

# Great Southern 2008 Diversified Olives Income Project



**Lonsec Agribusiness Research**  
**March 2008**



## Great Southern 2008 Diversified Olives Income Project



Project Summary		March 2008
Location		Gingin, WA
Product		Conventional and organic olives
Target Project Size (Grovelot size)		400 hectares (oversubscription accepted) (0.1 ha)
Target Raising:	Project Option	\$23 million \$1 million
Life of Investment		20 years
Level of Risk		Moderate
Minimum Application		1 Grovelot
Minimum Outlay*, 1 year Olive Business Option		\$6,325 per Grovelot \$250
Lonsec IRR (after tax)		
Mid case IRR (Project and Option)		10.3%
Indicative Project and Option Range		8.9-11.6%
Zero IRR scenarios		
Price falls by		52%
Yield falls by		53%
Price and Yield fall by		31%
Finance Available		Yes
Commissions (% of application fee)		5% plus either 5% or 0.65% annually for 10 years
ATO Product Rulings		PR 2007/44
Offer close date	Project Option	15 June, 2008 30 September, 2008

\*One Grovelot (including GST)

### Summary of Lonsec Rating

The Great Southern 2008 Diversified Olives Income Project has achieved an overall rating of **Recommended**.

- The Project attained its highest major determinant rating for Business Strategy and Corporate Resources. Great Southern Ltd is in a sound financial position and has a clearly defined strategy for dealing with future challenges in the industry.
- The lowest major determinant rating was recorded for Financial Returns. The rating was impacted high establishment fees relative to other projects.

### The Project Plan

- This Project offers an opportunity to invest as a Grower in the Great Southern 2008 Diversified Olives Income Project located in the Shire of Gingin approximately 100km north of Perth, Western Australia
- The Grower enters a Lease and Management Agreement (LMA) with Great Southern Managers Australia Limited (GSMAL) who grant a leasehold interest

over the Grovelot and perform initial and ongoing management services.

- Olives will be cultivated, managed, harvested, (processed in the case of the conventional olives) and sold on behalf of Growers
- GSMAL has engaged managers for the day-to-day farming operations on the olive groves and to process conventional olive oil for sale.
- Each Grower can apply for Options in the Olive Business Company and exercise their Option, at no further cost, for 200 shares in the Olive Business Company after the expiry of the Project.

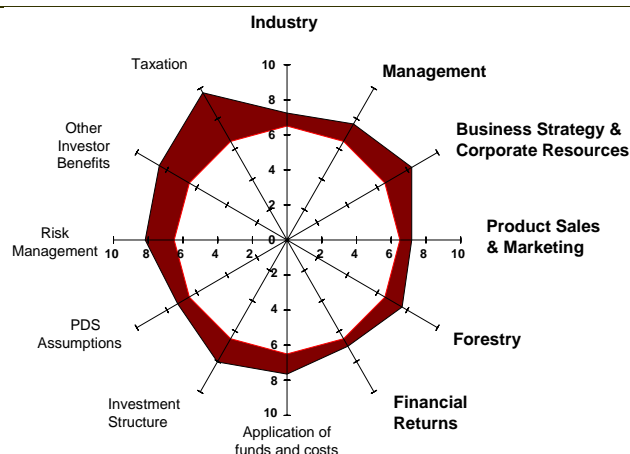
### Key Project Drivers

- Experienced Project management team and sales agreements in place for the length of project
- Site is suitable for the production of olives and has a high security water supply from an underground aquifer
- The Australian olive industry has demonstrated growth and demand for extra virgin olive oil is trending higher
- Growers may apply for Options for shares in the Olives Business Company)

### Key Project Risks

- The horticultural system, particularly organics, may not be able to produce forecast yields
- A decline in domestic or international demand for premium olive oil
- Loss of key personnel from the operational managers
- Olive prices negotiated in the offtake agreements may be lower than expected
- Organic certification not achieved

### Lonsec Ratings – Critical Determinants



The shaded area represents the amount by which the investment ratings exceed minimum approval score of 6.5.

### Triggers for Review

After the Research Report has been completed, Lonsec has asked to be notified of any significant changes, including supplementary offer documents, that materially or may materially affect the basis of our recommendation. This will allow Lonsec to reassess the recommendation.

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## 1. Lonsec Scope and Approach

Lonsec Agribusiness Research (Lonsec), a division of Lonsec Limited, has prepared this report for the directors of Great Southern Managers Australia Limited (GSMAL).

### 1.1. Scope

The research process has included, but is not restricted to, the Lonsec ratings process using over 100 areas of assessment to rate the 12 critical determinants of an agribusiness investment. Lonsec has not engaged a solicitor to review the Project agreements, legal structure and GSMAL due diligence process. Where applicable, Lonsec has commented on issues arising from a limited review of specific agreements, as noted in the report.

Lonsec has not engaged a taxation specialist to provide advice on the implications of the Product Ruling or the deductibility of Project expenses.

Taxpayers who are considering participating in the Project are advised to confirm with their taxation advisors that changes in the law have not affected the Project's Product Ruling since it was issued.

The Product Ruling states that if the proposed arrangement is materially different from the arrangement that is actually carried out, the Ruling has no binding effect and will subsequently be withdrawn or modified.

### 1.2. Approach

Lonsec has rated the Project in accordance with the standard Lonsec rating methodology. Projects are assessed against a scale of 1-100, which is translated into the following descriptive ratings:

- Highly Recommended – 85 to 100
- Recommended – 75 to 84.9
- Investment Grade – 65 to 74.9
- Not Approved – less than 65

A Project must rate greater than 65 in each of the six major determinants - Industry, Management, Corporate Resources, Sales and Marketing, Horticulture and Financial Returns in order to pass as a whole, regardless of the total aggregate rating.

### 1.3. Sources of Information

Lonsec has relied on information requested from GSMAL, the Product Disclosure Statement (PDS) dated 4 April 2007 and information obtained from discussions with Project directors, management and key employees. Lonsec has also engaged Anthony Hickey from WHK Thomsons, as the Lonsec Consultant Horticulturist to undertake a horticultural review of the Project, and has relied upon the information supplied therein. The Lonsec Consultant Horticulturist made a visit to the Project site near Gingin in south Western Australia. In addition, Lonsec has utilised information from the following sources in the course of preparing this report:

#### Offer Documents

Great Southern 2007 & 2008 Diversified Olives Income Project - Product Disclosure Statement (ARSN 124 197 897) (4 April 2007)

Great Southern Olives Company Limited – Prospectus (13 March, 2008)

#### Expert Reports

Independent Expert's Report prepared by Ken Bailey

Lonsec Consultant Horticulturist Horticulture Report prepared by Anthony Hickey

#### Material Agreements

Compliance Plan - Great Southern 2008 Diversified Olives Income Project

Scheme Constitution - Great Southern 2008 Diversified Olives Income Project

Standard Term for Lease and Management Agreement - Great Southern 2008 Diversified Olives Income Project

Lease and Management Agreement - Great Southern 2008 Diversified Olives Income Project

Marketing Services Agreement

2008 Project – Twin Brooks Organic Olive Grove Ongoing Management Services Agreement

2008 Project – Twin Brooks Organic Olive Grove Olive Sale Agreement

2008 Project – Waterville Olives Groves Ongoing Management Services Agreement

2008 Project – Waterville Olives Groves Olive Processing Agreement

Waterville Olives Groves Olive Supply Agreement

Australian Taxation Office (ATO) Product Rulings PR 2007/44

## 2. SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>The Responsible Entity, GSMAL is a wholly owned subsidiary of Great Southern Limited (GSL), a public company listed on the Australian Stock Exchange. GSL had consolidated net assets of \$766 million at 30 September 2007 and is one of the largest agribusiness investment managers in Australia.</li> <li>The operations managers of the organic and conventional olive groves demonstrate appropriate experience managing large scale olive groves in Western Australia.</li> <li>The fee structure of the Project provides for no more out of pocket expenses after the establishment fee.</li> <li>The management fee and rental is based on a percentage of net proceeds of sale which aligns the interest of the Grower closely to those of GSMAL.</li> <li>Secure water licences are held that allow adequate supply of water from an underground aquifer.</li> <li>Offtake agreements in place for length of project for properties currently included in the project</li> </ul>	<ul style="list-style-type: none"> <li>Although the returns for the Project are relatively robust under sensitivity analysis they are at the lower end of the Lonsec benchmark returns for agribusiness investments.</li> <li>The volume of organic olive oil will be a substantial increase on current sales levels for the Kailis Group (refer section 6.4) which will need to establish further markets in order to sell the anticipated oil volumes produced under the 2008 Project. Lonsec is aware that significant planning has taken place for Kailis to operate in these markets.</li> <li>The potential price premium received by Growers for organic olives is unlikely to be proportional to the additional expenses incurred managing the organic Grovelot.</li> <li>There is no active market for options or shares in the Olive Business Company.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>After the expiry of the Project, Option holders will be able to exercise their Options and be issued shares in the Olive Business Company. At the end of the Project the Olive Business Company will retain the land, trees and infrastructure on the groves and may decide to continue to operate the groves for the benefit of shareholders or sell the olive grove and realise its market value. Investors will hold a maximum of 49% of shares in the Olive Business Company.</li> </ul>	<ul style="list-style-type: none"> <li>The conversion from conventional olives to organic olives may take longer than planned or be difficult to maintain throughout the Project.</li> <li>The trade exchange rate of extra virgin olive oil futures contracts on the Mercado de futuros de aceite de oliva, may fall below the base rate on the date stipulated for 3 consecutive months and trigger a renegotiation of the floor price for conventional olive oil.</li> <li>There is a potential for increased competition and pressure on prices in domestic and international markets.</li> </ul>



### 3. Key Drivers of the Project

Lonsec believes that the following key Project components will drive the success of the Great Southern 2008 Diversified Olives Income Project.

#### 3.1. Experience and Strength of the Responsible Entity

The Great Southern Group, including GSMAL, has been involved in the development, promotion, management and financing of forestry and agribusiness managed investment schemes since 1994, with total investments in projects totalling approximately \$1.9 billion. GSMAL manage approximately 170,000 hectares of forestry plantations, 1,500 hectares of winegrapes, 2,000 hectares of olives, 1,000 hectares of Almonds and 205,478 head of cattle (stocked on 2.86 million hectares).

#### 3.2. Operations Managers

GSMAL has appointed Organic Olive Management Limited (OOML) to carry out the initial and ongoing management services on the organic olive grove for the 2008 Diversified Olives Income Project. OOML was founded in 2001 and demonstrates experience in the management and maintenance of organically certified olives groves.

GSMAL has entered into an Ongoing Management Services Agreement with Olive West Management Pty Ltd (Olive West) and an Olive Processing Agreement with Sumich EVOO Australia Pty Ltd (Sumich) for the 2008 Diversified Olives income Project. Olive West will appoint Waterville Estate to harvest the conventional olives for the 2008 Project. These companies form part

of the Tana Group of companies which has experience within the Australian vegetable and horticultural industries.

GSMAL and the appointed operational managers have acquired sites with relatively high security irrigation water.

#### 3.3. Australian Olive Industry

The olive industry outlook fundamentals appear promising, acknowledging the recent growth of the Australian industry. Key features with regard to the Great Southern 2008 Diversified Olives Income Project include:

- Global demand for olives and olive-related products is growing in response to increased awareness of the health benefits associated with the consumption of olive oil as part of a Mediterranean diet.
- Australia has competitive advantages in climate, environment and economies of scale, food branding and quality, along with stringent Australian food safety regulations.
- The future of the olive industry will hinge on the establishment of global marketing initiatives that focus on brand development and product differentiation.
- Increasing demand for organic food produce globally

### 4. Investment Offer and Structure

#### 4.1. Project Outline

The PDS for the Great Southern 2008 Diversified Olives Income Project is dated 4 April 2007. The PDS constitutes a retail offer and the ATO has issued a Product Ruling (PR 2007/44) for applications accepted on or before 15 June 2008.

Growers are expected to be able to apply for Options for shares in the unlisted public company Great Southern Olives Company Limited (Olives Business Company) at an issue price of \$250 per Option. Growers will be guaranteed to receive one Option for each Grovelot acquired in the Project.

After the expiry of the Project, Option holders can exercise their Option to be issued with 200 shares per Option in the Olive Business Company at no additional cost.

At the end of the Project the Olive Business Company will retain the land, trees and infrastructure on the groves, and may decide to continue to operate the

groves for the benefit of shareholders or sell the olive grove to realise its value. Growers will hold a maximum of 49% of shares in the Olive Business Company.

#### Key features of the Project

- Each Grower enters into a Lease and Management Agreement for one or more Grovelots of 0.1 hectares for GSMAL to carry on the future management and maintenance of those Grovelots
- Each Grovelot will be made up of 3 separate areas of land – consisting of young organic, young conventional and mature conventional trees
- The application fee and 100% of net proceeds of sale for years 0-4 cover all management, rent and insurance fees (GST inclusive)
- Ongoing lease and management fees are payable as 10% and 30% (excluding GST) of net harvests proceeds from year 5 onwards

- Growers are entitled to 60% of the net proceeds of sale from their share of the organic olives and conventional olive oil sales from year 5 onwards after deducting insurance fees.
- Each Grower has the opportunity to apply for Options in the Olive Business Company and exercise their Option after the expiry of the Project, to be issued with 200 shares in the Olive Business Company.

### Application Fee

Each Grower must pay an Application Fee of \$5,750 (excluding GST) for the initial and on-going management services during years 0-2 provided by GSMAL. The application fee consists of the following:

#### Initial Management Fees

Financial Year	Fee Payable by Growers
Year 0 Application Date to 30 June 2008	\$4,600 (plus \$460 GST) Plus 100% of annual net proceeds of sale (inc GST)
Year 1 1 July 2008 to 30 June 2009	\$575 (plus \$57.50 GST) Plus 90% of annual net proceeds of sale (inc GST)
Year 2 1 July 2009 to 30 June 2010	\$575 (plus \$57.50 GST) Plus 90% of annual net proceeds of sale (inc GST)

#### Initial Rent Fees

Financial Year	Fee Payable by Growers
Year 0 Application Date to 30 June 2008	Nil
Year 1 1 July 2008 to 30 June 2009	10% of annual net proceeds of sale (inc GST)
Year 2 1 July 2009 to 30 June 2010	10% of annual net proceeds of sale (inc GST)

#### Ongoing Management Fees

Financial Year	Fee Payable by Growers
Year 3 1 July 2010 to 30 June 2011	100% of annual net proceeds of sale (inc GST)
Year 4 1 July 2011 to 30 June 2012	100% of annual net proceeds of sale (inc GST)
Years 5-20 1 July 2009 to 30 June 2010	30% of annual net proceeds of sale (exc GST)

### Ongoing Rent Fees

Financial Year	Fee Payable by Growers
Year 3 1 July 2010 to 30 June 2011	10% of annual net proceeds of sale (inc GST)
Year 4 1 July 2011 to 30 June 2012	10% of annual net proceeds of sale (inc GST)
Years 5-20 1 July 2009 to 30 June 2010	10% of annual net proceeds of sale (exc GST)

### Shortfall Provision

If the amount payable by Growers from FY 2016 onwards for ongoing management services and rent for that year is not sufficient to cover the minimum cost, then the amount of the shortfall is carried forward and offset against future annual net proceeds of sale payable to Growers. Growers are not required to make any additional or out of pocket payments during the length of the project. The minimum cost for ongoing management services and rent is defined as \$600 per Grovelot for FY 2016 and indexed to CPI in each following year.

