



AUSTRALIAN AGRIBUSINESS GROUP

AUSTRALIAN BIGHT ABALONE PROJECT 2006

PART O OVERALL REVIEW – March 2006



retail investment research

OVERALL SUMMARY RATING



The overall rating given to Australian Bight Abalone Ltd and their Australian Bight Abalone Project 2006, which is outlined below, is based upon the ratings given for each of the individual parts (Part A, B & C) as outlined below. Investors should seek their own advice and read the project PDS, Part A EY Corporate Governance Review, Part B AAG Track Record Review and Part C AAG Project Review including the disclaimers therein before making an investment decision. If a supplementary is issued or a material change impacts on the Project, AAG reserve the right to withdraw or alter this report and/or ratings.

AAG and EY Ratings

Overall Summary Rating –	★ ★ ★ ¾
Part A – EY Corporate Governance –	★ ★ ★ ¾
Part B – AAG Track Record –	★ ★ ★ ¾
Part C – AAG Project –	★ ★ ★ ¾

This report is valid until March 2007

Underlying Comments

Ratings are awarded out of a maximum of five stars. A rating may include quarter stars. AAG and Ernst & Young have reviewed the answers to the self-assessment completed by the Directors and management of Australian Bight Abalone Ltd in March 2006. AAG and Ernst & Young have also assessed the reasonableness of the responses made by the Directors and management in awarding them the underlying ratings. The ratings should not be taken in isolation and readers must refer to the separate reports and the terms, conditions and disclaimer contained therein.

Project Summary

The Project provides Investors the opportunity to grow Greenlip Abalone (*Haliotis laevigata*) in a commercial Abalone Aquafarm at Waldegrave Island located near Elliston on the Eyre Peninsula in South Australia. The primary market for Greenlip Abalone is China with the first harvest anticipated to occur in January 2007.

Project Details

Application Cost per Unit (ex GST)	\$25,329
Min Number of Interests per Investor	1
Asset Ownership	Nil
Size of Unit	20 Abalone Baskets stocked with 4,400 juvenile Abalone
Management Fee	\$2,448 pa (adjusted to CPI, paid out of Harvest Proceeds)
Lease Fee	\$1,850 pa (adjusted to CPI)
Finance available	Nil
Forecast Returns (IRR after tax)	NA
AAG Estimated Returns (IRR after tax, base case)	Ex Insurance – 15.4% Inc Insurance – 14.5%
Project duration	7 years
Commissions	Up to 10%
Project Size and Raising	8,000 Abalone baskets, \$10.1 million
Close Date for Investment in 2005/06	15 June 2006
Close Date for Investment in the Project	15 June 2006
Product ruling	PR2006/32

PART A Ernst & Young Corporate Governance Review –

ABA's responses to the questionnaire indicate that its corporate governance policies, procedures and practices are, in many respects, appropriate to the size and complexity of the business. We have discussed with management the areas where we feel improvements could be made, in particular around increasing the number of independent directors on the Board. We note that the Board resolved to appoint four independent directors prior to the commencement of the 2007 project. Strengths identified in the responses included strong independent representation on the Compliance committee and good budgeting and forecasting processes.

PART B AAG Track Record Review –

Australian Bight Abalone Ltd (ABA) and its wholly owned subsidiaries were established specifically for large-scale commercial abalone growing. ABA has released one previous wholesale investment project. It would be fair to say that as a company ABA is still learning the business of abalone production, and although with limited investments under its control, has employed appropriate personnel to manage the operations and developments successfully. We believe the main risk to ABA's past abalone project to be the loss of key operational and managerial staff including Operational Manager, Darren Tressider and ABA Executive Director, Kenneth Bascomb.

PART C AAG Project Review –

With only one previous project under management, ABA is a relatively inexperienced MIS operator. Individual Board members have extensive experience in managed investments and developing and managing aquaculture systems similar to the Project. The first harvest for the Project is expected to commence in January 2007, with ABA intending to sell 100% of the abalone produced from the Project overseas, with special emphasis on Hong Kong and China. As yet, ABA has not signed any contracts, but does state that it has an informal agreement with a large South Australian processor and agent company through which harvested abalone are likely to be sold through. We consider the returns for the Project to be acceptable, but note that they are heavily influenced by changes in yield or price.

Table of Contents

Overall Review	page i
Part A Corporate Governance Review (Ernst & Young)	pages A1 – A4
Part B Track Record Review (AAG)	pages B1 – B8
Part C Project Review (AAG)	pages C1 – C8

Part A – Corporate Governance Review

Australian Bight Abalone Limited

 **ERNST & YOUNG**

Quality In Everything We Do

Ernst & Young Corporate Governance Rating

☆☆☆3/4

March 2006

Introduction

This is a Corporate Governance Review Report to the Directors of Australian Bight Abalone Limited [ABAL]. The Ernst & Young rating is awarded out of five stars. Part ratings are possible. The Corporate Governance Review Report (Part A) should be read in conjunction with Australian Agribusiness Group Track Record Review (Part B) and Project Report (Part C).

Methodology

Corporate governance is the system or processes adopted to direct and manage the business and affairs of a company. Ensuring that an effective system of corporate governance is in place is the responsibility of the Board of Directors and management.

The Ernst & Young Corporate Governance Review Questionnaire comprises in excess of 130 questions, which are designed to allow the company to assess and evaluate the appropriateness of their corporate governance processes. ABAL has completed the Ernst & Young Corporate Governance Review Questionnaire. The Board of Directors and management of ABAL were responsible for performing the assessment.

