, increased by 2.5%

29 Unbundled Part C price from 2017/18, increased by \$2.37 plus 2.5%

30 2017/18 Part B Price, increased by 2.5%

31 2017/18 Part D Price, increased by 2.5%

5.5 Scenarios and sensitivities associated with pricing

The scenarios and sensitivity analysis that follows is based on a number of specific and general assumptions which have been outlined in Section 4 or itemised in scenarios listed below and which are subject to change. The scenarios and sensitivities are also subject to the risks outlined in Section 6. You should be aware that future events cannot be predicted with certainty and as a result, deviations from the projections contained in the scenarios and sensitivity tables below are to be expected.

Based on the operating costs outlined in Section 4.7, the capital costs outlined in Section 4.8, the revenues outline in section 4.9, and based on the principles set out in Section 5.2, projected distribution prices for the Company have been calculated (Board preferred scenario). In addition to the above, the Board preferred scenario utilises the following assumptions:

- ▶ Prices are set to enable the Company to recover the cost of operating the Irrigation Distribution Network within 15 years;
- ▶ Bulk water prices have been calculated based on SunWater's current estimate of the cost-reflective bulk price and Government's existing irrigation pricing policy; and

- ▶ The Board has assumed 60% usage of Water Allocations, based on the last 10 years of water use.

Based on the Board's estimate of the Company's costs, prices to be paid by Customers in 2018/19 if the Local Management Proposal proceeds will be less than the Cost-reflective Price. To ensure the financial viability of the Company, prices will need to increase over time until prices are at Cost-reflective levels. In the meantime, the Company will rely on the Separation Payment to cover the shortfall in revenue.

The Board is targeting a price path that would see the total distribution price³² increasing by 3.9% on average annually up to the time that prices are Cost-reflective. The financial modelling of the Board's preferred scenario indicates this would be achieved in 2034, although the actual time to achieve Cost-reflective Prices will depend on a range of factors, many of which are beyond the control of the Company.

To reflect the inherent uncertainty of the assumptions used, some of the key inputs have been varied to create two further (Pessimistic and Optimistic) scenarios of possible distribution price projections. The key variables driving the Optimistic and Pessimistic scenario outcomes are listed in the Table below:

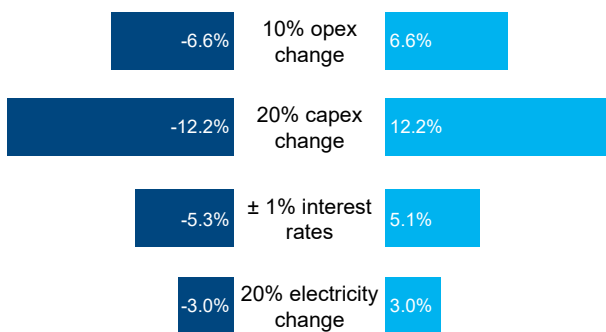
Variable	Change to Board preferred scenario		Description
	Pessimistic	Optimistic	
Operating costs (except electricity)	+10%	-10%	Opex in the first year is increased (decreased) by 10%. This is then escalated every year at the unchanged escalation rates so opex remains 10% higher (lower).
Electricity	+20%	-20%	Electricity in the first year is increased (decreased) by 20%. This is then escalated every year at the unchanged escalation rates so electricity remains 20% higher (lower).
Capital Expenditure	+20%	-20%	Every capex item is increased/decreased by 20.
Deposit rates	-1%	+1%	Deposit rates are changed by 1%. For example, rates may change from 4% to 5%.

32 Based on fixed and variable prices combined, and assuming 60% water usage

Each of the variables in the table above will have a different impact on projected prices, that is, the sensitivity of prices to a change in the variable. Care should be taken when assessing these sensitivities. The estimated impact of changes in each of these variables has been calculated in isolation from changes in other variables in order to illustrate the likely impact on distribution prices. In practice, changes in variables may offset each other or be additive, and it is likely that the Company would respond to any adverse change in one variable by seeking to minimise the impact on Shareholders and customers. The sensitivity analysis is intended to provide a guide only and variations in actual performance could exceed the ranges shown.

The sensitivities are calculated over 30 years (to align with the timeframes adopted for modelling the Company's long life assets) with the change in price expressed as the sum of the fixed and variable average price over thirty years after changing each of the assumptions independently.

Sensitivities – 30 year period



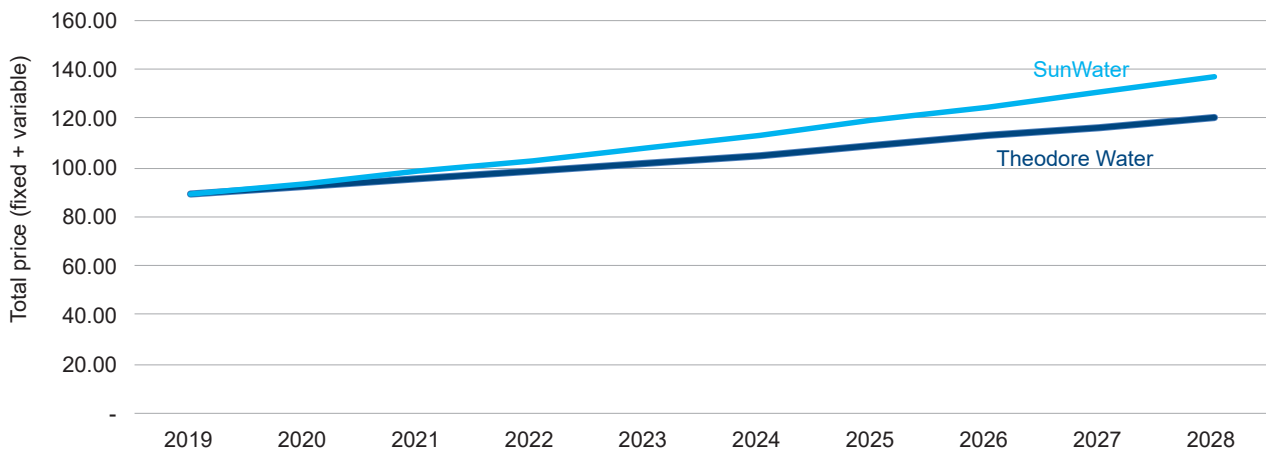
5.6 Comparison of prices

SunWater's prices are currently set until 30 June 2019. Beyond that time, it is not possible to know what future prices will be under continued SunWater ownership. SunWater has provided its estimate of the current Cost-reflective Price for distribution services in the Irrigation Distribution Network. Based on that information, the Board has developed a hypothetical price path that shows what distribution prices would be under SunWater assuming that:

- ▶ SunWater's costs are endorsed by the QCA as being prudent and efficient and are used as the basis for setting future prices; and
- ▶ Government maintains the current irrigation pricing policy, notably that fixed prices should increase at \$2/ML³³ + CPI until prices recover costs, then at CPI thereafter and variable prices increase at CPI. The Board's modelling assumes a CPI increase of 2.5%.

Based on the above assumptions, the fixed distribution prices (Part C) under SunWater would be Cost-reflective Price in 2039. This scenario would result in prices under SunWater increasing by 4% annually over a 30-year period. This compares with prices increasing under the Board's target price path by around 3.4% over the same timeframe.

The Board's target price path for the Company and the hypothetical SunWater price path for a 10-year period are shown the graph below.



33 The \$2 is based on 2011/12 real

It is important to note that there are significant differences with the costs and assumptions that form the basis for the two price paths, including:

- ▶ There are different capital expenditure profiles underpinning each price path, with SunWater's 50-year capital expenditure profile not directly comparable with the 30-year capital expenditure profile adopted by the Board. It should be noted that generally SunWater has a lower level of capital expenditure during the period 2020 to 2049, with relatively higher levels after this period (see 4.8).
- ▶ Based on independent expert advice, the Company assumes its underlying costs will increase over time at approximately 3% per year. The SunWater price path assumes that SunWater's costs will only increase at 2.5% per year (as a proxy for inflation). As noted earlier, under SunWater the Cost-reflective Price for distribution services in the Irrigation Distribution Network has increased by an average of 9% annually since 2006.

In summary, the Board's modelling provides for greater capital expenditure, and allows for higher escalation rates for costs, while still achieving a lower rate of increase in prices and achieving Cost-reflective prices earlier than the modelling suggests would occur under SunWater.

In the event that the Local Management Proposal does not proceed, there are many factors that could influence the distribution price payable under SunWater. One of those factors is the future cost of bulk water. SunWater has provided its estimate of the current Cost-reflective Price for bulk water in the Dawson Water Supply Scheme. This estimate indicates that the Cost-reflective Price for bulk water is higher than the price currently paid by Customers, and also higher than the 2012 QCA estimate of the Cost-reflective Price (adjusted to today's dollars). If these costs are endorsed by the QCA, and assuming that Government maintains its current pricing policy, this could result in bulk prices (fixed, Part A) per Megalitre increasing by \$2³⁴ plus CPI until bulk prices are Cost-reflective.

If this were to occur, then the Board estimates that it could take up to five years for bulk prices for Medium A priority Water Allocations to be Cost-reflective, based on the estimates provided by SunWater. In that event, and based on previous Government practice in setting irrigation prices, it is possible that distribution prices under SunWater would only increase in line with inflation until such a time as bulk prices are Cost-reflective (so that the total fixed price for bulk and distribution was increasing at only \$2/ML + CPI). That is, there may be a freeze on any real increase in distribution prices for up to five years under SunWater. Under this scenario, distribution prices would increase by \$2/ML plus CPI once bulk prices were cost-reflective. This would result in distribution prices under SunWater being lower in the short to medium term than the forecast prices under the Company.

34 Based on a real \$2 from 2011/12

6. RISK FACTORS

6.1 Introduction

There are a number of risks and uncertainties – some that are specific to the Company, some that are common to the irrigation industry and some of a more general nature – which may either individually or in combination have a material adverse effect on the business, operational performance and financial results of the Company. Many of these risks are outside the control of the Company and its Directors. There can be no guarantee that the Company will achieve its stated objectives or that any forward-looking statements or forecasts included in this Offer Document will eventuate.

6.2 The Local Management Proposal may not proceed

The Local Management Proposal will not proceed and the Transfer Deed could be terminated if certain conditions are not satisfied, including:

- ▶ the Customer Support Threshold is not met;
- ▶ tax rulings which adequately address tax risks for Customers who become Shareholders, for the Company, and for the Government, that arise as a consequence of the transition to Local Management have not been obtained; and
- ▶ a contract has been agreed between the Company and SunWater for the supply of the distribution loss Allocations.

In addition, should an unforeseen event occur, including a change of law between signing the Transfer Deed and the Transfer Date, the Transfer Deed includes a mechanism to deal with that event, should it have a material adverse impact on the Irrigation Distribution Network or its operation after the Transfer Date. This includes an ability by the Department or the Company to terminate the Transfer Deed.