### Insurance Costs

Insurance is compulsory for all Growers and is payable out of harvest proceeds for the relevant period, but must not exceed the net proceeds of sale in any financial year.

The annual insurance premiums will be deducted from net proceeds and are only payable if net proceeds are sufficient to fund the premium. If net proceeds are insufficient, GSMAL will fund the insurance premium.

Insurance costs are likely to increase over the duration of the Project.

In addition to the cost of compulsory insurance per Grovelot, an administration fee of up to \$20 per Grower plus GST may be charged by GSMAL annually.

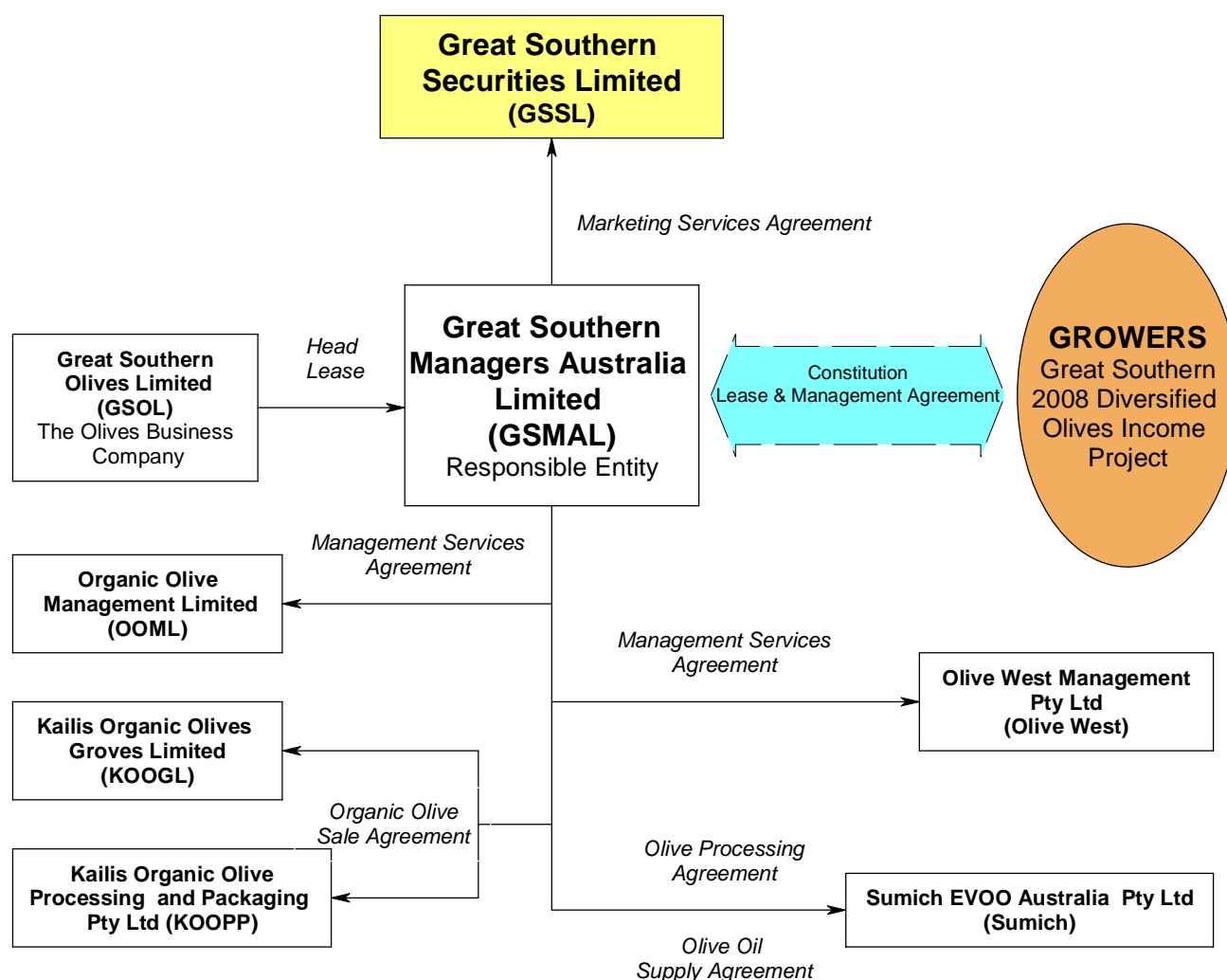
## 4.2. Project Agreements

The material agreements which govern or have influence on the relationship between GSMAL and the Growers are identified in section 6 of the PDS. Complete copies of these agreements can be obtained or inspected by contacting GSMAL.

Lonsec has not engaged a solicitor to review the Project agreements, legal structure or the GSMAL due diligence process. As such Lonsec has not provided a detailed assessment of these documents within the scope of this report.

### 4.3. Project Structure

Figure 4.1 The Proposed Great Southern 2008 Diversified Olives Income Project Structure.



## 5. Industry Outlook

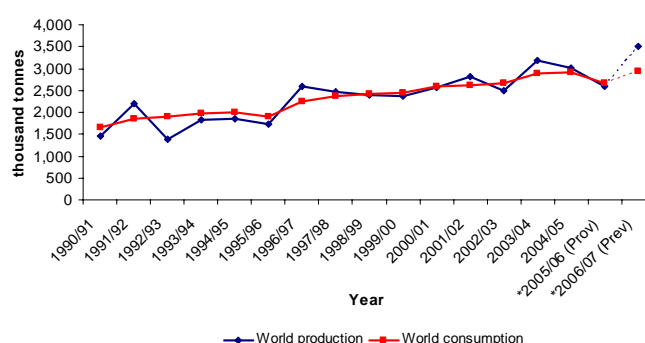
### World Olive Industry Overview

Olives and their by-products are one of the oldest traded commodities. Accordingly, on a worldwide basis, olives are a mature industry, notwithstanding some significant areas of rising demand outside of the European Economic Community (EEC).

From 1990 until 2005, world production of olive oil has risen by about 6% per annum while consumption has increased at about 4% per annum. Worldwide production is variable year to year due to prevailing climatic conditions and the biennial bearing nature of many non-irrigated olive groves. Despite the variability in olive production, the trend over the last 10 years demonstrates a steady rise in olive oil production in response to annual increases in worldwide consumption.

The latest statistics from the International Olive Council (IOC), detailed below, reveals in FY 2006 olive oil production decreased 14% to 2.6 million tonnes, while consumption declined by 9% to 2.7 million tonnes.

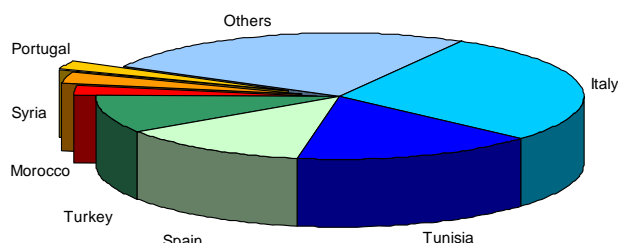
Figure 5.1 World Production and Consumption of Olive Oil





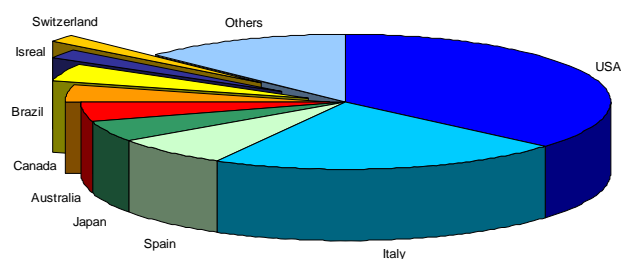
Spain, Italy, Greece, Tunisia, Turkey, and Syria dominate the world table olive and olive oil trade. In FY 2006, these countries produced 90% of the world's olive oil and consumed 66%. In FY 2006 Italy was the major olive exporting country with 35% of total world exports, followed by Tunisia (19%) and Spain (16%).

**Figure 5.2 Percentage of Global Olive Oil Exports**



The major importers of olive oil during FY 2006 were the United States (36%) and Italy (22%) with Spain, Japan and Australia importing approximately 5% of imported oils.

**Figure 5.3 Percentages of Global Olive Oil Imports FY 2006**



### Australian Olive Industry Overview

The Australian olive industry has experienced significant growth since the early 1990's in conjunction with the increased popularity of Mediterranean cuisine and high volumes of imported oil entering the country. It is now a well developed, growing industry, technically advanced and skilled in all phases of production. The growth of the local industry has enabled producers to take advantage of opportunities arising out of the higher local consumption and strong international demand.

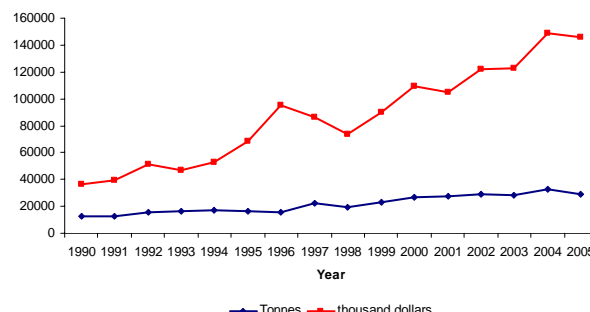
The disparity in the local demand and supply equation and the recent strong growth in demand for olive oil in south east Asian markets have attracted significant funds to the industry. Production opportunities are complimented by the development of centralised processing and marketing, which is providing an avenue for the industry's cost structure to decrease. Large scale developments have been undertaken in all mainland States demonstrating the general suitability of many areas throughout Australia for olive production.

### Demand & Supply

Imports to Australia have been increasing at an average rate of about 6% per annum since 1990. Australia currently imports around 29,000 tonnes per year of olive oil and consumed approximately 34,500 tonnes in FY 2006. The remaining 5,500 tonnes of

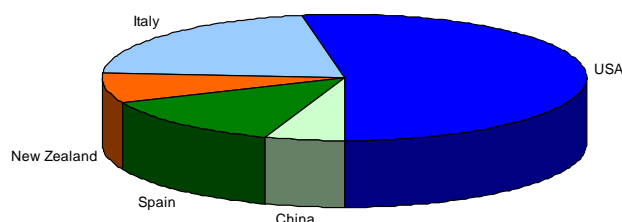
consumption was supplied by local olive oil producers (IOC).

**Figure 5.4 The Volume and Value of Australian Olive Oil Imports**



Total imports of olive products are valued at approximately \$194 million, of which \$146 million is olive oil. Spain supplied 46% of the total olive oil market, followed by Italy (42%) and Greece (7%). Spain and Greece dominate the table olive market, with 49% and 42% of the market respectively. Australia exported \$9.2 million worth of olive products, with 34% to the USA and 13% to Italy.

**Figure 5.5 Australian Olive Oil Export Destinations 2005**



The majority of imports consist of lower cost refined olive oil, rather than higher value extra virgin cold pressed grades (which account for approximately 23% by value) (AOA). The trend however is moving away from "pure" and "light" grades and towards "extra virgin grades". Australian average consumption has been trending higher and is currently around 1.6 litres per head each year. Importantly, olive oil production in Australia is trending towards improved quality to meet higher demand and consumption rates (DPI).

### Outlook

In the official periodic review of global trade figures, the IOC forecasts the following:

- World production is forecast at 3.5 million tonnes during FY 2007, a slight decline on the 3.6 million due to reduced yields in major producing regions
- World consumption is forecast at 3.0 million tonnes, up from 2.7 million tonnes a year earlier
- World imports are forecast to increase from 615,518 tonnes to 623,420 tonnes in FY 2007

- World exports are forecast to increase to 681,000 tonnes during FY 2007, up from 618,000 tonnes the previous year.

At a regional level, it is likely that the average Australian may be encouraged to consume an increasing volume of olive oil with appropriate education and marketing. Similarly, the recent strong growth in demand in south east Asian markets is expected to continue.

Australian plantings are at a level where strong market relationships are being formed along the supply chain. It is critical that further investments in the Australian

olive industry are supported by well resourced sales and marketing strategies that target both export and domestic markets.

While many local importers would swap to an Australian product of competitive quality and price, it is improbable that 100% import replacement will occur. Even under these circumstances the industry should be able to support a number of markets for local oil in line with the differing consumption patterns and price sensitivities of consumers.

## 6. Management

### 6.1. The Great Southern Group

The Great Southern Group (the Group) was established in 1987 and comprises Great Southern Ltd (formerly Great Southern Plantations Ltd) and its subsidiaries, including;

- Great Southern Managers Australia Ltd,
- Great Southern Securities Pty Ltd,
- Great Southern Finance Pty Ltd and
- Great Southern Export Company Pty Ltd
- Great Southern Funds Management Ltd (formerly Rural Funds Management Ltd)
- Great Southern Farming Pty Ltd (formerly RFM Farming Pty Ltd)

### 6.2. Board of Directors of GSL

#### David Griffiths

B Ec (Hons), M Ec  
*Non-Executive Chairman*

#### Peter Mansell

B Com, LLB, Higher Dip. (Tax Law), FAICD  
*Non-Executive Director*

#### Alice McCleary

B Ec, FCA, FTIA, FAICD  
*Non-Executive Director*

#### Mervyn Peacock

ASA, F Fin, GAICD  
*Non-Executive Director*

#### Cameron Rhodes\*

B Com, CA, FTIA, FCIS, MAICD  
*General Manager – Managing Director post February AGM*

#### John Young\*

B Bus, MBA, CPA  
*Managing Director – retiring at February AGM*

#### Phillip Butlin\*

BA (Econ), CA, ICAEW  
*General Manager – Corporate Development*

\*Directors of GSMAL & Olive Business Company

### 6.3. Senior Managers of GSMAL

#### Julian Dayman

LLB (hons), B Econ  
*Chief Operations Officer*

Dayman returned to Perth in August 2004 to join GSL as Corporate Operations Manager and has since become Great Southern Chief Operations Officer. Prior to his appointment he worked for Macquarie Bank in its Investment Banking Group.

#### Robyn Wood

BSc. (AgSci) Dip Sci (Hons 1), PhD  
*National Viticulturist*

Wood has responsibility for the purchase of future vineyards and land and grape sale agreements for Great Southern projects. Wood also has responsibility for senior level viticulture technical expertise and operational input for Great Southern vineyards estate

Wood has 20 years of experience in horticultural and viticultural research and consulting with major wine companies in Victoria and NSW.

#### Andrea Lemmon

Dip FP  
*General Manager - Olives & Almonds Assets*

Formerly Chief Operating Officer of Rural Funds Management (which became part of the Great Southern group of companies in August 2007), Lemmon assisted in the design of RFM's products and led the team responsible for the provision of corporate services including legal and compliance, investor and adviser services, human resources and OH&S. Prior to joining RFM, Lemmon was a partner with one of a large financial planning firm in Canberra

#### Robert Palandri

B Com  
*National Manager – Horticulture Projects*

Palandri is Great Southern product specialist for vineyard, olive and almond sales. Palandri has been involved with the strategic direction and general management of the winegrape and organic olives projects since their commencement.