The assessment was based on the key structures, controls and processes in place at ABAL as at February 2006, which was the date the Corporate Governance Review Questionnaire was completed. The report is based upon the self-assessment questionnaire and the outcome of the evaluation procedures performed by Ernst & Young. To assist in answering the questionnaire, guidance on 'best practice' was included, which the directors of ABAL have considered in determining the adequacy of their processes and in turn their response to each question.

Corporate Governance Questionnaire

The questionnaire completed by the Directors and management of ABAL addressed the systems and procedures in place across four key areas, Governance, Financial Management, Operational Management and Compliance.

Governance

POOR GOOD

Section A, Governance was supervised by Mr Peter Woodhead as a director and Compliance Officer of ABAL. This section helps ABAL assess whether its Board is aware of its responsibilities and performing effectively. In order to do this, the section is divided into ten sub sections:

- Board Membership / Resources
- Roles & Powers
- Communication
- Board Meetings
- Management & Board Performance
- Stakeholder Management
- Ethical Environment
- Risk Management
- Audit & Control
- Organisational Structure

ABAL is a new and relatively small private company that acts as the responsible entity for an aquaculture managed investment scheme.

The Board now consists of three directors following the resignation of Mr James Boylan in August 2005.

The directors are the owners of the business. All directors have shareholdings and loans to the company and they are not, in our view, independent. It is not difficult to understand however, how the owners of a relatively new company would wish to be the directors. We are informed that the nature of the operations of the company necessitates substantial hands-on involvement by one of the major shareholders, Mr Bascomb. It should be noted, however, that a majority of Independent Directors is considered best practice.

We are informed that the Board has resolved that a pool of funds be created for use in the appointment of independent directors during 2006. The Board expects that four independent directors will be appointed prior to the commencement of the 2007 project. We believe that the appointments will represent a significant improvement in governance and fully support an early action on this initiative.

The current lack of majority of independent directors is somewhat offset by the existence of an independent Compliance Committee that oversees the Compliance Plan on behalf of investors in the projects. The committee comprises four external independent members, being Messrs John Martin, John Burrows, Winston Ponder and Steven Kirby together with Mr Peter Woodhead, one of the non-executive directors, all of whom have appropriate credentials.

The effectiveness of this committee may, however, be compromised by the fact that the CEO/Company Secretary also acts as the Compliance Manager (the compliance resource). We are informed that while Mr Ferguson officially acts as the Compliance Manager, his role is largely administrative. The assessment of the areas that must be reviewed on behalf of the Compliance Committee is conducted by Mr Woodhead who is independent of these areas and who reports directly to the Board.

We are pleased to note that ABAL has adopted formal letters of appointment for its directors which detail the responsibilities and terms of the appointment. This is an example of good governance.

We are informed that the current CEO, Mr Ferguson, is a qualified legal practitioner and has considerable legal and property related experience. As the operations of the company are, at this stage of its development, largely about obtaining appropriate licences and leases to operate, the company maintains that Mr Ferguson has the appropriate mix of skills and experience required for the position of CEO.

While best practice would prescribe that the CEO has appropriate experience in the industry in which the company operates or as a CEO in similar size companies, we are of the opinion that this is not a major issue mainly because of the experience of the Board and the developmental stage of the company.

A summary of the Board and its experience as communicated to us follows:

Director	Comments
John McAuley (Chairman) ■ non executive ■ not independent	John is a chartered accountant with some experience with other investment vehicles. He is a major shareholder in ABAL and has unsecured loans to the company. His experience includes venture capital management and a number of MIS offerings.
Peter Woodhead ■ non executive ■ not independent	Peter is a major shareholder in ABAL and has unsecured loans to the company. He has financial advisory and assurance experience. He is a member of the Compliance Committee and Audit Committee for another public company.
Kenneth Bascomb ■ non executive ■ not independent	Kenneth has strong operational experience in the aquaculture industry over a number of years. He is a major shareholder in ABA and has unsecured loans to the company. He provides rental accommodation to the company at a rate noted by the Board to be market.

The Company does not have internal auditors; however this is not unusual for an organisation of this size. ABAL has also implemented a Board Charter and a Code of Conduct for both the employees and the Board. We noted in our last report that we would like to see the Code of Conduct include a reference to MIS investor protection. ABAL has advised that the issue of MIS investor protection is effectively already administered by the Compliance Committee.

We were pleased to see that ABAL has appointed sub committees of the Board, including an Audit & Risk Committee and a Nominations and Remuneration Committee. We are informed, however, that while these committees have not formally met to date, any issues arising in the areas addressed by these committees have been addressed by the Board directly.

We are pleased to see that arrangements have been put in place by the Board to monitor risk management. A risk matrix which identifies high level key risks across all aspects of the business has been prepared and is updated annually by the company. In addition, there is a requirement for the company to report monthly to the Board in respect of operations, financial position of the Group and new contracts.

The company's responses to the questionnaire indicate its corporate governance policies, procedures and practices are in most respects appropriate to the size and complexity of the business.

Financial Management

POOR

GOOD

Section B, Financial Management was supervised by Mr Peter Woodhead as a Director and Compliance Officer. This section helps ABAL assess whether appropriate processes and procedures are in place to monitor and measure financial performance. The area is divided into ten sub sections:

- Budget & Forecasting
- Financial Management Reporting
- Financial Records
- Treasury
- Income & Receivables Management
- Purchasing & Liability Management
- Asset Management
- Insurance
- Statutory Reporting
- Capital Management

There appears to be good budgeting and forecasting practices with annual trading projections and Profit and Loss forecasts prepared for the period 2006 to 2012. Growth investment models have also been prepared for the period 2006 to 2013. Summarised financial information is reported to the Board prior to all Board meetings. Monthly management reports appear to be appropriate to the current development stage of the company.