6.3 Risks relating specifically to the Company and its business

(a) Risks to the financial viability of the Company due to higher costs, lower revenues, and limited capacity to access external funding

There are a number of risks related to the long-term viability of the Irrigation Distribution Network under Local Management. These risks include the potential that:

- (i) Costs relating to owning and operating the Irrigation Distribution Network may be higher than anticipated because:
 - (A) capital or operating costs have been materially underestimated. Operating costs have been developed based on consideration of SunWater's historic costs. The Asset Refurbishment and Renewal Strategy adopted by the Board has been reviewed by Jacobs, as set out in **annexure B**. In addition, scenarios have been used to test the resilience of the Company to a range of possible future capital and operating costs. However, it is impossible to predict the exact timing and amount of future capital requirements and operating costs; and/or
 - (B) unexpected events result in significant damage or loss and the level and extent of insurance cover and the balance in the self-insurance fund may be insufficient to meet unexpected damage or loss events as they arise;
- (ii) revenues generated by the Irrigation Distribution Network may be lower than anticipated because:
 - (A) water users surrender their Water Allocation, trade their Water Allocation out of the network or are unable to continue to

meet the financial obligations associated with their Water Allocation;

- (B) interest rates are lower than anticipated. The Board plans to accumulate funds to meet future capital requirements and to establish a self-insurance sinking fund for uninsured costs. Both funds rely on future interest earnings to help them achieve their target balances; and
- (C) increased bulk water prices affect Customer viability and hence the Company's revenues. There are a range of factors that could increase the cost to SunWater of providing bulk water services. The transfer of the Theodore Channel Irrigation Distribution Network alone to Local Management is not expected to have a material impact on SunWater's costs. However, the Government has made offers relating to four Transition Schemes moving to Local Management and is considering options for two of SunWater's other distribution networks. It is uncertain how many irrigation distribution networks will transition and how SunWater and the Government will respond to the impact on SunWater's cost base. It is possible that bulk water costs will increase if distribution networks transition to Local Management and the Government allows those costs to be passed on in future prices.

The Company has no history of operating as a stand-alone entity and no historical financial performance as a business in its own right. As such, historical performance of SunWater is only partly a guide to likely future performance of the Company. In

these circumstances, it is possible key inputs into the Board's assessment of the Company's future financial viability may be either overstated (in the case of revenue) or understated (in the case of costs).

Any material overstatement or understatement may result in the need for additional funding. Options for additional funding are likely to be limited to (i) increased prices charged to Customers or (ii) external debt funding (to the extent possible given the nature of the Company structure and lack of stand-alone operating history).

Given the lack of operating history and the not-for-profit status of the Company, obtaining debt funding from financial institutions may be difficult and the Government has advised that debt funding will not be available to the Company through Queensland Treasury Corporation. Consequently, if additional funding is required this funding will most likely need to be sourced through an increase in prices charged to Customers.

If the Company cannot meet any additional funding requirements by passing on the higher costs or lower revenues as an increase in prices charged to Customers and cannot otherwise raise the necessary funds through other means, this would adversely affect the Company's future financial viability and may prevent it from continuing as a going concern.

(b) The Company has carried out a risk based due diligence based on information provided by SunWater and the Department

In preparing this Offer Document including development of the Financial Information, the Company reviewed and considered a significant amount of information provided by SunWater as part of assessing the current condition of the assets, their operating standards and prior maintenance schedules, assessing the

legal due diligence process, determining the licences required to operate the Irrigation Distribution Network and other matters which may be material to the operation of the network.

A risk based approach has been taken in relation to the due diligence carried out by the Company, Jacobs and lawyers for both the Department and the Company.

In addition, in relation to the information provided by the Department and SunWater, neither the Department nor SunWater has provided any substantive warranty in relation to that information being accurate, complete and not misleading. Given the limited nature of the warranties if, following the transfer to Local Management, information which may have a material effect on the operation of the Irrigation Distribution Network is uncovered, the Company will have limited recourse against the Department or SunWater.

(c) Terms of the Transfer Deed

The Company is acquiring a pre-existing business and assets with a long operating history. The terms of the Transfer Deed provide that pre-existing liabilities that are a result of the operation of the Irrigation Distribution Network prior to the transfer to the Company remain the responsibility of the Government. However, under the terms of the transfer SunWater and the Government have capped its liability (see Section 8.2 for details) which will restrict the Company's ability to make claims under the terms of the Transfer Deed.

(d) Customer services may be adversely impacted by the transition of the Company to Local Management

While it is expected that all local SunWater Irrigation Distribution Network staff will transfer, the Company will need to establish its own organisational culture, systems and processes. New systems or service arrangements suitable for a business of this size and type will need to be put in place. A new Customer Contract, based on the existing SunWater contract,

will be put in place and the Company will be responsible for meeting relevant service targets and managing Customer relations (see Section 8.3 for details of the Customer Contract). Failure to transition effectively may result in business disruption and poor service outcomes for Customers.

(e) The Company may be unable to engage key personnel which may disrupt the business and increase operating costs

Key local SunWater staff who work on the Irrigation Distribution Network will be transferred to the Company on their current employment terms and conditions. Those conditions will be preserved for at least a three-year period from 1 July 2018 to 30 June 2021. Directors with appropriate skills and experience will need to be appointed, in accordance with the Constitution. The Company may need to engage additional staff or replace key staff or Directors. Notably, the Company will need to engage a general manager. There is a risk that the necessary skills and experience may not be readily available or may be more expensive than budgeted, with the potential to disrupt the business and increase operating costs.

(f) Rights of access to land may be limited which may disrupt the business and increase operating costs

Under the Local Management Proposal, where SunWater currently holds a tenure right (e.g. lease, freehold or easement) in relation to land on which Irrigation Distribution Network assets are located, the general approach is that similar rights will be granted or transferred to the Company. In addition, there are Irrigation Distribution Network assets located on land which is owned by third parties or within the area of a local or state controlled road. It is intended that prior to transfer to Local Management, agreements will be entered into which govern access to network assets within state-controlled road. Where there is no existing permit to occupy a local road, a statutory permit will apply for a period

of 1 year to the network assets located within a local road to allow the Company to negotiate an appropriate agreement with the Banana Shire Council. Failing any agreement being in place, or if there are assets on land owned by third parties, the Company will have to rely on its legislative right to access under the Water Supply Act. Access to the Fork Farmers pump will be dependent on an agreement being reached with the Fork Farmers Association. It should be noted that there has not been a physical survey carried out to identify the exact location of assets, other than with respect to the Channel A Pipeline. Further information on the access arrangements can be found at Section 8.6(a).

(g) Distribution loss entitlements may be insufficient which may increase operating costs

SunWater's existing distribution loss entitlements will transfer to the Company. Based on SunWater's estimates of its historical distribution losses, SunWater uses the majority of the distribution loss Allocation available to it to deliver water within the Irrigation Distribution Network. There is a risk that the Company may need more distribution loss Allocations than the Allocations it receives on transfer and that the Company would incur additional costs in acquiring those Allocations. In addition, the introduction of new meter standards could result in a different method for measuring distribution losses, which could also result in the Company requiring more distribution loss Allocations. Further, the financial modelling has assumed that the Company will have surplus distribution loss Allocation and will be able to sell this on the temporary water market. If there is no such surplus, if the surplus is less than anticipated, or if the Company is unable to sell the surplus water at the assumed price, then this may reduce the revenue of the Company.

(h) The Board's proposed modernisation of the network may be delayed or cost more than what has been included in the Company's financial modelling or may not achieve the anticipated operational efficiencies

There are risks associated with carrying out the Board's proposed modernisation of the Irrigation Distribution Network, which may delay or increase the costs of the proposed works. These include:

- ▶ access to appropriately skilled service providers and equipment within the time and cost anticipated by the Board; and
- ▶ obtaining regulatory approvals required to carry out the works.

Increased costs or delay to the proposed modernisation works may impact the Company's operational performance and financial results which could lead to an increase in prices charged to customers. Further, the financial modelling assumes that the modernisation work will result in operational efficiencies. There is a risk that these efficiencies may not be realised, which would result in higher than anticipated operational costs.

(i) The Theodore Channel Irrigation Distribution Network's size may lead to additional costs, inefficiencies and concentrated risk

The Theodore network is the smallest of the irrigation distribution schemes being proposed for transition to local management. The small size of the network is likely to limit access to scale efficiencies, may result in additional costs and may make it more difficult to access the skills and resources needed. Lack of scale may also concentrate future viability risk by reducing options for diversification and growth.

(j) Future declaration of the operation of the Irrigation Distribution Network as a monopoly business activity

On the Transfer Day, the operation of the Irrigation Distribution Network will not be a monopoly business activity for the purposes of Part 3 of the Queensland Competition Authority Act 1997 (Qld). However, the operation of the Irrigation Distribution Network may, in future, be declared by Government to be a monopoly business activity. This may result in the prices charged by the Company being subject to regulation by the QCA and may adversely affect the Company's future financial viability and may prevent it from continuing as a going concern.

6.4 Industry-specific Risks

Industry-specific risks are risks that are likely to exist for entities involved in similar activities, regardless of whether the ownership of the Irrigation Distribution Network is with SunWater, the Company or another entity. While some of these risks may exist under Government ownership, a locally owned entity may have less capacity to deal with these issues should they arise, for example due to their limited access to debt or other external funding. As a result, should these risks eventuate it will most likely result in the need for the Company to recover additional revenue through an increase in prices charged to Customers.

(a) Any adverse impact on the viability of the Customer base may affect future financial viability

The financial viability of the Company will depend on the viability of its Customers. Their viability can be affected by many factors, including:

- ▶ sustained periods of drought or failure of bulk water supply;
- ▶ increased input costs, including the cost of bulk water supply; or
- ▶ falls in commodity prices.

These factors have the potential to reduce demand and/or result in Customer defaults. To the extent any associated reduction in revenue cannot be recovered from Customers through an increase in prices charged to them, this would have a material adverse effect on the Company's future financial viability and may prevent it from continuing as a going concern.

(b) Electricity price increases or disruption may affect future financial viability

The Irrigation Distribution Network uses electricity to pump water to Customers. Any prolonged disruption to electricity supply has the potential to adversely impact the Company's ability to deliver water to Customers. A material increase in electricity prices has the potential to increase operational costs and/or reduce Customer demand for the supply of irrigation water by the Company.

(c) Alternative supply may affect future financial viability

Changes in farming practices, weather patterns and industry may generate alternative sources of supply or impact demand for irrigation water. Where available, alternatives such as water generated as a by-product of coal seam gas extraction, ground water, reduced use technologies or conversion to unsupplemented supply have the potential to materially impact demand for the Company's product, affecting its operational performance and financial results.

(d) Limitations in accessing supplies may impede operations

Inability to access essential chemicals to control weeds or to procure replacement parts for critical pieces of plant and equipment may adversely impact the Company's ability to deliver irrigation water to Customers. Such outcomes may have a material effect on the Company's operational performance and financial results.

(e) Health, Safety and Environmental

The operation of the Irrigation Distribution Network requires the Company to manage any health, safety or environmental risks associated with the operations and assets. For example, operation of the Irrigation Distribution Network may contribute to rising groundwater tables and related salinity issues. The Company will be responsible for any health, safety and environmental impacts of future operations. Should an incident occur, following the transition to Local Management which results in any harm, the Company may incur unexpected costs. The Company intends to mitigate the risks associated with any harm to property and persons through appropriate insurance.

Not all health, safety or environmental risks may be known at the time of the transfer. The terms of the Transfer Deed provide that liabilities (including in relation to health, safety and the environment) that are a result of the operation of the Irrigation Distribution Scheme prior to the Transfer Date remain the responsibility of the Government.

