



Adviser Edge
Investment Research

2007 Grain Co-Production Project

Independent Assessment



Introduction

Scope

Adviser Edge independent assessments are conducted by Barik Pty Ltd trading as Adviser Edge Investment Research (Adviser Edge) which has developed a key industry sector review process that follows a methodology developed specifically for this asset class.

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the project;
- evaluate project management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international - existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry and other MIS projects;
- weigh up the relevant risks of the project against projected returns;
- assess project structure and ownership;
- compare and substantiate project fees and expenses;
- determine if the project is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the project.

Site Assessment

Adviser Edge conducts a detailed site inspection of the project, meets with all levels of project management and inspects the project's infrastructure and market accessibility.

The site assessment considers the following areas:

- suitability of the project site for the purpose intended;
- performance of previous project stages located within close proximity to the proposed site;
- management skills, qualifications, capabilities and experience; and
- associated project risks and their management.

Star Rating

Projects are awarded a star rating out of a possible five stars and placed on the Adviser Edge web site www.adviseredge.com.au.

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Star ratings applied to 2006/07 projects are independent of previous year's star ratings.



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 - (i) interests in managed investment schemes excluding investor directed portfolio services limited to:
 - (A) Primary production schemes

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Report Date

5 February 2007.

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Executive Summary

The 2007 Grain Co-Production Project offers investors the opportunity to become wheat growers in the Western Australian (WA) wheat belt. This region is an established wheat production zone accounting for approximately 40% of the total Australian crop.

Macro Funds Ltd (Macro) is the responsible entity (RE) for the Project. Macro is a WA based company whose previous experience has primarily revolved around the provision of funds management services. This is the second occasion on which Macro has acted as RE to a Grain Co-Production Project.

The Project manager is the WA based Australian Agricultural Contracts Ltd (AACL), a company that has been managing grain projects in WA since 1999 and has raised just under \$10 million through its three previous offerings. This project represents the sixth offering using the co-production approach, which involves using experienced contract grain farmers across a range of WA wheat regions to provide land for the Project and the necessary services required to plant, manage and harvest the crop.

The wheat industry is one of the most mature agricultural industries in Australia with established management strategies and marketing options. Despite being a relatively small producer of wheat on the world scale, producing approximately 4% of world wheat production, Australia is one of the world's major wheat exporters. Over the last eight financial years from FY1999 to FY2006 Australia has exported an average of 15.46 million tonnes, 14.5% of the total world wheat exports. Traditionally, Australian has a reputation for producing high quality, high protein, hard white wheat, generally used for the production of bread and in brewing.

Land leased by AACL will be divided into Co-Production Units (CPU's), which is a variable area of land expected to produce 40 tonnes of Australian Premium White (APW) wheat. Investors in the Project will be required to pay a fixed application fee of \$3,990 (ex GST) per CPU, with a four CPU minimum investment application cost of \$15,960. Subsequent to the application fee, investors will be liable for annual fees from project year one (FY2008) onwards. It is anticipated that the annual fees will be deducted from the harvest proceeds from the previous season. However, in the event that net harvest proceeds are insufficient to cover the annual fees, Macro may make a call on investors to make up the shortfall.

The term of the investment is approximately three years with investors' involvement in the Project terminating upon the final harvest distribution of the 2009 crop year. Wheat is an annual crop, therefore, it is anticipated that investors will receive income from the progressive sale of wheat following the

harvest of the Project CPU's between October and December in each production year.

AACL has developed a tonnage allocation model using historical production data from the farms, and seeks to verify these records against source data from third party organisations. Based around this model, the CPU size will vary between 12 and 34 hectares (ha) with a target yield of 40 tonnes per CPU. Project yields will be closely related to the seasonal rainfall for each region/shire. The yields achieved by AACL in season 2006-07 have exceeded the state average, indicating that AACL has the requisite skills to select suitable project land, farmers and agronomists.

As with all agricultural enterprises, there is an element of climatic risk inherent in this project. The potential impact of climate variation is heightened by the relatively short duration of the Project. Project wheat prices estimated by AACL and Macro are A\$205/tonne (FOB), having given due consideration to historical price behaviour, independent market analysis, current industry trends and the factors underlying these prices. As Australia is only a minor producer of wheat on a world scale, Australian prices are largely driven by the conditions in the global wheat market.

Project wheat will be marketed by Macro using three main marketing options including forward contracts, the spot market for cash or through managed pools offered by marketing companies such as CBH Ltd and AWB Ltd. Grain for the Project will be marketed based around advice from Advance Trading Australia Pty Ltd, an independent company that provides risk management services in the agricultural industry, specialising in grains. AACL is becoming one of Australia's largest grain producers, which provides them with a platform for significant market power in the wheat industry and is seen as a major benefit to the investment.

Based on a sensitivity analysis conducted on a financial model provided by Macro, Adviser Edge has calculated a potential IRR range of 4.09% to 14.22% (pre-tax) and 5.23% to 17.64% (post-tax). On an adjusted pre-tax basis, the potential return for the Project has been calculated at 11.27% p.a., positioning the Project around the third quartile (4th quartile highest) for all MIS projects assessed by Adviser Edge in 2005-06 and reflecting a favourable balance in the investment's risk return profile.

Based on the Adviser Edge assessment model, the 2007 Grain Co-Production Project has achieved a 4-star investment rating. Investors considering participating in the offer should have a moderate risk tolerance, with investment best considered as part of a well-balanced and diversified agribusiness portfolio.



Project Summary

Adviser Edge Rating



Project Details

Project name	2007 Grain Co-Production Project
Industry	Wheat
Manager	Australian Agricultural Contracts Ltd (AACL)
Key counterparties	Responsible Entity – Macro Funds Ltd
Location	Western Australian wheat-belt

Investment Details

Investment term	Three years
Investment unit size	12 to 34 hectares per Co-Production Unit (CPU)
Application fee	\$3,990 (ex GST)
Fee structure	Annual ongoing fees
Minimum application	4 CPU's
Close date for FY2007	31 May 2007

Product Market

Product	Australian Premium White (APW) wheat
Basis of sale	Delivered to port (FOB) less cost of freight, port handling and levies
Target markets	Domestic grain purchasers (primarily CBH Ltd, ABB Grain Ltd and AWB Ltd) for international export

Investor Returns

Potential investment returns	4.09% to 14.22% (pre-tax) 5.23% to 17.64% (post-tax)
ATO product ruling	Pending



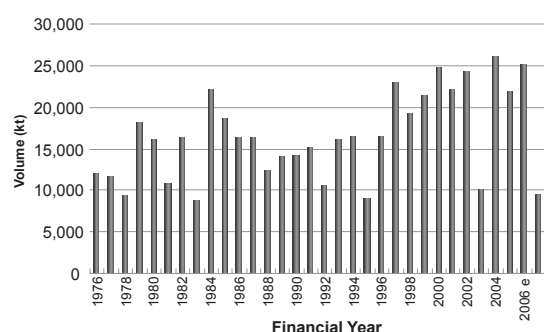
Industry Overview

Australian Production

The Australian wheat industry is significant within Australian agriculture, with production zones spanning across every Australian state. The majority of wheat production is derived from a narrow band running through the mainland states from central Queensland through New South Wales (NSW), Victoria and southern South Australia (SA) and into Western Australia (WA). This extensive area can be broken up into three major zones: the 'northern region' incorporating northern NSW and Queensland, the 'southern region' incorporating central and southern NSW, Victoria and SA and the 'western region' incorporating the southwest of WA. The southern region produces just less than half of the Australian grain crop, followed by the western (approximately 40%) and northern (approximately 20%) regions.

The quality of wheat grown in Australia is diverse and varies according to seasonal conditions, the variety, soil type and management practices. The main grades of wheat in Australia are Australian Prime Hard (APH), Australian Hard (AH), Australian Premium White (APW), Australian Standard White (ASW), Noodle Wheat (ASWN), Australian General Purpose (AGP) and Feed Wheat (FEED). Each of these grades is determined using a number of quality characteristics such as grain hardness, size, milling and dough properties, and starch quality. Wheat is primarily used for the production of flour for use in bread, pasta, pastry and brewing. If the quality is poor it is often used for animal feed or in the production of ethanol. The majority of Australia wheat produced is high quality, high protein hard white wheat, used for bread and brewing.

Australian Wheat Production



Source: Advance Trading Australia

The Australian wheat industry forms a significant part of the Australian economy. In the 2005-06 financial year, Australian wheat production was estimated to have reached a total of A\$3,296 million dollars by value. Despite this, Australia is only a small producer on a world scale accounting for only 4% of the total world production by volume. Australia's total wheat

production is generally around 20,000kt, however, over the last 30 years this has ranged from 8,876kt to 26,132kt.

The 2006-07 Australian cropping season was exceptionally poor with all but central Queensland and pockets of northern NSW experiencing growing season rainfall well below the long-term average or the lowest on record. The inadequate rainfall has led to a severely downgraded 2006-07 crop estimate compared to the initial estimates. The Australian Bureau of Agricultural and Resource Economics (ABARE) most recent wheat crop estimate (dated 27 October 2006) placed Australian wheat production at 9,549kt, 42% lower than the previous estimate (September 2006). The most severely affected regions based on the ABARE estimates were Victoria, NSW and SA with production levels respectively 25.5%, 26.51% and 30.46% of the previous year's production estimate. The restricted supply of wheat and other grains is expected to create a severe undersupply, which should have a strengthening influence on the prevailing Australian prices.