**Ron Bell***National Manager – Olives*

Bell has been recently appointed (replacing Michael Campi) and will oversee, monitor and assist in the development of the olive grove managers and key staff. He will also be responsible for the continued development of the horticultural and administrative system concerning the olive projects. Bell has 45 years experience in various horticultural roles, including 8 years in the development stage of a large scale olive grove

**Shane Bodiam***B Rural Sc**Development and Production Manager – Olives*

Bodiam's primary role will manage the development of the olive grove, including the identification of new properties that may be suitable for development. He will assist the National Manager – Olives to ensure optimum farming performance. Bodiam has 15 years experience as agronomist and manager of large scale irrigated and dryland farming operations.

#### 6.4. Senior Managers of OOML, KOOGL and KOOPP

**Mark Kailis***Managing Director*

Kailis has previous experience in organic farming and olive oil production provides Kailis with industry knowledge and business skills related to the organic management program for the Project. Kailis is the key member of Organic Olive grove management team, and has been the major driver in developing the marketing strategy and direction for the group.

The combination of the 2007 and 2008 Diversified Olive Income Projects will generate a significant increase in the scale of operations for OOML, KOOPP and KOOGL and as such, Lonsec identifies Kailis as pivotal to the continuity of management operations.

#### 6.5. Senior Managers of Sumich, Waterville Estate and Olive West

**Vincent Tana**

Vincent Tana has successfully established over 1,000 hectares of olive trees and manages 580 hectares of olive groves. He has also been responsible for the construction of a 6 tonne per hour olive processing plant.

**Peter Tana**

Peter Tana is responsible for the oversight, maintenance and operation of the olive harvesters owned by Waterville Estate. In 2006 a second harvester was purchased from Maqtec Australia Pty Ltd. in which a number of modifications were made to improve harvesting efficiency. Between both machines they harvested over 850 hectares of olive trees.

**Lisa Tana**

Lisa Tana is a Certified Practicing Accountant and is responsible for administration of the Tana Group business.

#### Lonsec Consultant Comments on Operations Managers

*The consultant has met with OWML management team, which is contracted by GSMAL to develop and manage the conventional olive groves at Waterville. The consultant assessed its operations capability and historical olive grove yield results. The consultant also met with OOML management team at Preston River, which is contracted by GSMAL to develop and manage the organic olive groves at Twin Brooks and also manages Great Southern Avon Valley grove. The consultant assessed its operations capability and historical olive grove development results.*

*GSMAL the Responsible Entity is one of Australia's leading agribusiness investment management companies specialising in developing, promoting and managing agribusiness projects. GSMAL's horticultural projects include wine grapes, almonds and olives. GSMAL staff will monitor the performance of OWML and OOML.*

*The Waterville groves manager, OWML, has recently developed and is currently managing 211ha of olive groves. OWML first plantings of olives were in 1999. Over the past 8 years OWML and its associated companies have successfully developed, managed, harvested and processed olives for the production of extra virgin olive oil in the Gingin region.*

*Vincent Tana of OWML is an experienced large-scale manager of horticultural developments. Vincent is responsible for all olive grove development and production management decisions. Reporting to Vincent is an experienced team of grove managers, irrigation specialist and technical advisers.*

*The existing olive groves managed by OWML are well managed.*

*OWML's first Olive grove development was planted in spring 1999.*

#### 6.6. Compliance Committee

GSMAL has established a Compliance Committee to monitor and report on the performance of its duties and obligations as set out under the Compliance Plan. The Compliance Committee meets on a quarterly basis and is comprised of three members, of which two are external as defined in the Corporations Act.

The members of the Compliance Committee are:

- Robert Jenkins (External Member)
- Murray Colvin (External Member)
- Cameron Rhodes (Internal Member).

Any breaches of obligations by GSMAL under the Compliance Plan are recorded in a Register of

Breaches and assessed by the Compliance Committee as to whether they are material or are to the detriment of Growers. Material breaches are reported to the directors of GSMAL, with unresolved incidents reported to the Australian Securities and Investment Commission (ASIC).

### 6.7. ASIC Database Search

As a matter of process, Lonsec conducts an ASIC database search across the key management and operations staff. Lonsec has found no outstanding records on the existing directors, senior managers and operational managers of the Group in relation to disqualified persons, banned securities representatives, banned futures representatives and AFS banned/disqualified persons.

### 6.8. Past Performance of Managed Investment Schemes

GSMAL has offered 27 MIS Projects in the past, with the following areas established to date:

- Pulpwood – 170,000 ha
- Winegrapes – 1,500 ha
- Olives – 2,000 ha
- Almonds – 1,000 ha
- Beef cattle – 217,000 head of cattle stocked on 3.58 million hectares.

### Performance of GSMAL Olives Projects

The establishment of earlier projects at Avon Valley and Preston Valley demonstrate the prevailing risks associated with developing a large-scale commercial olive grove. Both groves have suffered from adverse environmental events such as short term water deficits due to capital works at Avon Valley and unseasonal rainfall and frost events at Preston Valley. In addition to the environmental conditions experienced at the groves, agronomic monitoring and decision making have resulted in some problems with weed management.

This has resulted in the groves producing lower than forecast yields and requiring, in the case of frost affected trees, replanting or special ongoing management.

Management controls have since been initiated to address these problems and GSMAL expects the groves to be fully functional with improved management and nutrition programs supporting the groves

Lonsec notes that returns to Growers at Preston Valley are not due prior to 2009 harvest.

The olive grove known as Waterville referred to by the Lonsec Consultant Horticulturist in the following section was established by OWML prior to Great Southern's involvement.

### Lonsec Consultant Comments on Grove Performance

#### OWML managed olive grove plantings at Waterville

*The existing Waterville olive grove 2007 harvest produced 505.21 tonnes of fruit. The area harvested was of mixed age trees ranging from 7 to 3 years. The area harvested was 131.5ha or 33,635 trees. This provided an average yield of 15.02kg/tree.*

*When weighted on a tree age basis the yields per tree from the 2007 harvest were approximately 50% of the projections for the 2008 Project. That is 50% of the trees were 7 years of age, 40% were 4 years of age with the remaining 10% 3 and 6 years of age.*

*However the varietal mix will be quite different in the 2008 Project to the existing plantings and OWML report that yields are improving. This is a direct result of the higher yielding varieties coming into production and improved management of the groves.*

#### OOML 2000-2002 plantings at Avon (65ha)

**Table 6.1 Actual Olive Yields – 2006 Organic Olive Project**

Variety	Tree Age	2007 kg/tree	2006 kg/tree
Barnea	6-7	31.3	21.5
Frantoio	5-6	19.7	10.6

*In 2007 the average yield for 5-7 year old trees was 24.77. The 7 year old Barnea plantings yielded 31kg/tree.*

*If a poor performing block of Frantoio (6.01kg/tree) is removed the 6 year old Frantoio averaged 25kg/tree.*

*OWML report that large scale mature olive groves which are located near the Waterville groves in 2007 produced (30kg/tree)-(46kg/tree) of olive fruit, depending on the variety.*

#### OOML 2003-2005 plantings at Preston River

*OOML has developed 60ha at Preston River in 2003-2004, and a further 162ha in 2005. Preston River is 70km East of Bunbury in WA.*

**Table 6.2 Stage 1 & 2 Preston River Organic Olive Grove (2005 Project)**

Variety	2007 kg/tree	2006 Kg/tree)
Frantoio	1-2	
Coratina	12	
Arbequina	9-14	
Total Fruit kg	83,880	
Total Tree No	22535	
Kg/Tree	3.72	
Tree Harvested	13561	
Kg/tree Harvested	6.18	Nil



### Actual Olive Oil Yields

In 2006 Stage 1 & 2 trees were 3-4 years old. The trees did not produce a commercial yield in 2006 due to issues associated with plant nutrition, weed control, soil erosion and impact of frost. The lessons learned in stage 1 & 2 have been implemented and it is anticipated that the stage 3 trees should yield a crop in 2008. (3 year old). The Leccino planted in 2005 are expected to produce a commercial crop in 2008.

In 2007 13,561 of the 22,535 trees planted in 2000-2002 were harvested (7,441 of the 22,535 were replants and a further 2,755 of Frantoio and WA Mission did not yield). The total yield was approximately 83,880kg or 6.18kg/tree from the 13,561 trees harvested. The Coratina produced approximately 12kg/tree.

In 2007 the 4-5 year old trees which were harvested achieved a yield of 6.18kg/ tree in 2007. This yield is similar to what GSMAL forecast for the average of 4 and 5 year old trees to be grown at Twin Brooks.

The OOML olive grove management team recently appointed to manage the Twin Brooks site includes a Grove Manager, Operations Manager, Irrigation and Fertigation Manager and Technical Adviser..

## 7. Business Strategy and Corporate Resources

### 7.1. Strategic Objectives

GSL reports that a five year strategic plan is in place for determining its long term strategic objectives. The following strategic objectives were identified by GSL in FY2006:

- Broadening of its sales product range and earnings mix
- Further expanding the distribution network currently in place to drive MIS sales growth
- Leveraging the value of the company's land bank
- Focusing on capital management to fund further growth opportunities

GSL has recently acquired Rural Funds Management Ltd (RFM), a diversified agricultural funds management company with \$205m funds under management. The RFM Diversified Agricultural Fund has provided the core assets for the Rural Opportunities Fund, released by GSL. Lonsec believes this acquisition supports the strategic objectives identified by GSL. The release of two mainstream, non-agricultural managed funds in November 2007 further supports this strategy of diversifying its product range, albeit in a different sector to GSL's traditional expertise.

### 7.2. Strategic Approach

It is evident that GSL has initiated programs to diversify financial products, capitalise on its resource base and continue to improve its financial distribution networks. Lonsec considers these initiatives appropriate to support business strategies and target growth opportunities.

#### Accreditation and Certification Standards

The increasing awareness of consumers has seen an escalating market priority regarding certified wood products. There are two forestry accreditation standards in Australia: the Australian Forestry Standard (AFS) and the Forestry Stewardship Council

(FSC). GSL has advised Lonsec that it has not pursued forest certification for its plantation management activities other than to assess the suitability and commercial viability of the Forest Stewardship Council (FSC) and the Australian Forestry Standard (AFS).

In addition, the company has developed an integrated Health, Safety and Environment Management System (HSE MS) modelled on the international standard ISO 14001. GSL has advised that all Great Southern agribusinesses will be aligned to ISO14001 (environment), AS 4801 (Safety), AS 4360 (Risk), and that the system has been endorsed by the board and fully integrated into corporate and divisional budgets

It should be noted that at present, none of the company's plantations under management are officially certified according to ISO 14001 or FSC standards.

In February 2005, GSMAL obtained independent certification under the Australian Forest Growers (AFG) Disclosure Code for Afforestation Managed Investment for its 2005/6 forestry plantations. The AFG certification was designed to give investors confidence that the offer document for MIS plantation projects is in accordance with the defined standards of the AFG Code. However, subsequent to this, the Timber Investment Managers Association (TIMA), of which GSL is a member, has withdrawn from this accreditation process as there was seen to be no commercial value.

#### Research and Development

GSL is a member of the Viticultural CRC and a founding member of the Industry Pest Management Group. GSL also contributes to pest and disease research programs that may assist in the management of forestry and horticultural systems. Furthermore, Dr Robyn Wood is a member of the Australian Olive Association (AOA) Research and Technical Committee.



### 7.3. Financial Resources

GSL has changed its financial year end from 30 June to 30 September, commencing from 1 July 2006. The company reports that the September year end is more appropriate to reflect the seasonal nature of agricultural operations. From FY2006, the company adopted Australian equivalents to International Financial Reporting Standards (AIFRS).

#### Sales Summary

FY2007 sales results have been released and are presented below:

GSL has offered 27 MIS projects in the past, raising a total of \$1.9b in funds, including:

- 14 Pulpwood plantation projects \$1,378.0m
- 5 Winegrape projects \$117.5m
- 4 Olive projects \$122.3m
- 2 Beef cattle projects \$153.4m
- 1 Almond project \$5.7m
- 1 High Value Timber project \$60.2m

In FY2007, GSL's total MIS sales were \$412.4m, down 10% from \$457m in FY2006. The sales can be broken down between the projects as follows:

- Forestry projects (inc. HVT) \$224.0m (55%)
- Winegrape project \$49.5m (12%)
- Olive project \$55.2m (13%)
- Beef Cattle project \$78.0m (19%)
- Almond project \$5.7m (1%)

The forestry plantation projects are structured so investors pay an up-front establishment fee and no ongoing fees, with a deferred fee at harvest. As plantation projects currently account for a high percentage of sales, GSL is reliant on selling projects each year to generate revenue.

However, GSL will receive ongoing annual fees from the olive, winegrape, almond and beef cattle projects after first commercial yields. These annuity projects comprised 45.7% in FY2007, up from 31.2% in FY2006, and 17.7% in FY2005. As the company continues to diversify its forestry product offering Lonsec would expect to see the proportion of pulpwood plantation projects decline over the coming years.

#### Profit and Loss Summary

GSL has reported that regulatory uncertainty over the future of non-forestry projects as well as one-off superannuation opportunities impacted negatively on revenue and profitability in FY2007.

In FY2007, GSL generated operating revenue of \$447.1m, down 8% from \$485.1m in FY2006. The operating revenue in FY2007 can be broken down as follows: MIS sales \$402.7m (90%); MIS management fee income \$4.6m (1%); financing \$25.8m (5.8%); and agricultural produce sales \$14.0m (3.1%). These figures are not directly comparable with FY2006 due to

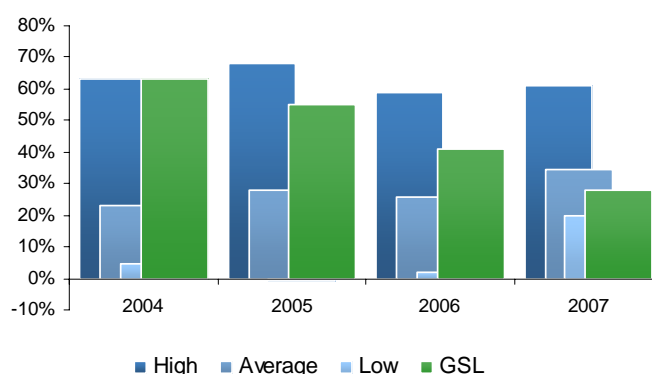
the change of financial year. In accordance with accounting standards, approximately 40% of sales made in FY2007 will be recognised as revenue in FY2008.

Since FY2005, GSL has diversified its MIS product offering with the release of the high value timber, winegrape, olive and almond projects. In addition GSL has entered the mainstream funds management industry by releasing three managed funds. These new products should reduce the overall level of sales volatility and help to diversify earnings going forward. The uncertain future of the non-forestry MIS sector should be resolved by the end of FY2008, and GSL has indicated it has a clear strategy to drive revenue growth, regardless of the outcome.

