

22 October 2007

2007 GRAIN CO-PRODUCTION PROJECT– OCTOBER 2007

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

CROP CONDITIONS

WA Wheat-belt

A late start to the season and below average rainfall from July through to September across the central and northern WA wheat-belt has resulted in below average production potential for those regions. The impact has been softened somewhat by excellent rainfall throughout most parts of the WA wheat-belt in early October which has stabilized and significantly added to crop prospects. The early October rains will assist in improving grain yields and grain quality particularly for later sown crops.

Despite the good finishing rain in October, Western Australia's overall wheat production is still expected to be 50 to 60% of average production or a reduction of 40 – 50% on normal production levels.

AACL arranges 4 paddock inspections by expert agricultural consultants for each contracted crop throughout the course of the year. The first 3 inspections have been completed and the final inspection of each crop is due to occur in the next one to three weeks just prior to or during harvest. Harvest is expected to commence in some regions in the next 7 days.

Yield estimates for the 2007 season are based on these reports and AACL's own assessments of current and expected crop conditions. At this stage of the season, AACL expects the yields from contracted paddocks across the projects will be similar to the expected yield reduction across the WA Wheat-belt.

Eastern Australia

Despite a very promising start to the season in the eastern and southern states, much needed follow up rains have not eventuated which has severely impacted the production potential. Many farmers are now feeding their crops to their stock or cutting for hay which will contribute to below average Australian production figures (see Figure 1). The expected lower production has added further pressure on local prices.

Figure 1

| | 2006 Season | | | | | |
|-----------------|------------------|------------------|------------------|----------------|-----------------|----------------|
| | 5 Yr Ave | Actual | Variance | | % of Aust Prod. | |
| | Tonnes (million) | Tonnes (million) | Tonnes (million) | % | 5 Yr Ave | 2006 |
| New South Wales | 7.50 | 2.10 | -5.40 | -72.00% | 31.91% | 21.54% |
| Victoria | 2.70 | 0.65 | -2.05 | -75.93% | 11.49% | 6.67% |
| Queensland | 1.10 | 0.70 | -0.40 | -36.36% | 4.68% | 7.18% |
| WA | 8.50 | 5.00 | -3.50 | -41.18% | 36.17% | 51.28% |
| SA | 3.70 | 1.30 | -2.40 | -64.86% | 15.74% | 13.33% |
| Total | 23.50 | 9.75 | -13.75 | -58.51% | 100.00% | 100.00% |

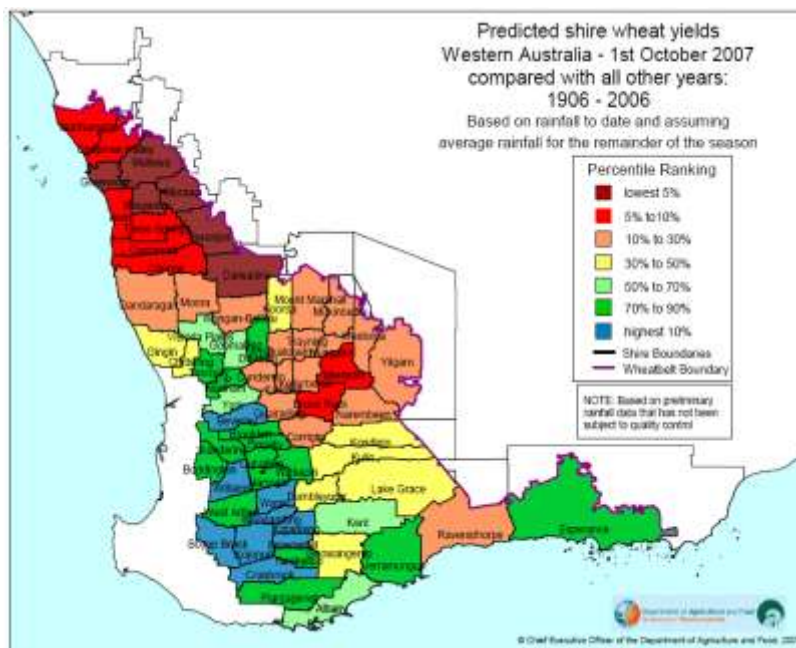
| | 2007 Season | | | | | |
|-----------------|------------------|------------------|------------------|----------------|-----------------|----------------|
| | 5 Yr Ave | Estimate | Variance | | % of Aust Prod. | |
| | Tonnes (million) | Tonnes (million) | Tonnes (million) | % | 5 Yr Ave | 2007 |
| New South Wales | 7.50 | 1.50 | -6.00 | -80.00% | 31.91% | 13.45% |
| Victoria | 2.70 | 1.75 | -0.95 | -35.19% | 11.49% | 15.70% |
| Queensland | 1.10 | 0.70 | -0.40 | -36.36% | 4.68% | 6.28% |
| WA | 8.50 | 5.00 | -3.50 | -41.18% | 36.17% | 44.84% |
| SA | 3.70 | 2.20 | -1.50 | -40.54% | 15.74% | 19.73% |
| Total | 23.50 | 11.15 | -12.35 | -52.55% | 100.00% | 100.00% |

WHEAT PRICES

Already tight global supplies and a below average production year for wheat crops around the world has resulted in the lowest world stocks of wheat since 1948/49. The extent of global world wheat supply problems has driven prices internationally and locally to record levels this season.

Local WA prices are still well above average and will buffer returns from lower production levels experienced this season. AACL has been actively managing prices for the 2007 and 2008 crops to ensure that value is captured for both investors and farmers.

Figure 2: Percentile Rankings on Predicted Wheat Yields at 1st October 2007



Source:
Dept of Agriculture and Food, WA

IMPACT ON PROJECTS

From a state perspective 2007 is going to be another poor production year. However, as Figure 2 demonstrates some parts of the state will experience record returns having achieved only average production but well above average prices.

The reduction in tonnes produced by the Project Pool is expected to be in line with the reduction experienced by the whole of the WA Wheat-belt. Farmer selection and the diversification of crop locations have been critical to managing the seasonal production risk.

Despite the low production estimates, higher wheat prices domestically and internationally are expected to buffer the overall Project return in 2007.

Yours sincerely

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