World Market

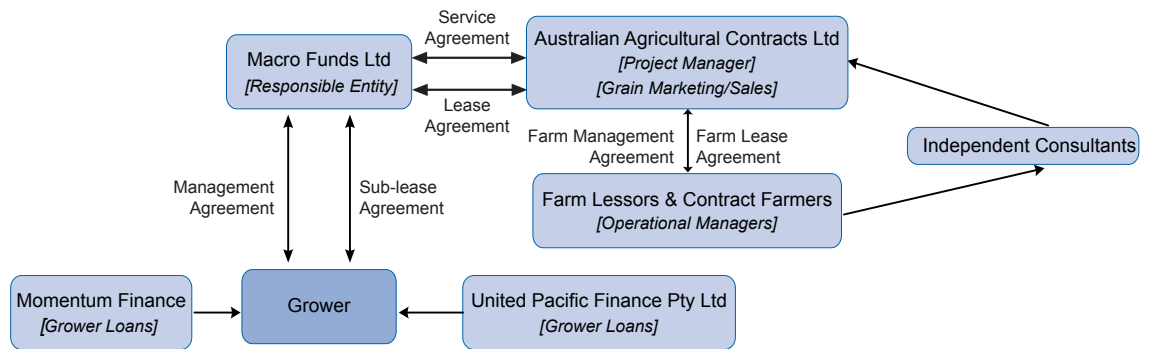
While the domestic growing conditions and wheat supply have an influence on Australian prices, the world market tends to have the greatest influence. The average production of the four years to 2004-05 identified Australia as the seventh largest producer (including the EU) in the world behind the EU, China, India, the US, Russia and Canada (ABARE, 2006). Seasonal conditions in the 2006/07 season in many of the major producing and exporting countries have been less than ideal with global wheat production forecast to fall by 29 million tonnes to 589 million tonnes, a 4.7% decline on the previous year. Of the top seven producing nations (including the EU) all but China and India have seen a significant decrease in production from the previous season. However, in the coming years it is expected world wheat production will recover to a record 628mt in the 2007/08, assuming the presence of 'normal' weather conditions (ProFarmer, 2006). This will primarily be due to both increased area and a return to more normal yields.

In the short term, the decrease in production will place extra pressure on the world wheat stocks, which are expected to reach 113MMT in 2006-07, the lowest levels since 1981-82 (ABARE, 2006). World wheat stocks have seen a general decline since 2000-01 with consumption exceeding production in all but one year since 1998-99. The decline in world stocks has not resulted from a significant increase in consumption but rather from small deficits in production relative to consumption.



Management

Key Counterparties



Macro Funds Limited (Responsible Entity)

Macro Fund Limited (Macro), which formed in 2004, is an unlisted public company that holds AFSL number 254421. Macro, a Western Australian (WA) company, provides funds management services to a range a number of established business partners. The 2007 Grain Co-Production Project has provided Macro with its second opportunity to operate as a Managed Investment Scheme (MIS) responsible entity (RE) after receiving its retail AFS licence in 2005.

In addition to Macros involvement with Australian Agricultural Contacts Limited (AACL), Macro is coupled with a number of other companies, which has provided Macro with valuable MIS experience, which although non-agricultural, should prove beneficial. Macro provides administration and compliance services for non-MIS funds with over \$400 million under management.

Corporate Governance and Financial Management

Macro has established a compliance committee to monitor the RE's compliance in relation to the compliance plan, constitution and the Corporations Act. Macro undertakes quarterly monitoring and assessment of key project variables and regular site inspections to manage farmer operational performance.

➡ **Adviser Edge has reviewed compliance documents for Macro Funds Ltd and believes they are sufficient for the existing operating environment and scale or operations.**

Board of Directors

Macro Funds Limited			
Director	Credentials	MIS	Director
Peter Morrison Executive Director	★	★	★
Steve Dixon Executive Director and Company Secretary	★	★	★
Rob Melville Executive Director	★	★	★
Andrew McBain Non-Executive Director	★	★	★

★ = Personnel with the relevant experience

Peter Morrison co-founded Macro in 2004 with Steve Dixon, both whom hold a 50% stake in the company. Mr Morrison and Mr Dixon both have been in the financial services industry for over 25 years and have gained extensive experience in the funds management and property sectors.

Steven and Peter continue to play an ongoing role in Macro's funds management and compliance activities, as well as developing and enhancing project and property opportunities.

Rob Melville and Andrew McBain add further skills to the board through their relevant corporate experience in the mining and financial services industries.

Mr Morrison, Mr Dixon and Mr McBain are on the board of AACL (project management company).

➡ **Adviser Edge believe the board of Macro Funds Ltd hold sufficient experience in a range of relevant fields to enable to proper management and operation of the company not only on a day to day basis but for the long term.**



Financial Performance

Key Financial Data*		
As at 30 June		
Financial Profitability	2006	2005
Revenue (\$'000)	7,948	509
Net profit (\$'000)	(34)	85
Profit margin (%)	(0.43)	16.72
ROCE (%)	(44.69)	106.51
ROE (%)	(41.91)	73.95
Financial Liquidity/Solvency	2005	2004
Net working capital (\$'000)	42.8	94.2
Current ratio	1.02	2.32
Gearing	–	–

Source: Macro Funds Limited

* Historic performance is not a reliable guide for future performance

➔ *Adviser Edge has reviewed the financial statements of Macro Funds Ltd and believes that they are in a robust financial position, managed with the oversight of sufficiently qualified and suitable staff.*

➔ *Financial results for FY2006, although not showing profit, are reasonable given the company's structure and investment in people and systems throughout the year.*

➔ *It would seem likely that Macro should continue to be in a stable and robust financial position going forward, given the services they provide to a range of investment managers.*

Australian Agricultural Contracts Limited (Project Manager)

Established in 1997, Australian Agricultural Contracts Limited (AACL) is an unlisted public company, incorporated to attract investment into the WA grains industry. Through the development of the Grain Co-Production concept, AACL has provided a vehicle for investment in the wheat industry in addition to providing a benefit to farmers through a risk-sharing structure.

The initial Grain Co-Production contracts developed in 1999 between farmer clients and investor clients of RG McBain & Co, a company related to AACL Managing Director, Andrew McBain, were informally based and provided the basis for the Project concept. Producing approximately 500 tonnes of wheat in 1999, AACL has gradually increased the area of land under contract to reach over 43,850ha of land in FY2006 with an aim of producing 92,000 tonnes of wheat. This gradual

increase in scale has enabled AACL to concurrently build up their skills and experience and to develop appropriate legal and compliance structures necessary in MIS projects. AACL's Grain Co-Production projects have the potential to underwrite the production of up to 400,000 tonnes of wheat in the 2007 season. This will result in AACL becoming one of, if not the largest, grain producers in Australia and will provide them with a potential platform for significant market power in the wheat industry.

➔ *The scale of AACL projects has created a significant challenge for the company management and has demonstrated that they have the necessary skills and experience to impart sound project management. It has also revealed the acceptance of the Project structure for both investors and contract farmers, a substantial hurdle.*

Project Management – Australian Agricultural Contracts Ltd			
Directors	Credentials	Industry	MIS
Andrew McBain Managing Director	★	★	★
Peter Morrison Executive Director	★	★	★
Steve Dixon Executive Director and Company Secretary	★	★	★
Kent Hunter Non-Executive Director and Company Secretary	★	★	★
Key Personnel	Credentials	Industry	MIS
Daniel Stevens Joint General Manager	★	★	★
Nathan Windebank Joint General Manager		★	★
Simon Foley Grain Production Manager	★	★	

★ = Personnel with the relevant experience

Andrew McBain has been involved with AACL since its formation in 1997 and has been Managing Director since 2001. Andrew has been instrumental in the development of the Project concept and has been an integral part of the Project marketing. Providing Andrew with significant corporate management experience is his position on the board of Scimitar Resources Ltd, an ASX listed exploration company. Andrew's involvement with Scimitar should provide him with significant corporate management experience and will be invaluable as AACL expands in the short to medium term.



Management

The AACL board has undergone a change in structure since their previous project offering. The board restructuring has involved the addition of Peter Morrison and Steve Dixon who are both directors of Macro and the removal of Garry Cummins and Colin Steddy. AACL has advised that the structural change has occurred due to the changing needs of the company.

➔ *Adviser Edge believes that the addition of Mr Morrison and Mr Dixon to the board of AACL provides beneficial corporate management experience, and along with Mr McBain, will facilitate a valuable connection with the board of Macro. However, Adviser Edge is concerned that the removal of Mr Cummins and Mr Steddy, who have vast agricultural experience, may disconnect the board from their farmer and agronomist business partners. Given the imminent expansion in the agriculture industry, Adviser Edge believes that the board would benefit with the addition of personnel with significant agricultural experience. AACL has advised that they are in the process of identifying appropriately skilled individuals with agricultural experience to further enhance the skills of the board. In addition, AACL intends to develop a farmer advisory group, which will enhance communication with contract farmers and facilitate beneficial product development.*

Adding to the skills and experience of the board is Kent Hunter, a chartered accountant with over 15 years corporate and company secretarial experience through his involvement in 17 mining and exploration companies listed on the ASX in the last five years, with capital raisings exceeding \$75 million.

Joint General Managers, Daniel Stevens and Nathan Windebank, impart beneficial skills and experience to the operational management of AACL. Mr Stevens and Mr Windebank have been with AACL since mid 2004 and have been responsible for the day-to-day management of AACL, which involves dealing with both investors and contract farmers. Nathan and Daniel have over 10 and 15 years experience respectively in sales and marketing across a number of industries including advertising, recruitment, financial services, superannuation and fast moving consumer goods.