(f) Changes to laws and regulations, including relating to metering

The introduction of new laws or regulations may require the Company to incur additional, unplanned costs. For example, if regulations are changed to require a different, higher standard of water metering within the Irrigation Distribution Network, this would require significant capital expenditure, and may lead to higher water prices for Customers.

6.5 General Risks

(a) Changes in economic conditions may affect future financial viability

General economic conditions, introduction of tax reform, new legislation and movements in interest rates, inflation rates and commodity prices may have an adverse effect on the Company's operations and financial results.

(b) Flooding or other adverse weather conditions may affect operations and future financial viability

Adverse weather conditions and natural disasters, such as flooding, may directly impact on the Company's business, operational performance and financial results. For example above average rainfall may reduce demand, flooding may cause damage, interrupt supply and impact Customers' production and drought may reduce the Irrigation Distribution Network's supply volumes, leading to Customer failure and default.

(c) Other Risks

The Company's operations may be adversely affected by risks outside the control of the company, including natural disasters, acts of terrorism, an outbreak of international hostilities, fires, floods, drought, earthquakes, labour unrest, civil wars and other catastrophes.

6.6 Risks relating to not acquiring Shares where the Proposal proceeds

(a) No Voting Rights

A Customer who does not take up Shares in the Company will have no voting rights on matters reserved for decisions by Shareholders, including the appointment of Directors, changes to the entity type, and changes to the Constitution.

(b) Limited Access to Information

Shareholders will be entitled to receive information about the performance of the Company and notices of meetings of Shareholders and the associated papers. Customers who are not Shareholders will not be entitled to receive information for Shareholders. They will be entitled to receive any information provided by the Company for the benefit of Customers.

6.7 Risks relating to not transitioning to Local Management

If the Proposal does not proceed, the Department has indicated that the Irrigation Distribution Network will remain within SunWater. If the network remains in SunWater, Customers will forgo the opportunity to assume local ownership and control of the network, including the benefits listed in Section 1. In addition, there are risks associated with continued SunWater ownership.

(a) SunWater costs increase

There is a risk that SunWater's costs of operating and maintaining the Irrigation Distribution Network will continue to increase at rates that are greater than inflation. This may result in prices paid by Customers also increasing by greater than inflation.

Assets maintained to a reduced standard

There is a risk that the standard of maintenance of the Irrigation Distribution Network assets could be reduced. The Company's proposed approach allows for greater capital expenditure over the next 30 years than is provided for under SunWater's current strategy. Details on the different approaches to asset management are set out in Section 4.8.

(b) Change in Government pricing policy

The Government has the capacity to alter its pricing policy as it sees fit. Consequently, there is a risk that Government policy may change in a way that results in further increases in prices for water supplied by the distribution networks. This could arise due to changes in policy that result in:

- ▶ the Government not paying a subsidy to SunWater for irrigation distribution services;
- ▶ additional costs being included in the cost base as part of a future regulatory price review, for example meter upgrade costs or longer term capital costs, which would increase the cost reflective price;

- ▶ prices being set to include a return on assets or to achieve a profit; or
- ▶ prices no longer being subject to pricing recommendations from the QCA, with SunWater taking responsibility for setting prices.

Alternatively, or in addition, this could result in service levels being reduced as a result of revenue being inadequate to maintain current service levels.

7. Details of the Offer

7.1 The Offer

This Offer to apply for Shares in the Company is made to all **Eligible Customers**. An Eligible Customer is a Current Customer who holds an Allocation and is located in Australia.

Each Eligible Customer is entitled to apply for the number of Shares equal to their Share Entitlement (subject to the 35% cap outlined in section 8.4(d)).

The Offer is an offer by the Government Shareholder for the transfer of your Share Entitlement to you. Under the Transfer Deed, shortly before the Share Entitlement is transferred to Eligible Customers who apply for Shares, the Company will issue a number of Shares equal to the aggregate Share Entitlements of all Applicants (less any Shares already held by the Government Shareholder). The Government Shareholder will then transfer the Shares so that each Applicant receives their Share Entitlement immediately after the transfer of the Irrigation Distribution Network to the Company. The Offer is made by the Government Shareholder, and is being managed on its behalf by the Company under the Transfer Deed.

There is no application price for the Shares.

If you accept the Offer, you may only accept for your entire Share Entitlement.

7.2 Withdrawal of Offer

The Board reserves the right to withdraw all or part of the Offer at any time before the transfer of Shares.

7.3 No Shares if Local Management Proposal does not proceed

If the Local Management Proposal does not proceed, Shares will not be transferred. The Company will be wound up and the Irrigation Distribution Network will continue to be owned and operated by SunWater.

7.4 Opening and Closing Date for applications

The Offer opens for acceptances on 11 April 2018 and all Support and Acceptance Forms must be received by no later than 5.00 pm (Brisbane time) on the Closing Date (30 May 2018), subject to any ability to vary the Closing Date.

7.5 Transfer of Shares

Shares will be transferred by the Government Shareholder to Applicants immediately after the transfer of the Irrigation Distribution Network to the Company.

The Transfer Date is currently expected to occur on 30 September 2018, but is subject to satisfaction of a number of conditions (see Section 8.2 for further information).

If an Applicant's Entitlement has changed between the Initial Record Date and the Final Record Date, the Applicant is taken to have applied for the Entitlement they have on the Final Record Date. If the Applicant does not have any Entitlement on the Final Record Date, they will not receive any Shares.

7.6 Persons outside Australia

This Section relates only to the offer of Shares of the Company, and does not restrict a Current Customer from returning a Support and Acceptance Form in relation to whether or not they support the Local Management Proposal.

This Offer Document does not constitute an offer or invitation for Shares in the Company, in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

The distribution of this Offer Document (including an electronic copy) outside Australia may be restricted by law. If you are a Customer outside Australia and come into possession of this Offer Document, you should observe and seek your own advice on any restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. The Company, the Government Shareholder, the Department and their directors, officers, employees and advisors disclaim all liabilities to such persons. Customers who are nominees, trustees or custodians for

persons outside Australia are encouraged to seek independent advice as to how they should proceed.

Return of a duly completed Support and Acceptance Form with a completed application for Shares will be taken by the Company to constitute a representation that there has been no breach of any foreign laws and that the Applicant is physically present in Australia.

No action has been taken to register or qualify the Shares or to otherwise permit a public offering of the Shares in any jurisdiction other than in Australia.

In particular, this Offer Document may not be released or distributed in the United States.

The Offer of Shares is not being made to US persons or persons in the United States.

7.7 Ineligible Customers

The Company is not extending the Offer to Ineligible Customers having regard to the cost of complying with legal and regulatory requirements outside Australia.

Where this Offer Document has been dispatched to Ineligible Customers, it is provided for the purposes of voting on whether or not to support the Local Management Proposal only.

In limited circumstances, the Company may elect to treat certain Customers as Eligible Customers who would otherwise be Ineligible Customers, provided the Company is satisfied that the Government Shareholder is not precluded from lawfully transferring Shares to such Customers either unconditionally or after compliance with conditions which the Board in its sole discretion regards as acceptable and not unduly onerous.

7.8 Privacy

Share Register

The information about Eligible Customers included on a Support and Acceptance Form is used for the purposes of processing the Support and Acceptance Form and to administer the Eligible Customer's application for, and holding of, Shares. By submitting a Support and Acceptance Form, each Eligible Customer agrees that the Company may use the information provided by an Eligible

Customer on the form for the purposes set out in this privacy statement and may disclose it for those purposes to the share registry, the Government Shareholder, the Department and to their and the Company's respective agents and contractors and third party service providers, including mailing houses and professional advisers, and to other regulatory authorities.

The Corporations Act requires the Company to include information about each Shareholder (including name, address and details of the Shares held) in the Register. The information contained in the Register must remain there even if that person ceases to be a Shareholder. Information contained in the Register is also used to facilitate corporate communications (including the Company's financial results, annual reports and other information that the Company wishes to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements.

Details regarding your response to the Local Management Proposal

Your Support and Acceptance Form will be collected by an entity called LMA Support Services. LMA Support Services will collect and review all responses set out in the Support and Acceptance Form and advise the Government and the Company whether the Customer Support Threshold has been met. LMA Support Services may contact you via phone, email or post to remind you to return to Support and Acceptance Form or to discuss any discrepancy or error on your returned form.

LMA Support Services will not disclose the names of Customers who vote yes or no for the Local Management Proposal on their Support and Acceptance Form to the Company. However, if LMA Support Services has not received your Support and Acceptance Form before the Return Date, LMA Support Services may provide the Board with your details so that Board members can contact you to discuss the Offer and the Local Management Proposal. If you do not want to be contacted by either LMA Support Services or the Board please notify us as soon as possible on 0468 960 538 or admin@lmairrigation.com.au

How to request access to your personal information

Under the Privacy Act 1988 (Cth), you may request access to your personal information held by, or on behalf of, the Company. A fee may be charged for access. You can request access to your personal information by telephoning or writing to:

- ▶ Before the Transfer Date:
 - LMA Support Services Pty Ltd
 - GPO Box 419
 - Brisbane QLD 4001
 - Telephone: 0468 960 538
 - Email: admin@lmairrigation.com.au
- ▶ After the Transfer Date:
 - Theodore Water Pty Ltd
 - c/o the Company Secretary
 - 1 Second Avenue
 - Theodore, QLD 4179
 - Email: admin@theodorewater.com.au

7.9 Effect of returning the Support and Acceptance Form

By completing, and the Company receiving, your completed Support and Acceptance Form, you:

- (a) agree to be bound by the terms of this Offer Document and, if you apply for your Share Entitlement, the provisions of the Constitution;
- (b) if you apply for your Share Entitlement, authorise the Company to register you as the holder(s) of the Shares transferred to you;
- (c) authorise the Company and the Department to use the information contained in it to determine whether the Customer Support Threshold has been met;
- (d) declare that all details and statements made in the Support and Acceptance Form are complete and accurate;
- (e) declare that if you are an individual, you are over 18 years of age and have full legal capacity and power to perform all your rights and obligations under the Offer;
- (f) acknowledge that once the Company receives the Support and Acceptance Form, you may not withdraw it except as allowed by law;

- (g) if you apply for your Share Entitlement, agree to apply for, and receive a transfer of, the number of Shares equal to your Entitlement as at the Final Record Date (if any);
- (h) if you apply for your Share Entitlement, authorise the Company, and their officers or agents to do anything on your behalf necessary for any Shares to be transferred to you, including to act on instructions of the LMA Support Services upon you using the contact details set out in the Support and Acceptance Form;
- (i) declare that you were the registered holder(s) at the Initial Record Date of the Water Allocation indicated on the Support and Acceptance Form as being held by you on the Initial Record Date;
- (j) acknowledge that the information contained in this Offer Document is not investment advice or a recommendation that the Shares are suitable for you, given your objectives, financial situation or particular needs;
- (k) represent and warrant that the law of any place (other than Australia) does not prohibit you from being given this Offer Document or if you apply for your Share Entitlement, making an application for Shares; and
- (l) represent and warrant that you are an Eligible Customer and have read and understood this Offer Document and the Support and Acceptance Form and that you acknowledge the matters, and make the warranties and representations and agreements contained in this Offer Document and the Support and Acceptance Form.

7.10 Governing law

This Offer Document, the Offer and the contracts formed on acceptance of applications are governed by the laws applicable in Queensland, Australia.