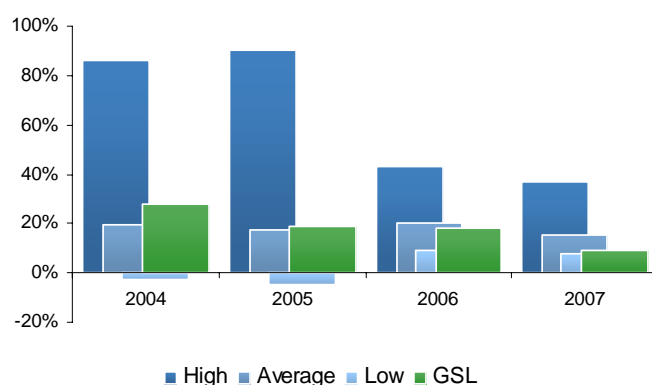
GSL reported an underlying NPAT of \$99.6m however, the board elected to make a provision for the impairment of horticultural assets (\$28.1m) due to ongoing uncertainty surrounding the non-forestry MIS sector. The final reported NPAT (\$71.5m) is the figure that Lonsec has assessed in the analysis.

Figures 7.1 and 7.2 show that GSL's profitability has been adversely impacted by the reduced sales and impairment adjustment in FY2007, with EBITDA /Revenue falling to 28% (41% in FY2006) and Lonsec adjusted ROE (exc. SGARA) falling to 9% (18% in FY2006). When compared to the Lonsec manager database both of these figures are below the average.

**Figure 7.1 GSL EBITDA/Revenue compared to Lonsec manager database**



**Figure 7.2 GSL Adjusted ROE compared to Lonsec manager database**

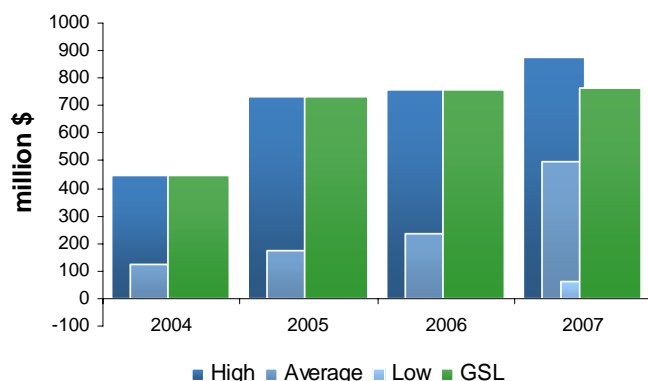


## Balance Sheet Summary

At 30 September 2007, GSL had net assets of \$766m, up from \$682m the previous year. At the end of FY2006, GSL had a moderate level of gearing (Net Debt / Equity) at 59%, up from 55% at 30 September 2006.

Figure 7.3 indicates that GSL has consistently had the Net Assets at the top end of the Lonsec MIS Manager Database.

**Figure 7.3 GSL Net Assets compared to Lonsec manager database**



## Cash Flow Summary

Net cash inflow from operating activities was \$203.6m, down from \$245.0m in the financial year to 30 June 2006. Net operating cashflow for the period 30 June to 30 September 2006 was \$89.2m outflow. A major proportion of the operating cash inflow in FY2007 was due to loan securitisation (\$469.8m), which generally relates to MIS project sales from the prior year.

There were significant cash outflows for investment activities of \$239.0m, including \$197.5 for property, plant and equipment, as well as \$4.5m for the cash portion of the acquisition of Rural Funds Management Ltd. This is consistent with GSL's strategies to broaden the sales product range and build its funds management division. Overall net cash outflow was \$39.1m.

## Capital Management / Funding

In June 2006, GSL renegotiated its securitisation arrangements with Adelaide Bank. Under the new arrangement there will be no recourse to GSL for loans securitised, and hence no security deposit is required to be paid to Adelaide Bank. As a result, loans securitised to Adelaide Bank are no longer carried on the Group's balance sheet.

GSL has issued three separate series of Transferable Reset Exchangeable Securities (TREES) which are a perpetual subordinated reset convertible note and has raised a total of \$260m under these securities. The most recent issue of TREES closed in late 2005, and raised \$124.7m. The funds have been used to purchase land and assets for the winegrape and olive Projects.

In August 2006, GSL entered into a structured finance transaction with ANZ Investment Bank that provides approximately \$215m, of which \$75m is used to purchase an annuity asset from ANZ. The remaining \$135m cash (after costs) is available for GSL to use for capital expenditure.

The cash flows from the annuity covers the interest payments from borrowings, resulting in no cash service obligation for the next five years. The borrowings are repayable in 2012, with recourse limited to a specified portion of GSL's land bank. The company expects the reliance on new funding to reduce as existing plantations are harvested and land becomes available for re-use.

In addition, GSL reports that they expect to increase gearing levels to "modest" levels, to help fund further expansion. To that end, the company established a \$350m facility with selected banks to fund the acquisition of agricultural properties. This facility has subsequently been fully drawn down.

# 8. Product Sales and Marketing

## 8.1. Organic Olive Sales and Marketing

The Grower appoints GSMAL as their agent to negotiate and sell their olive produce at the best marketable sale price. GSMAL has entered into an Organic Olive Sale Agreement for the 2008 Project under which the organic olives will be sold to Kailis Organic Olive Processing and Packaging Pty Ltd (KOOPP) from the harvest at which the olives are first certified organic.

GSMAL has entered into a strategic alliance with Kailis Organic Olives Groves Limited (KOOGL) for future olive projects, including the 2008 Project where both parties agree to negotiate for the sale of organic olives produced.

If the two parties negotiate a Sale Agreement for organic olive produce under the 2008 Project, the volume of olive oil produced at capacity yield will amount to a substantial increase on the current volume of olive oil processed and sold by KOOPP and KOOGL. As such, it is imperative that KOOGL continue to develop distribution networks and gain a solid foothold in both domestic and international markets.

The Sale Agreement is not conditional upon the level of olive oil sales; however the success of any Sale Agreement entered into for the 2008 Project will ultimately depend on KOOGL securing new markets for oil produced as part of the 2008 Project.

KOOGI will be required to continue to develop markets and relationships to sell the anticipated higher volumes of organic olive oil. At this stage KOOGI's development, this represents a significant challenge to the KOOGI management team, and potentially, a risk to Growers.

Lonsec has met with KOOGI and reviewed the strategic plan and detailed financial model supporting brand development and sales growth. The strategy demonstrates KOOGI has access to significant experience and market resources to support the proposed business expansion which is a key requirement for obtaining market penetration and forecast sales.

Examination of the financial model indicates that KOOGI is exposed to a period of negative cashflow which requires the successful implementation of the business strategy to achieve forecast positive cashflows.

KOOGI has initiated actions to support its strategic growth strategies in the coming years, primarily through the commencement of organic olive production in 2003 and the development of retail distribution networks. It is encouraging that KOOGI has secured sales to Harvey Nichols in the UK, as Lonsec expects that in future, it will be the expansion of retail networks internationally that will underpin the success of the KOOGI sale strategies.

The alliance with GSMAL provides KOOGI with a continuity of supply, which will be an important factor for the development of long-term business relationships and supply to olive oil retailers.

The solid growth in organic food sales offers a real potential to capitalise on the high demand for organic foods internationally. Increased consumer demand for organic foods continues to be driven by the perceived health benefits associated with organic products and stronger consumer awareness of good environmental agricultural practices.

## 8.2. Conventional Olive Processing and Sales

GSMAL entered into an Olive Processing Agreement with Sumich for the 2008 Diversified Olives Income Project.

GSMAL has also entered into an Olive Oil Supply Agreement with Sumich to purchase all extra virgin olive oil from the Waterville Olive Groves at an agreed price. Sumich will also purchase any olive oil that does not meet the extra virgin olive oil specifications, unless GSMAL decides to sell for a higher price elsewhere.

Sumich, as part of the Tana Group, maintains an extensive distribution network throughout Australia and within international markets including Asia, the UK and Europe, and the Middle East.

Sumich EVOO Australia is a newly established olive oil brand that encompasses a selection of extra virgin olive oil previously sold through the Sumich Group under a variety of different brands. Sumich intends to leverage off the distribution network and experience of other areas of the Tana Group to capitalise on sales opportunities.

After consideration of the company's strategic direction, discussions with management and a visit to the olive grove and processing facilities, Lonsec is satisfied that Sumich has appropriate distribution and brand development experience to support and promote Sumich olive oil.

## Additional properties

The olive supply, processing and sale agreements for both organic and conventional olives pertain to particular properties, namely the group of properties known as Waterville, and the property known as Twin Brooks. As such, additional agreement will need to be developed to include extra properties as they are acquired and developed. GSMAL has advised Lonsec that it does not foresee any issues with this happening.

## 8.3. Pooling

The olive produce from all Grovelots will be aggregated and Growers will receive their proportionate share of the proceeds from the sale of the olive produce after harvest and processing costs have been deducted. From the Net Harvest Proceeds, management fees, rent and insurance premiums and administration fees will be deducted.

# 9. Horticultural Review

## 9.1. Lonsec Consultant Horticulturist's Report

Lonsec has commissioned a Lonsec Consultant Horticulturist's Report that provides a horticultural review of the Great Southern 2008 Diversified Olives Income Project. A summary of the Lonsec Consultant Horticulturist's Report is provided below and comments regarding principal horticultural risks and

commercial investment risks are included in Section 12 Risks and Risk Management.

*Specific quotations from the Lonsec Consultant's Report are identified in italics.*

Lonsec recommends that prospective investors read these extracts from the report before making a decision to invest in the Great Southern 2008 Diversified Olive Income Project.

## 9.2. Preamble

*This report has been prepared by WHK Thomsons (the “consultant”) for inclusion in a Lonsec Limited (Lonsec) Agribusiness Research report. The purpose of this report is to provide Lonsec with an independent horticultural assessment of the Great Southern 2008 Diversified Olives Income Project (the “Project”) and the ability of the management team to establish and manage the Project. The report gives no other advice in relation to the Project and disclaims all liability for the content accuracy contained in the comprehensive research report other than direct components of this report.*

*WHK Thomsons does not, by preparing this report, give any assurance or guarantee as to the Project's success or financial performance.*

*In completing this report, WHK Thomsons staff has:*

- *Met with key management staff from Olive West Management Limited (OWML) including Vincent Tana and Steve Beckworth. OWML has been appointed to manage the conventional olives plantings located at Waterville and Beermullah.*
- *Visited the Waterville processing plant owned by Waterville Estate.*
- *Visited the existing OWML olives developments including groves established in 2007.*
- *Visited the proposed planting sites at Waterville (west of Gingin) and Twin Brooks.*
- *Met with Organic Olive Management Ltd (OOML) staff. OOML has been appointed to manage the Organic Olive Grove at Twin Brooks.*
- *Visited the organic olive grove at Preston Valley.*
- *Met with Michael Campi and Catherine Vallet (Great Southern Managers Australia Limited (GSMAL) key Project personnel).*
- *Met with Ken Bailey who is the independent expert for the Project.*
- *Assumed the information supplied by GSMAL, OOML and OWML staff and contractors/consultants is complete and accurate.*
- *Assumed OWML and OOML will manage the development of the Project and then assume responsibility for the day-to-day operations of the Project.*
- *Compiled information from other relevant olive growers, consultants and soil and irrigation experts.*
- *Completed a review of the relevant Great Southern 2007 Diversified Olives Income Project documentation.*

## 9.3. Review of documentation

*The consultant reviewed the following key documents:*

- *Management, Principle Consultant, Project Consultants Resumes*
- *Climatic Information from Lancelin (near Gingin)*
- *Water Budget & allocation*
- *Pest and Disease management program*
- *Ken Bailey's Independent expert report*
- *Olive Grove development and management program*
- *John Rasic Land & Water Management Plan*
- *Organic Nutrition plan*
- *Yield Projections data*
- *Reconnaissance Soil Survey – Ian Anderson*

### Soil Survey Report

*The soil report was prepared by John Rasic of John Rasic Pty Ltd. The report and maps describe the soils physical and chemical characteristics. John is an experienced soil surveyor and is a specialist in soil classification surveys and irrigation drainage management plans. John completed soil surveys at the proposed planted area at Twin Brooks and Waterville and is confident that provided all soil amelioration activities as described in his report are completed the soils should not impact on the performance of the olive trees.*

### Independent Agricultural Experts Report

*This report was prepared by Ken Bailey. Ken has 7 years experience in commercial olive production. Ken has been associated with the development and management of organic olive groves at Preston Valley.*

### Water Budget

*The manager reports that 7.25-7.5ML/ha of irrigation allocation will be available for the Waterville and Twin Books groves. This is sufficient for the irrigation of mature olive groves.*

*Water use increases as trees increase in size and produce fruit.*

### Irrigation System Design

*The irrigation system designed for the Waterville and Twin Brooks groves is a twin line drip system. The system includes;*

- *Double lateral 1.6l/hr drippers spaced at 0.4mm*
- *Application rate 5mm/day.*

### Climatic Data

*The consultant reviewed Lancelin climatic data the climate of the Gingin region is similar to established olive groves in Western Australia.*



## **Product Disclosure Statement (PDS) for The Great Southern 2007 & 2008 Diversified Olives Income Project**

*The PDS document describes the Project structure, risks, management team experience and factors affecting Project returns.*

### **9.4. The Project**

*The Project is a 20 year large scale commercial olive grove established at 3 locations in the Gingin region W.A. A minimum of 40% and maximum of 50% of the final 2008 Project area will be managed as organic olives. The proposed 450ha organic olive grove is located at Twin Brooks on the Red Gully escarpment near Gingin. This site currently has 450 ha planted. The conventional olive grove is located at the Waterville and Beermullah properties west of Gingi. These properties include 131ha of 4-6 year old trees (12-30%) and 80ha of trees planted in May/June 2007. The 2008 new plantings (30-48%) will be planted at the 295ha Beermullah site.*

*Great Southern Managers Australia Limited (GSMAL) is the responsible entity for the Project. GSMAL has appointed OOML to develop and manage the organic olives and OWML to develop and manage the conventional olives.*

*GSMAL report that the areas planted in autumn 2007 and those to be planted in autumn 2008 will have had all the soil amelioration activities (to increase soil pH) and irrigation system construction completed as per recommendations.*

*GSMAL report that the majority of the trees to be planted in the 2008 Project will be sourced from four nurseries including; Lewis (SA); Modern (Vic); Daly (Vic and WA). All the trees for the 2008 Project will be planted prior to the 15<sup>th</sup> June 2008.*

*In relation to the conventional olive fruit from the Project, GSMAL have entered into a processing agreement and an Olive Oil supply agreement with Sumich EVOO Australia Pty Ltd (Sumich) for the duration of the Project. This agreement includes a base price of \$5.40/kg of extra virgin olive oil. Other grades of olive oil must also be purchased by Sumich at an agreed price. Sumich is very experienced processor and marketer of agricultural produce including carrots, vegetables and olive oil.*

*The olives will be processed at the existing Waterville Estate processing plant. This plant will need to be expanded as the plantings mature and olive fruit volumes increase. This agreement requires Sumich to process the olives in such a way as to maximise the production of extra virgin olive oil.*

*It is anticipated that the first commercial crop of olives will be harvested from the 4-6 year old trees in April-May 2008. All proceeds from the first 4 crops will be retained by GSMAL to fund the management of the*

*groves. Following the 2012 harvest oil sales net of harvesting and processing fees, management fees, rent, and insurance will be returned to Growers on a per unit basis.*

*The organic olives produced at the Twin Brooks site will be sold to Kailis Organic Olives Processing and Packaging Pty Ltd (KOOPP). The olive supply agreement commences once the first olives from the Project are certified organic. It is reported that the olive fruit sale agreement will include a non binding price/oil quality matrix. As yet this matrix is still to be established. The fruit will be purchased on a \$/kg basis. KOOPP is relatively new in the organic olive oil market and has only a small sales history to date.*

*It is anticipated that the first commercial crop of olives from the 2008 Project will be certified organic and harvested in 2012. Following the 2012 harvest oil sales net of harvesting and processing fees, management fees, rent, and insurance will be returned to Growers on a per unit basis.*

*The technical horticultural aspects of the conventional olive plantings at Waterville and Beermullah will be the responsibility of Vincent Tana. Vincent is Horticulture Manager for the 4,000ha of farming operations owned by the Tana group.*

*The OOML team responsible for the organic olive production at Twin Brooks will be headed by Mark Kailis. OOML currently manage 240ha of organic olive grove at Preston Valley, 800 ha at Avon Valley, 450 ha at Twin Brooks and 15ha at Baldvis.*

*The Gingin region is reported to experience climatic conditions similar to many established olive growing regions throughout the world. There established olive groves within the Gingin region currently producing excellent yields and extra virgin oil quality.*

*The soils on the proposed Waterville and Beermullah sites are described as deep sands with low levels of organic matter. The soils have excellent drainage characteristics and generally will drain to the low areas within the property. It is reported any areas with poor root zone drainage will not be planted.*

*The soils on the Twin Brooks property are predominantly red/brown earths with 30-60cm of loams over medium clays. The soils are reported to have excellent drainage and aeration. Root penetration into the soils should not be impeded and this soil profile has excellent moisture and nutrient retention capacity. The soils however have a low pH that will need to be increased. There are isolated areas which have high gravel content; it is reported that these soils will not be planted. The soils were identified via a detailed soil analysis completed by Jon Rasic. John is an experienced soil scientists and commercial soil surveyor.*



## 9.5. Horticultural Review

### Observations from field visit (Waterville, Beermullah, and Twin Brooks & Preston Valley WA).

The “consultant” has identified critical agronomic risks, which need to be successfully managed if a large-scale Conventional and Organic Olive Grove Project is to be successful.