ABAL responses to the questionnaire indicate its financial management policies, procedures and practices appear to be appropriate to the size and complexity of the business.

Operational Performance

POOR

GOOD

Section C, Operational Performance was supervised by Mr Peter Woodhead as a director and Compliance Officer. This section helps ABAL assess its capability in long-term planning for areas such as establishing goals and objectives, aligning information technology and human resource planning.

The area is divided into six sub sections:

- Strategic Planning
- Operational Reporting
- Business Continuity Planning
- Information Technology
- Human Resources
- Quality Management

We note that ABAL has developed a Business Continuity Plan however Succession Plans for key management are not considered by the company to be appropriate at this stage.

A detailed strategic plan has also been prepared. We have not sighted this plan as it contains information that is extremely sensitive to the company.

ABAL have recently conducted the first annual review of sites. The reviews were conducted in February 2006 by the newly appointed marine biologist (and compliance committee member). An independent Veterinarian report on the health of the stock is also prepared annually.

ABAL responses to the questionnaire indicate its operational performance policies, procedures and practices are appropriate to the size and complexity of the business.

Compliance

POOR

GOOD

Section D, Compliance was supervised by Peter Woodhead as director and compliance officer. This section helps ABAL assess whether the company has adequate processes and procedures in place to comply with statutory and other regulatory requirements.

The area is divided into five sections:

- Statutory and Regulatory Obligations
- Taxation Management
- Environmental Management
- Policies & Procedures
- Delegations

As noted above, an independent Compliance Committee operates to oversee the delivery of the Compliance Plans. The committee is supported by one of the members who is both the CEO/company secretary and compliance manager. ABAL has informed us that the independence of the reporting to the committee is protected by the requirement for Mr Woodhead, as Compliance Officer, to report directly to the Board.

Adelaide

91 King William Street
Adelaide SA 5000
Tel: 08 8233 7111
Fax: 08 8213 1775

Canberra

51 Allara Street
Canberra ACT 2600
Tel: 02 6267 3888
Fax: 02 6246 1500

Melbourne

8 Exhibition Street
Melbourne VIC 3000
Tel: 03 9288 8000
Fax: 03 8650 7777

Sydney

680 George Street
Sydney NSW 2000
Tel: 02 9248 5555
Fax: 02 9248 5959

Brisbane

1 Eagle Street
Brisbane QLD 4000
Tel: 07 3011 3333
Fax: 07 3011 3100

Gold Coast

12 Marine Parade
Southport QLD 4215
Tel: 07 5571 3000
Fax: 07 5571 3033

Perth

11 Mounts Bay Road
Perth WA 6000
Tel: 08 9429 2222
Fax: 08 9429 2436

© Ernst & Young Australia 2006.

This communication provides general information, current as at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to actions being taken on any of the information.

Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk.

Liability limited by a scheme approved under Professional Standards Legislation. Mel_0613561

We are informed that no breaches of the Compliance Plan requiring ASIC reporting have occurred in the last three years. An audit of the Compliance Plan has not been undertaken to date. This is because the project was a wholesale scheme and an audit was not prescribed.

With the exception of the above, ABAL responses to the questionnaire indicate its compliance policies, procedures and practices appear to be appropriate to the size and complexity of the business.

Rating Criteria

The rating is based on the following criteria:

- ☆☆☆☆☆ The company is proactive in its approach to corporate governance. The entity implements the best practices recommended by relevant committees and reviews and implements, where applicable, emerging best practices.
- ☆☆☆☆ The corporate governance policies, procedures and practices were generally appropriate to the size and complexity of the business.
- ☆☆☆ Some significant exceptions were identified in the company's corporate governance policies, procedures and practices.
- ☆☆ Some major exceptions were identified in the company's corporate governance policies, procedures and practices.
- ☆ The company has few adequate policies, procedures and practices in place to manage corporate governance.

Rating Awarded

Ernst & Young has reviewed the answers to the self-assessment and any supporting material provided or subsequently examined.

Based upon the self-assessment, and the outcome of the evaluation procedures performed by Ernst & Young, which were undertaken to assess the reasonableness of the responses made by the directors, we have provided the company with an overall rating of ☆☆☆3/4.

Disclaimer

Because the evaluation procedures performed do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance on the governance procedures as at the review date or the information provided to us. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other financial or non-financial matters might have come to our attention that would have been reported to you.

This report has been prepared for distribution to the Directors, for the purpose of evaluating the Directors self-assessment of their corporate governance processes. It should be read in full and in complete understanding of the self assessment context in which it was prepared and must not be edited or distributed in part. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Directors, or for any purpose other than that for which it was prepared.

This report is included with reports prepared by Australian Agribusiness Group (AAG). AAG is not affiliated with Ernst & Young. Ernst & Young is not responsible for the contents or accuracy of those reports and any representations or opinions should not be taken as representations or opinions of Ernst & Young.



AUSTRALIAN AGRIBUSINESS GROUP

AUSTRALIAN BIGHT ABALONE LTD

PART B TRACK RECORD REVIEW – March 2006



investment research

Part B AAG Track Record Rating



Methodology

The Australian Agribusiness Group (AAG) Track Record Rating above is given out of a maximum of five stars. A rating may include quarter stars.