8. ADDITIONAL INFORMATION

This Section 8 sets out additional information that is relevant to Customers' decisions whether or not to support the Local Management Proposal and, in any event, whether or not to apply for their Share Entitlement.

8.1 Taxation Implications

The below comments are based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practice as at the date of this Offer Document. Prior to the Transfer Date, binding rulings are expected to be issued by the ATO to confirm the income tax and GST implications for the Company and the Customers, as relevant.

The tax implications noted in this Section 8.1 are not exhaustive and Current Customers should seek advice from their tax advisor or other professional advisor before deciding whether to support the Local Management Proposal or accept the Offer of Shares in the Company.

(a) Outline of income tax implications for Customers who become Shareholders of the Company

Summary

If the Local Management Proposal is accepted, a Current Customer who accepts the Offer of Shares in the Company:

- ▶ Will not be subject to income tax on receipt of the Shares on the Transfer Day; and
- ▶ Will not have any value attributed to its acquisition of the Shares that will constitute a cost base for capital gains tax (CGT) purposes.

This summary accords with the outcomes of an Administratively Binding Advice received from the Australian Taxation Office (ATO) (the ABA) but must be read in conjunction with the further comments and reasoning below. Importantly, the ABA and all comments on the tax implications

of the Local Management Proposal will apply only to Current Customers who are tax residents of Australia and will hold their Shares in the Company on a capital account.

Administrative Binding Advice

The ABA states that the Commissioner of Taxation considers that the receipt of Shares in the Company will not be included in the assessable income of a Current Customer who becomes a Shareholder of the Company on the Transfer Day as ordinary income under section 6-5 of the Income Tax Assessment Act 1997 (ITAA97). This is on the basis that:

- ▶ The receipt of Shares will not constitute a receipt received by the Current Customer in the ordinary course of carrying on its business; and
- ▶ There is no evidence of an intention or motive by a Current Customer to make a profit or gain from becoming a Shareholder of the Company.

Further, receipt of Shares in the Company will not be included in the assessable income of a Customer as statutory income under section 6-10 of the ITAA97. This is on the basis that the receipt of Shares will not be a 'bounty' or subsidy received in relation to carrying on a business under section 15-10 of the ITAA97 or a non-cash business benefit under section 21A of the ITAA36.

Further, for capital gains tax purposes, the first element of a Current Customer's cost base in Shares in the Company received on the Transfer Day should be nil.

While the ABA is only administratively rather than legally binding on the ATO, the ATO's policy is only to depart from administratively binding advice where there is a material change to the relevant law, where a court or tribunal adopts a different interpretation to that previously followed by the ATO, or where the existing interpretation is no longer considered appropriate (for example, because it has created unforeseen consequences for the revenue). Notwithstanding this, it is

expected that the ABA will be converted to a legally binding ruling prior to the Transfer Date. This issue of this ruling is covered by a condition precedent in the Transfer Deed which can only be waived by agreement between the Company and the Department.

(b) Outline of tax implications for the Company

Income tax

The Director General of the Department will be the sole Shareholder of the Company up until the end of the Transfer Day. Current Customers who accept an Offer of Shares will then be transferred Shares and the Director General will cease to be a Shareholder. While the Government Shareholder is the sole Shareholder, the Company will be an income tax exempt entity. On this basis:

- ▶ Income derived by the Company during this period will be tax exempt (for Commonwealth income tax purposes) by virtue of it being a State or Territory Body (STB); and
- ▶ Receipt of the Separation Payment should not result in any adverse Federal income tax consequence for the Company as the Separation Payment is received while the Company is an STB; and
- ▶ Receipt of the assets and liabilities should not result in any adverse Federal income tax consequence for the Company as it is undertaken whilst it is an STB.

When the Applicants are transferred Shares, the Company will no longer be an STB tax-exempt entity. Rather, the Company will enter the Federal income tax regime. When a taxpayer transitions from being tax exempt to taxable, there are certain income tax provisions which operate to ensure no tax advantage can be obtained due to this change in

status. Where considered necessary and appropriate, applications for private rulings will be prepared to confirm the operation of these provisions (Divisions 57 and Division 58). Broadly:

- ▶ Division 57 ITAA 1936 requires corporate entities making the transition from exempt to taxable to ensure that only income deductions, gains and losses relating to the taxable period are taken into account to determine their taxable position; and
- ▶ Division 58 of the ITAA 1997 sets out the special rules that apply in calculating depreciation deductions and balancing adjustments in respect of depreciating assets previously owned by an exempt entity. These rules operate to reset the tax cost of such assets.

GST

ATO rulings are intended to be obtained to confirm the GST treatment outlined below:

- ▶ The Company should be registered for GST purposes;
- ▶ As the transfer of assets by SunWater to the Company is to occur under a valid transfer notice, no supply for consideration will arise, resulting in no GST becoming payable on the transfer;
- ▶ GST should not become payable on the Separation Payment; and
- ▶ No GST should be payable upon the transfer of Shares in the Company to the Applicants.

The parties to the transactions, including the Current Customers who become Shareholders, will need to determine whether they breach the financial acquisitions threshold test in order to quantify their respective entitlements to input tax credits.

8.2 Summary of Transfer Deed

On 6 April 2018, the Company and the Department entered into the Transfer Deed under which the various assets, plant, equipment, contracts and approvals necessary to operate the Irrigation Distribution Network will, subject to the satisfaction or waiver of a number of conditions precedent be transferred to the Company on the Transfer Date, which is expected to be 30 September 2018. The assets will be transferred on an 'as is where is' basis.

Conditions precedent

The Transfer Deed is conditional upon a number of conditions precedent being satisfied or waived including:

- ▶ achieving the Customer Support Threshold;
- ▶ an appropriate tax ruling being obtained;
- ▶ the Company and SunWater entering into an agreement for the supply of the distribution loss Allocations to be transferred to the Company; and
- ▶ SunWater implementing annual price setting in its standard channel and pipeline contracts for the Irrigation Distribution Network; and
- ▶ SunWater unbundling its pricing so that separate prices are included for water supply services and water distribution services, in its standard channel and pipeline contracts for the Irrigation Distribution Network.

If any condition precedent is not satisfied or waived by the relevant date specified in the Transfer Deed, either the Company or the Department may terminate the Transfer Deed.

Separation payment

The Department has agreed to pay the Company the Separation Payment on the Transfer Date although provision is made for the Department to pay to the Company a portion of the Separation Payment, up to a maximum of \$500,000, upon the Customer Support Threshold being achieved, for the purpose of assisting the Company to be ready to operate the Irrigation Distribution Network from the Transfer Date.

Period prior to the Transfer Date

During the period between execution of the Transfer Deed and the actual Transfer Date, the Department must use its best endeavours to ensure SunWater:

- ▶ continues to operate and maintain the Irrigation Distribution Network:
 - » in accordance with the Scheme Operations Manual and the Network Service Plan (as amended by SunWater from time to time);
 - » to a standard that is consistent with SunWater's business as usual practices and standards of operating and maintaining the network in the previous 12 months; and
- ▶ consults with or, after the Customer Support Threshold has been achieved, obtains the approval of the Company in relation to key operational decisions.

Transfer of employees

The Transfer Deed makes provision for the transfer of employees of SunWater to the Company on the Transfer Date in accordance with the relevant provisions of the Water Act.

Unforeseen events occurring before the Transfer Date

If a force majeure event, change in law or any other event occurs prior to the Transfer Date which is likely to materially and adversely affect the Irrigation Distribution Network or its operation or cost of operation after the Transfer Date, and the Company and the Department are unable to agree on the steps to be taken by the Department to address the issues arising from the relevant event, then either the Company or the Department may terminate the Transfer Deed.

Pre-transfer liabilities

Any liability (known or unknown) unless specifically identified and transferred to the Company in the Transfer Notice will remain with SunWater. At the date of signing the Transfer Deed the only liabilities to be transferred to the Company are the employee entitlements. The majority of this liability will be offset by a cash payment made to the Company by the Department on the Transfer Date.

If the Company incurs any costs or liability relating to any matter occurring prior to the Transfer Date other than employment liabilities in relation to employees to be transferred to the Company from the Transfer Date (including, for example, contamination), its right of recourse against the Department is capped at \$1.51 million.

Warranties

The Department has provided very limited warranties regarding the information provided by or on behalf of the Department (including the information provided by SunWater) to the Company and to the entities which have issued legal, engineering and insurance due diligence reports in relation to the Local Management Proposal.

Overall liability cap

Except for a failure to pay on the Transfer Date the unpaid Separation Payment, and the Long Service Liability and 75% of the sick leave liability in respect of the transferring employees, the liability of the Department and SunWater for all other claims in relation to the Transfer Deed, the Offer Document and any other matter connected to the Irrigation Distribution Network, including exposure for pre-Transfer Date liabilities, is limited in aggregate to \$1.51 million.

In addition, the State will not be liable to the Company for “Consequential Damages”, which is defined to include indirect and consequential damages, loss of revenue and loss of profits.

Other rights of termination

The Department may, at its discretion, terminate the Transfer Deed at any time before the Transfer Date.

The Company may terminate the Transfer Deed if the Department proposes a Transfer Date which is different to that contemplated in the Transfer Deed and the Company does not agree with the State’s proposed amended dates for undertaking actions to effect the transition to Local Management.

Also, if any of the specified actions to be completed on the Transfer Date to effect the transition to Local Management become incapable of being achieved, and the Company and the

Department are unable to agree an appropriate resolution, the Transfer Deed will automatically terminate.

8.3 The new Customer Contract

Under the Water Act, the Company is required to prepare a standard customer contract for the supply of distribution services to customers of the Company. The Water Act provides that this new Customer Contract will be deemed to apply between the Company and each holder of a Water Allocation to whom water was supplied under the relevant resource operations licences immediately before the Transfer Day and continues to be supplied under the new distribution operations licence to be granted to the Company.

The Water Act further provides that the new Customer Contract:

- ▶ must be based on the standard supply contract applying to SunWater and the holders of the Water Allocations and fairly represent the supply arrangements and financial obligations as in place before the Transfer Day; and
- ▶ may include additional provisions to facilitate implementing the arrangements and meeting the obligations, but the additional provisions must not be capable of operating to the detriment, in substance, of the holder of a Water Allocation after the Transfer Day.

The Company has prepared the new Customer Contract to meet the requirements set out in the Water Act and the Customer Contract can be found at the Company Website.

The Customer Contract is based on SunWater’s existing Supply Contract Channel and Pipeline Standard Conditions and, subject to the following, is consistent with the SunWater contract. The key differences with the SunWater contract are:

- ▶ Charges under the Customer Contract will be set by the Company and, as at the Transfer Date, will not be regulated by the QCA. The Distribution Fixed Charges and Distribution Consumption Charges may be reviewed annually by the Company. Further details on pricing are provided in Section 5.

- ▶ Consistent with the SunWater contract, the Company may propose changes to the contract terms from time to time (but not more frequently than once every 5 years). If a customer objects to the new conditions, the existing (unamended) contract terms will continue to apply to that customer. The Company does not have the right (which existed under the SunWater contract) to terminate that customer's contract. This does not limit changes by agreement or as a result of a change in law.
- ▶ To facilitate the transition to Local Management (and in addition to other rights which are equivalent to those in the SunWater contract), the Company may request that security be provided by a customer if security is being provided by that customer to SunWater before the Transfer Date.
- ▶ The Customer Contract includes other provisions to facilitate the transition to Local Management to address the consequences where Water Allocations are leased or transferred and to identify the Location for Taking Water.