Rounding off the skills of the management team is AACL's Grain Production Manager, Simon Foley. Mr Foley has over 15 years experience in the broadacre grains industry. In his previous role with Agrarian Management, Simon provided farm management and agronomic advice in relation to grain and livestock to farmers in the Midwest and Great Southern regions of WA.

➔ *Adviser Edge believes the board contains an appropriate mix of relevantly qualified and skilled individuals that will not only ensure sound company management, but will provide a sound basis for the expansion of the company in the future.*

Managed Investment Experience

MIS History – Australian Agricultural Contracts Limited			
Project Type	Financial Year	Area (ha)	Capital Raised
2004 Grain Co-Production Project	2004	2,000	\$550,000
2005 Grain Co-Production Project	2005	10,000	\$1,900,000
2006 Grain Co-Production Project	2006	35,000	\$7,500,000
Total			\$9,950,000

Expert Consultant

Name	Company	Focus
Lloyd George	Advance Trading Australia Pty Ltd	Price risk management advice

Macro has commissioned Lloyd George of Advance Trading Australia Pty Ltd (ATA) to prepare an experts report on factors that influence wheat prices in Australia and how these factors are likely to influence the Project. The report also comments on the structures and over arching grain marketing and price risk management strategies that have been developed by Macro and AACL.

ATA will also have an ongoing role in the Project by providing assistance in formulating various price risk management and grain marketing strategies each season. ATA provides risk management services in the agricultural industry, specialising in the grain industry. ATA is a subsidiary of Advance Trading Inc, a North American consultancy that specialises in, amongst other things, price risk management and market guidance for producers and end-users.

Macro has advised that ATA has no interests or ownership in any company or investment offering associated with this investment. In addition, AACL has also confirmed that no company or employee hold any ownership in ATA.



Management Risk

Investors should be aware of the risks associated with relying on the management entities within the Project. The two key risks identified by Adviser Edge are manager longevity and manager competence.

There is the risk that the management entities do not maintain longevity through profitability and therefore are forced to liquidate. In such cases investors may incur additional costs associated with appointing a new manager and key counterparty agreements. Furthermore, the management of the Project may suffer during the transaction process. Adviser Edge considers Macro and AACL to be in fair financial positions, however, strong management oversight, review and budgeting must be maintained in the short term to ensure continued successful operation.

There is the risk that the manager may not carry out the required tasks as set out in the management agreements due to incompetence or lack of motivation. Adviser Edge considers AACL appropriately qualified to carry out the required tasks, and given the key ownership structure and involvement of directors is financially motivated to achieve desirable yield outcomes.

Consultant Risk

The nature and sheer scale of the Project requires a large number of consultants (agronomists) to supervise the contract farmers and ensure that the best industry practices are adhered to across all project CPU's. There is a risk that the agronomists selected to perform this role may not be qualified to fulfil their assigned function or are negligent of their responsibilities. This has the potential to compromise the yields achieved in the Project CPU's. Adviser Edge considers AACL appropriately qualified to select suitable consultants for the project. In addition, AACL has advised that the majority will be members of the Association of Australian Acoustical Consultants, the professional organisation for consultants.



Structure and Fees

Investment Specifications	
Maximum subscription	7,500 CPU's
Location	Western Australian wheat belt
Unit size	Approximately 12 to 34 hectares, land required to produced 40 tonnes of wheat
Minimum application	4 CPU's
Project land ownership	Not offered
Liquidity	Illiquid
Insurance	Compulsory
Investor finance provider	Momentum Finance and United Pacific Finance

Investment Structure

Australian Agricultural Contracts Ltd (AACL) is offering investors the opportunity to participate in the Australian wheat industry through the offer of up to 7,500 Co-Production Units (CPU's) (targeted 5,000) of 12 to 34ha in the 2007 Grain Co-Production Project (the Project). Investors are required to purchase a minimum of four CPU's. Project CPU's will be located across all six major agricultural zones in the Western Australian wheat belt. The term of the Project will incorporated three growing season.

Project Structure and Agreements

Upon acceptance into the Project, investors will be required to be party to the *Grower Management Agreement*, *Grower Sub-lease Agreement* and *Constitution* that govern each party's respective responsibilities. A *Lease Agreement* and *Service Agreement* exist between Macro and AACL for the provision of land and the Project management services for the term of the Project. Through the terms of the *Farmer Management Agreement* AACL is sub-contracting their management services to the contract farmers who will provide the services required to plant, manage and harvest the crop. In addition, a *Farm Lease Agreement* exists between the farm lessor and AACL outlining the terms of the farm rental by AACL. These agreements will run for a period of 52 months with the investor's involvement in the Project terminating following the distribution of the Project fund final distribution for the 2009 crop year.

Investors are required to pay an application fee and will be liable for fixed annual initial period fees, rent, subsequent period fees, and a project finalisation fee. In addition to these fixed fees investors will be liable for variable harvest period costs, managed wheat pool and harvest loan costs, warehouse costs and insurance. It is anticipated that investors will receive income from the progressive sale of wheat following the harvest of project CPU's between October and December in

each production year. All wheat harvested will contribute to the Project Pool and investors will be paid on a pro-rata to holding basis. It is anticipated that the harvest proceeds will cover investors' fees obligations in the second year of the Project (FY2008).

All wheat in the Project Pool will be marketed by Macro with consideration amongst other things for the prevailing market conditions and the grower cash flow requirements. Macro may elect to sell wheat in the Project Pool to grain acquirers (eg AWB Ltd) managed pools, for cash or through forward contracts.

Additional Information

Product Ruling

Macro has applied to the Australian Tax Office (ATO) for a product ruling for taxation purposes. During the preparation of this report, Macro notified Adviser Edge that the product ruling for the 2007 Grain Co-Production Project had been submitted on the 5th of December 2006 and was still pending. This investment should not be considered without the backing of a valid ATO product ruling.

Commissions

Macro may pay commissions of up to 5% of the application funds to financial advisers and other authorised intermediaries. All commissions paid by Macro will be paid out of their own resources and is not a direct cost to the investor.

Default

In the event of a default the grower may assign the right to the CPU to another party who will be liable to pay any outstanding obligations in respect to the CPU. In the event that no third party is available, Macro may forfeit the grower's right to the CPU assigning it to Macro or its nominee and retain any proceeds derived by the grower in any previous season.



Structure and Fees

Liquidity

Investors may only exit an investment either at the completion of 2009 season pool or by assigning their rights and obligations to a third party. However, it is unlikely that there will be a secondary market for the investment; therefore the investment must be considered illiquid.

Investor Finance

Finance for the Project is available to approved applicants through Momentum Finance and United Pacific Finance. Investors can finance up to 100% of their investment (including GST) and must pay an application fee of \$250 and 0.5% of the loan. A minimum of two CPU's is required for loan acceptance. Macro has notified Adviser Edge that no director has interests in either of the finance providers.

Basic loan details are provided below, and interested investors can contact the finance providers for full loan terms and conditions, including associated fees and charges.

Finance Options				
Lending Institution	Finance Option	Term	Interest Rate	Minimum Investment
Momentum Finance	10 months Interest Only	41 months	11.0%	2 CPU's
United Pacific Finance	& 31 months P&I*		10.75%	

* P&I = Principal and interest

Fee Structure

The application fees outlined in the table below relate to an investment made on or before 31 May 2007. The following provides an outline of fees payable by investors over the Project term. The level and competitiveness of fees is considered in the 'Performance Parameters' section of this report.

Initial Cost to the Investor

Payment Type	Cost per CPU	Minimum Application
Application fee (ex GST)	\$3,990	\$15,960

Investors in the Project are required to pay an application fee (initial period cost for the 2007 season) of \$3,990 per CPU (ex GST), with \$15,960 required for minimum investment. This fee is for the provision of planting, fertilising and spraying operations, and rent for the period prior to 30 June 2007.

Macro has advised that they have conducted a review of this fee and have adjusted this fee down from \$4,190 per CPU (ex GST), a consequence of increased economies of scale.

Fixed Ongoing Cost to the Investor

Schedule of Fixed Ongoing Fees per CPU (ex GST)					
Year	Initial Period Fee*	Rent*	Subsequent Period Fee*	Project Finalisation Fee	Total
FY2008	\$3,500	\$175	\$405	–	\$4,130
FY2009	\$3,500	\$225	\$405	–	\$4,130
FY2010	–	\$225	\$405	\$120	\$750
Total	\$7,000	\$675	\$1,215	\$120	\$9,010

* Indexed to CPI

In each year of the Project investors will be liable for fixed ongoing fees. These include an initial period fee of \$3,500 (ex GST) per CPU in FY2008 and FY2009, as well as rent of \$175 (ex GST) per CPU in FY2008 and \$225 (ex GST) per CPU in FY2009 and FY2010, a subsequent period fee of \$405 (ex GST) per CPU in each project year and a project finalisation fee of \$120 (ex GST) per CPU in FY2010. The initial period fees are for the provision of cropping services including planting, fertilising, and spraying prior to 30 June each season. The subsequent period fees are for the Project costs that occur after 30 June each season. Macro has stipulated that the Project finalisation fee is for services delivered in finalising the Project at the completion of the 2009 season harvest. It should be noted that the Project finalisation fee has been reduced by \$230 per CPU from \$350 per CPU (ex GST) in the 2006 Grain Co-Production Project reflective of a cost review conducted by Macro.