The risks are listed with comments on the degree to which they have been acknowledged and addressed by GSMAL, OWML (associated entities) & OOML.

**Table 9.1 Summary of critical agricultural factors and infrastructure**

Factor	Consultant's comments
<b>Site selection and suitability for Olives, including:</b>	
<b>Climate</b>	<p>The climate of the Gingin Region is suitable for commercial olive production. There are established olive groves within the region producing best industry yields and oil quality.</p> <p>The climate has sufficient winter chilling requirement for flower initiation and hot summer and autumn temperatures to mature fruit.</p> <p>The climate has been identified by many independent consultants as Mediterranean and excellent for growing olive trees for the production of extra virgin olive oil.</p> <p>Rainfall is approximately 650mm/year and this falls predominantly in the winter months</p>
<b>Soils</b>	<p>John Rasic of J R's Soil Management Services completed a detailed soil survey and classed soils according to their texture, salinity, physical characteristics including potential root depth, water holding capacity and drainage (aeration).</p> <p>It is reported the proposed planting sites for conventional olive production, Waterville and Beermullah have been selected as they contain large areas of land with soils that have excellent drainage, effective potential rooting depth, soil texture suitable for irrigated horticulture and are gently undulating. The land has previously been used for stock grazing and more recently irrigated vegetable production.</p> <p>The soils at Twin Brooks need to be fertile and have the ability to hold large volumes of nutrient. The soils identified for planting on Twin Brooks are predominantly red brown earths which have a 60cm loam top soils which has excellent water and nutrient holding capacity.</p> <p>Ian Anderson of “The Soil Doctor” completed a detailed soil nutrient analysis at Twin Brooks and noted that the soils are light in texture, non saline, acidic and largely deficient in most nutrients. This deficiency is largely due to the “minimal” fertiliser application program of the previous land managers. It was noted that this bank of nutrients needs to be replenished for horticultural use and that fortunately these deficiencies can be corrected provided the key issue of low soil organic carbon is addressed. OOML &amp; GSMAL have indicated they will be implementing Anderson recommendations of incorporating coal fines, Charcoal, organic 2000 into the Twin Brooks soils over the next 3 years</p>
<b>Soil pH</b>	<p>The soils at Twin Brooks, Waterville and Beermullah are reported by Rasic and Anderson to have a low pH levels (4.0-6.0 CACL2.)</p> <p>John Rasic considers the low pH to be the main soil limitation for organic olive production. The current soil pH range is unsuitable for olives; olives require alkaline soils pH 6.5-7.0 in order to achieve projected tree growth rates and yields.</p> <p>It is therefore important that GSMAL continue to ameliorate these soils in the next 3 years by implementing one or all of the methods suggested by Rasic in his soil report. If the soils are not ameliorated then projected yields would most likely be not achieved due to nutrient deficiencies (acid soils infertility). The recommended amelioration program includes application of lime, ammonia nitrogen fertilisers, and liquid lime applications.</p>

Factor	Consultant's comments
<b>Soil Salinity</b>	<i>The topsoils at Waterville, Beermullah and Twin Brooks are described as non-saline with low salinity levels. If these soil salinity levels are maintained through the life of the Project the soil salinity should not impact on olive yields.</i>
<b>Topography</b>	<i>The topography at both Waterville and Twin Brooks is gently undulating. The topography should not pose a problem for machinery.</i>
<b>Adequate Water Resource</b>	<p><i>Irrigation water for the 3 planting sites is to be sourced via bores from the Superficial and Leederville Aquifers.</i></p> <p><i>The Waterville properties have been issued a licence to irrigate 500ha at 7.5ML/year. This is sufficient for Olive trees to produce the projected yields in the Gingin region. At the Beermullah property a dam is being constructed which will be used to store water prior to pumping onto olive grove.</i></p> <p><i>This aquifer is reported (Parsons Brinckerhoff) to be a highly reliable water reserve.</i></p> <p><i>The Twin Brooks property which is situated on the North East edge of the Leederville aquifer has not yet had an irrigation licence issued. However GSMAL has purchased a nearby property (Maud) which has a 2,900ML or 7.25ML/ha licence. GSMAL have drilled test bores to provide information to the WA water authority and have subsequently transferred 95% of the water licenses from Maud to Twin Brooks, with the last 5% to be completed soon.</i></p>
<b>Water Quality</b>	<p><i>GSMAL have constructed dams at Beermullah and Twin Brooks. These dams are designed to aerate the water and reduce the iron content prior to use for irrigation.</i></p> <p><i>The groundwater analysis report indicates the water extracted from the Leederville and Superficial aquifer is suitable for irrigation olive production. Iron is present in the water at levels that require the water to be aerated to precipitate the iron out of the water prior the use in the drip irrigation system.</i></p> <p><i>Existing olive groves irrigated from these aquifers at Waterville are performing well.</i></p> <p><i>GSMAL should regularly have the water analysed to determine the effectiveness of the dam aeration systems. The aeration system is critical and must reduce the iron levels in the water to prevent blockages in the drip irrigation system.</i></p> <p><i>Water quality analysis results from bores at Waterville show the electrical conductivity ranged from 400 -900 EC units. The salts in the water should not adversely impact on the olive tree growth or yields.</i></p>
<b>Flooding</b>	<i>There is little risk of the sites flooding. The Waterville site nearest creek is 5 Km from the plantings. The Twin Brooks plantings are 70m from an aquifer fed creek. Given there is little surface flow into this creek the risk of flooding and inundating plantings is very low.</i>
<b>Drainage/depth to impeding layer</b>	<i>Olives require excellent root zone drainage to achieve the GSMAL projected yields of 15tonnes/ha. It is reported by John Rasic that the soils at both Waterville and Twin Brooks have excellent soil water drainage capability. Areas with poor drainage have been omitted from the proposed plantings.</i>
<b>Fire</b>	<i>Inter-row cover crops grown to improve soil structure will slashed each spring to minimise the fire risk during the summer months. Fire breaks (minimum 20m) will be maintained around all plantings.</i>

Factor	Consultant's comments
<b>Irrigation System</b>	<p><i>The GSMAL Project olive groves will be irrigated via a drip system. Each tree line will have two drip lines with inline drippers spaced at 40cm emitting 1.6l/hr.</i></p> <p><i>The drip lines will be supplied principally from water pumped firstly from bores into a central dam and via relict pumps located on the dam. The dams will provide 3 days water at peak use for each of the plantings.</i></p> <p><i>This irrigation system will provide the management team with the ability to apply 5 mm/day, this is sufficient to meet the mature trees peak requirements during times of peak demand (January- February).</i></p>
<b>Grove design and management factors, including:</b>	
<p><i>Grove design, varieties, suitable tree spacing, and pollination ratio must be proven for the region.</i></p>	<p><b>Conventional:</b></p> <p><i>The 2008 Project includes conventional olive grove at Waterville and Beermullah these plantings include both mature trees, young trees planted in 2007 and trees still to be planted. The new plantings at Beermullah will range from 4m (tree) x 7m (row) (357 trees/ha) to 4m x 6m, (416 trees/ha). Both planting densities should provide sufficient trees/ha to achieve the projected early yields and if pruning is maintained allow efficient mechanical harvesting.</i></p> <p><i>The olive oil varieties selected by GSMAL &amp; OWML are selected for their yield, cross pollination and oil characteristics. These include: Barnea (30%), Picual (30%), Coratina (25%) and Arbequina (15%).</i></p> <p><i>These varieties will be planted such that at any point in the planting a different variety is within 30m.</i></p> <p><i>According to recent experience and international olive research this should give adequate cross-pollination and yield potential.</i></p> <p><i>The varieties selected and the percentage of each variety is very similar to recent plantings completed by other largest scale olive groves in Victoria.</i></p> <p><i>These varieties have performed well in the existing OWML grove. The varieties provide production risk management and opportunities for oil blending.</i></p> <p><i>The plantings are in long rows to assist efficient mechanical harvesting.</i></p> <p><b>Organic:</b></p> <p><i>The Twin Brooks 2008 olive plantings will be established using conventional horticultural methods and inputs. Once the trees are established and weeds are controlled the grove will be moved to using organic certified inputs.</i></p> <p><i>It is reported by GSMAL that the trees will be planted at 6m x 5m spacing (333 trees/ha). The Olive varieties planted have been selected by GSMAL and KOOP for their market acceptance, yield and pollination characteristics and include; Coratina, (30%) Leccino+ Frantoio + WA Mission (30%), Picual + Arbequina (20%), Koroneiki (10%) and Pendolino (10%).</i></p> <p><i>The proposed planting density of 333 trees per hectare is considered suitable for modern olive groves. The density should provide a balance between tree management in the mature grove and early yields per hectare.</i></p> <p><i>The trees for the new plantings will be supplied a number of reputable nurseries including; Modern Olives, Dalley, Lewis, Agro Olive and Olea nurseries.</i></p> <p><i>The "normal" planting time for olive groves is late autumn or early spring. All the 2008 trees will be planted prior to 15 June 2008. Trees are nursery grown and trained to 1 - 1.2m in height. The trees are delivered in plastic bags and planted out. The consultant viewed the trees planted as part of the 2007 Project and all these trees have established well.</i></p> <p><i>Experienced planting contractors have been approached and will be used to complete the tree planting activities.</i></p>

Factor	Consultant's comments
<i>Effective weed control is essential in years 0-2 to remove competition</i>	<p>The OWML management team led by Vincent Tana is experienced in agricultural management and understand the local weed pressures and best management practices. Weed control typically includes glyphosate application or knockdown herbicides along the tree row. The in row weeds are controlled by slashing. Weed control in the existing OWML grove is of a good standard.</p> <p>The Twin Brooks 2007 development appears to have been rushed and at present is being managed by GSMAL staff. This management team have not displayed the same level of weed control as the OWML 2007 plantings. This is possibly due to the "rushed" initial development phase and should be improved for the 2008 plantings. The weeds are controlled using conventional weedicide in the first two years.</p>
<i>Irrigation installed on site prior to planting is critical to good tree establishment and therefore early yields</i>	GSMAL report that the drip irrigation system will be installed prior to tree planting. (as per design and installation contracts)
<i>There needs to be a site-matched fertiliser program, which specifies time of application, amount and type of fertiliser</i>	<p>Conventional:</p> <p>OWML has developed a fertigation management plan for young and mature olive groves. This fertigation plan is based on industry knowledge and experience with existing olive developments in Australia and overseas. All the macro nutrients N: P: K will be applied via the drip irrigation/fertigation system. Micro nutrients may be applied via foliar sprays.</p> <p>The existing trees planted by OWML have made acceptable growth and yields.</p> <p>Organic:</p> <p>OOML is responsible for the development of a fertigation management plan for the Twin Brooks organic site. This will model available scientific information and experienced gained at the Preston Valley and Avon Valley organic groves. The organic management plan is well developed and is based on supplying similar levels of N:P:K:Ca:S: as a conventional olive fertigation program. The cost of implementing the organic program is significantly higher than the conventional fertigation program. Debra Archdeacon of Organic Olive Management Limited will be responsible for providing results from Preston River to the OOML team responsible for Twin Brooks.</p>
<i>Tree training including support structures is essential to ensure harvesting efficiency early yields and maximum mature yields per tree.</i>	<p>OWML Management understands the need for tree training and pruning to produce a tree which is strong and capable of producing early yields while at the same time of a shape suited to modern over the row harvesters. OWML understands the need for cost effective and efficient tree training and pruning while still maximising canopy size. Initial tree training therefore minimises canopy removal except for the removal of all branches below 600mm. This will enable the tree to be efficiently harvested with over the row machines. To assist trees to grow with straight trunks and to provide support against strong winds, young trees will be supported by a single trellis wire system. The wire and trellis posts are removed after year 4. Trees will be trained with a central leader and lateral growth will be encouraged more into the space down the row than between the rows.</p> <p>KOOGI intend to use tree shakers to harvest the olive fruit. Therefore tree training is focussed on removal of all branches below 1 metre, topping of the main leader and the development of main branches which are also topped to change growth angles and encourage lateral growth. The existing 2007 plantings at Twin Brooks have stakes installed to support trees rather than a trellis system. OOML is not yet decided if a trellis or stake system will be installed for the 2008 plantings. The consultant would recommend a trellis system be installed.</p>