This Track Record Review is designed to provide an Investor a clear independent third party assessment of the quality of past performance of the operators of this project. AAG undertake a significant level of due diligence to arrive at our opinion, relying on material provided by the promoter, third parties and our own qualifications, experience and resources. We note that actual returns paid are one important element of track record, but not the sole focus of this report or rating.

This Track Record Review (Part B) should be read in conjunction with the Ernst & Young Corporate Governance Review (Part A) and the AAG Project Review (Part C).

Throughout this report the AAG has included a diagrammatic representation of our rating of the major areas we consider to be critical for the success of any project.

Management of Previous Projects

Australian Bight Abalone Ltd (ABA) and its wholly owned subsidiaries were established specifically for large-scale commercial abalone growing. The Responsible Entity (RE) for the only previous project is ABA, while the on-ground manager is Australian Bight Abalone Management Pty Ltd (Manager), which is a wholly owned subsidiary of ABA. With only one previous project under management, ABA is a relatively inexperienced agribusiness MIS operator, but we do note that individual Board members have extensive experience in both the operation of managed investments and developing and managing aquaculture operations ([page 2](#)).

Past Projects

ABA has previously offered and marketed one wholesale investment project called the Australian Bight Abalone Project, which provided Investors the opportunity to participate in the commercial growing of abalone near Elliston in South Australia. The capital raised for the project was \$3 million, which was sufficient to establish 10 abalone sea cages ([page 3](#)).

Markets and Marketing for Past Projects

Australian abalone fisheries produce a high value, export-orientated products that provided approximately 40% of the world supply. Almost all of Australia's abalone product is sold to Asian markets with demand continuing to grow. Only a small amount is sold on the domestic market.

ABA expects the first harvest for the 2005 project will commence in January 2007. Although ABA has not signed any contracts for the sale of abalone produced in the 2005 project, it does state that an informal agreement has been reached with a large South Australian company through which harvested abalone will most likely be sold ([page 4](#)).

Agricultural Performance and Returns

The previous Project managed by ABA was successfully established and growth rates to date have exceeded targets ([page 5](#)).

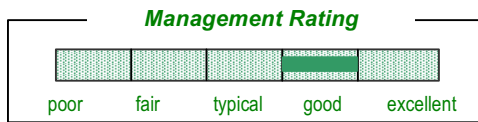
Disclosure and Risks

Other than the usual risks involved with projects of this size, one of the main risks to ABA's abalone project is the loss of key operational and managerial staff. In addition, storms and theft are real risks to the projects as is the potential for disease ([page 6](#)).

Taxation

According to ABA, all key dates and prescribed activities with respect to the product rulings were met, with all Investors receiving the forecast deductions as outlined in the project offer document. In addition, all forecast deductions are still in line with the project offer document ([page 7](#)).

1 Management of Previous Projects



1.1 Responsible Entity

Australian Bight Abalone Ltd (ABA) and its wholly owned subsidiaries were established specifically for large-scale commercial abalone growing. ABA is the Responsible Entity (RE) for the previous wholesale investment project, the ABA 2005 Project, which comprises approximately 13 abalone sea cages (rings).

Australian Bight Abalone Management Pty Ltd (Manager) is a wholly owned subsidiary of the RE and is responsible for the operation and technical aspects of the previous project.

Australian Bight Infrastructure Pty Ltd (ABI), another wholly owned subsidiary of ABA is the Marine Lease Owner. ABI currently owns a 20 hectare Aquaculture Lease near Elliston in South Australia and a further 80 hectare Aquaculture Lease near Ceduna in South Australia. ABA states that applications for an additional 140 hectares of Marine Leases are pending.

With only one previous project under management, ABA is a relatively inexperienced MIS operator. We do note however that individual Board members have extensive experience in both the operation of managed investments and developing and managing aquaculture projects of this stature. ABA has also employed appropriate staff to manage key aspects of its business and operations.

ABA is in the process of becoming certified under ISO 14001 and is awaiting its first audit. This is a positive for current and future investors.

With Board meetings held at least quarterly and Directors regularly visiting the project site, ABA believes Board members are well informed about the current position of the past project and the business. We note that since AAG's last review, there has been one change to the Board of ABA with James Boylan resigning from his Non-Executive Director position in August 2005. The ABA Board of Directors are outlined below.

John McAuley, Executive Director

B Com, CA

John has been involved in the financial and investment industry since 1994 and is experienced in the raising and investment of capital across several industries. John began his career at Dawson & Partners Chartered Accountants before moving to Wearne & Co in 1996, where he was made a Partner in 1999 and Chairman in 2004. Along with being a Director and Chairman at ABA, John is a Director at Denison Capital Ltd. In addition, he acts as the company secretary of Tinshed Investments PL, which is the scheme manager for Tinshed Corporation Pty Ltd, a venture capital and investment company.

Peter Woodhead, Executive Director

B Bus (Acc), CA

Peter has over 29 years experience as a Chartered Accountant and along with being a tax agent is a registered auditor. Peter began his career at Duesbury Johnston & Marks, before moving to Pannel Kerr Forster. Peter is a partner at Wearne & Co Chartered Accountants, having been with the company since 1982. Along with being a Director at ABA, Peter is a Director and Member of the Compliance Committee at International All Sports Ltd, an ASX listed company. Peter is a former Director and Treasurer of the Variety Club of NSW and Past Chairman of the Institute of Chartered Accountants Small Business Committee of NSW.