In addition to providing for the supply of distribution services in the Irrigation Distribution Network, to the extent a Customer is located within the Declared Drainage Area, the new Customer Contract makes provision for the provision of drainage services and the imposition of charges which are levied by SunWater under the Water Regulation.

The Company is required under the Water Act to prepare a standard drainage contract for any drainage customers who receive drainage services but not distribution services. SunWater has advised there are no Customers who currently receive drainage services but not distribution services within the Irrigation Distribution Network.

8.4 Overview of Constitution and rights and liabilities attaching to Shares

The rights attaching to Offer Shares are set out in the Company's Constitution. The Constitution will take effect immediately following the transfer of the Irrigation Distribution Network to the Company.

A summary of the significant rights attaching to Shares and a description of other material provisions of the Constitution is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders.

It does not replace careful review or consideration of the Constitution, a full copy of which is available at the Company Website. Alternatively, you can request a hard copy of the Constitution by phoning the LMA Information Line on 0468 960 538 or emailing admin@lmairrigation.com.au.

(a) Objects

The objects of the Company are to:

- (i) own, operate and maintain the Theodore Irrigation Distribution Network;
- (ii) provide irrigation services, water transportation services and drainage services to customers;
- (iii) purchase, sell, transfer or lease Water Allocations distributed under the DOL for the Theodore Irrigation Distribution Network, or to facilitate the purchase, sale, transfer or lease of such Water Allocations;
- (iv) plan and provide for the renewal and refurbishment of the Theodore Irrigation Distribution Network infrastructure, plant and equipment to meet anticipated future requirements; and
- (v) do all such other lawful things as are incidental or conducive to (and for the purpose of) the attainment of any of the above objects.

The assets and income of the Company must be applied solely in furtherance of those objects.

(b) Not for profit

The assets and income of the Company must not be distributed directly or indirectly to the Shareholders, except as payment for services provided to, or expenses incurred on behalf of, the Company.

The Company must not pay any dividends.

(c) Eligibility to hold Shares

A person is only eligible to be a Shareholder if they are the holder of an Allocation.

A holder of an Allocation is permitted to hold one ordinary Share for every megalitre of the total Allocation held by that person (Entitlement). A person's Entitlement will vary with any changes to the size of their Allocation from time to time.

A person does not have to hold any Shares just because they hold an Allocation.

(d) Shareholding limit

A person and their Associates must not together be the registered holders of more than 35% of the Shares at any time.

(e) Persons holding less than their Entitlement

If a person holds less than their Entitlement, for example if they have increased their Allocation, the holder of the relevant Allocation may apply to the Company for the issue or transfer of fully paid ordinary Shares up to their Entitlement for no issue or purchase price.

(f) Compulsory transfer, cancellation, buy-back or forfeiture of Shares, and suspension of rights attaching to Shares, in certain circumstances

Where:

- (i) a Shareholder's Entitlement is reduced to below the number of Shares they hold (the difference being the Relevant Shares); or
- (ii) the number of Shares held by the person and their Associates together exceeds 35% (the Relevant Shares being the number of Shares held in excess of that limit and which were most recently acquired);
- (iii) the holder of Shares in respect of an Allocation no longer wishes to hold those Shares (Relevant Shares),

then:

- (iv) all rights (including the right to vote) attaching to the Relevant Shares are suspended; and
- (v) the Board may at any time:
 - (A) direct the relevant Shareholder or Associate (as applicable) in writing to transfer any or all of the Relevant Shares to another person who is eligible to hold them;
 - (B) direct that any or all of the Relevant Shares be bought-back or cancelled; or
 - (C) determine that any or all of the Relevant Shares be forfeited,

in each case for no cash consideration.

If a Shareholder has failed to pay any Charges to the Company under the Supply Contract between the Shareholder and the Company for more than:

- (vi) 90 days after those Charges become due and payable, the Board may determine that all rights (including the right to vote) attaching to the Relevant Shares are suspended; or
- (vii) 12 months after those Charges become due and payable, all rights in relation to all of their Shares are suspended and the Board may direct the transfer, buy-back, cancellation or forfeiture of those Shares.

(g) Transfers of Shares

Subject to the Corporations Act, the Constitution and the terms of issue of any Share, a Shareholder:

- (i) may only transfer Shares to another eligible person to whom the Shareholder transfers an Allocation; and
- (ii) must transfer a number of Shares to the person to whom the Shareholder transfers an Allocation, unless the transferee does not want the Shares, the transfer would cause a breach

of the 35% Shareholding limit, or the Company otherwise refuses to register the transfer,

in each case on the basis of one Share for each megalitre of the Allocation which is transferred.

If the Directors give a direction to a person to transfer their Shares as outlined in paragraph (f) above, they must promptly do all things necessary or reasonably requested by the Board to do so, and appoint the Company and each Director individually to do those things.

The Company may refuse to register a transfer of Shares where the Board so resolves. The Company is not required to give any reason for that refusal.

If permitted by the Corporations Act and the Board so resolves, the Company may refuse to register an instrument of transfer of Shares where the transfer is not in registrable form, the Company has a lien on any of the Shares transferred, the registration of the transfer may breach an Australian law or a court order, or the Company is otherwise permitted or required to do so pursuant to the terms of issue of the Shares and/or the Constitution.

The Company must refuse to register a transfer of Shares where the Corporations Act or a law about stamp duty requires the Company to do so or the Constitution otherwise requires, where the transferee is not eligible to hold Shares under the terms of the Constitution, or if upon registration of the transfer the transferee would hold more Shares than their Entitlement, there would be more than the permitted number of Shareholders for a proprietary company, or the Company is aware that the transfer would cause a breach of the 35% Shareholding limit.

A Shareholder may also be prohibited from transferring their Shares to another person within 12 months after the Shares are issued, unless the transfer occurs in circumstances where an exception to the prospectus provisions of the Corporations Act apply, or if the Shareholder issues a

prospectus. Where a Shareholder is required by the Constitution to dispose of Shares as a result of a change in their Entitlement or otherwise, the Company should have regard to the prospectus provisions of the Corporations Act when exercising its powers outlined above and in paragraph (f).

(h) Compulsory Share cancellations or buy-backs

If the Board decides that Shares should be bought back or cancelled as outlined in paragraph (f) above, the Board may give written notice to the Shareholder and subject to the Company complying with the relevant provisions of the Corporations Act, the holder of the Relevant Shares specified in such notice must promptly do all things necessary, or reasonably requested by the Board, to be done by them in connection with the buy-back or cancellation and appoints the Company and each Director individually to be their attorney to do such things.

(i) Forfeiture

If the Board decides that Shares should be forfeited as outlined in paragraph (f) above, the Board may give notice to the Shareholder stating that any or all of the Relevant Shares are forfeited.

The Board may sell or otherwise dispose of any forfeited Share on behalf of the Shareholder. The terms and manner of sale or disposal are to be determined by the Board but will not include any cash consideration.

At any time before any forfeited Share is sold or otherwise disposed of, the Board may cancel the forfeiture on terms determined by it.

On forfeiture of any Share, the holder of that Share ceases to be a Shareholder, and ceases to have any right as a Shareholder, in respect of that forfeited Share (including in respect of any right to vote).

The Company may execute an instrument of transfer in respect of the forfeited Shares.

The Company may also forfeit shares for failure to pay a call or instalment on partly paid Shares, and a separate forfeiture process and terms apply to such a forfeiture.

The Company may cancel any forfeited Share by ordinary resolution.

(j) Issue of further Shares and other securities

Subject to the Corporations Act, the Constitution and any rights and restrictions attached to a class of Shares or other securities, the Company may, by resolution of the Board, issue Shares (including preference shares), options to acquire Shares, and other securities with rights of conversion to Shares on any terms, to any person, at any time and for any consideration, as the Board resolves.

However, the Company must not issue Shares to a person who is not eligible to hold Shares, or if upon the issue the person would hold more ordinary Shares than their Entitlement, there would be more than the permitted number of Shareholders for a proprietary company, or the Company is aware that any person and their Associates would hold more than 35% of the Shares.

(k) General meetings of Shareholders

The Board must call a general meeting every year within 5 months of the end of the financial year.

Each Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company.

The quorum for a meeting of Shareholders is five Shareholders present in person or by proxy, attorney or representative at the meeting. Each individual present may only be counted once.

A Shareholder may attend the meeting personally, or by appointing a proxy or attorney. A Shareholder that is a company may also appoint a corporate representative.

(l) Voting rights

Subject to any rights or restrictions attached to a class of Shares, each Shareholder present in person or by proxy, attorney or corporate representative has one vote on a show of hands and, on a poll, one vote for each Share held. If the Share is partly paid, on a poll the Shareholder has a fraction of a vote equal to the proportion which the amount paid up bears to the issue price. All Shares being offered under the Offer are fully paid Shares.

(m) Special Resolutions

The Company may not undertake any of the following matters unless and until the Board's decision is ratified by Special Majority Resolution of the Company at a general meeting:

- (i) changing the Company's name;
- (ii) changing the Company to a different type of company (eg to become a public company) or making an application to transfer registration (eg to become a cooperative);
- (iii) modification or repeal of the Constitution;
- (iv) changing the rights attaching to any issued Shares;
- (v) approving a new or revised Strategic Asset Management Plan; or
- (vi) except for expenditure that is reasonably required in connection with any action to protect life or property, or as a result of fire, flood, storm, cyclone, lightning, earthquake, mudslide, landslide or other physical natural disaster, incurring or committing to capital expenditure, deferred maintenance or asset refurbishment that is not provided for in the then current Strategic Asset Management Plan.

A Special Majority Resolution is a resolution passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution.

(n) Variation of class rights

Subject to the Corporations Act and the terms of issue of a class of Shares, the rights attaching to any class of shares may be varied or cancelled with the written consent of the holders of 75% of the issued shares of the affected class, or by a special resolution passed at a separate meeting of the holders of the issued Shares of the affected class.

Any proposal to amend the terms of any issued Shares also requires the approval of Shareholders by Special Majority Resolution.

(o) Election and retirement of Directors

There must be a minimum of three Directors and a maximum of six Directors. There must be at least one Independent Director. To the extent it is reasonably practicable, at least two must be Shareholder Directors.

A Shareholder Director is a Director who is a Shareholder, or who is a director, secretary, employee or shareholder of a Shareholder that is a body corporate, or a unitholder or beneficiary of a Shareholder which holds its shares as a trustee, or any other person who is nominated (with their consent) by a Shareholder to be a Shareholder Director.

An Independent Director is a Director who is not eligible to be a Shareholder Director at the time of their appointment or election.

Directors may be appointed by the Board to fill casual vacancies or as an addition to the Board, or be elected at a general meeting. All candidates for election or appointment as a Director must be nominated by the Nominations Committee, unless they are a retiring Director.

The Nominations Committee must:

- (i) comprise one Director and two persons determined by the Board from persons nominated in writing by one or more Shareholders;
- (ii) be convened at least 120 days³⁵ before an Annual General Meeting at which an election of Directors is required and at such other times, including where there is a casual vacancy or a proposed appointment of an additional Director, as the Nominations Committee or the Board thinks fit; and
- (iii) nominate candidates to be put forward for:
 - (A) election as Directors, at least 60 days³⁶ before the relevant Annual General Meeting; and
 - (B) appointment as a Director to fill a casual vacancy or as an additional Director.