Factor	Consultant's comments
<p>Harvesting technology.</p> <p>Success of large Australian olive groves is dependent upon efficient mechanical harvesting.</p>	<p>The GSMAL Project olive harvesting method for the conventional plantings will be over the row mechanical harvesting technology. As trees develop in size and density the over the row harvesters will initially be "modified" grape harvesters, followed by Gregoire olive harvesters and finally the Colossus olive tree harvesters. OWML believe these over the row harvesters are the most efficient and effective means of olive harvesting provided trees are maintained at 5 meters in height and 4m wide.</p> <p>OWML estimate that the Colossus will remove 8 tonne/hr from mature trees. This equates to approximately 2.5 mins/tree or approximately 0.5-0.6ha/hr depending on the variety.</p> <p>In order to harvest all the fruit in the April- June period OWML will provide a Colossus harvester for each 250ha of mature grove. If insufficient harvesting capacity is available this may lead to some crop hanging on the trees too long and impacting on the next crop. A Colossus harvester is approximately \$900,000 to purchase. OWML has commented on the significant capital cost associated with the purchase of Colossus harvesters and that this is causing concern for OWML.</p> <p><b>ORGANIC –TWIN BROOKS</b></p> <p>GSMAL and Kailis Organic Olive Processing and Packaging P/L (KOOPP) must establish and agree on an olive harvest protocol as soon as practical each year prior to the olive harvest. Under this protocol it is anticipated that the olives from Twin Brooks will be harvested using a mechanised tree shaker. This technology is slower than over the row harvesters. It is estimated that the tree shakers will remove 90% of the fruit at a rate of 75 trees per hour or 0.2ha/hr. To remove olive fruit in timely manner an increased number of shaking machines and staff will be required to harvest a large commercial olive grove. It should be noted the shaker machines cost significantly less to purchase than a Colossus.</p>
<p>Processing &amp; Oil Extraction.</p> <p>To optimise oil quality processing is best completed within 4-8 hours of harvesting.</p>	<p>To maximise the volume of extra virgin olive oil produced from the Waterville, Beermullah and Twin Brooks groves, the olive fruit must be processed quickly following harvest to reduce the risk of oil oxidation reducing the quality of the oil.</p> <p>The Sumich group have established an olive processing plant at Gingin. The plant is managed by Vincent Tana of OWML and currently has a capacity of 5 tonnes per hour. It is planned to install additional equipment and storage facilities to increase the capacity to 30 tonnes/hour.</p> <p>GSMAL and the Sumich group have entered into an olive processing agreement.</p> <p>Under the terms of the agreement Sumich agrees to process all the conventional olives produced from the 2008 Project into olive oil as soon as possible after delivery (within 24hrs). Sumich must process the olives in accordance with best industry standards.</p> <p>GSMAL report that Kailis Organic Olive Processing and Packaging P/L have agreed to buy the 2008 Growers certified organic olives. The price paid for the olive fruit is dependent on the free fatty acid and polyphenol composition of the fruit, oil extraction rate and an agreed annual price matrix.</p>
Pest and disease control	<p>OWML and KOGL are aware of all known pest and diseases of olive in the Gingin region. Pests and diseases such as black scale, anthracnose and verticillium wilt are known to occur if the right climatic conditions prevail. OWML has adequate control measures including a range of registered insecticides, oils or fungicides. OWML report that to date insects and diseases have not impacted on yields or oil quality at Waterville.</p> <p>OWML report that leaf chewing garden weevils at Preston and Avon have in some "hot spots" in the groves reduced tree growth, but in general are successfully controlled by placing wool collars or tree guards on all tree butts. OWML report that fungal diseases are controlled using Sulphur and Copper. and Black scale is controlled using approved oils.</p>



Factor	Consultant's comments
	<i>It is anticipated that the control measures in the organic groves will be effective and that the known pest and diseases should not adversely affect the olive plantings and yields. This is provided management are able to implement in a timely manner the pest and disease program currently used at Preston Valley.</i>
Oil Quality.	<p><i>The proposed varieties to be planted at Waterville are accepted within the world olive industry as having excellent quality oil. The oil content of the fruit is influenced by irrigation management, weather conditions during the oil accumulation phase and timing of harvest. Average oil yields from Waterville plantings in 2007 were 15% for manzanillo but higher for other varieties. It is expected that oil yields from the 2008 Project will be in the range of 16-20%. The existing Waterville grove has been producing extra virgin olive oil with low oleic acid levels.</i></p> <p><i>The average oil yield from the 2007 fruit harvested from Avon valley was Barnea 19.4% and Frantoio 24%.</i></p> <p><i>The varieties to be planted at Twin Brooks have been assessed for their suitability to the warm climate. The selection of varieties is based on experience, research and advice from OOML.</i></p> <p><i>Average oil yield from 81,000kg of Preston Valley fruit in 2007 was 16-18%.</i></p>
Management structure and capability	<i>GSMAL is experienced in managing large horticultural projects. The projects are adequately resourced. It is expected that GSMAL will provide the necessary financial and physical resources to ensure the 2008 Project is developed on time and within budget.</i>

## 9.6. Conclusions

*This review of the Great Southern 2008 Diversified Olives Income Project and the recent site visit to their existing plantings at Gingin and Preston Valley managed by OWML and OOML led to the following conclusions:*

- Australian large scale conventional olive oil production is only 8 years old. Therefore it is difficult to make a definitive statement concerning projected yields. However based on historical yield data from other groves, and an assessment of the OWML 2007 crop at Gingin, it is reasonable to forecast olive fruit yields from mature trees of 14-15 tonne/ha and oil extraction rates of 20%. This consultant has relied on yield data provided by and OWML and other large scale olive producers.*
- Australian large scale organic olive oil production is in its infancy (1-3) years old, therefore there is no historical yield information or established proven management techniques and as a result, the risk of not achieving the projected yields is higher than those projections for the conventional plantings.*
- The water allocation to be made available to the Project plantings is sufficient for olives grown in the Gingin region. GSMAL have confirmed that irrigation water licences are available for both the Waterville and Twin Brooks plantings.*
- During the past 6 years the Sumich and Kailis "Groups" have established and managed large scale olive groves to world's best standards. The consultant regard them as professional organisations with well established technical olive production techniques, harvesting technology, olive processing and marketing olive oil on the domestic and export market.*
- OWML and OOML have demonstrated their commitment to research and development by establishing trials including trellis designs, fertigation program foliar treatments, irrigation schedules etc and applying results to their groves. In addition, Growers can be confident that the harvesting of the olives will be efficient due to the continual improvement and research conducted by OWML and OOML.*
- All pest and disease risks have been successfully managed at Gingin in exiting plantings.*
- The average climatic conditions meet all the critical requirements for olive growing.*
- Management is well aware of the requirement for good soil drainage in commercial olive groves and has only selected soils at Waterville, Beermullah and Twin Brooks with adequate soil depth.*
- Increasing the soil pH is the most critical soil amelioration activity that needs to be completed at Twin Brooks, Waterville and Beermullah.*
- The proposed source of irrigation water quality is acceptable but careful management(aeration) of the water, due to high iron levels will be required to ensure the iron content does not impact on the drip irrigation system outputs.*

- Good quality water is available from the Leederville aquifer (provided iron levels are reduced via aeration) for irrigation of the olive plantings provided average rainfall falls in the recharge areas in most years.
- Effective and efficient weed control and nutrient application are the most critical horticultural components of the Twin Brooks organic olive plantings.
- The price per litre paid by international olive oil buyers for Australian extra virgin olive oil (conventional and organic) is the most critical aspect when determining the likely returns from the Project. The Sumich and Kailis Groups have assembled an experienced and qualified oil processing teams and developed an oil distribution network to sell the Project's olive oil.
- The marketing agreement in place for the conventional olive oil produced from the Project contains a minimum price. However a world over-supply of olive oil or retaliatory tactics by Spain, Greece or Italy may decrease in the price of extra virgin olive oil paid to world producers and therefore lowers this minimum price within the agreement.
- The organic olive fruit will be sold under a price per kilo of olive fruit and is subject to a price matrix.
- It is reported that world olive production is expanding rapidly.

## 10. Application of Funds and Ongoing Costs

### 10.1. Establishment and Ongoing Fees

Establishment fees (Year 0-2, exc GST) for olive projects reviewed by Lonsec range between \$33,135 and \$59,255, at an average of \$44,771 per hectare. The Great Southern 2008 Diversified Olives Income Project has an establishment fee of \$59,255 (exc GST) which positions it as the highest establishment fees in the Lonsec data range for olive projects.

The high application fee is somewhat offset by providing certainty to Growers that no out of pocket payments will be required throughout the length of the project.

Proceeds from olive produce sales during the initial period and the first four financial years of the Project are retained by GSMAL as remuneration for the provision of ongoing management services and olive grove rental after years 0-4.

Lonsec has conducted a Net Present Value (NPV) analysis of Project fees with the application of a 10% discount rate and compared these fees against other horticulture projects reviewed by Lonsec. The Great Southern 2008 Diversified Olives Income Project NPV of Project fees equates to \$91,935. This is the lowest of NPV horticulture fees in the Lonsec database which has a high of \$165,436 and an average of \$141,072. Although the Project NPV fees compare favourably to other horticulture projects, the management systems of olive groves are different to other horticulture enterprises, so care must be taken when comparing management fees.

### 10.2. Manager Revenues, Costs and Profit

Lonsec has reviewed the cashflow model provided by GSMAL and has extracted the following revenue and cost information. The following table compares costs over the first three years of the Project and total Grower costs (including inflation) over the full term of the investment.

**Table 10.1 Grower Payments - Great Southern 2008 Diversified Olives Income Project**

Grower Payments - \$ per Hectare	Years 0-2	% of Total	Project Life	% of Total
Application fee	57,500	97.0%	57,500	28.8%
Management fee	1,579	2.7%	104,005	52.0%
Rental fee	175	0.3%	33,499	16.8%
Insurance	0	0.0%	4,971	2.5%
<b>Total</b>	<b>59,255</b>	<b>100.0%</b>	<b>199,976</b>	<b>100.0%</b>

Table 10.2 - Allocation of Grower Payments - Great Southern 2008 Diversified Olives Income Project

Manager Costs - \$ per Hectare	First 3 years	% of Total	Project life	% of Total
Site establishment	1,804	3.0%	1,804	0.9%
Trees	4,136	7.0%	4,136	2.1%
Land and water costs	3,353	5.7%	31,793	15.9%
Other capital including irrigation costs	9,496	16.0%	9,496	4.7%
Overheads and management	13,391	22.6%	129,019	64.5%
<b>Total Operational Costs</b>	<b>32,179</b>	<b>54.3%</b>	<b>176,247</b>	<b>88.1%</b>
Commission	5,750	9.7%	5,750	2.9%
Legal	5,750	9.7%	5,750	2.9%
Grower reporting and administration costs	443	0.7%	3,949	2.0%
Tax payable by promoter	4,540	7.7%	2,484	1.2%
Promoter margin after Tax	10,593	17.9%	5,795	2.9%
<b>Total</b>	<b>59,255</b>	<b>100.0%</b>	<b>199,976</b>	<b>100.0%</b>

As shown in Table 10.2 above, GSMAL will generate an after-tax profit margin of 2.9% on the total funds paid by the Growers. This is low compared to other manager cashflows assessed by Lonsec; however it should be assessed alongside the provision for Operational Costs in Table 10.2.

The major feature of Table 10.2 is the high proportion of Grower payment that have been allocated to Overheads and Management (64.5%) This is mainly due to the use of external operational managers for this project, but may also indicate unreasonably high provisions by GSMAL.

However, investors must be aware that these returns are calculated on an accounting basis, which does not take account of the time value of money and so cannot be directly compared with the forecast after-tax Grower IRR of 10.3%.

Ideally, the Grower IRR would be compared with the manager IRR, but it is not always possible to calculate the IRR of a given cashflow, as the ability to make the calculation depends on the specific timing of the cash inflows and the cash outflows. The manager cashflow as assessed by Lonsec falls into this category.

However, another method of comparison is available, wherein the NPV of the Grower and the manager cashflows, discounted at a common rate, can be compared in magnitude.

Lonsec has performed such a calculation, in this instance discounting both the Grower and manager cashflows at the Grower IRR. The result will always be a zero NPV for the Grower (the IRR of a cashflow is, by definition, the discount rate that returns a zero NPV) which can be compared with the NPV of the manager cashflow.

The NPV(10.3%) of the manager's after-tax cashflow is \$5,297 per hectare. This is the lowest NPV of a manager's after-tax cashflows in a limited Lonsec dataset of comparable horticulture projects (average \$16,613). The NPV(10.3%) of the Grower's after-tax cashflow is zero.

This analysis would tend to indicate that returns from the Project may be slightly skewed toward the manager. In very broad terms, it can be argued that the manager probably faces a higher overall level of risk than the Grower and should therefore receive a greater share of the returns. The difficulty comes, however, in determining whether the apportionment of the returns between the two parties is appropriate and equitable. On this matter, Growers will need to make their own assessment, having regard to their particular circumstances.

## 11. Product Disclosure Statement Assumptions

### 11.1. Financial Model Assumptions

The Lonsec assessment of key Project assumptions is based on the expert advice of the Lonsec Consultant, the PDS and Expert's Reports. Lonsec has adjusted assumptions as necessary if the assumptions are unrealistic or have no reasonable basis.

Lonsec cautions that unforeseen circumstances may impact on the stated assumptions. It is important to recognise that long-range returns are based on economic, physical, and environmental inputs that are difficult to accurately forecast.

#### Projected Conventional Yields

All olive groves will vary in fruit yields and oil content from year to year. The Project yields are reported to be based on historical yields from existing olive groves harvested in the Gingin region during the past 3 years.

**Table 11.1 2008 Diversified Olives Income Project yield projections compared to other large scale olive groves reviewed by Lonsec Consultant Horticulturist**

Year	2011	2012	2013	2014	2015	2016	2017
Project Year	3	4	5	6	7	8	9
Great Southern Conventional (new trees) t/ha (assuming ave 391trees/ha)*	1.99	4.69	10.54	15.23	15.62	18.16	18.16
Great Southern Organic – Twin Brooks (t/ha) (330 trees/ha)*	1.68	3.96	8.91	12.88	15.34	15.34	15.34
Olive groves reviewed by Lonsec Consultant (t/ha)	2.45	6.15	9.2	11.98	13.87	14.64	15

Other large-scale olive orchards in south eastern Australia established in 2000 - 2004 have reported yields in the following range:

- 1-4t/ha in year 3
- 2-7t/ha in year 4
- 2.8-9.5t/ha in year 5
- 5.4-13t/ha in year 6
- 12-14t/ha in year 7

Based on the yields achieved and projected yields at other large scale olive groves in 2007, it is reasonable to assume that the projected year 3 - year 7 yields for the Great Southern 2007 Diversified Olives Income Project could be achieved.

However, the projected conventional mature yield for the Great Southern 2008 Diversified Olives Income Project is 18.16t/ha. This average yield is not supported by historical yields being achieved by other large scale olive groves in either south eastern Australia or the Gingin region, as there are no significant plantings of trees older than 7-8 years. It is our opinion that yields will vary significantly from year to year over the Project duration and the 18.16t/ha conventional olive yield may be difficult to achieve as an average yield.

#### Projected Organic Yields

GSMAL report that the only difference in organic to conventional is the inputs in organic horticulture are not synthetic. Therefore yield assumptions are similar for both methods of growing.

*Specific quotations from the Lonsec Consultant's Report are identified in italics.*

#### Yield

Each Grower will lease a Grovelot that comprises young organic, young conventional and mature conventional trees. The Project will utilise different planting densities per hectare to accommodate different management systems and soil properties. In order to analyse Project yields, Lonsec calculates and compares yields in units of tonnes per hectare.