Kenneth Bascomb, Executive Director

Kenneth has been a Director of ABA since 2004. He began his career in abalone farming in 1970 as an Abalone Sheller in Elliston, South Australia, and purchased his first Abalone License in 1981. Kenneth was founding Director of Western Abalone Processors, an abalone processing and marketing company, of which he is still a Director. He is currently a Partner in RBK Oysters based in Smoky Bay, South Australia, controlling 13.25 hectares of oyster leases together with processing plant. He is also a former Director of Southern Export Abalone Products. Kenneth provides a significant amount of experience in the abalone industry to ABA.

Andrew Ferguson, Chief Executive Officer and Company Secretary

Grad Dip Leg Stud

Andrew was admitted to the Supreme Court of NSW in 1995 and is a qualified solicitor who specialises in corporate and commercial law. Along with his role as CEO and Company Secretary at ABA, Andrew manages his own individual and private corporate advising company. Andrew's experience includes working at Leigh Virtue & Associates, Pieterse & Pieterse Solicitors, W.H Baxter & Co. Solicitors and in the AMP Superannuation Legal Department.

Outlined below is ABA's financial performance for the 2005 financial year. As 2005 was the first full year of operation for ABA, we cannot compare financials from previous years.

The ABA 2005 Annual Report shows Total Assets of \$2.5 million and Net Assets of \$713,000 (Table 1). We note that ABA's Current Ratio was 0.9 at 30 June 2005. Although not critical, we would prefer to see this figure above 1.

Table 1 – Overview of ABA's Consolidated Statement of Financial Position

	2005 (\$'000)
Current Assets	\$1,605
Non-current Assets	\$870
Total Assets	\$2,475
Current Liabilities	\$1,762
Non-current Liabilities	\$0
Total Liabilities	\$1,762
Net Assets	\$713
Current Ratio	0.9
Interest Bearing Debt : Equity Ratio	0.0

ABA recorded a \$713,000 After Tax Profit in 2005, which is impressive considering that this was the company's first year in operation (Table 2). Another indication of the strong performance shown by ABA in 2005 was the company's Profit Margin and Return On Assets figures which were 29.4% and 28.8% respectively. We note that all revenue received by ABA was comprised of MIS Sales from the Australian Bight Abalone Project.

	2005 (\$'000)
MIS Sales Revenue	\$2,421
Other Revenue	\$0
Total Revenue	\$2,421
Total Expenses	\$918
Profit (b/t)	\$1,020
Profit (a/t)	\$713
EBITDA	\$1,061
MIS Sales : Total Revenue Ratio	100%
Profit Margin	29.4%
ROA	28.8%
ROE	100.0%

We note that since 30 June 2005, the shareholders have contributed in excess of \$2,600,000 in cash, and have contributed further Aquaculture Leases to further develop the business.

1.2 On-ground Manager

Although ABA as the RE for the current and past projects is ultimately responsible for the on-ground management, it has engaged its wholly owned subsidiary, Australian Bight Abalone Management Pty Ltd (Manager) to provide the management and day-to-day services to its abalone operations.

Although new to abalone farming, the Manager has employed Darren Tressider as Operations Manager. In this role Darren is responsible for all water operations including the management of divers, harvesting and husbandry. As Operations Manager of the previous project, Darren successfully oversaw the establishment of 10 Growers cages and 3 Nursery cages, comprising 1.3 million abalone.

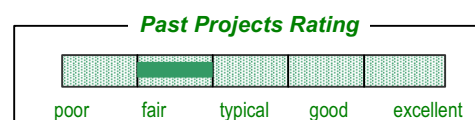
Darren has significant experience in the cultivation of abalone and is highly regarded as a leading marine scientist specifically in the field of Greenlip Abalone. Darren has been involved in the fishing and aquaculture industry on an operational and managerial basis since 1991, which included being a former Fleet Manager for Australia's largest tuna company, Australian Fishing Enterprises Pty Ltd.

Darren holds a controlling interest in an abalone aquaculture operation which operates through Eyre Peninsula Aquaculture Pty Ltd. This business has operated in a commercial capacity since 1998 and operates 4 in sea cages farming abalone using identical techniques used by ABA and is located near Port Lincoln in South Australia. It is important to note that as part of the contractual terms associated with Darren's employment services agreement, ABA holds an option to purchase this company.

Rachel Lawrie has been employed as Biologist for ABA. She reports to Operations Manager Darren Tressider and also directly to Dr Winston Ponder who is a compliance committee member. The addition of Rachel to the team provides for some risk mitigation against other key staff loss.

Rachel began her position at ABA in late 2005 and has approximately 7 years experience as a Marine Biologist. Rachel is experienced in the abalone industry having worked as a Chief Marine Biologist at South Australian Abalone Developments, Marine Biologist with Massena Abalone and is a voluntary member of the South Australian Abalone Growers Association. She has also been Chief Marine Biologist at Australian Fishing Enterprises Pty Ltd and Marine Biologists at Tuna Boat Owners of South Australia.

2 Past Projects



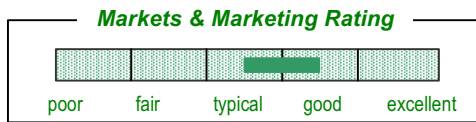
As previously stated, ABA has offered and marketed one wholesale investment project called the Australian Bight Abalone Project. Akin to the current offering, the Australian Bight Abalone Project provided 'Wholesale' or Sophisticated Investors the opportunity to participate in the commercial growing of abalone near Elliston in South Australia.

As is evidenced in Table 3, the capital raised for the project was \$3 million which was adequate to establish 13 cages. The abalone species that was selected in the previous project and will be used in the current offering is Greenlip Abalone (*Haliotis laevis*). As the dominant abalone species along the west coast of the Eyre Peninsula, South Australia, Greenlip Abalone is well known.

