

**2006 GRAIN CO-PRODUCTION PROJECT
2007 GRAIN CO-PRODUCTION PROJECT
SEASON UPDATE – AUGUST 2008**



This report has been prepared by AACL as the Project Manager of the 2006, 2007 and 2008 Grain Co-Production Projects.

2008 POST SEEDING SEASON UPDATE

Table 1: 2008 Season Production Estimate

Contracted Wheat Area	208,000 hectares
Contracted Wheat Production	341,000 tonnes

SEASONAL OUTLOOK

WA experienced excellent pre-season rainfall across most of the WA Grain-belt. Conditions in June were mixed with parts of the central, eastern and south coastal region experiencing lower than average rainfall. However, good rainfall on 27 June and throughout July has dramatically improved the prospects of crops in these areas.

After the rain in July, yield estimates for each region have been adjusted upwards. In the north the regions closer to the coast are now showing signs of good potential but the ultimate result will depend on the finish to the season. Areas of the state which have had good yield potential from the start of the season now have exceptional yield potential given an average or better finish to the season.

The eastern WA grain-belt should achieve average yields based on the season to date. Within this region, parts of the central area through to Merredin may have some production issues, however, barring the incidence of frosts the region overall will see satisfactory production results.

The southern grain-belt is having a good year with above average yields being achievable. The Esperance zone has experienced good rains recently and recent crop inspections indicate average yield potential given a good finish to the season.

Overall, with good subsoil moisture, average to above average yields should be achieved across most regions. Over the next few months the rainfall outlook shows no trend to being drier or wetter than normal indicating that the likelihood of achieving the expected results are favourable at this stage.

PRICING OUTLOOK

While the current indicative Free on Board (FOB) price of wheat is in the \$340 to \$360/t range, we expect prices to generally ease over the balance of the season. Specifically, we are anticipating wheat prices to be in the range of \$300/t to \$350/t FOB closer to harvest. The pricing outlook for malt barley is similar to that of wheat and our expectation for feed barley is \$270/t to \$320/t FOB.

There are a number of key swing factors that should play out over the next three months. The outcome of these factors will largely determine where this year's crop prices finish.

Bearish

- Large global year-on-year increases in production should see a rebuilding of global and US stocks - barring significant issues with the southern hemisphere crop.

Bullish

- Late and wet planting of the US soybean and corn crops was positive for grain prices in general.
- However, this factor has largely been priced in and the market is now closely monitoring weather conditions as the US corn and soybean crops begin to mature.

Uncertain

- The size of the Australian wheat crop. Current estimates are for a 19 to 25mmt harvest which has slipped below early estimates (circa 22 to 27mmt). However, larger than expected yields out of the northern hemisphere appear to be at least offsetting any issues with the Australian crop.
- Northern hemisphere spring crops - At this stage, most of these crops are in good condition, but there is still time for poor weather to pose problems.