#### Conclusions

*Based on historical yield data from other groves in Victoria and an assessment of the OWML 2007 crop at Gingin, it is reasonable to forecast olive fruit yields from mature trees of 14-15 tonne/ha.*

#### Oil Extraction

Conventional olives will be sold as olive oil which requires processing olive fruit to extract the olive oil prior to sale. A key determining factor of this Project relies on the extraction rate achieved during processing. The Lonsec Consultant concludes that it is reasonable to expect olives grown under the 2008 Project will achieve an extraction rate between 18% and 24%.



## Lonsec Yield Assumptions (tonnes per hectare)

Based on the conclusions of the Lonsec Consultant and other information provided by GSMAL, Lonsec has constructed the following yield profile to assess Project returns.

**Table 11.2 Lonsec Yield Assumptions for the Great Southern 2008 Olives Income Project**

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Project Year	0	1	2	3	4	5	6	7	8
Organic (t/ha)	0	0	0	1.6	3.8	8.6	12.5	14.8	15.0
Conventional (t/ha)	1.5	2.6	3.5	5.1	6.8	10.5	13.4	13.6	15.0

## 11.2. Price

### Organic Olives

GSMAL has entered into an Organic Olive Sale Agreement under which the 2007 Project's organic olives will be sold to KOOPP from the harvest at which the organic olives are first certified organic. GSMAL and KOOPP have entered a similar agreement for properties currently included in the 2008 Project.

The Organic Olive Sale Agreement contains an indicative and non-binding organic olive price matrix with purchase prices in the range of \$1.15 to \$1.30 per kilogram of olive fruit, indexed to CPI annually. The sale price is determined from the price matrix taking into consideration the levels of free fatty acids, polyphenols and the oil extraction rate during olive processing. If agreed the price determined under the price matrix will apply for the entire Project.

If GSMAL and KOOPP fail to agree to the price matrix then the purchase price will be \$1.125 per kilogram of olive fruit indexed to CPI from 2007 and will revert to an annually negotiated price each year from 1 July 2014.

GSMAL has entered into a strategic alliance regarding olive production and olive schemes with KOGL and has entered into an Olive Oil Sale Agreement for properties currently included in the 2008 Project.

### Conventional Olives

GSMAL has entered into an Olive Oil Supply Agreement for the 2008 Project with Sumich. Under the agreement, the purchase price for extra virgin olive oil will be that agreed between GSMAL and Sumich, or if no agreement is reached the market price will be applied as determined by an independent expert.

During the first seven years of the 2008 Project the purchase price is \$5.40 per kilogram of extra virgin olive oil unless the trade exchange rate of extra virgin olive oil futures contracts falls below the base rate at 26 February 2007 by 40% or more for three or more consecutive months.

Refer to section 9.6 for the Lonsec Consultant comments on price.

### Lonsec Price Assumptions for Organic Olives and Conventional Olive Oil

Based on the Sale Agreement with KOOPP and input from the Lonsec Consultant, Lonsec is of the opinion that it is reasonable to assume a mid-case price in the vicinity of \$1.225 per kilogram for organic olives produced as part of the 2008 Project.

Lonsec believes it reasonable to apply a mid-case conventional olive oil price of \$5.40 per kilogram indexed annually to CPI. This price is in line with other olive projects reviewed by Lonsec.

## 11.3. Costs

### Lonsec Consultant Horticulturist's comments on costs

*It is reported by GSMAL that the estimated annual operating costs for a large scale olive grove are \$3,500/ha. This cost estimate is in line with industry standard costs.*

*OOML estimate the annual operating costs for the organic olive plantings to be \$5,500/ha. The increase in costs is predominantly related to the increased costs associated with fertiliser inputs and increased labour associated with weed and pest and disease control under organic farming practices.*

Lonsec is of the opinion that the estimates for operating costs, while difficult to estimate with certainty, are based on reasonable assumptions.

## 11.4. Cost Inflation

Lonsec has the view that it is appropriate to assume a long term Australian inflation rate (CPI) of 2.6%. This view is based on a RBA survey of market economists for the year to December 2008.

## 11.5. Option Valuation

Based on information supplied by GSMAL, Lonsec has applied an earnings based valuation of the olive grove to calculate the combined IRR for a Grower and Option holder.

The earnings multiple has been applied to the income stream of the Olive Business Company and reflects the required rate of return of the investment taking into account the risks and uncertainty of the business at



the date of valuation. In applying the earnings multiple to the Olive Business Company, Lonsec has assumed that the economic returns, olive industry outlook and inherent risks do not materially change from current conditions.

The scale of the Olive Business Company will heavily influence the impact of potential earnings, and has been taken into account by Lonsec when determining the earnings multiplier to model investment scenarios.

Lonsec has also taken into consideration that the maximum combined ownership of Option holders will be 49% of the Olive Business Company, with the majority ownership remaining with GSMAL.

Under these circumstances and after referring to the Price Waterhouse Coopers report prepared for GSMAL, Lonsec is of the opinion that it is reasonable to assume an earnings based valuation ranging from 5 to 9 times, with a mid-case of 7 times.

## 12. Risks and Risk Management

### 12.1. Lonsec Risk Assessment

This investment contains inherent risks usual to long-term commercial horticulture projects, risks particular to olive groves, financial risks and other risks. Section 3 of the PDS outlines a range of risks and risk management strategies specific to the Project. Growers should read and understand these issues before investing in this Project.

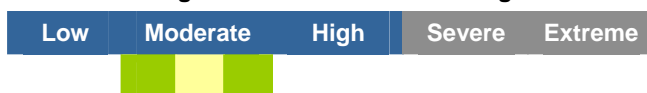
The Lonsec risk analysis aims to assess the level of risk associated with this investment and assign a risk rating ranging from Low through to Extreme.

The formulation of the overall risk category is a combination of analysis including:

- Lonsec Determinant Ratings Analysis – incorporating qualitative and quantitative assessment criteria.
- Lonsec Consultant Horticulturist's Opinion – detailing specific risks associated with grove operations.
- Risk Profile Table – includes an assessment of the likelihood, consequence, and management of risks.
- PDS and Project Expert Reports – a review of the information provided by Project management.

Lonsec has applied a 'Moderate' risk rating to the Great Southern 2008 Diversified Olives Income Project.

Figure 12.1 Lonsec Risk Rating



### 12.2. Principal Horticultural Risks

#### Lonsec Consultant Comments on Risk

*The principal horticultural risks associated with developing and growing a commercial olive grove in the Gingin region 100km north of Perth in Western Australia and listed in the Great Southern Diversified Olives Income Project 2007 - 2008 PDS, independent experts report or identified by the consultant are discussed below:*

#### Environment Climatic/Growing Risks

*Historical climatic records indicate the average weather conditions are suitable for olive oil production. However weather conditions outside the average pose some risk to the performance of the Project. These events include:*

##### **Heavy or prolonged rainfall events at harvest**

*In the Gingin region heavy prolonged rainfall just prior to harvest can occur. The occurrence of these events can impact on olive oil quality and therefore returns to Growers in any given year.*

##### **Extreme hot winds or prolonged rainfall at flowering**

*As olive flowers are predominantly wind pollinated there is a risk that abnormal weather during the 2-3 week flowering period may reduce fruit set for the next year's crop. OWML and OOML are aware of the need for trees to be in excellent health and not water stressed during flowering.*

##### **Frost**

*The occurrence of frost during spring or autumn can impact on olive yields. Frost during late autumn may damage fruit and severe spring frosts can damage flower buds. The occurrence of frosts during spring in and around the Waterville grove is reported by OWML to be very rare. OWML report that since they have been producing olives on the Waterville property there has been no yield loss due to frost.*

##### **Storm and hail**

*Storm and hail damage to olive trees and olive fruit is a risk. Severe storms do occur but over the 20-year Project period hail is not expected to significantly affect the financial performance of the Project. Grower proceeds are pooled which reduces the risk to individuals. Crop insurance is available for Growers to protect their potential crop income.*

##### **Irrigation allocation**

*One of the major strengths of the GSMAL Project is that the irrigation water is sourced from sub-surface aquifers (Leederville and Superficial). The water resource is reported to be sustainable and irrigation by existing primary producers has not drawn down aquifer*

levels. The water extracted from the aquifer is of reasonable quality and suitable for olive production.

It is reported that GSMAL has a licence to irrigate 500ha @ 7.5ML/ha at the Waterville site and 2900ML or 7.25ML/ha at the Twin Brooks site (once approvals are provided).

The water risk at Gingin is low in comparison to projects on the Murray Darling River System.

OWML's Vincent Tana reports that they have monitored the water quality on a regular basis over the past 2 years and has not recorded any change in water quality.

There is a risk that the water resource availability may be reduced in the future by changes in government regulations or climate changes reduce the volume of water entering the aquifer.

### **Tree quality**

Management understand the risks of late planting and planting trees below minimum specifications. The olive trees required for planting in autumn 2008 are presently on order from 4 major nurseries and will be closely monitored prior to planting.

### **Trellis/stake installation tree training**

Lack of tree training and support structures in the early years may impact on the strength of the tree and lead to significant tree losses in strong winds in years 2-5. Management is well aware of these risks and should ensure trees are trellised/trained on a regular basis during the first 4 years of growth.

### **Soils, drainage and salinity**

J.R's Soil Management Services completed the detailed soil survey reports for Waterville, Beermullah and Twin Brooks. The reports provide recommended soil amelioration activities and provided these activities are implemented and irrigations are matched to tree requirements and soil water holding capacity, the soils should not greatly impact on the Project performance.

## **12.3. Management and Commercial Risks**

### **Marketing the product**

The volume of organic olive oil processed and sold will be a substantial increase on current KOOGL and KOOPP sales, which will need to establish further markets in order to sell the forecast level of organic olive oil produced under the Project.

The organic sale agreement is not conditional upon the level of olive oil sales, however the success of the sale agreements for the 2007 Project and any sale agreement that is entered into in relation to the 2008 Project will ultimately be dependent on the ability of these companies to market and sell the olive oil.

### **Changes in the law**

Growers should be aware that the success of the Project and the returns achieved by Growers may be

affected by changes in the taxation, regulatory, or legal environment, including changes in legislation and the imposition of new levies, imposts or other taxes.

The Project has been issued with a Product Ruling from the ATO which sets out the Commissioner's opinion on the way in which the relevant provisions identified in the Ruling apply to the entities that take part in the scheme. However the Product Ruling only deals with the laws enacted at the time it was issued and changes to the law will take precedence over the application of the Product Ruling.

### **Loss of key staff**

Loss of key staff with the necessary horticulture skills can be a problem, especially where intensive grove management systems are employed. Staff training programs for permanent staff and management planning for this particular risk should enable GSMAL to avoid adverse impacts in the event this situation did arise during the Project.

## **12.4. Risk Management**

### **Stocking Guarantee**

GSMAL guarantees that 12 months after the commencement of the Project there will be an average 330 olive trees per hectare for both the young organic olive trees and the a weighted average of 380 olive trees per hectare for young conventional olive trees. The level of stocking will be assessed by the Olive Expert.

### **Insurance**

GSMAL will seek to arrange insurance for Grovelots, olive trees and Grovelot infrastructure on behalf of the Growers. Insurance will be sought for usual horticultural risks including fire, including insuring the current and future olive produce against hail, frost, fire and other usual risks.

### **Limitation of Liability**

GSMAL believes that the Grower's liability to the RE is limited in accordance with the terms of the Project Constitution but is unable to give an absolute assurance that liability is limited

## **12.5. Risk Profile Table**

Lonsec has listed the critical Project risks, the potential impact of risks and the level of risk management that is expected to be implemented.

The tabulation shown is based on Standards Australia Risk Management Standard AS/NZS 4360:1999.

Lonsec assessment of Project risk identifies the following five risks as containing the highest level of risk to the outcomes of the Project:

- The horticultural system, particularly organics, may not be able to produce forecast yields

- A decline in domestic or international demand for premium olive oil
- Loss of key personnel from the operational managers
- Olive prices negotiated in the offtake agreements may be lower than expected
- Organic certification not achieved

Table 12.1 Lonsec Risk Profile Table

Great Southern 2008 Diversified Olives Income Project		Lonsec's AS/NZS Based Risk Assessment			
Description of Risk	Possible Outcome	Likelihood Rating	Consequence Rating	Proportion of risk expected to be managed	Net Level of Risk
		Rare	Insignificant		5 = Low
		Unlikely	Minor	Low	10 = Moderate
		Moderate	Moderate	Moderate	15 = High
		Likely	Major	Major	20 = Severe
		Almost certain	Catastrophic	High	25 = Extreme
<b>Horticulture Risks</b>					
The horticultural system, particularly organics, may not be able to produce forecast yields	Reduced oils sales and revenue to Growers	Likely	Major	Moderate	10
Organic certification not achieved	Olive sale price for organic portion of the project may be lower than expected	Moderate	Major	Moderate	9
Heavy or prolonged rain during harvest	Delay harvest operations, reduce yields and oil quality.	Moderate	Moderate	Moderate	8
Insect, pest and disease infestation	Reduced tree health, lower yield and poorer fruit/oil quality	Unlikely	Major	Moderate	7
Extreme hot winds or prolonged rainfall during flowering	Increase the risk of disease outbreaks and reduce olive yield.	Moderate	Moderate	Major	5
Failure to secure adequate volume or quality of irrigation licenses	Project development may be delayed and/or annual yields reduced	Unlikely	Major	Major	5
<b>Management Risks</b>					
Loss of key personnel from the operational managers	Skills, experience and local knowledge lost, quality of olive grove or product marketing may be compromised	Moderate	Major	Moderate	9
Insolvency or default of operations manager	Requirement to find alternative operations manager	Moderate	Major	Moderate	8
Failure of Responsible Entity or withdrawal of Licence	RE may be replaced by alternative management company	Unlikely	Moderate	High	2
<b>Marketing Risks</b>					
A decline in domestic or international demand for premium olive oil	Poor financial performance or failure of purchasing company which may impact Grower returns	Moderate	Major	Low	10
Olive prices negotiated in the offtake agreements may be lower than expected	Reduced revenue generated from the sale of olive produce	Moderate	Moderate	Moderate	9
<b>Other Project Risks</b>					
Fluctuations in foreign exchange	Impact the price competitiveness of Project olive oil against imported competitors may reduce premiums paid to Growers	Likely	Moderate	Major	7
Inability of Australian produce to compete in international markets	Reduced marketing opportunities and excessive produce to service the domestic market	Moderate	Minor	Moderate	5
Changes in substance or interpretation of applicable laws relating to income tax, GST and the environment	Potential changes to tax assessment for non-forestry projects may limit further olive grove development and prevent economies of scale being reached	Moderate	Minor	Moderate	4

## 13. Financial Returns

### 13.1. Investment Cash Flow

The focus of the Lonsec financial performance measure is defined by the IRR of the Project and related model sensitivities. While not a holistic measure of Project performance, the IRR analysis generates a single number that summarises the merits of an investment based on the cash flows. The IRR is compared with Lonsec's benchmarks. In order to comply with ASIC guidelines, the PDS does not have IRR estimations.

It is important to recognise that the Lonsec IRR estimates should not be used as a basis for an investment decision by potential Growers. The Lonsec indicative IRR outcomes are an assessment by Lonsec that the Project meets industry and Lonsec benchmarks, and is limited by typical uncertainty of long-term forecasts.