Project Name	Year Commenced	Location	Size (cages)	Capital Raised (\$m)
Australian Bight Abalone Project	2005	Waldegrove, SA	13	\$3.0

It would be fair to say that ABA is still learning the business of abalone production, and although with limited investments under its control, has employed appropriate personnel to manage the operations and developments successfully.





3.1 Market for previous projects

Australian abalone fisheries produce high value, export-orientated products that provided approximately 40% of the world 'wild' supply in the late 1990's. With wild abalone fisheries declining in most countries, the interest in aquaculture products has increased substantially.

Abalone aquaculture began in Australia in the early 1980's in Port Lincoln in South Australia and Tasmania through research on spawning abalone. Aquaculture techniques currently in use in Australia include the use of sea cages, recirculation tanks as well as ranching abalone on existing and constructed reefs. Aquaculture provides the ideal environment where demand for fresh product can be met, as the abalone produce can be harvested for 'on-demand' delivery, rather than relying on the more 'hit and miss' supply which is typical of wild catch produce.

Of a number of wild abalone species that grow in Australian marine water, only Greenlip and Blacklip are currently produced commercially in aquaculture programs. Of these two species, research has shown that Greenlip culture may be preferable to Blacklip culture because of the potentially faster growth rates achievable by this species.

Australia produced approximately 5,900 tonnes of abalone worth \$252 million in 2004/05. The largest producing states in Australia are Tasmania, Victoria and South Australia who account for 47%, 27% and 17% of Australia's production respectively.

Almost all of Australia's abalone product is sold to Asian markets with demand continuing to grow. Only a small amount is sold on the domestic market. Exports to Hong Kong represent 56% of Australia's total abalone exports. Approximately 43% of current produce is exported fresh, chilled or frozen, with the remainder being processed and canned.

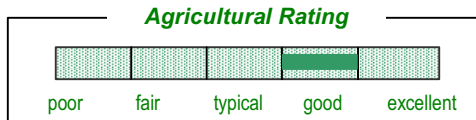
3.2 Marketing Arrangements

ABA expects the first harvest for the 2005 project will commence in January 2007. For the duration of the 2005 project, harvesting will occur all year around, but will be skewed to the period around Chinese New Year from the end of January to end of February and for special events such as the 2008 Chinese Olympics. It is anticipated that ABA will sell 100% of the abalone produced from the project internationally, with special emphasis on Hong Kong and China.

ABA believes it has an advantage over 'wild' abalone fishermen in that it can supply abalone to consumers throughout the year, whereas 'wild' abalone fishermen are restricted to seasonal license conditions. ABA expects this will result in it receiving increased prices for their product when selling abalone during the 'wild' catch off season.

ABA states that as yet, it has not signed any contracts for the sale of abalone produced in the 2005 project. It does state however, that an informal agreement has been reached with a large South Australian processing and abalone agent company through which harvested abalone will be sold through. This company has 20 year relationships with its Hong Kong based distributors and has developed supply chain relationships with Chinese based companies. However due to confidentiality reasons, we cannot provide the reader with additional information on the company, but note that AAG visited its operations during the site inspection for this review.

4 Agricultural Performance



Abalone are very sensitive to stress, and as such opportunistic, secondary, bacterial infections, high water temperatures or poor water quality and excessive handling during the production process causes high mortality rates and reduced growth rates in abalone. Because of this all stages of production must involve minimal handling and disturbance, with low mortality rates of abalone a good indication of the ability of on-ground management in implementing and maintaining good management systems.

As can be seen in Table 4, ABA is presently within the mortality rate estimates established for the project.

Table 4 – Average survival rates for recent projects

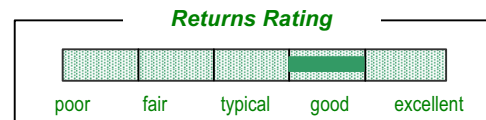
Project	Planting density	Target Survival Rate	Actual Survival Rate to date
Australian Bight Abalone Project 2005	52,000 per cage	86.5% to January 2006	96.2% to January 2006

In the January monthly report for the past project, ABA states that the majority of cages had low mortality rates due to good husbandry techniques and high algal production. However, it did note that 2 cages had mortality rates higher in comparison to other cages. It is speculated that some abalone added to this cage were anaesthetised twice which resulted in weak stock that were unable to adjust to the environment.

ABA is also in the process of changing the system through which the cages are moored in the near future. The new system will be capable of withstanding even stronger winds and wave conditions than the previous one and allows for greater flexibility for management in moving cages when required.

ABA has also changed the cage design for future projects based on observations of how the present design is working. While ABA states the current design works extremely well, the new design allows for a greater area for weed growth and hence can supply the abalone with more food.

5 Returns



Having just the one Project to report on and because it is only at a very early stage, we outline the following information with regard to the performance of the previous project which has been taken from the 31 December 2005 Growers Report from ABA.

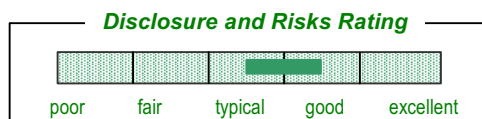
ABA reports the key points with regard to the success of the previous Project to date are:

- The juveniles were successfully transferred to the cages prior to 30 June 2005;
- Average monthly growth rates have been 2.85 mm, which is above the target 2.5 mm/month;
- Mortality rates were less than 5%, which was below the 13.5% target.
- Prices at 31 December 2005 were in excess of \$50, which was also above targets.