It is anticipated that the annual fees will be deducted from the harvest proceeds from the previous season. However, in the event that net harvest proceeds are insufficient to cover the annual fees, Macro may make a call on investors to make up the shortfall.

Variable Ongoing Cost to the Investor

Investors in the Project will also be liable for variable ongoing costs including harvest period costs, managed wheat pools and harvest loan costs and warehouse costs.

It is anticipated that the harvest period costs will be paid out of the Project fund to various suppliers and are for storage and handling, government levies, and royalties as outlined in the table below.



Structure and Fees

Estimated Harvest Period Costs*	
Payment Type	Estimated Cost (\$/t) ^
Receival and assessment	\$9.17
Freight from silo to port	\$14.37
Up-country costs	\$9.05
Port costs	\$4.84
Levies	\$2.54
Crop improvement royalty	\$0.32
Total	\$40.26

Source: Macro

* Exclusive of GST and indexed to the CPI at 31 December each year

^ Figures based on and average CPU yield of 2t/ha and 2006 estimated adjusted for inflation

Macro has stipulated that they may use a number of different marketing options in order to maximise grower returns. This may include selling wheat into one or more of the managed pools offered by various grain acquirers or may borrow funds against the estimated value of the wheat sold into the managed pool, known as a "harvest loan". This method of selling wheat is a common practice in the wheat industry and may be used to meet future grower commitments such as planting the following season's crops. If one or both of these options is exercised investors may be liable for additional costs including underwriting fees of \$1.60/tonne, 8.5% per annum interest on the harvest loan or warehouse fees ranging from between \$0.45 to \$1.40 per tonne.

In addition investors will be liable for a number of levies and royalty fees. The Australian government levies are for the provision of industry research and development and are estimated by Macro to sum to \$2.47 per tonne. Macro has estimated that the Project royalty payments payable by investors will vary from \$0.95 per tonne to \$4.17 per tonne.

Additional Costs

Insurance

Each season, Macro will arrange compulsory crop insurance against fire and hail for each CPU in the Project. It is anticipated that these costs will be deducted from the Project pool from the sale of net pool proceeds from the previous season. If the net pool proceeds are insufficient to cover these costs, Macro is entitled to make a call on investors to recover these costs. Macro based on its review of current costs and has estimated that the cost of crop insurance for each season will be \$1.55/tonne (ex GST), which may vary from season to season depending on market conditions. Where

a CPU is partially destroyed any insurance proceeds will be payable to the Project pool and form part of the gross farm produce. Where the CPU is destroyed by some uninsured peril and consequently the CPU does not deliver any gross farm proceeds, that CPU will not be entitled to participate in the Project pool.

In addition to crop insurance (subject to market conditions), Macro may arrange multi peril insurance for each CPU throughout each season. The cost of the insurance will be paid from the sale of the net pool proceeds. If the proceeds are insufficient, Macro is entitled to make a call on investors to recover the cost. Macro, based on its review of current costs, has estimated that the cost of multi peril insurance for each season will be \$1.50/tonne (ex GST) and has advised that it may vary from season to season depending on market conditions. Multi peril insurance will provide cover for all risks outside those covered by the crop insurance policy for all CPU's up to 90% of the application fee. If triggered the proceeds from a claim will be payable to the Project pool.

Macro on behalf of investors will also maintain public liability insurance cover on each CPU in the Project for up to \$10,000,000 per claim.

Performance Incentive Fees

Macro has incorporated into the Project a harvest bonus, which consists of a management production bonus and a rent bonus, along with a harvest bonus adjustment. The contract farmers are the sole beneficiaries of the harvest bonus with Macro and AACL not receiving any of the incentive.

The harvest bonus is a revenue linked incentive, with the bonus being 90% (50% management and 40% rent) of the estimated delivered value of the Project wheat in a given season that exceeds a benchmark of \$4,755 (ex GST) per CPU. The delivered value is the total amount of wheat delivered from each CPU multiplied by the estimated average delivery price (per tonne) net of the harvest period costs, harvest loan costs and the net present value cost of delay in the receipt of pool proceeds.

Macro has stipulated that as the calculation of the harvest surplus requires Macro to make extensive estimates, Macro will withhold 20% of the harvest surplus pending the calculation of the harvest bonus adjustment. The harvest bonus is paid to contract farmers in the form of physical wheat. The harvest bonus adjustment is essentially a recalculation of the harvest bonus, with consideration for the final estimate of the average delivery price at the completion of wheat sales. As the calculation will be done some time after




Structure and Fees

harvest, the adjustment will be paid in cash rather than in form of physical wheat.

The benchmark used to calculate the farmer bonus payments is based on actual prices receivable/received by Macro.

The appropriateness of the benchmark is considered in the 'Performance Parameters' section of this report.

 ***Adviser Edge believes that it is appropriate for Macro to incorporate a performance incentive fee into the Project structure, as it aligns the interests of the contract farmers involved in the Project with that of investors.***

Structure and Fees Risks

As a portion of project fees are fixed, investors are partially protected from unexpected overruns in project development costs. The main risk associated with the fee structure of the Project is that increases in the price of variable costs, such as insurance, transport, levies and royalties at a rate above that of wheat sales revenue over the Project term, may lead to a disproportionate increase in project fees relative to project revenues. However, this is largely offset through the target value mechanism incorporated into the project structure, which requires the extra delivery of wheat if the target value is not met.

It is advised that investors seek appropriate professional advice in relation to the full financial and taxation implications of their investment.



Site Inspection

On 24 October 2006, Adviser Edge travelled to WA to meet with senior management personnel of AACL and to inspect a large property that was incorporated into the 2006 Grain Co-Production Project. The visit provided an opportunity to meet with Andrew McBain the Managing Director of AACL, Simon Foley the Grain Production Manager of AACL and Kim Maddock, a contracted farmer in the 2006 project.

Mr Maddock's property is located at Korrelocking, approximately 200km northeast of Perth. The property consists of approximately 22,500ha of arable land with 65% (14,700ha) under crop in 2006. The inspection provided Adviser Edge with an opportunity to discuss Kim's opinion about the Project from a landholder and contract farmer's perspective and to gauge his management capabilities. In the 2006 project Kim dedicated 4,600ha of wheat to the Project, with an aim of producing 10,120 tonnes, an amount of land close to the maximum amount accepted by AACL.

At the time of our inspection, the crops had commenced ripening and were less than a month away from being harvested. The crops observed by Adviser Edge appeared to be in good order with little evidence of any weed, pest or disease problems. It was evident that the crops had been well managed and planting operations performed using high quality equipment. Despite the apparent good crop condition, yields were not expected to achieve their target yield per hectare as the region had only received 60%–80% of their average rainfall in the nine months to 30 November 2006 (BOM, 2006).

Based on the site inspection conducted on the Maddocks' property and the overall farmer selection process, Adviser Edge is confident AACL selects high quality properties that will provide investors with the best chance of maximising the return on their investment.

Site Selection and Region

It is anticipated that the Project CPU's will be located across a range of properties in a number of production zones in the WA wheat belt. The spread provides protection from the seasonal production risks that may occur on a localised basis (e.g. low rainfall, frost or disease outbreaks). The WA wheat belt incorporates approximately 160,000 sq km in southwestern WA and produces approximately 40% of the total Australian wheat crop. WA farms tend to be larger than farms in the eastern states, and primarily utilise minimum tillage farming systems.

Located in the middle of latitudes 30° to 40°S the agricultural area of the WA wheat belt typically has a sub-tropical (Mediterranean) climate with a dry summer. The climate is characterised by warm to hot summers and mild winters with

a higher concentration of rainfall in the winter season. The annual rainfall decreases rapidly from about 1,200mm on the south and southwestern coasts to about 250mm at the inland limit of the agricultural zone. Most wheat from the wheat belt is produced from areas with less than 500mm annual rainfall and over 40% of production is from areas receiving 325mm or less (Agriculture Western Australia, 2000).

The concentrated winter rainfall patterns mean that waterlogging can be severe in winter, nutrients can be readily leached as water penetrates below the root zone and recharge water tables may be difficult to prevent, particularly under shallow rooted annual species. These problems that exist in WA highlight the importance of the rigorous farmer and property selection performed by AACL.

Property selection is to be based on analysis done on the past production history of the contract farmer, with verification of those records being compared against source data from third party organisations such as AWB Ltd or CBH Ltd. Macro intends to engage independent consultants to autonomously estimate the production capacity and suitability of proposed sites for the Project.

Crop rotations are an essential part of successful wheat production enabling farmers to maintain/improve soil fertility, and reduce weed and disease susceptibility. Due to the need for crop rotation, the location of the Project CPU's allocated to each grower will vary from season to season.

Species/Varieties

Wheat varieties utilised in the Project CPU's are likely to be the latest cultivars, aimed at producing high quality Australian Premium White (APW) grade. It is common practice to choose appropriate cultivars based on grain quality, yield, disease resistance, and suitability for establishment in the production zone.

Project Infrastructure

WA has an established grain handling, storage and transportation system that is easily accessed by wheat farmers across the WA wheat belt. CBH Ltd (CBH), a farmer owned co-operative, manages a grain handling system across six management zones with approximately 200 receival points. Wheat delivered to CBH receival bins is tested for quality and stored awaiting transportation to port. CBH grain is transported to four strategically located CBH port terminals at Albany, Esperance, Geraldton and Kwinana.

Wheat produced by the Project will be handled through the CBH storage and handling system and hence Macro has



no requirement to build grain storage, rail transport or port handling infrastructure.