There is a considerable degree of judgement involved in making long-term forecasts and future outcomes may differ substantially from the Lonsec IRR estimates. Lonsec also examines the sensitivity of the Project by identifying key variables that are sensitive to changes in Project assumptions.

Lonsec strongly advises Growers and financial planners to simulate their own long-term financial projections using their own selected assumptions to provide a basis for investment decision making. This is in line with current ASIC guidelines.

### 13.3. Scenario Modelling

Lonsec has modelled a number of scenarios to reflect the impact on Project returns by adjusting key Project financial assumptions that may eventuate during the term of the investment. Scenario analysis is based on the ungeared after-tax IRR. The following analysis identifies the price negotiated for the sale of olive produce as the critical assumption impacting on Grower returns. Lonsec scenario analysis supports the conclusion drawn on olive price by the Lonsec Consultant, in the Lonsec Consultant Horticulturist Report

**Table 13.2 Scenario Modeling - Impact on IRR (Project and Option)**

Scenario	Organic Price \$/kg Fruit	Conventional Price \$/kg Oil	Organic Production t/ha	Conventional Production t/ha	Price Inflation % pa	IRR After Tax Inc Option
Price high case	<b>1.300</b>	<b>6.65</b>	15.0	15.0	2.6	11.6%
Production high case	1.225	5.40	<b>16.0</b>	<b>16.0</b>	2.6	10.9%
Price Inflation high case	1.225	5.40	15.0	15.0	<b>3.0</b>	10.7%
<b>Mid-case assumptions</b>	1.225	5.40	15.0	15.0	2.6	10.3%
Price Inflation low case	1.225	5.40	15.0	15.0	<b>2.0</b>	9.5%
Production low case	1.225	5.40	<b>13.0</b>	<b>13.0</b>	2.6	9.0%
Price low case	<b>1.125</b>	<b>4.36</b>	15.0	15.0	2.6	8.9%

Similarly, Lonsec has conducted a scenario analysis of the Option for shares in the Olive Business Company when combined with an interest in the Project. The Lonsec analysis maintained mid-case assumptions for the Project but adjusted the earning multiple to value the Option at the end of the Project. As indicated in Table 13.3 overleaf, returns to investors are not significantly impacted when modelled under a range of scenarios.

### 13.2. Financial Returns

Table 13.1 indicates mid-case returns calculated using Lonsec adjusted Project assumptions for an investment in the Project, and combined with an Option in the Olive Business Company. Lonsec has also conducted analysis for upper and lower case scenarios by adjusting one key assumption (yield, net price, price inflation or cost inflation).

**Table 13.1 Project After Tax Returns**

	IRR after tax Ungeared		
	Lonsec lower case	Lonsec mid case	Lonsec upper case
Project Only	8.4%	9.8%	11.2%
Project & Option	8.9%	10.3%	11.6%

Lonsec has calculated the Project to return an after-tax IRR of 9.64% and 10.13% when combined with the Option. Although returns to investors in this Project are within the Lonsec benchmark range they are at the lower end of olive project returns recently reviewed by Lonsec.



Table 13.3 Scenario Modeling - Impact of EBIT Multiple of Olive Business Company IRR

EBIT Multiple	5 times	6 times	7 times	8 times	9 times
Project and Option IRR Scenarios	10.0%	10.1%	10.3%	10.4%	10.5%

### 13.4. Impact of Gearing

The use of financing to effectively defer the application fee may facilitate a Grower's entry into the Project and also has the effect of increasing the after-tax IRR for the Grower. However, the Grower still has the obligation to repay the debt principal over the agreed term, plus the additional obligation to pay interest on the debt principal over the agreed term. Growers need to assess whether these additional obligations increase the overall level of risk of participation in this Project, and whether the enhanced returns adequately compensate for any increase in the level of risk.

Table 13.4 - Impact of Financing on the Mid-Case Scenario After Tax IRR for Project and Option

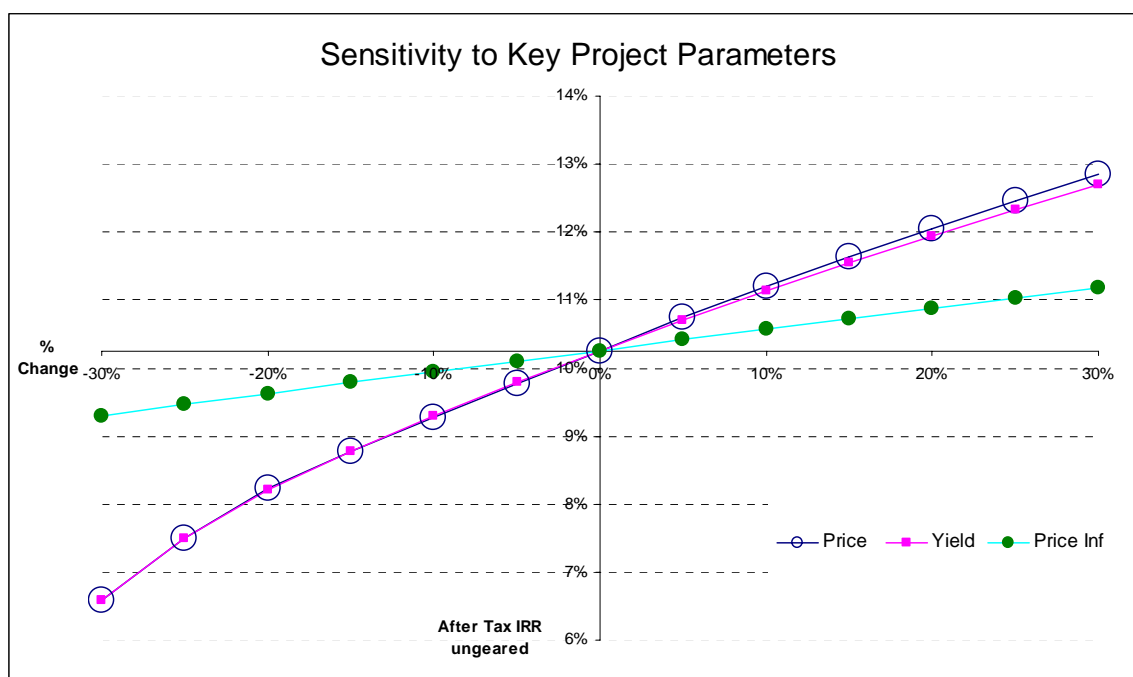
Scenario	Gearing level	1 Year Interest Free	Loan Term		
			3 years	5 years	7 years
			Monthly Principal and Interest		
Mid-case assumptions	50%	11.0%	10.8%	11.2%	11.6%
	75%	11.4%	11.3%	12.1%	13.1%
	100%	11.9%	12.0%	13.7%	17.5%

### 13.5. Sensitivity Analysis

Figure 13.5 identifies the sensitivity of potential Project returns to changes in key Project assumptions. The sensitivity mid-point is based on the Lonsec mid-case assumptions for an investor in the Project combined with an Option in the Olive Business Company. Sensitivity analysis has been conducted by adjusting Project assumptions between a range of +/- 30%.

Both olive price and yield are similarly sensitive to changes in key Project assumptions but noticeably decline beyond 20% as the fixed \$600 minimum management services fee impacts on returns. Overall, Lonsec considers the IRR sensitivities to be reasonable for a Project of this nature.

Figure 13.5 Sensitivity Analysis of the Project IRR Outcomes over a Range of Key Parameters



### 13.6. Zero IRR Conditions

Table 13.5 indicates the percentage decline in Lonsec assumptions required for a zero after-tax IRR.

At the zero after-tax IRR position an investor would receive back a sum of money exactly equal to the total of the initial outlay. In this situation the Grower has not lost money, as such, but the Grower's financial position has been weakened because of the opportunity cost of that money, being the income foregone had the money been in a profitable investment.

It can be seen from this analysis that the Great Southern 2008 Diversified Olives Income Project has robust returns, requiring a 53% decline in yield, 52% decline in price or a combined 31% decline in yield and price for IRR to fall to zero.

**Table 13.5 – Zero IRR Calculations for Changes to Price and Yield**

Scenario	Organic Price \$/kg Fruit	Conventional Price \$/kg Oil	Organic Production t/ha	Conventional Production t/ha	IRR After Tax
Mid case price and yield	1.225	5.40	15.0	15.0	10.3%
Olives yield by 53%	1.225	5.40	<b>7.0</b>	<b>7.0</b>	<b>0%</b>
Olives price falls by 52%	<b>0.588</b>	<b>2.59</b>	15.0	15.0	<b>0%</b>
Olives price and yield fall by 31%	<b>0.841</b>	<b>3.71</b>	<b>10.3</b>	<b>10.3</b>	<b>0%</b>

The numbers in **bold** type indicate the assumptions that are being varied in the scenario analysis.

### 13.7. Lonsec Conclusions of Financial Analysis

Lonsec calculates potential Project returns by using a number of analytical techniques explained in section 13. The results were compared with other MIS agribusiness projects. Results from any one analytical technique are rarely sufficient to determine whether the project is suitable for a potential investor. This summary section considers a holistic view of the results from each set of analysis conducted by Lonsec.

The initial analysis examines the indicative IRR of the Project and is useful to compare against other projects and industry benchmarks. Lonsec has determined the Project to have an indicative mid case IRR of 10.3% when combined with an Option for shares in the Olive Business Company. If Growers choose to invest in the Olive project only, Lonsec has assessed the mid case after tax IRR at 9.8%. However, all the analysis in this report assumes that the Olive Business Company is included

Further to the mid-case IRR, Lonsec has calculated an IRR range based on possible scenarios as determined from the best available industry information. The IRR range applies changes to price and yield that the Lonsec Horticulturist has indicated may eventuate over the term of the investment. Under this analysis, Lonsec calculates the Project and Option IRR to range between 8.9% and 11.6%. This analysis indicates that an investor is equally exposed to the potential for lower returns from the project, as they are likely to share in potential upside returns. Lonsec notes that the "indicative price matrix" that has been negotiated with KOOGL for the organic portion of the project does not appear to reward the Grower (or GSMAL) if the premiums for organic EVOO are as high as premiums generally achieved for other organic foods. This appears to limit some of the upside potential returns to Growers.

Lonsec has also provided analysis into the sensitivity of financial returns to nominal changes in price and yield and EBIT multiples, and alternative levels of gearing used to finance the investment. The results indicate that price and yield are the key drivers of Project returns and subsequently were used for further analysis.

Finally, Lonsec has conducted a zero IRR analysis that assesses the robustness of the Project IRR by adjusting key drivers (price and yield) downwards until a zero IRR position is obtained. When compared against other agribusiness projects assessed by Lonsec this analysis demonstrates that the Project IRR is robust and relatively resilient to changes in price and yield.

The assumptions applied throughout the analysis are based on current industry information. These assumptions are subject to a level of uncertainty associated with formulating long-range forecasts and may impact the final return on investment.

## 14. Taxation

### 14.1. Product Rulings

The ATO has issued Product Ruling PR 2007/44 in respect of the Great Southern 2008 Diversified Olives Income Project. The Product Ruling generally confirms that a Grower will be carrying on a business of horticulture, and hence primary production, such that the harvest proceeds will generally be assessable to the Grower at the time the income is derived.

A deduction will generally be available for Project expenses in the year of income in which the expenses are incurred by a Grower, subject to the particular circumstances of each Grower. The Product Ruling is available at the Great Southern [www.great-southern.com.au](http://www.great-southern.com.au) or ATO's website [www.ato.gov.au](http://www.ato.gov.au).

Growers should be aware that the Product Ruling:

- Will only apply to applications made after the Product Rulings have been issued
- Will only be a ruling on the application of taxation law (as it stands at the date of issue)
- The ATO does not expressly or impliedly guarantee or endorse the commercial viability of the Project, the soundness or otherwise of the Project as an investment or the reasonableness or

commerciality of fees charged in connection with the Project

- The Ruling will only be binding on the Commissioner of Taxation if the Project is implemented in the specific manner provided in the Product Ruling.

Interest incurred on borrowings in respect of a Grower's participation in the Project will, prima facie, be deductible, but subject to a number of conditions as outlined in the Income Tax Assessment Acts. The Product Ruling confirms the deductibility of interest and other finance charges associated with loans from the financier or approved financier.

Prospective investors in the Great Southern 2008 Diversified Olives Income Project should seek their own taxation advice before investing in the Project.

### 14.2. History of Compliance with Previous Product Rulings

GSMAL have indicated that all previous Projects have been implemented according to their Product Rulings, and that they have no outstanding taxation issues with the ATO.

## 15. Other Grower Benefits

### 15.1. Finance Packages

The financier and preferred financier will offer loan terms on a commercial basis and approve loan amounts up to 100% of the application money (excluding GST) payable by Growers (\$5,750 per Grovelot) plus the loan establishment fee. The financier or preferred financier will provide a Grower with a full recourse loan and will pursue normal debt recovery procedures, including legal action, against any defaulting borrowers.

**Table 15.1 Details of Grower Finance Offered**

Term (yrs)	Interest Rate (% p.a)	Repayment type
1	0%	Equal monthly principal instalments over a period of 12 months
3	10.50%* fixed for the period of the loan	Equal monthly repayments of principal and interest
4	10.50%* fixed for the period of the loan	Equal monthly repayments of principal and interest and interest
5	10.50%* fixed for the period of the loan	Equal monthly repayments of principal and interest
7	11.00%* fixed for the period of the loan	Equal monthly repayments of principal and interest
9	11.50%* fixed for the period of the loan	Equal monthly repayments of principal and interest
10	11.50%* fixed for the period of the loan	Equal monthly repayments of principal and interest

\* A loan establishment fee, comprising an application fee of 1.1% of the loan advance and a fee to cover legal costs and expenses of \$275 may be charged.

Finance is also available from the preferred financier pursuant to the Loan Deed enclosed with the Application for Term Finance. The terms and conditions of these loans are per the loans offered by the financier, except for an interest only period for up to three years. Under these loans, equal monthly interest payments will be made during the interest only period, commencing July 2008, followed by equal monthly principal and interest repayments for the remainder of the term of the loan.

## 15.2. Reports

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GSMAL must ensure that the olive expert provides written reports by 31 October each year and sends them to Growers within 30 days of receiving the reports.

The olive expert's report must contain a review of operations since the previous report, including a review of operations, changes in policy relating to olive production and whether GSMAL has carried out its services in a proper and efficient manner.

In addition to the Olive Expert's Reports and Annual Scheme Accounts, Growers will also receive information on the olive groves via regular newsletters and seminars, Great Southern's website and general correspondence. Analyst Disclosure & Certification

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**Date Prepared: 24 March 2008**  
**Analyst: Jim Blackburn**  
**Release Authorised by: Grant Kennaway**

This report, dated 24 March 2008, expires when the initial offer closes or after twelve months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to his offer. Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds

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**Product Rulings:** At the time of conducting this research report, ATO Product Rulings had been granted to GSMAL. Lonsec has not engaged a taxation specialist to provide advice on the implications of the Product Rulings, and proposed deductibility of the offer expenses to Growers. Taxpayers who are considering participating in the Project are advised to confirm with their taxation advisors that changes in the law have not affected the Project's Product Rulings since they were issued. The Product Rulings state that if the proposed arrangement is materially different from the arrangement that is actually carried out, the Rulings have no binding effect and will subsequently be withdrawn or modified.