ABA has stated that they achieved a higher stocking rate and lower mortality rate than targeted which augurs well for Investors. As a result ABA has stated that they will be having a partial early harvest in January 2007 which will provide some incomer earlier than expected.

Notwithstanding that the results are 6 months into a 3 year projected cycle, based on the above information and from AAG's site inspection and discussions with key ABA staff, we believe the Project is on track to meeting or exceeding expectations.





6.1 Risks of previous projects

For the previous project, ABA has stated that the only risk outlined in the Information Memorandum that has so far come to fruition was a major storm which hit the Anxious Bay region in November 2005. Despite the storm being the worst experienced in the area for many years, ABA notes that the impact to project infrastructure and stock was negligible. However, as a result of this storm, ABA has decided to implement a new anchoring system to the projects cage infrastructure, which should further improve the stability of the cages.

Other than the usual risks involved with projects of this size, we believe the main risk to ABA's abalone project to be the loss of key operational and managerial staff including Operational Manager, Darren Tressider and ABA Executive Director, Kenneth Bascomb. This is because there are a limited number of personnel that have similar skills and knowledge to that of Darren and Kenneth in the in the Australian aquaculture industry and without them, the success of the project would be less certain.

6.2 Compliance committee

ABA's previous project was a wholesale project and so did not legally require a compliance committee. However, ABA formed a compliance committee because it believed this was best practice to protect the rights of Growers in the project. During the course of last year, 2 new members were added to the original compliance committee to form a committee of 5 members. The members include internal member Peter Woodhead and external members John Burrows, John Martin, Dr. Winston Ponder and Steven Kirby. The committee has a good cross section of skills in key areas.

Peter is an Executive Director of ABA and as such, a brief description of him can be found in Section 1.1.

John Burrows has broad experience as a financial consultant, accountant and auditor and has worked in various industries including manufacturing, retailing, oil production and banking and insurance. John is a former Senior Partner of Arthur Andersen and is currently a Chairman of his own property related corporate finance and investment company Denison Capital Limited AFSL 239882. He is also a Non-Executive Director of a number of fund manages and technology companies.

John Martin is a solicitor having practiced at Cowley Hearne Lawyers Pty Ltd since 1984. He became a partner in 1988 and a principal when the firm was incorporated in 2002.

Dr. Ponder was appointed as a compliance committee member during the last year and is a world expert Marine Biologist on Molluscs such as abalone. Dr. Winston recently retired from the Australian Museum where he was a Principal Research Scientist and is currently supervising 5 PhD students.

The final recent appointment, Steven Kirby brings to the compliance committee knowledge of the agribusiness sector and significant corporate finance experience. Steven is a former Director and Joint Head of Forestry and Agribusiness at Rothschild Australia where he structured investments for wholesale and retail clients.

6.3 Communication with Investors

ABA believes that it has met the standard of communication with Investors as outlined in the project offer document for the project with Investors receiving their first quarterly Growers Report in January 2006. It is expected that further in the year, Investors will be provided with ABA's financial report and an annual Managers Report documenting the operations that occurred in the Project during the year.

7 Taxation

ABA has a product ruling for their past project. According to ABA, all key dates and prescribed activities with respect to the product rulings were met, with all Investors receiving the forecast deductions as outlined in the project offer document. In addition, all forecast deductions are still in line with the project offer document.

A product ruling is a binding statement by the Australian Taxation Office (ATO) with respect to deductions of fees available under the current Australian Taxation Laws with respect to an investment in a particular project.

If there are material changes made to the expenditure, timing and establishment of a particular project, then that particular product ruling ceases to have any effect. The product ruling system provides certainty to potential investors in the MIS industry confirming the taxation benefits for a particular project, where the scheme manager complies with the commitments made.

Following the ATO visiting the site of ABA's 2005 project in August 2005, ABA received a letter of compliance.

8 Structure of Previous Projects

In relation to the past project, the project structure at ABA has not changed. ABA states that all related entities in the project continue to be dealt with at 'arms length' in a fully commercial and transparent way.

9 Internal Reporting and Control

ABA has a routine management system that ensures Senior Managers and Directors of ABA are continuously informed of important field operations and occurrences in the previous project. Weekly management meetings between the CEO, Andrew Ferguson, Operations Manager, Darren Tressider and Marine Biologists is one mechanism in which Senior ABA staff are informed about the project.

In addition, a monthly report is compiled by the CEO Andrew Ferguson outlining in detail, information regarding weather conditions, staff issues, stock reports, operations schedules, legal updates, incident reports, harvesting outlook and marketing reports, which are provided to Senior ABA staff. This has been a good improvement since our last review.

ABA also holds an annual planning conference to help prepare for the following year.

10 Exit Strategies for Past Projects

According to ABA, no secondary market for Interests in ABA's past project has developed since the offer document, nor is there likely to be one developed in the future. Investors should consider any Investment in this project as been illiquid.



11 AAG Opinion

The AAG use a model that has been developed in-house to rate Managed Investment Schemes. Numerous points of assessment are made to ensure the important aspects of a project and project manager are assessed on an even basis.

Ratings are out of five stars in quarter star increments.

The report should be read in its entirety and in conjunction with Part A – Corporate Governance Review (Ernst & Young) and Part B – Track Record Review (AAG).

The opinion of AAG is outlined throughout the report and a summary is found on page 1.

12 AAG Profile and Contact Details

Australian Agribusiness Group (AAG) was formed in 1997 to provide experienced agribusiness consulting skills to the SME (small and medium sized enterprises) sector.