In addition to the storage and handling infrastructure, the Project will draw on regional contracting, agronomy and agricultural service industry infrastructure. Given the level of the intensity and the scale of operations proposed, it is likely that the Project will receive some preferential treatment from grain traders and transport and agronomy companies.

Project Operations, Machinery and Equipment

All project operations will be performed by contract farmers selected by Macro and AACL for their significant ability within the industry.

The growing season for the WA wheat belt is typically between April and December. Planting in most areas of the wheat belt usually commences in late April and is completed by the end of June dependent on the timing of the season opening rains. It is anticipated that crops planted in the Project will use a zero or minimum tillage cultivation system, as is the standard in WA. The other management systems will vary according to the farmer and their location. Typically, harvest commences in late October in the northern regions and finished in late December early January in southern regions.

As part of the approval process, contract farmers are required to provide the necessary machinery and equipment used in cropping operation and must be of a minimum standard. The majority of farmers in the Project will have global positioning systems (GPS) generating greater efficiency in the Project operations. As all the Project operations and machinery is outsourced, Macro has no requirement to purchase or maintain equipment throughout the term of the Project.

Expert agricultural consultants will visit prospective farmers to verify their suitability to the production of wheat in the Project. In addition, each season consultants will perform crop inspections at key decision-making periods for managing weeds, pests, diseases and additional inputs and will be expected to report in writing to AACL and Macro on the progress of the crop. In addition to this, contracted farmers are expected to provide ongoing reports to the agricultural consultants at various times throughout the season outlining the progress of the crop, rainfall data and yield estimates.

 **Adviser Edge believes that this verification process is an essential part of the Project and will help with crop forecasting and price risk management.**

Site Selection Risk

Production Risk

Prevailing climatic conditions from planting to crop maturity are crucial determinants of yield. Relevant climatic factors include drought, flood, frost, fire, wind, excessive heat and rainfall. Of these, the quantity and timing of rainfall and frost are expected to be the most important determinants of grain yield and quality. With properties to be distributed throughout the WA wheat belt, the overall level of production and grain quality risk is minimised to some extent.

Extended periods of below average rainfall can be expected to result in reduced grain yields and quality downgrades (due to higher screening) and subsequently reduced returns to investors. This may be offset by price increases if the dry conditions are widespread.

The likelihood of particular climatic events occurring is very difficult to predict, hence the risk mitigation strategies employed by the manager will be crucial for the success of this project. These strategies include geographical diversification and the use of crop insurance.

Land and Contract Farmer Selection

AACL's ability to attract farmers with appropriate skills, experience and resources, coupled with AACL's ability to select appropriate agronomists and advisers, will have a strong bearing on the Project outcomes. In addition, the Project will only be as strong as the land leased for the Project, with production history, soil fertility, rainfall reliability and rotational management all critical elements to be considered by AACL.



Market Overview	
Product type	Australian Premium White (APW) wheat
Primary use	Grain to be used for processing
Key target markets	Domestic delivery for export
Major competitors	No specific competitors
Sales agreements	In place with ABB Grain Ltd

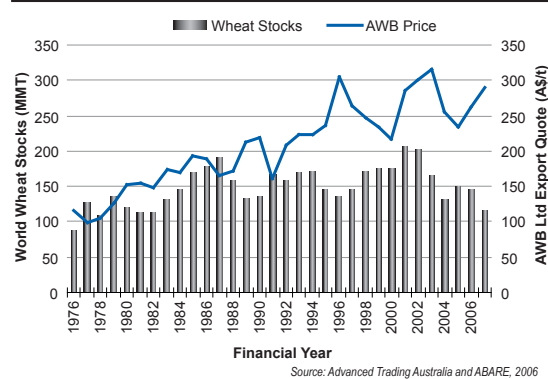
Market Overview

Despite being a small producer on a global scale, Australia is still a significant exporter of wheat. In terms of farmgate value, 74% of the wheat produced on Australian farms over the three years to 2004-05 was exported. In 2004-05, Australia was the second biggest exporter of wheat in the world, however, it is still a price taker. For further detail please refer to the 'Performance Parameters' section of this report. Despite the anticipated fall in the production in 2006-07, exports are forecast to increase to 16,649kt, an 8.2% increase on the previous year (ABARE, 2006). This increase in exports is at the cost of the domestic wheat stocks, which are expected to decrease by 5,901kt. This fall in stocks should start to have an impact on the quantity of exports in the following season.

Major export markets for Australian wheat in 2005-06 were Indonesia (3.0 million tonnes), Egypt (1.8 million tonnes), Japan (1.1 million tonnes), Korea (1.0 million tonnes), Malaysia (0.8 million tonnes) and Iraq (0.7 million tonnes) (ABARE, 2006). Australia has a significant freight advantage over its competitors (namely the USA, Canada, the EU and Argentina) in these markets due to its geographical proximity. In some instances this is largely offset by production subsidies (and tariffs) that exist in those countries, such as the US and EU. Progress in bi-lateral trade negotiations is expected to further benefit the Australian grains industry in new and existing markets and the most significant emerging market for Australian grain production is anticipated to be China.

The most significant influence on the world wheat price is the level of world wheat stocks with low stocks resulting in high prices and conversely high stocks resulting in low prices. This relationship is evident from the following chart. The recent steady decline in world stocks has resulted in a corresponding increase in price since 1999-2000. With world wheat stocks expected to reach 133 MMT, their lowest level in over 20 years. In 2006-07, the Chicago Board of Trade (CBOT) 2006 December futures surged in mid October 2006 to reach US557¢/bushel, their highest levels since 1995-96. Wheat values have since declined somewhat and have steadied around US500¢/bushel.

World Wheat Stocks and AWB Export Price



Market Outlook

Unless there is a significant increase in the level of world production in the near future the world stock situation is not expected to improve with consumption levels expected to continue to increase. Future growth in world wheat consumption is expected to be driven by increased feed grain use and continued growth in cereal and food demand in developing countries such as China, Indonesia, and India. The recent adoption of the production of ethanol from grains is also expected to add significant pressure. Ethanol is now widely accepted as an automotive fuel by itself or in a mix, with the most common blend containing 10% ethanol while other blends can contain up to 85%. A significant number of developed nations are in the process of implementing policy to increase the amount of ethanol used in fuels, reducing the global pressure on oil and providing environmental benefits through reduced carbon emissions. This could have vast implications for a significant number of cropping industries, including wheat.

The Australian domestic market for buying and selling wheat is de-regulated and highly competitive with a number of major grain acquiring companies including AWB Ltd, ABB Ltd, CBH Ltd and GrainCorp Ltd. However, wheat exports are predominantly marketed through the 'single desk' system that is managed by AWB Ltd. Under the single desk, AWB Ltd has exclusive rights to the Australian wheat export market. At the



time of writing this report the monopoly status held by AWB Ltd was under question due to their involvement in alleged illegal activities over recent years. It is therefore apparent that the medium term marketing conditions in Australia may be somewhat unstable.

In December 2006, Peter McGauran the Federal Minister for Agriculture directed the Wheat Export Authority to issue export licences of 300,000 tonnes to Wheat Australia and 500,000 tonnes to CBH Ltd. These export licences are expected to reduce the quantum of the AWB pool price and could possibly signal a change in the marketing arrangements for wheat in Australia.

Marketing Strategy

Macro has indicated that almost all of the grain produced in the Project will be delivered to a receival bin or to the nearest port in each region. The grain will be warehoused while Macro decides on the best sales strategy. Grain from the Project will be marketed based around advice from Advance Trading Australia Pty Ltd (ATA).

In selecting the most appropriate method, Macro will consider the market conditions (both current and forecast) and the cash flow requirements of the grower. Macro has outlined in their PDS that they have a price risk management policy that governs the implementation of various strategies used by Macro and ATA each season. Macro has outlined in their PDS three main marketing options including forward contracts (futures), selling the wheat on the spot market for cash or through managed pools. AACL has advised that they have a marketing agreement in place with ABB Grain Ltd (ABB), which grants ABB the last right of purchase of AACL grain.

Managed pools are the most common marketing alternative utilised by Australian farmers where wheat is supplied to the grain acquirers, which then market the entire pool over the following 12 to 18 months after harvest. Futures are an agreement to buy or sell a set amount of wheat at a predetermined price and date. Buyers use these to avoid the risks associated with the price fluctuations in the wheat industry, while sellers try to lock in a price for their wheat. Where a producer locks in a forward contract, the producer must deliver the specified amount of wheat to meet their forward commitment. If insufficient wheat is produced, the producer is required to purchase wheat from other producers or pay a 'wash out' fee to meet their forward contract obligations.

The independent expert, ATA, has stated that Macro has the systems and expertise required to successfully manage the

Project, manage the price risk to the Project pool and market the grain on behalf of investors.

Marketing Risk

Forward Contract Risk

In order to maximise the returns to investors, Macro has made the provision for the Project to make use of forward contracts on approximately 30% of the safe anticipated production pre-seeding with the potential for a further 30% pre-harvest. By entering into a forward contract prior to harvest Macro would be committing the Project pool to deliver wheat before the wheat is harvested, based on the assessment of the amount of wheat expected to be produced by the Project. If the Project did not produce the wheat required, the Project pool would have to purchase the required wheat from other producers payable from the Project pool. If there were insufficient funds at the time it would be necessary to make a call on growers.

Domestic Market Risk

Due to the current review of the domestic wheat market structure, standard marketing strategies implemented in Australia may need to be significantly transformed. Unless managed carefully by the Australian government, these changes have the potential to destabilise the industry and may impact on the reliability of payment from some grain marketing companies.