Directors appointed by casual vacancy or as an addition to the Board must not hold office beyond the next annual general meeting without re-election.

Directors must also retire by rotation. At the first annual general meeting after completion of the transition to Local Management and at every second annual general meeting thereafter, one half (or the number nearest to but not less than one half) of the Directors must retire. No Director may hold office (without re-election) beyond the fourth annual general meeting after their election or four years, whichever is longest. The Directors in office at the time that this Constitution takes effect are taken to have been appointed on the date this Constitution takes effect.

Shareholders may by ordinary resolution remove any Director.

35 As the first Annual General Meeting is required to be held shortly after the Transfer Date, the Board is seeking to amend the constitution to provide for some flexibility in relation to this time period for the first Annual General Meeting.

36 As the first Annual General Meeting is required to be held shortly after the Transfer Date, the Board is seeking to amend the constitution to provide for some flexibility in relation to this time period for the first Annual General Meeting.

(p) Strategic Asset Management Plan

Every year, or such lesser period as the Board determines from time to time, the Board must review the Company's plans for managing the Company's strategic assets for the subsequent five-year period (Strategic Asset Management Plan) and table a new or revised Strategic Asset Management Plan to the following Annual General Meeting for approval by Special Majority Resolution.

If a Strategic Asset Management Plan is not approved by the necessary majority at a particular Annual General Meeting then the most recently approved Strategic Asset Management Plan continues to apply for the periods to which it relates and, if the period of that most recently approved Strategic Asset Management Plan expires without a replacement Strategic Asset Management Plan being approved, the Board may adopt an interim Strategic Asset Management Plan for the period up to the next Annual General Meeting.

8.5 Other material contracts

Employee Framework

As part of the Local Management Proposal, SunWater, the Department, the Australian Workers Union, and the Together Union have entered into a Transition Employment Principles Framework (**Framework Agreement**) which sets out the principles applying to the transition of SunWater employees to the Company.

Under the Framework Agreement, SunWater's Enterprise Agreement and the SunWater Human Resources Policies will continue to apply to those employees who transfer from SunWater to the Company on the Transfer Day. Those conditions must continue to apply for minimum a period of 3 years from 1 July 2018 and thereafter until the Company and the employee agree a replacement agreement or the Enterprise Agreement is terminated by the Fair Work Commission. In addition, the Company will be required to ensure that rights, entitlements and benefits provided to employees are maintained for at least 3 years from 1 July 2018 and that no forced redundancies occur during this period.

8.6 Other material information

(a) Access to Irrigation Distribution Networks assets

The Irrigation Distribution Network assets are located across land which is subject to different tenure arrangements. The majority of the assets are located within the area of a perpetual lease issued under the Land Act. Other assets are also located within an easement or within a local or state-controlled road. In addition, there are three instances where assets are located on private property.

Under the Local Management Proposal:

- ▶ the pump station, depot and the houses will be transferred as freehold to the Company;
- ▶ a new perpetual lease will be granted to SunWater and transferred to the Company;
- ▶ a draft agreement has been negotiated between SunWater and DTMR setting out arrangements for the management of the Irrigation Distribution Network within a state-controlled road. If the agreement is executed by SunWater before the Transfer Date, it will be transferred to the Company;
- ▶ the Water Act provides that the Company will be deemed to have a permit to occupy the local roads for a period of a year after the Transfer Date; and
- ▶ where assets are located on land where the Company does not own, lease or have an arrangement in place with the relevant landowner, the Company will have certain statutory rights available to it to assist with access and protection of assets under the Water Supply Act.

Perpetual lease

A new perpetual lease is to be granted by the Government to SunWater on the Transfer Date and then transferred to the Company. The lease is granted under the Land Act. The lease is perpetual and therefore is ongoing and does not include a termination date. The rent payable to

the Government under the lease is \$1 per annum, if demanded. The lease has been granted for the 'irrigation purposes, namely, the use, control, and flow of water'. Therefore, any use of the land within the area of the lease must be for that end.

Assets located within roads

SunWater and DTMR have negotiated a draft agreement for the management of Irrigation Distribution Network assets located within the area of a state-controlled road. It is intended that the agreement is to be finalised before the Transfer Date and transferred to the Company. In its current form it has a term of 20 years. Under the agreement DTMR provides approval for the Irrigation Distribution Network assets to be maintained and operated within the area of a state-controlled roads and sets out the conditions upon which works can be carried out on those assets.

For local roads, the Water Act grants the Company a permit to occupy for a period of 1 year following the Transfer Date. It is the Company's intent to enter into negotiations with the Banana Shire Council for a longer-term arrangement.

Water Supply Act

Following the Transfer Date, the Company will be a registered water service provider for the purpose of the Water Supply Act. As a registered water service provider, the Water Supply Act includes statutory rights to access land owned by third parties (including roads but excluding residential buildings) to inspect, operate, change, maintain, remove, repair or replace the Company's existing Irrigation Distribution Network assets. Any access under the Water Supply Act must comply with, and is subject to, the requirements in that Act.

To the extent that assets being transferred to the Company are located outside the area of the tenure held by the Company (e.g. because the information provided by the Department and SunWater in relation

to the actual physical location of the assets is incorrect or there is a known tenure gap), the Company could rely upon the Water Supply Act to access those assets subject to the requirements in that Act.

As the Fork Farmers Pump may not be 'service provider infrastructure' for the purposes of the Water Supply Act, the Company may not have rights of access under that legislation and will need to rely on the proposed memorandum of understanding with the Fork Farmers Association.

Survey

The Company has carried out a physical survey of the Channel A Pipeline to understand the exact location of pipeline. The pipeline is within the area of the perpetual lease except for where it crosses through parts of local council road areas associated with Walloon Street and Partridge Drive. No other physical survey of the assets has been carried out by the Company.

(b) Regulatory requirements

Following the transfer to Local Management, the Company will be subject to various regulatory requirements associated with the operation of irrigation assets. In particular:

- ▶ the Company will hold a distribution operations licence with respect to the Irrigation Distribution Network; and
- ▶ the Company will be a registered 'water service provider' for the purposes of the Water Supply Act.

As part of the carrying out works associated with the Asset Refurbishment and Renewal Strategy, the Company may be required to seek approvals for works under the planning or environmental legislation.

The operation of the Irrigation Distribution Network will not be a monopoly business activity for the purposes of Part 3 of the Queensland Competition Authority Act 1997 (Qld). There could be a risk that the operation of the Irrigation Distribution Network may, in future, be declared to be a monopoly business activity as outlined in Section 6.3(i) of this Offer Document.

(c) Insurance Due Diligence

As part of the due diligence investigations associated with the Local Management Proposal, the Department engaged Marsh Pty Ltd (Marsh) to provide insurance due diligence advice on the pre-transition insurance arrangements for the protection of the Company. Prior to the Transfer day, the Company is covered by the following insurance or self-insurance coverages:

- ▶ Directors and officers insurance arranged with a commercial insurer subject to insurance limits considered appropriate for the nature of the activities pre-transition; and
- ▶ Cover under the Queensland Government Insurance Fund (QGIF), being the Queensland Treasury self-insurance fund for State Agencies. This provides coverage for the incidental property and liability exposures arising from the Company's activities. QGIF does not provide motor vehicle or statutory workers compensation coverage.

Prior to the Transfer Day the Company will not hold any motor vehicle insurances (such as CTP for registered vehicles) as the Company will not own, lease or be responsible for registered motor vehicles during this period. The Company will obtain WorkCover during this period to ensure the insurance is in place when it becomes an employer.

The Transfer Deed provides that the State is to use its best endeavours to ensure that SunWater continues to operate the Irrigation Distribution Network prior to the Transfer Day on a business as usual basis and as otherwise provided in the Transfer

Deed. The Transfer Deed provides for existing SunWater insurance to include the Company as an additional insured so that the Company will have the benefit of the SunWater insurances from the Transfer Day for events or circumstances arising before the Transfer Day. In Marsh's opinion this is an appropriate insurance and self-insurance programme based on the disclosed business activities for the period up to Transfer Day.

8.7 Formal disclosures and consents

The following parties have given and have not, before the date of this Offer Document, withdrawn their written consent:

- ▶ to be named in this Offer Document in the form and context in which they are named; and
- ▶ if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appears in this Offer Document.

Name	Role
Corrs Chambers Westgarth	Legal Adviser
KPMG Financial Advisory Services (Australia) Pty Ltd (KPMG Transaction Services)	Investigating Accountant
Jacobs	Engineering Adviser
Marsh Pty Ltd	Insurance Adviser

KPMG Transaction Services has given, and not withdrawn before the date of this Offer Document, its written consent to the inclusion of its Investigating Accountant's Report in this Offer Document in the form and context in which it appears in **annexure A** to this Offer Document and references to that report in the form and context in which they appear.

Jacobs has given, and not withdrawn before the date of this Offer Document, its written consent to the inclusion of its Jacobs Report in this Offer Document in the form and context in which it appears in **annexure B** of this Offer Document and to references to the Jacobs Report and to

the review carried out by Jacobs in relation to energy savings associated with the upgrade of the Theodore Pump Station (see section 4.7) in the form and context in which they appear in this Offer Document.

Marsh has given, and not withdrawn before the date of this Offer Document, its written consent to the inclusion of statements set out in Section 8.6(c) of this Offer Document.

Each person named above:

- ▶ does not make or purport to make any statement in this Offer Document or any statement on which a statement in this Offer Document is based, other than the Department in respect of the Department Information, KPMG Transaction Services in respect of the Investigating Accountant's Report on the Historical Pro Forma Balance Sheets, Jacobs in relation to the Jacobs Report and the review carried out by Jacobs in relation to energy savings associated with the upgrade of the Theodore Pump Station (see section 4.7), and Marsh in relation to Section 8.6(c);
- ▶ to the maximum extent permitted by law, disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Offer Document, other than a reference to its name and any statement included in this Offer Document with the consent of that person as specified in this Section 8.7; and
- ▶ has not authorised or caused the issue of this Offer Document.

8.8 Supplementary information

The Company will issue a supplementary document to this Offer Document if it becomes aware of any of the following between the date of this Offer Document and the Effective Date:

- ▶ a material statement in this Offer Document is or becomes false or misleading in a material respect;
- ▶ a material omission from this Offer Document;
- ▶ a significant change affecting a matter included in this Offer Document; or
- ▶ a significant new matter has arisen and it would have been included in this Offer Document if it had arisen before the date of this Offer Document.

Depending on the nature and timing of the changed circumstances the Company may circulate and publish any supplementary document by:

- ▶ posting the supplementary document to Customers at the address registered with SunWater; or
- ▶ posting a statement on the Company's Website and/or at www.lmairrigation.com.au

as the Company, in its absolute discretion, considers appropriate.

9. GLOSSARY

9.1 Definitions

The meanings of the terms used in this Offer Document are set out below, unless the context otherwise requires.

