

2006 GRAIN CO-PRODUCTION PROJECT
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SEASON UPDATE – APRIL 2008



This report has been prepared by AACL as Project Manager of the 2005, 2006 and 2007 Grain Co-Production Projects.

HARVEST REPORT

WA Wheat-belt

The 2007 season produced a mix of results in regards to production with the Northern wheat-belt again suffering some of the worst growing conditions on record due to drought. This is in stark contrast to the Southern wheat-belt which recorded average to above average results. The Central wheat-belt recorded average to below average production and the Eastern wheat-belt achieved below average production.

Harvesting began in mid November 2007 and was completed by mid January 2008. Statewide the overall production was approximately 5.5 million tonnes of wheat, or 60% of the average. Whilst higher prices assisted to offset part of the production failures, higher costs per tonne were incurred due to the much reduced statewide crop (e.g. freight costs per tonne increased because the fixed costs of the logistics system were spread over less tonnes).

WHEAT PRICES

International grain prices soared to all time highs on the back of lower world wheat production estimates and available stocks. The increased participation of index funds and hedge funds into the Chicago Board Of Trade (CBOT) wheat futures market resulted in extreme volatility in futures markets with market moves of up to \$50/t in a trading session not uncommon.

The 2007 Project began a price risk management program in November 2006, seeking to price protect approximately 20% of the projects estimated production at, what were at the time, prices in the top 5% of historical CBOT prices. In addition, the 2007 Project began securing forward sales for physical tonnes from July 2007 through to harvest.

Approximately 67% of the grain in the 2007 Project was delivered into cash contracts and the balance was delivered into managed pools. Those managed pools are expected to complete the marketing of the grain by December 2008.

The price risk management program is expected to result in an average price for APW wheat of approximately \$350/t FOB. This is compared to the 10 year average price for APW wheat (up until 2007) of \$240/t FOB. Whilst in 2007 a higher average price would have been achieved had the 2007 Project not priced any grain prior to harvest, prudent risk management strategies year on year seek to secure attractive prices for part of the expected production as they are available. This was the case in 2007.

ESTIMATED RETURNS

Based on the yields achieved and using an average wheat price of \$350/t FOB the 2007 Project Pool would be achieving a simple pre-tax return of approximately 6.0%. This return is largely impacted by the overall poor production result.

Please note that this is an estimate only as the final price received for the wheat and final costs will not be known until all of the wheat delivered into managed pools has been sold.

2008 PLANTING

The 2007 Project has sufficient funds in which to plant the 2008 season crop. As such there is no requirement from investors for additional funds.

At this stage the seasonal outlook in Western Australia is excellent across most areas due to above average rainfall to date. The majority of the WA wheat-belt has received good rainfall for this year to date with the Northern Zone receiving a welcome 80 – 110mm.

The outlook for the May to June period is for average rainfall which when combined with the earlier rainfall should provide an excellent start to the season.

The outlook for prices remains strong with a current estimate of \$300/t FOB for APW wheat. This price is above average compared to the 10 year average (including 2007) of \$240/t.

DISTRIBUTIONS

A distribution is expected to be paid to investors once the managed grain pool prices are finalised. We are receiving updated pricing from managed grain pools and we will advise an estimated distribution rate once we have greater certainty on reporting that amount.

TAXATION

Calculations for taxation purposes are ongoing and for the 30 June 2008 financial year end taxation statements will be provided in July 2008. We will shortly provide information to investors which will enable them to estimate their potential taxation position for the 2007 Project for 2008.

NEXT REPORTS

We will provide a further report to investors and advisers within the next week, which will advise the estimated after tax return, expected distribution to be paid and the estimated 30 June 2008 taxation position for investors.

A further report will be provided in July 2008 post seeding. You will also receive a breakdown of the 2007 season performance plus taxation statements.

Please click on the links below to view current articles in regards to the 2008 Grain Season.

[The Australian - Business "Food crisis could boom for farmers" by Asa Wahlquist](#)
[Farm Weekly "Rain triggers planting boom" by Ken Wilson](#)

For further information please contact Robert Melville on (08) 9217 3113 or 0418 888 133.

Yours sincerely



ANDREW MCBAIN
Managing Director