Trade Restrictions

As a consequence of the highly publicised illegal activities undertaken by the AWB in recent years, there is the potential for a reluctance of international clients to negotiate with Australian marketing companies. This could impact on their ability to secure the sale of Australian wheat at equitable prices.



Performance Parameters

The following provides a discussion of the key production and economic parameters that are expected to directly impact project financial performance.

Yield

Crop Type	Estimated Yield (tonnes/ha)*
Wheat	1.2 to 3.5

Source: Macro and AACL

*Varies by region and property

There is no specified average yield for the Project properties selected. AACL has developed a tonnage allocation model to aid production zone selection. This model uses the historical wheat production data from farms and Department of Agriculture WA on the variability of wheat yields per shire over time. Using this model, AACL should be able to select properties that are in different parts of the WA wheat belt, taking into account production risks and quality variations for different zones.

Based on the application of the tonnage allocation model, each property will be divided into CPU's that will vary in size from 12 to 34ha, with a targeted benchmark of 40t/CPU. Average yields will vary between 1.2t and 3.5t/ha with yields closely aligned to seasonal rainfall patterns. In addition, management will also have a significant impact on the average yields achieved in the Project.

Farm Productivity

There are a range of measures for on-farm productivity, from the simpler measures based on output per single input to more complex measures such as total factor productivity (TFP). TFP is a more rigorous measure of on-farm productivity that combines the use of all inputs and expresses productivity as a ratio of total outputs to total inputs.

An analysis conducted by ABARE in FY2006 has found over the past 28 years grain prices received by farmers has steadily fallen in real terms with a concurrent increase in input costs. The steady decline in the ratio of prices received to prices paid has forced Australian farmers to improve their productivity.

A study into the productivity in Australia's grain industry by Kocik et al (2006) indicated that TFP in Australia increased at an average growth rate of 1.86% over the 16-year period from 1998-99 to 2003-04. For the purpose of that study, Australian grains producers were defined as farmers in the specialist grains industry and mixed livestock-crops industry. The study also included analysis of TFP on the three major GRDC agricultural regions the north, south and west, which had average growth rates of 0.82%, 2.20% and 1.80% respectively.

The study found that the single greatest factor affecting productivity at any point in time was moisture availability. After adjusting the TFP for moisture availability (as it is out of the control of the farmer) it was found that the average TFP for Australia over the same period was 2.58% with the north, south and west zones having 1.26%, 2.81% and 2.67% growth respectively. Despite WA not having the highest TFP the western region is characterised by farms displaying relatively similar TFP growth rates. Half of the farms in the western region have TFP growth rates that differ by only 0.3% a year and 90% of the farms only differ by 1.32% a year.

The report states that this is likely to indicate that farm enterprises in the western region are relatively homogenous in terms of structure and management. The relative homogeneity of the farmers in the western region increases the prospect of Macro and AACL selecting high quality contract farmers. The report also notes that the distribution is skewed downwards, possibly suggesting that practices that improve productivity may be adapted rapidly. All of these conclusions should be beneficial to the Project outcomes if they are found to be valid.

The study identified a number of factors that were linked to improvements in productivity, such as:

- **Water availability** – This is the major factor that affects the total factor productivity on Australian grain farms across all cropping zones.
- **Increased farm size** – In the 28 years to 2005-06, the number of grain producing farms fell by 30% while the average farm size increased by almost 60%. Larger farms with a greater proportion of farm area sown to crops are more likely to have higher productivity than smaller grains properties with a significant livestock component.
- **Cultivation practices** – Minimum till and direct drill cultivation practices that conserve more rainfall for later use by the crop can lead to a significant improvement in productivity in some areas. Adoption of these practices is highest in the western region and lowest in the northern region.
- **Other factors** – Increased access to finance, higher farm operator education levels and corporate ownership were all linked to higher productivity.

Conversely, the report identified a number of factors that were linked to lower productivity and included land gradient, dependence on off-farm wages, investment income and commodity price variability.

In reviewing these influences that improve on farm productivity, it is evident that these factors are inherent to the western



Performance Parameters

region with generally higher rainfall, larger farms and minimum tillage practices. The contract farmers' relationship with the Project will provide the final benefit to productivity by allowing increased access to finance and corporate ownership.

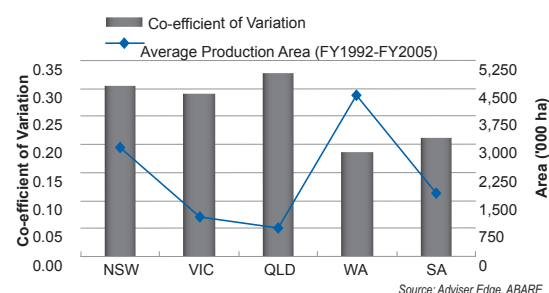
Investors in the Project benefit from the superior productivity factors provided by the contracted farmers in WA, while the Project provides benefits to the farmers which, in turn benefits the Project. The mutual benefit for investor and contract farmers encompassed in the Project structure creates a premise for a successful project outcome.

Western Australian Productivity and Reliability

The Project, like other agricultural investments, encompasses risks inherent in agricultural production. The ability to control or minimise this risk has the potential to substantially influence project outcomes. Due to the short term of the Project, the reliability of the production area is an important consideration in the development of this investment. In reviewing the reliability of the Project yields, Adviser Edge has conducted analysis on the variation of wheat yields in WA with other major wheat producing states through the calculation of the coefficient of variation of the state average yields. The coefficient of variation is useful for comparing the degree of variation from one state to the other despite the difference in the average yields. In other words, the co-efficient of variation allows for the determination of the volatility of yield in each state.

The following chart illustrates the reduced wheat yield volatility of WA with a coefficient of variation of 0.19, compared with the other major producing states SA (0.22), VIC (0.30), NSW (0.31) and QLD (0.36). The reduced volatility in WA wheat yields is reflective of the larger wheat crop area and greater geographical spread compared to the other states. Validating this is the reverse situation in Queensland where the area planted confined to a small area in the south of the state but has larger volatility. Provided the Project can mirror the evident diversification in WA the variation in project yields should be limited throughout the term of the Project.

Co-efficient of Variation of State Average Yields and State Average Wheat Production Area



Average Wheat Yields			
Year	WA	AACL	Area Established
2000-01	1.30t/ha	–	–
2001-02	1.78t/ha	–	–
2002-03	0.91t/ha	–	–
2003-04	2.25t/ha	–	–
2004-05	1.62t/ha	2.00t/ha	2,000ha
2005-06	1.82t/ha	2.1t/ha	10,000ha
2006-07	1.00t/ha	1.20t/ha	43,000ha
Average	1.53t/ha	1.77t/ha	–

Source: WA DPI and AACL

AACL has provided Adviser Edge with yield results for the 2004, 2005 and 2006 Grain Co-Production Projects. The preceding table, showing higher AACL yields compared to the state average, highlights the ability of AACL to select high quality contract farmers and the effectiveness of risk diversification incorporated into the project structure.

Of particular note is the result for the 2006 project where, despite being one of the worst cropping years in WA history with the majority of the WA wheat belt experiencing growing season rainfall of Decile 1 (only 1 in 10 seasons receives less than this) (BOM, 2006), AACL has achieved project average yields of 1.2t/ha. Adviser Edge believes that is this a very positive result given the prevailing seasonal conditions.

Estimated Price and Quality

There are many factors that contribute to the quality of wheat produced. The quality potential is largely determined by the variety, however, the extent to which this potential is achieved depends upon factors such as seasonal conditions, soil type and management practices.

Wheat delivered to grain receival centres across Australia is divided into seven major quality categories as outlined in the following table. The prices outlined in the table are the base prices for each quality category. These prices are then further adjusted based on an active payment scale for protein, screenings and moisture where estimated incremental premiums and discounts around the base range are active to 0.1% within each quality category. Macro is aiming to produce Australian Premium White (APW) wheat, which is consistent with the areas targeted for the Project. Actual grain quality achieved is likely to vary, with some Australian General Purpose (AGP) wheat produced and some Australian Hard (AH) wheat produced.



Performance Parameters

AWB Grain Price Base Rates			
Wheat Grade	Protein	Screenings [^]	FOB Price (\$/t) [*]
Feed Wheat (FEED)	N/A	N/A	\$205.00
Australian General Purpose (AGP)	10.0%	5.0%	\$224.00
Noodle Wheat (ASWN)	10.5%	5.0%	\$247.00
Australian Standard White (ASW)	10.0%	5.0%	\$229.00
Australian Premium White (APW)	10.5%	5.0%	\$242.00
Australian Hard (AH)	11.5%	5.0%	\$247.00
Australian Prime Hard (APH)	13.0%	5.0%	\$257.50

^{*} Estimated 2006-07 National Pool 1 price (FOB \$/tonne) as at 13 December 2006

The independent expert, ATA, has outlined three major considerations used in determining the value of Australian wheat the value of the US wheat futures, foreign exchange and basis.

The Chicago Board of Trade (CBOT) is the major wheat futures market in the world and reflects the price for US soft red winter wheat, which competes with Australian ASW wheat. The Kansas City Board of Trade (KCBT) is the second major wheat futures market in the world, which competes with Australian APW wheat. ATA has stated that AWB Ltd and other buyers and traders of Australian wheat will routinely post prices relative to the US wheat futures market because of the predictability of the price relationship between these markets.

US wheat futures trade in US¢/bushel, which must be converted to A\$/t. As a result, Australian farmers have considerable exposure to exchange rates.