Term	Meaning
ABA	Administratively Binding Advice from the Australian Taxation Office
Allocation	In relation to a person, the nominal volume of the following Water Allocations of which they are the holder: <ul style="list-style-type: none"> (a) a Medium A priority allocation; (b) a High priority allocation; or (c) where the context requires, a Medium A priority allocation and a High priority allocation.
Applicant	An Eligible Customer who accepts the Offer by returning the Support and Acceptance Form.
ASIC	The Australian Securities and Investments Commission.
Asset Refurbishment and Renewal Strategy	An Asset Refurbishment and Renewal Strategy as developed by the Company which defines the refurbishment and renewal costs and timeframes for each type of asset in the Irrigation Distribution Network and underpins the projected 30-year capital expenditure profile (described more fully in Section 4.8).
Associate	The meaning given in sections 12 and 16 of the Corporations Act; and includes, in respect of a reference to an associate of a person: <ul style="list-style-type: none"> (a) a spouse or child of the person; (b) a child of the person's spouse; (c) a dependant of the person or the person's spouse; (d) anyone else who is one of the person's family and may be expected to influence the person, or be influenced by the person, in the person's dealings with the Company; and (e) an entity that the person Controls (within the meaning of section 50AA of the Corporations Act).
ATO	Australian Taxation Office.
Board	The board of Directors of the Company.
Business Day	A day that is not a Saturday, Sunday, or public or bank holiday in Brisbane.
Closing Date	Wednesday, 30 May 2018 being the last date on which a Support and Acceptance Form can be received.
Company or Theodore Water	Theodore Water Pty Ltd ACN 615 708 944.
COAG	The Council of Australian Governments.
Company Website	www.theodorewater.com.au/offer-documents

Term	Meaning
Constitution	Means the constitution for the Company proposed to take effect immediately following the transfer of the Irrigation Distribution Network to the Company.
Corporations Act	The <i>Corporations Act 2001</i> (Cth).
Cost-reflective Pricing or Cost-reflective Price(s)	The pricing required to allow a water business to recover costs, including the operational, maintenance and administrative costs and to make provision for future asset refurbishment and replacement.
Current Customer	A person who, at the Initial Record Date: <ul style="list-style-type: none"> (a) holds a Water Allocation; and (b) is a Customer.
Customer	A customer under an arrangement entered into with SunWater for supply of water the subject of a Water Allocation under the resource operations licence held by SunWater in the area of the Irrigation Distribution Network.
Customer Contract	Means the standard customer contract prepared by the Company pursuant to the requirements in the Water Act and published on the Company Website.
Customer Support Threshold	Unless an alternative threshold is agreed between the Company and the Department, a minimum of: <ul style="list-style-type: none"> (a) 70% of Current Customers by nominal volume of Water Allocations support the Local Management Proposal; and (b) 50% of Current Customers by nominal volume of Water Allocations accept the Offer of Shares in the Company.
Declared Drainage Area	Means the area defined in Schedule 16 of the Water Regulation as Dawson Valley drainage area, shown on AP4145.
Department	The State of Queensland, acting through the Department of Natural Resources, Mines and Energy.
Department Information	All information provided in this Offer Document referred to as a statement, statement of opinion or an intention or belief of the Department or the Government.
Director	A director of the Company.
Distribution Rules	Means the distribution rules for the Irrigation Distribution Network updated as required by the Company in accordance with the new Customer Contract.
DOL	A distribution operations Licence under the <i>Water Act 2000</i> (Qld).
DTMR	The Department of Transport and Main Roads.
Entitlement	The entitlement under the Constitution for a holder of an Allocation to hold one ordinary Share for every megalitre of the total Allocation held by that person, as outlined in Sections 8.4(c) and 8.4(d).
Eligible Customer	A Current Customer who holds an Allocation and is located in Australia.

Term	Meaning
Financial Information	The pro forma historical balance sheet as at 30 June 2017 prepared on the basis that the assets, liabilities and equity of the business to be transferred in the Transfer Deed occurred on 30 June 2017 using asset and liability values provided by SunWater and any subsequent adjustments made by the Department and information related to the future operating and capital expenditure of the Company, and the Company's revenue.
Final Record Date	The date that is 25 Business Days prior to the Transfer Date, being the date for determining the Share Entitlement of Eligible Customers who accepted the Offer.
Fitzroy Water Plan	The Water Plan (Fitzroy Basin) 2011 (Qld), as amended or substituted from time to time, including by operation of sections 1259(2)(a) and 1264 of the <i>Water Act 2000</i> (Qld).
Government	The State of Queensland.
Government Shareholder	The Director General of the Department as trustee for the State of Queensland.
High priority allocation	A high priority water allocation in zone Dawson I, as that zone is defined in the Fitzroy Water Plan.
Independent Director	The meaning given in 8.4(o).
Ineligible Customer	Customers at the Initial Record Date who are not Eligible Customers.
Investigating Accountant's Report	The Limited Assurance Investigating Accountant's Report and Financial Services Guide prepared by KPMG Transaction Services dated 10 April 2018 set out in annexure A .
Initial Record Date	6 April 2018 being the date on which the Transfer Deed was executed.
Irrigation Distribution Network or Theodore Irrigation Distribution Network	The distribution system used to supply water under Water Allocations to Customers who purchase irrigation services in the Dawson Valley Water Supply Scheme with water supplied from Theodore Weir.
Jacobs	Jacobs Group (Australia) Pty Ltd.
Jacobs Report	The report prepared by Jacobs and contained in annexure B .
KPMG Transaction Services	KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, AFSL No. 246901.
Land Act	<i>Land Act 1994</i> (Qld).
LMA Information Line	0468 960 538 or admin@lmairrigation.com.au
LMA Support Services	LMA Support Services Pty Ltd ACN 614 965 918.
Local Management	The ownership, management and control of an irrigation distribution network by an entity which is owned by customers of the irrigation distribution network.
Local Management Proposal	The proposal to transfer the Irrigation Distribution Network and its associated business and certain liabilities to the Company, as outlined in this Offer Document and more particularly in Sections 1 and 8.2.

Term	Meaning
Medium A priority allocation	A Medium A priority water allocation in zone Dawson I, as that zone is defined in the Fitzroy Water Plan.
ML	Megalitre.
NWI	The National Water Initiative.
Offer	The offer of Shares under this Offer Document.
Offer Document	This document, including any annexure to it.
Offer Shares	Shares offered under the Offer.
Pro Forma Historical Balance Sheet	The Pro Forma Historical Balance Sheet prepared on the basis that the assets, liabilities and equity of the business to be transferred in the Transfer Deed occurred on 30 June 2017 using asset and liability values provided by SunWater and any subsequent adjustments made by the Department.
QCA	The Queensland Competition Authority.
Register	The register of Shareholders required to be kept under the Corporations Act.
Separation Payment	The sum of \$15.1 million to be paid by the Department to the Company on or before the Transfer Date under the Transfer Deed.
Share	A fully paid ordinary share in the Company
Shareholder Director	A Director who is a Shareholder, or who is a director, secretary, employee or shareholder of a Shareholder that is a body corporate, or a unitholder or beneficiary of a Shareholder which holds its shares as a trustee, or any other person who is nominated (with their consent) by a Shareholder to be a Shareholder Director.
Share Entitlement	In relation to an Eligible Customer, means the Eligible Customer's Entitlement as at the Final Record Date.
Shareholder	A person recorded in the Register as the holder of a Share.
Special Majority Resolution	A resolution passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution.
State	The State of Queensland, acting through the Department of Natural Resources, Mines and Energy.
Strategic Asset Management Plan	Has the meaning given in paragraph 8.4(p).
SunWater	SunWater Ltd ACN 131 034 985.
Support and Acceptance Form	The support and acceptance form accompanying this Offer Document.
Theodore Channel Irrigation Distribution Network	Has the meaning of Irrigation Distribution Network.
Transfer Date or Transfer Day	The date or day on which the transition to Local Management occurs, as determined under the Transfer Deed.

Term	Meaning
Transfer Deed	The Transfer Deed executed on the Initial Record Date between the Department and the Company, a summary of which is set out in Section 8.2 of this Offer Document.
Transition Schemes	The irrigation distribution networks currently owned by SunWater and located at Emerald, Eton, St George, and Theodore.
US or United States	The United States of America, its territories and possessions, any State of the United States of America and the District of Columbia.
US Person	The meaning given in Regulation S under the US Securities Act.
US Securities Act	The <i>United States Securities Act of 1933</i> , as amended.
Water Act	The <i>Water Act 2000</i> (Qld).
Water Allocation	A water allocation, as that term is defined in the Water Act, which is delivered via the Irrigation Distribution Network.
Water Allocations Register	Means the register for water allocations, as that term is defined in the Water Act established under the Water Act.
Water Regulation	The <i>Water Regulation 2016</i> (Qld).
Water Supply Act	The <i>Water Supply (Safety and Reliability) Act 2008</i> (Qld).
You	A Current Customer who has received this Offer Document.

9.2 Interpretation

In this Offer Document, unless the context requires otherwise:

- (a) headings are inserted for convenience and do not affect the interpretation of this Offer Document;
- (b) words and phrases in this Offer Document have the same meaning given to them (if any) in the Corporations Act;
- (c) the singular includes the plural and vice versa;
- (d) a gender includes all genders;
- (e) a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;
- (f) if a word is defined, another part of speech has a corresponding meaning;
- (g) a reference to a Section or annexure is a reference to a Section or annexure of this Offer Document;
- (h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (i) unless expressly stated otherwise, a reference to time is a reference to time in Brisbane, Queensland; and
- (j) unless expressly stated otherwise, a reference to dollars, \$, A\$ or AUD is a reference to the lawful currency of Australia.

ANNEXURE A

Investigating Accountant's Report



KPMG Transaction Services
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Riparian Plaza
71 Eagle Street
Brisbane Qld 4000

ABN: 43 007 363 215
Telephone: +61 7 3233 3111
Facsimile: +61 7 3233 3100
www.kpmg.com.au

GPO Box 223
Brisbane Qld 4001
Australia

The Directors
Theodore Water Pty Ltd
c/- Level 9, 179 Turbot Street
Brisbane, QLD 4000

10 April 2018

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by LMA Support Services Pty Ltd to prepare this report for inclusion in the Offer Document to be dated 10 April 2018 ("Offer Document") to be issued to customer irrigators ("Irrigators") by the State of Queensland acting through the Department of Natural Resources, Mines and Energy ("Department") in respect of the offer to the Irrigators of shares in Theodore Water Pty Ltd ("Company"), to which SunWater Ltd ("SunWater") will transfer the Theodore Irrigation Distribution Network (the "Offer").

Expressions defined in the Offer Document have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the Pro Forma Historical Balance Sheet described below and disclosed in the Offer Document.

The Pro Forma Historical Balance Sheet is presented in the Offer Document in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

Compilation of the Pro Forma Historical Balance Sheet

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the compilation of the Pro Forma Historical Balance Sheet as at 30 June 2017 of the Company (the responsible party) included in the Offer Document.

The Pro Forma Historical Balance Sheet has been derived from the historical balance sheet of SunWater as it pertains to the Theodore Irrigation Distribution Network as at 30 June 2017 and includes adjustments for the effects of the following group of pro forma transactions:

- Assets as per the transfer deed between the Department and the Company (“Transfer Deed”) based on SunWater reported values and any subsequent adjustments made by the Department as at 30 June 2017;
- Liabilities as per the Transfer Deed based on SunWater values as at 30 June 2017; and
- The separation payment to be paid by the Department to the Company on or before the transfer date,

and related notes as set out in section 4 of the Offer Document (collectively the “Pro Forma Historical Financial Information”). The basis on which the Company has compiled the Pro Forma Historical Balance Sheet is specified in section 4.4 of the Offer Document.