Figure 2 : Predicted Wheat Yields as at August 3, 2008

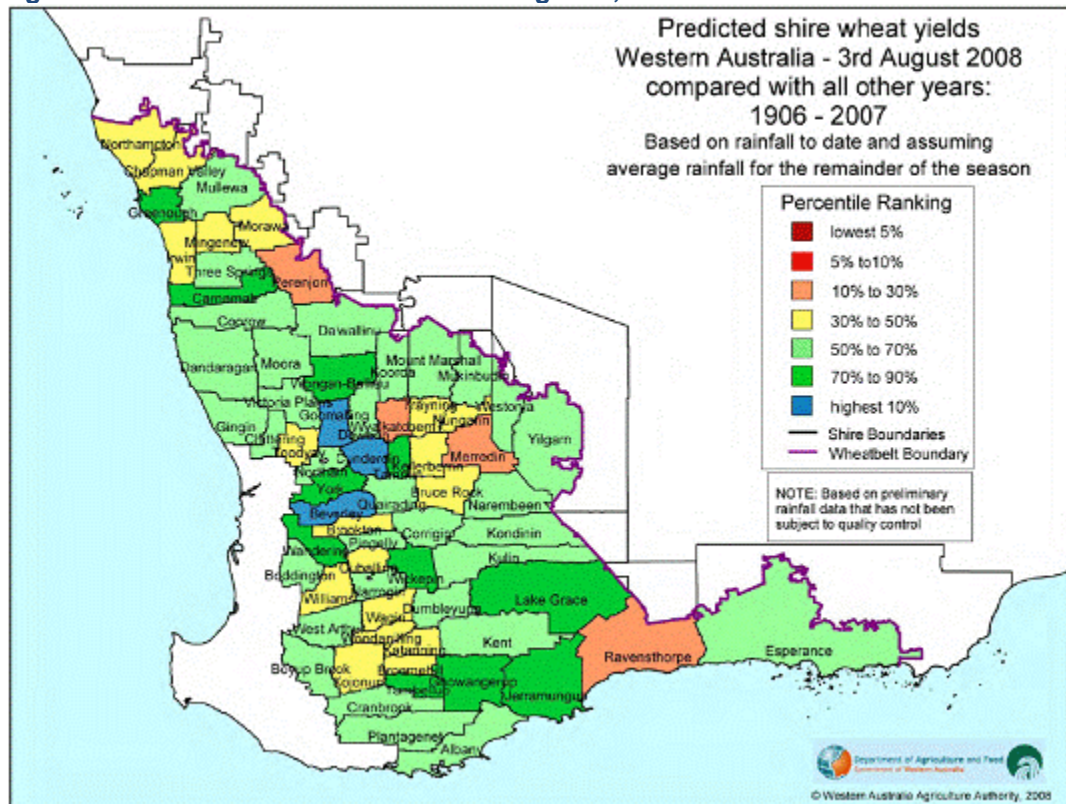
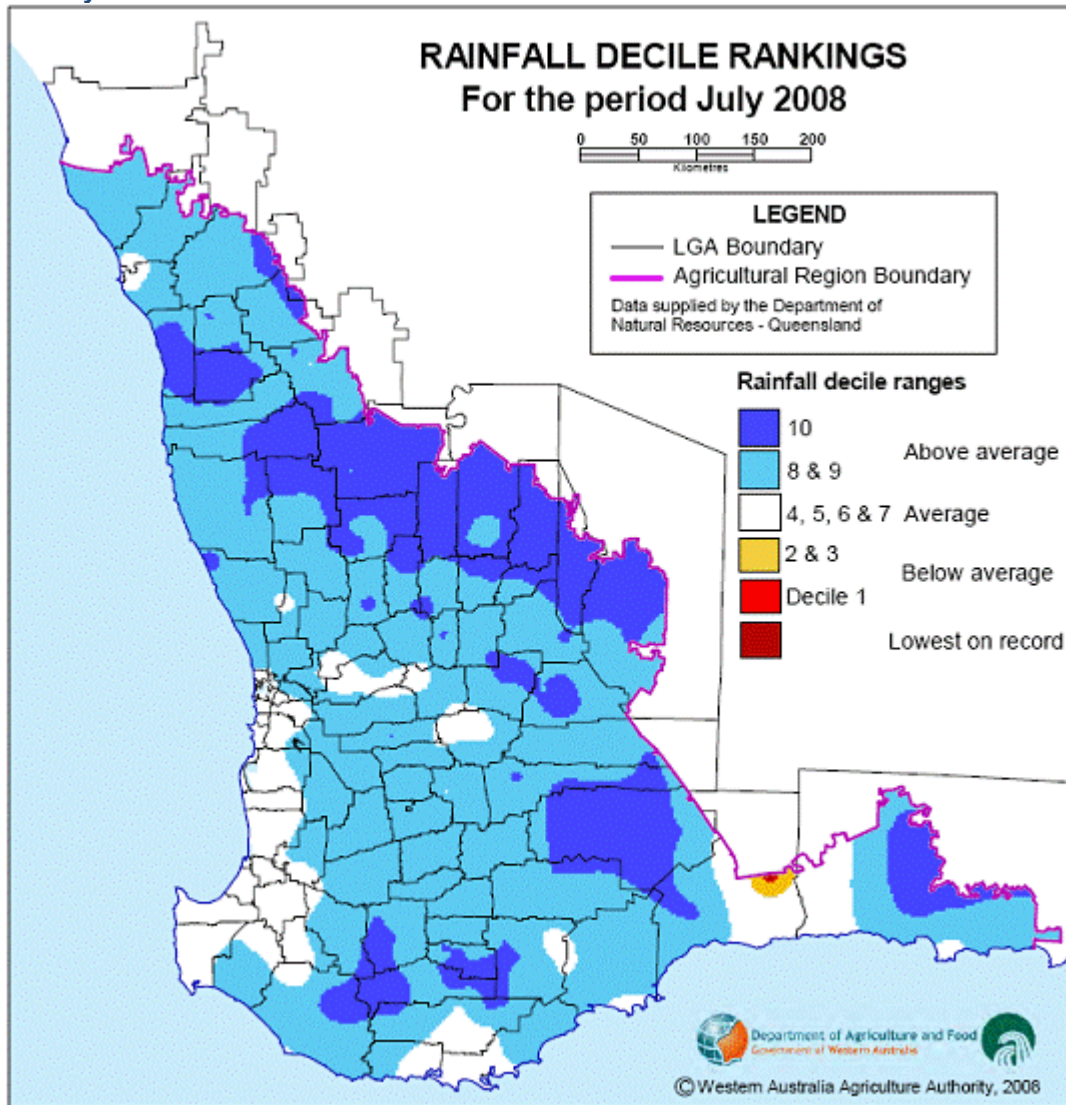


Figure 3 : July Rainfall



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Yours sincerely

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