Theoretically, the basis is a combination of domestic supply and demand factors, carry charges, freight, storage and wheat quality differentials. Traditionally, Australian FOB wheat prices carry a premium or positive basis to the underlying CBOT futures.

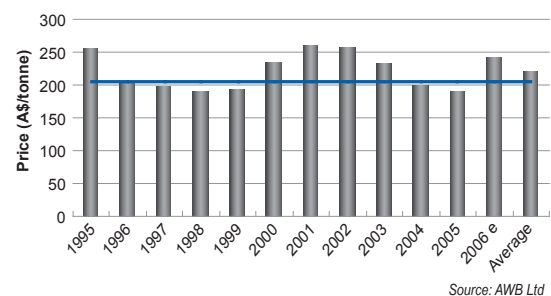
Price Analysis

Macro has targeted a project pool return of \$205/tonne free on board (FOB) based on wheat produced being APW grade. As outlined in the table above, the AWB 2006-07 National Pool 1 price for APW wheat price at the time of writing this report was \$242/tonne FOB. This is substantially higher than the Project target price. Industry experts expect these prices to be maintained over the short term on the back of a

poor production year around the world and the uncertainty surrounding the impact that the ethanol industry will have on the wheat price. Although no guarantee can be made for future price, Adviser Edge considers the average price estimated of \$205/tonne FOB to be very conservative.

Wheat is a volatile commodity and significant shifts in prices can occur within and between seasons. Given this, Adviser Edge believes that the conservatism is appropriate, however, the performance bonus threshold is determined with reference to the targeted price and if set too low may not provide investors with an equitable share of potential high prices. Over the period 1995 to 2006, the AWB pool price of APW quality wheat only fell below the target price of \$205 on five occasions (1997, 1998, 1999, 2004 and 2005) with the pool averaging \$221.26 over the 10-year period.

Estimated Pool Returns for APW 10% Protein (FOB, ex GST)



e = estimate

Investors should be aware that there is no guarantee that the target value will be realised in every year of the Project. Investors ought to be aware that prices will vary from year to year. If the target value is not reached, more grain may be delivered to make up the deficit, provided the grain is available for delivery.

Analysis of the Relationship between Price and Closing Stocks

Wheat prices in the northern hemisphere tend to be a function of closing stocks, with low closing stocks resulting in higher prices and larger closing stocks resulting in lower prices. As Australia is a price taker, the linkage between price and closing stocks does not exist in Australia except in severe drought years (ProFarmer 2005). For this reason, Australian farm businesses must be able to survive years when there is both below average prices and below average closing stocks (ProFarmer, 2005).

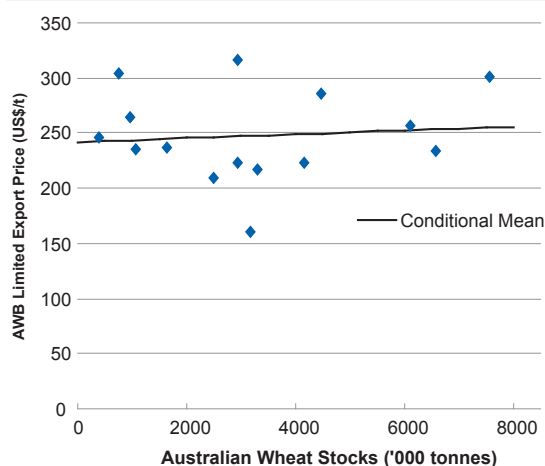
Given this view, it is appropriate to examine the interrelationship between grain closing stocks and the price received for wheat in Australia. Using data from the ABARE publication Australian



Performance Parameters

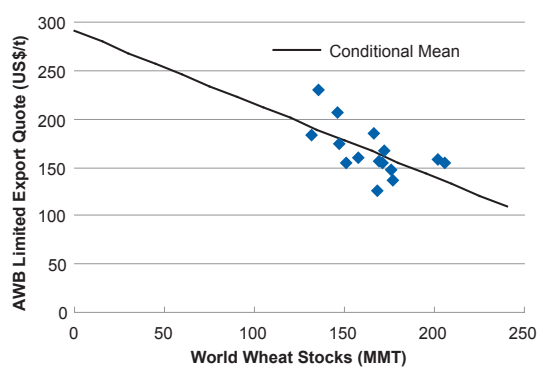
Commodity Statistics 2006, linear regression analyses were performed between the variables of world closing stocks and the Australian price of wheat, and Australian closing stocks and the Australian price of wheat to allow for a comparison.

Australian Wheat Stocks vs Australian Wheat Price



Source: Adviser Edge, ABARE

World Wheat Stock vs Australian Wheat Price



Source: Adviser Edge, ABARE

It is evident from the chart that the relationship between Australian wheat stocks and the Australian wheat price is extremely low with the conditional mean close to horizontal. Conversely, it is apparent that there is a strong inverse relationship between the world wheat stocks and the Australian wheat price, indicating that when world wheat stocks are low the Australian price is high and vice versa.

This result is as expected because wheat production in other countries around the world is significantly greater than in Australia. As wheat is a highly traded commodity influenced by a range of factors, domestic production fluctuations do not have a significant influence on the price received for milling wheat in Australia.

Project Fee Analysis

The Project application fee can be broadly expressed in terms of cropping related costs and administration and project related costs.

Breakdown of Initial Fee – per CPU (ex GST)		
Component	Cost	Portion
Cropping development	\$3,785	94.9%
Administration and project related costs	\$205	5.1%
Total	\$3,990	–

Source: Macro, 2007

In regards to other MIS offerings assessed by Adviser Edge, the proportion of the application fee attributable to the cropping development expenses, as compared to manager administration and project related costs, is considered to compare favourably when benchmarked against peer MIS projects.

Variable Cost Analysis – 2005

WA Grain Region	Average t/ha	Average Variable Cost (\$/t)*
Northern Agricultural Region (high-medium rainfall)	2.20	\$134.97
Northern Agricultural Region (low rainfall)	1.67	\$124.26
Eastern wheat belt	1.80	\$154.60
Central North wheat belt	2.40	\$133.39
Central South wheat belt	2.25	\$140.67
Central South Coast	2.00	\$161.81
Great Southern Region	2.20	\$154.98
Esperance Sandplain	2.70	\$134.77
Esperance Northern Mallee	1.70	\$145.05
Esperance Southern Mallee	2.60	\$127.76
South Eastern Wheat Belt	1.80	\$153.17
Average	2.12	\$142.31

Source: WA Department of Agriculture, 2005

* Average Variable Costs = variable cost + freight + other costs (levies, royalties, etc)

The lack of a directly comparable MIS project makes a meaningful comparison difficult, however, these costs have been compared with gross margin information and production cost data for the WA wheat belt as outlined in the table above. In the 2005-06 cropping season the average variable costs for each production region in the WA wheat belt was



Performance Parameters

\$142.31/tonne. Based on Macro's assumptions, Adviser Edge has estimated the total project costs to be in the range of \$155.61 per tonne and \$162.00 per tonne.


It should be highlighted that these costs have been calculated based on an average production of 40 tonnes of wheat per CPU. With this in mind, Adviser Edge believes that the quantum of project fees is appropriate and well within the bounds of what could be considered appropriate for a project of this nature. However, as the majority of the Project fees are fixed, the costs per tonne increases as soon as the average yield per CPU decreases below 40 tonnes. Conversely, if the CPU yield is above 40 tonnes the Project fees reduce. This is reflective of the actual situation of producers in the wheat industry.

Performance Incentive Fee Threshold

Incorporated into the Project structure is a performance incentive fee where Macro receives 90% (50% management, 40% rent) of the returns when they exceed a threshold of \$4,755 per CPU, which in turn is passed onto the contract farmers. Adviser Edge believes that it is appropriate to include an incentive fee as it aligns the interests of the contract farmers with that of investors. However, if the threshold is positioned inappropriately it can lead to an inequitable distribution of the Project proceeds between the investor and the Project entities.

The threshold level of \$4,755 per CPU has been determined based around a CPU yield of 40t and a targeted wheat price of \$205/tonne of APW FOB.

While Adviser Edge recognises the importance to project outcomes of AACL attracting high quality contract farmers, given the 10-year average APW price of \$221.26, Adviser Edge is concerned that the threshold may be set too low creating an inequitable distribution of project returns. This belief is accentuated through the relatively strong wheat price at the time of writing this report, which is not expected to deviate in the short term.

 **Adviser Edge believes that a higher incentive fee threshold may be appropriate given the higher 10-year average price and prevailing strength in the wheat market.**

Performance Risks

Exchange Rate

Increases in the value of the Australian dollar generally lead to lower prices for Australian exports, particularly with respect to appreciation against the US dollar. Like many commodities, a range of factors other than exchange rates, such as seasonal production and inventory levels will influence crop prices,

however, significant appreciations of the Australian dollar can be expected to have a negative impact on crop prices.

Inflation/CPI

Macro reserves the right to increase the initial period fee, subsequent period fee, rent and the Project pool finalisation fee paid by investors by the increase in CPI indexed at 31 December. Should inflation increase significantly, the fees investors are required to pay are also likely to increase. If the price of the crops sold increases by less than the rate at which fees increase, investor returns could be reduced.

Oil Price

World oil prices can have a significant impact on farmers' input costs. Many oil products are used in farming both directly and indirectly. In the production of fertilisers and chemicals used on farms, large quantities of energy are needed, much of which comes from oil. If the oil prices remain high, input costs for farms in Australia will continue to have an influence on farm gross margins thus indirectly influencing project returns. However, as the majority of planting and management fees are fixed, the impact of the oil price may be minimised.