The Pro Forma Historical Balance Sheet has been compiled by the Company to illustrate the impact of the Offer on the Company’s financial position as at 30 June 2017 as if the transfer of the Theodore Irrigation Distribution Network occurred on that date.

For the purposes of preparing this report we have performed limited assurance procedures in relation to the Pro Forma Historical Balance Sheet in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Pro Forma Historical Balance Sheet has not been properly compiled on the basis stated in section 4.4 of the Offer Document.

We have conducted our procedures in accordance with the Standard on Assurance Engagements ASAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (ASAE 3420).

Our limited assurance engagement has involved performing procedures to assess whether the applicable criteria used by the Company in the compilation of the Pro Forma Historical Balance Sheet provides a reasonable basis for presenting the significant effects directly attributable to the event(s) or transaction(s), and that the:

- related pro forma adjustments give appropriate effect to those criteria; and

- the resultant Pro Forma Historical Balance Sheet reflects the proper application of those adjustments to the unadjusted financial information.

The engagement has also involved evaluating the overall presentation of the Pro Forma Historical Balance Sheet.

The procedures we performed were based on our professional judgement and included:

- consideration of whether the unadjusted historical financial information, which forms the basis for the Pro Forma Historical Balance Sheet, has been extracted from an appropriate source;
- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the unadjusted historical financial information;
- consideration of the pro forma adjustments described in the Offer Document;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Balance Sheet; and
- a review of accounting policies for consistency of application in the preparation of the pro forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Balance Sheet has been properly compiled on the basis stated in section 4.4 of the Offer Document.

We have not performed an audit or review of the unadjusted historical financial information used in compiling the Pro Forma Historical Balance Sheet, or of the Pro Forma Historical Balance Sheet itself. Also, our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used in compiling the Pro Forma Historical Balance Sheet.

The purpose of the compilation of the Pro Forma Historical Balance Sheet being included in the Offer Document is solely to illustrate the impact of the Offer on the unadjusted financial

information of the Company. Accordingly, we do not provide any assurance that the actual outcome of the Offer would have been as presented.

Directors' responsibilities

The directors of the Company are responsible for the preparation of the Pro Forma Historical Balance Sheet, including the selection and determination of the pro forma transactions and/or adjustments, and for properly compiling the Pro Forma Historical Balance Sheet of the basis stated in section 4.4 of the Offer Document.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusion

Compilation of the Pro Forma Historical Balance Sheet

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Balance Sheet is not properly compiled on the basis stated in section 4.4 of the Offer Document.

We have not audited or reviewed the historical financial information extracted from the historical balance sheet of SunWater as it pertains to the Theodore Irrigation Distribution Network as at 30 June 2017, and we do not express any opinion, or make any statement of negative assurance, as to whether the Pro Forma Historical Balance Sheet is prepared or presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and the Company's accounting policies.

Independence

KPMG Transaction Services does not have any interest in the outcome of the Offer, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

General advice warning

This report has been prepared, and included in the Offer Document, to provide Irrigators with general information only and does not take into account the objectives, financial situation or needs of any specific Irrigator. It is not intended to take the place of professional advice and Irrigators should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an Irrigator should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to section 4 of the Offer Document, which describes the purpose of the financial information, being for inclusion in the Offer Document. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Offer Document in the form and context in which it is so included, but has not authorised the issue of the Offer Document. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Offer Document.

Yours faithfully



Anne-Maree Keane
Authorised Representative

Financial Services Guide 10 April 2018

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**'KPMG Transaction Services'**), and Anne-Maree Keane as an authorised representative of KPMG Transaction Services (**Authorised Representative**), authorised representative number 1236095.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;

- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by LMA Support Services Pty Ltd (Client) to provide general financial product advice in the form of a Report to be included in an Offer Document (Offer Document) prepared by Theodore Water Pty Ltd in relation to the offer to the Irrigators of membership in the Company (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Offer Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Offer Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services in the range of \$5,300 to \$10,600 (excluding GST) for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services' officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of

financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of tax and advisory services to the Company for which professional fees are received. Over the past two years professional fees of \$300,100 (excluding GST) has been received from the Client, with an additional estimated fee of \$61,923 to be received by 30 September 2018. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1800 367 287
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory
Services (Australia) Pty Ltd
Level 38, Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Anne-Maree Keane
C/O KPMG
GPO Box 223
BRISBANE QLD 4000
Telephone: (07) 3233 3111
Facsimile: (07) 3233 3100

ANNEXURE B

Jacobs Report

Executive Summary

Jacobs Group (Australia) Pty Ltd ('Jacobs') is a wholly owned subsidiary of Jacobs Engineering Group Inc. which is a global technical services provider headquartered in Dallas, Texas. Jacobs was founded in 1947. and has more than 54,000 employees in over 230 locations. This report was prepared by Jacobs by a team with specialised skills and experience in irrigation, from the Rural Water Section in Tatura, Victoria.

This report has been prepared for Theodore Water ('the Company'), a special purpose vehicle that has been established to investigate the potential transition to local management of the Theodore irrigation distribution network. The report is provided for inclusion in the customer offer document that will be released by the Company to customers in the irrigation distribution network.

In this report, Jacobs was asked to comment on:

- whether it considers the Company's asset refurbishment and renewal strategy which the Company proposes to implement following a transition to local management is, in Jacobs' view, reasonable and prudent;
- whether the risk position adopted by the Company in its preferred annual capex expenditure profile and associated scenarios is sufficiently conservative and consistent with industry standards;
- whether the reliability and quality of the condition assessment data maintained by SunWater is consistent with industry standards;
- whether the condition profile of the assets, based on the data maintained by SunWater, are consistent with industry experience for assets of that type and age; and
- whether SunWater's risk assessment process and allocation of risk ratings are consistent with industry standards.

Overview of the Stage 3 Engineering Due Diligence Process

Jacobs was engaged by the Queensland Department of Energy and Water Supply ('DEWS') in February 2017 to undertake technical engineering services related to the potential transfer of SunWater's channel irrigation assets to local management. This engagement is referred to as the Stage 3 Engineering Due Diligence ('Stage 3 EDD'). While Jacobs was engaged directly by DEWS, the project was managed by LMA Support Services Pty Ltd, a special purpose vehicle established by DEWS to support the activities of the Company, as well as the companies established for other three SunWater schemes considering transition to local management (transition schemes), and boards established for the four SunWater schemes where further investigations into local management are being undertaken (investigation schemes).

Since 2012 several phases of investigation have been undertaken in relation to the transfer of SunWater's schemes to local management. The purpose of the Stage 3 EDD was to undertake further due diligence for four transition schemes and the four investigation schemes. The Stage 3 EDD has been undertaken in parallel with separate legal and financial due diligence investigations.

The Stage 3 EDD investigations draw on the investigations undertaken and conclusions drawn during the Stage 2 Engineering Due Diligence process completed in 2014 by Sinclair Knight Merz Pty Ltd (SKM). SKM was acquired by Jacobs in 2013. Where data from Stage 2 investigations continued to be relevant to the scope of a task in Stage 3, Jacobs has built upon the conclusions reached by SKM in Stage 2 to develop updated statements on expected asset lives or business risks. Jacobs has also used the extensive database of information captured in Stage 2 to enhance understanding of asset features and functions.

Jacobs has tailored the investigation and assessment of asset data throughout the Stage 3 EDD to focus on assets or outcomes that will have a material impact on the ongoing operation of the respective irrigation

schemes. For low value, low consequence assets (e.g. minor fittings such as valves) analysis has been minimal with discussion regarding impact and sensitivity typically summarised into general statements and assumptions. High cost assets (e.g. long linear assets such as channels and pipelines) and high consequence assets (e.g. pumps) have been analysed in greater detail to better inform stakeholders of the condition and material risks these assets represent to the operation of the scheme.

The current SunWater Asset Strategy (Overall Strategy Common to all Irrigation Schemes by Object Type), which was issued in 2016, introduced significant changes to the planning of asset refurbishment and renewal. This represents new material information that the Company considered in the development of its proposed approach.

Jacobs reviewed the current SunWater strategy focusing on the consistency of this strategy relative to general industry standards. As part of the review Jacobs also revisited the Stage 2 EDD findings. To undertake these reviews Jacobs sourced information from other similar irrigation authorities or companies and referred to guidelines from relevant industry standards and suppliers. Jacobs found that SunWater's current asset strategy is generally consistent with industry standards with the exception of some minor adjustments to service lives for pipeline and channel assets. Jacobs concluded that drains should be categorised as perpetual assets.

Jacobs developed a capital forecast expenditure model to allow the Company to generate a capital expenditure profile. The model was independently reviewed by consulting company Aither and found to perform as intended without error and as a result was considered appropriate for its intended use.

Findings of the EDD for the Theodore Irrigation Distribution Network

Asset refurbishment and renewal strategy

Jacobs reviewed the asset refurbishment and renewal strategy prepared by the Company. Jacobs considers that the Company's asset refurbishment and renewal strategy is reasonable and prudent and based on a sound interpretation of Jacobs' findings. Where the strategy varies, such as for pump stations and meters, the strategy adopted by the Company is reasonable and the risks are relatively minor.

Jacobs considers the risk position adopted by the Company in its preferred annual capital expenditure profile and associated scenarios, including service lives for all object types to be sufficiently conservative and consistent with industry standards based on the inherent characteristics, function and service standards of the scheme.

The analysis of the scheme condition and risk data demonstrated that the scheme was consistent with industry standards for assets of this type and age. The specific operational risk associated with ageing pump station infrastructure is specifically addressed by the Company in their modernisation strategy.

Condition Assessment and Condition Data

Generally, Jacobs considers the reliability and quality of the condition assessment data maintained by SunWater to be satisfactory and consistent with industry standards, with the following exceptions:

- Gaps were identified in the condition assessment data for flow meters, drain structures and one pump functional location with a lack of recent field assessments

Based on the condition assessment data maintained by SunWater, Jacobs considers the condition of scheme assets and failure rates of high risk assets to be consistent with industry standards based on the age and nature of the scheme.

Risk Assessment and Risk Rating

During the Stage 2 EDD, a comprehensive review of SunWater's risk assessment processes and the subsequent impact on timing of replacement was undertaken. The review concluded that both SunWater's risk assessment process and SunWater's allocation of risk ratings were consistent with industry standards.

SunWater has not changed its risk assessment or risk allocation processes since that review was undertaken. Jacobs agrees with the Stage 2 EDD conclusions.

High business risk assets (>706 risk score) are assets whose failure would significantly impact operations financially and or in terms of environment, production or stakeholder relations. The timing of refurbishment and renewal of assets is adjusted in the Company's asset renewal and refurbishment strategy to mitigate such business risk. WH&S risks were excluded from the analysis as these are subject to a specific treatment.

No asset is classed by SunWater as high risk in financial, production or stakeholder terms however two drain earthwork assets are classed by SunWater as high risk within the environment category. These assets have a high risk score (800) due to the potential environmental risk of soil erosion to SunWater and private land. Jacobs conducted a review of the available maintenance records and found relatively minor expenditure had been required to repair erosion to these assets. Jacobs considered this expenditure on repair as reasonable for assets of this nature.

LMA Information Line

0468 960 538

admin@lmairrigation.com.au