Quality

The quality of grain produced in the Project will have a significant impact on the price achieved in the Project that will in turn impact on returns. There is a risk that disease and climatic conditions may cause a downgrade in quality, enforcing a price discount.



Investment Analysis

Adviser Edge Potential IRR Range*		
	Pre-tax	Post-tax
2007 Grain	4.09% to	5.23% to
Co-Production Project	14.22%	17.64%

* The range is provided as a guide only and investors should seek additional professional advice regarding the impact of changes in key variables on project returns given their individual financial circumstances. No gearing.

** Based on 46.5% marginal tax rate, assumes that investor is registered for GST and all GST is rebated and refunded in the year paid. Estimated returns range

Adviser Edge has conducted a sensitivity analysis on project returns based on a financial model provided by Macro and has found that the potential returns ranges of 4.09% to 14.22% pre-tax and 5.23% to 17.64% post-tax for an investment in the 2007 Grain Co-Production Project relating to an investment made on or before 31 May 2007.

Investment Assumptions

The potential returns ranges outlined above for the 2007 Grain Co-Production Project have been calculated by Adviser Edge using the assumptions outlined in the table below. These assumptions are based upon information contained in the Project PDS, information provided by Macro and AACL and independent research carried out by Adviser Edge.

Base Assumptions

Key Component	Base
Yield	40t/CPU
Average CPU size	20ha
Target grade	Australian Premium White (APW)
Target price*	\$205/tonne
CPI escalation ^	2.9%

* Based on estimates for the 2006 AWB pool for APW wheat

^ Based on the BIS Shrapnel Long-Term Forecasts 2006–2010 (2006)

movement in the AUD will translate into a \$3.00 per tonne change in local wheat prices. There remains a significant factor of variability in relation to this assumption.

The cost index sensitivity reflects the impact of a 100 basis-point (1.0%) movement around its assumed base rate, as stated in the base assumptions table. The model does not take into account price growth, which is a conservative and reasonable measure given the short timeframe of the Project.

IRR Variation		
Returns Variable	Downside Movement	Upside Movement
Yield	-1.62%	1.59%
Target price	-2.31%	1.92%
Harvest period costs	-1.23%	1.22%
AUD	-0.33%	0.34%
Harvest period indexation	-0.47%	0.46%

The analysis indicated that potential IRR is most sensitive to changes in the target price of the wheat. The returns are heavily influenced by the management, rent and harvest bonus adjustments, with the bonus benchmark calculated based on the actual price as opposed to the AWB Price Pool as in previous years.

Adviser Edge has confidence in the ability of the manager to effectively manage the prices received for investor's grain. The scale of the Project should provide the manager with some leverage for grain sales negotiations, which coupled with the use of a range of available price management strategies, should facilitate price maximisation for the wheat produced by the Project. The ability of the manager to consistently achieve high-end prices is a crucial determinant of project returns.

Downward changes in potential IRR are marginally larger than upside shifts due to the structuring of the performance fee, cost assumptions and net harvest proceed calculations.

Upward and downward movements in the IRR for yield and harvest costs are similar in both directions and look reasonable given the structure of the Project. There appears to be no imbalance in the movements in either direction, which can give investors comfort that the risk is reasonably well balanced.

Cost sensitivity has the least incremental impact on returns due to the nature of the relationship between cost and returns. The bonus fee is calculated on net proceeds, therefore, any increase in cost would also marginally reduce the bonus fee and negating the total impact in change of cost.

Pre-tax IRR Sensitivity Matrix

The table below illustrates the sensitivity of investment returns (IRR) for an isolated change in each modelling factor.

Yield, price and cost sensitivities reflect movements of 10% around their assumed base, whilst the Australian dollar (AUD) sensitivity reflects the impact of a one-cent movement in the exchange rate, holding all other sensitivities constant. The independent expert's price report estimates that a one-cent



Investment Analysis

Any isolated change in the harvest period cost indexation has a marginal affect in both directions given the short-term timeframe of the Project.

Wheat Price and Quality

The wheat price used as the basis of the returns analysis conducted here is \$205 per tonne over the term of the Project. Macro has based this price with a degree of conservatism around analysis of historical trends in Australian wheat prices and the factors underlying these prices. As the majority of wheat produced in Australia is exported, Australian prices are primarily driven by conditions in the global wheat market. In addition, as the global market for wheat operates in US dollars there is significant scope for variation in the A\$/US\$ exchange rate to influence prices over the term of the investment.

The quality of wheat produced will also have a substantial bearing on the Project wheat price. There are many factors that contribute to the quality of wheat produced. The quality potential is largely determined by the variety, however, the extent to which this potential is achieved depends upon factors such as seasonal conditions, soil type and management practices.

The large number of influences on the price of wheat is reflected in the significant unpredictability in relation to this parameter.

Wheat Yield

The Project manager has assumed a yield of 40 tonnes of wheat per CPU for each year of the Project. As the Project is to be carried out across a range of properties which will have varying levels of productivity, the size of each CPU will vary based on the estimated yield per hectare such that the final area matches the expected yield of 40t/CPU.

It is possible that the actual yield from a particular CPU will be less than anticipated, however, the wide geographic diversification of properties to be used for the Project limits the likelihood of all CPU's simultaneously returning lower than expected yields in all years of the Project. Adviser Edge has considered the positive and negative impacts of variation in actual yields over the term of the Project when determining the potential returns ranges for this project.

Operating Costs

Following examination of the operating costs of this project, Adviser Edge is satisfied that they are reasonable, providing an appropriate blend of fixed and variable fees, which ensures the Project has sufficient revenue to operate effectively in all years,

while also providing some degree of risk-sharing between investors and manager.

Due to the relatively input-intense nature of this project and the particular types of inputs required, there is potential for operating costs to increase unexpectedly over the term of the Project due to changes in uncontrollable factors such as oil prices and the national CPI. While wheat prices may rise with the CPI, there is no guarantee of this occurring and investors need to be aware of this potential source of risk in the Project.

 **Adviser Edge is confident in the ability of AACL to monitor contract farmers and manage (if required) project operating costs, therefore, minimising the possibility of cost overruns.**

Project Risk Apportionment

Risk apportionment refers to the distribution of risk between investors and the Project manager inherent in the structure of the Project. Adviser Edge believes the distribution of risk ought to be proportional to returns earned. Generally, income-sharing project structures, such as the one employed by this project, contribute to an equitable distribution of risk between the manager and investors.

There is a significant performance incentive fee built into the structure of this project. Adviser Edge considers a general performance based fee to be an appropriate strategy for aligning the interests of investors, the Project manager and the contract growers.

In this instance the fee is calculated on net proceeds not first dollar gross, which encourages the manager not only to drive price and yield upward, but also keep costs to a minimum. This fee is designed to give the manager upside opportunity but limit the fee investors' pay if price or yield are below expectation.

Assuming that the price remains constant and yield was reduced significantly, modelling has shown that the incentive fee starts to become payable at a pre-tax IRR of 6.7% and post-tax IRR of 8.3%. As noted earlier, Adviser Edge believes that the performance bonus benchmark appears low given the 10-year historical average (\$221.26/t) and current global wheat market conditions. Further, it would appear that the rate of return when the fee becomes payable is below a reasonable hurdle, which would provide enough benefit on the upside scenario to attract and compensate growers equivalent to their chosen risk return profile.



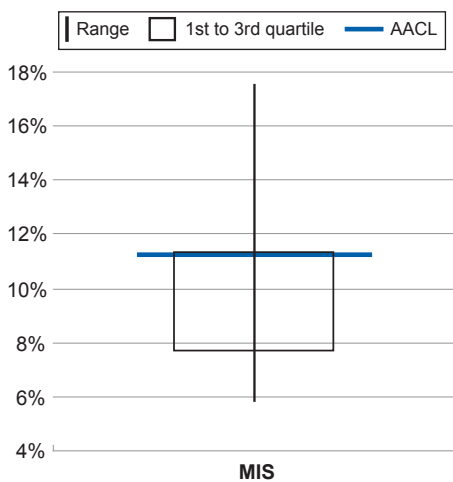
Investment Analysis

Adjusted Returns

Adviser Edge has used a standardised assessment model to determine adjusted rates of return for an isolated investment in the 2007 Grain Co-Production Project, taking into consideration the effect of industry and project specific risk factors on investment returns. The adjusted IRR was then used to make a comparative assessment relative to other MIS projects assessed by Adviser Edge in the 2005-06 financial year.

Investors in this project ought to have a moderate risk tolerance and Adviser Edge considers the Project to be a suitable growth element within a well-diversified agribusiness portfolio.

2007 Grain Co-Production Project vs MIS 2005-06



Source: Adviser Edge

Adviser Edge is of the opinion that projects should provide a level of return that balances the risk profile of the investment. The Project pre-tax adjusted IRR of 11.27% p.a. is positioned around the third quartile (4th quartile highest) for all MIS projects assessed by Adviser Edge in 2005-06.

Summary

The relative positioning of the Project reflects the Project's potential to deliver sound risk adjusted returns to investors and the favourable balance between risk and return, which has been achieved. Returns are supported by the thorough preparation of the manager, the experience of the contract growers to be utilised by the Project and a well-structured investment model.

As with all agricultural enterprises, there is of course an element of climatic risk inherent in this project. The potential impact of climatic variation is heightened by the relatively short term of this project, but is also mitigated to an extent by the geographic diversification of the Project properties. As well as the operational performance of the Project, global wheat market conditions represent the other key driver of project outcomes for investors.



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2007 Grain Co-Production Project