AAG has a broad focus. Not only is AAG the leader in the research of agribusiness investments providing the largest volume of high quality research on the agribusiness Managed Investment Schemes (MIS) sector in Australia, but AAG also provides project management and consulting services to the wider agribusiness community.

AAG provides the management skills, expertise, staff and office support to incubate businesses in their critical stages as part of our project management services.

AAG provides a range of consulting services to assist agribusiness companies throughout the growth stages of their businesses.

For more information about the AAG please visit www.ausagrigrp.com.au.

Disclosure and Disclaimer

AAG nor any of its Directors or employees have any involvement with any of the companies outlined within the PDS/prospectus for this Project other than through the normal commercial terms of undertaking this review. AAG has received a standard and fixed fee for undertaking this report from ABA. We do not warrant a rating outcome or project sales. This document has been prepared for use by Financial Planners and Investors. AAG notes that this report is for information purposes only; it does not constitute stand-alone advice. The user must undertake their own research prior to any investment decision and such investment decision is made entirely on the recognisance of the investor. This report is not a warranty, express or implied of any outcome. AAG makes every reasonable effort to ensure that this report is accurate and reasonably reflects the facts. We undertake this review without fear or favour and no warranty is given to ABA as to the outcome of the process culminating in this report, although ABA has been given the opportunity to comment on this report prior to publication. Information is sourced from industry experts, private and public sector research, public domain sources and the web, as well as from the substantial in-house resources of AAG. AAG and its employees disclaim any liability for any error, inaccuracy or omission from the information contained in this report and disclaim any liability for direct or consequential loss, damage or injury claimed by any entity relying on this information, or its accuracy, completeness, currency or reliability. AAG point out that this industry, project and all commercial activity is affected by the passage of time, management decisions, income, yield and expense factors which may affect the rating or opinion provided. In reading this report the user accepts this statement and sole responsibility for the impact of such change on their investment decisions.





AUSTRALIAN AGRIBUSINESS GROUP

AUSTRALIAN BIGHT ABALONE PROJECT 2006

PART C PROJECT REVIEW – March 2006



retail investment research

Part C AAG Project Rating



Methodology

The AAG Project Rating above is given out of a maximum of five stars. A rating may include quarter stars.

This Project Review is designed to provide comment on the PDS offering to give an Investor a clear independent third party assessment of the quality of this project. AAG undertake a significant level of due diligence to arrive at our opinion, relying on material provided by the promoter, third parties and our own qualifications, experience and resources to provide a sound understanding of this offer.

This Project Review (Part C) should be read in conjunction with the Ernst & Young Corporate Governance Review (Part A) and the AAG Track Record Review (Part B).

Throughout this report the AAG has included a diagrammatic representation of our rating of the major areas that we consider to be critical for the success of any project.

Project Features

Application Cost per Unit (ex GST)	\$25,329
Min Number of Interests per Investor	1
Asset Ownership	Nil
Size of Unit	20 Abalone Baskets stocked with 4,400 juvenile Abalone
Management Fees (ex GST)	\$2,448 pa (adjusted to CPI, paid out of Harvest Proceeds)
Lease Fees (ex GST)	\$1,850 pa (adjusted to CPI)
Forecast Returns (IRR before tax)	16.04%
AAG Estimated Returns (IRR after tax)	
• ex insurance	15.4% (4.9 – 24.4%)
• inc insurance	14.5% (3.8 – 23.7%)
Project duration	7 years
Close Date for Investment in 2005/06	15 June 2006
Close Date for Investment in the Project	15 June 2006
Benefit Cost Ratio (@ 7%)	1.20 (0.87 – 1.36)
Breakeven when:	
• Price decreases by:	27% (9% – 48%)
• Yield decreases by:	27% (9% – 48%)
Product ruling	PR 2006/32

Management

The Responsible Entity (RE) for the Project is Australian Bight Abalone Ltd (ABA). ABA is also the parent entity of the subsidiaries involved in the Project and was established specifically for large-scale commercial abalone growing. Australian Bight Abalone Management Pty Ltd (Manager) is a wholly owned subsidiary of the RE and is responsible for the operation and technical aspects of the Project, while Australian Bight Infrastructure Pty Ltd (ABI), another wholly owned subsidiary of ABA is the Marine Lease Owner and owns the infrastructure involved in the Project. With only one previous project under management, ABA is a relatively inexperienced MIS operator. However, we do note that individual Board members have extensive experience in managed investments and developing and managing aquaculture systems similar to the Project ([page 5](#)).

Markets for this Project

Australia is one of the world's largest producers of abalone, accounting for approximately 40% of the world supply. The main issue for the abalone industry in the short to medium term is whether or not the demand for the product is capable of overcoming the expected increased supply of the product due to new aquaculture projects coming on line. If not, the supply and demand dynamics of the abalone industry may result in Australian producers receiving lower future prices for their product ([page 6](#)).

Marketing

Under the Management Agreement, the Manager is responsible for the harvesting and marketing of abalone produced in the Project. The first harvest for the Project is expected to commence in January 2007, with ABA intending to sell 100% of the abalone produced from the Project overseas, with special emphasis on Hong Kong and China. As yet, ABA has not signed any contracts for the sale of abalone produced in the Project. However ABA does state that it has an informal agreement with a large South Australian processor and agent company through which harvested abalone will be sold through ([page 6](#)).

Agricultural Parameters and Returns

Returns are considered to be acceptable and are heavily influenced by changes in yield or price. Growing abalone in this environment is analogous to natural conditions, but has not been done on a large scale in this matter before ([page 3 & 7](#)).

Disclosure and Risks

The risk of losing key management staff is greater to this Project in comparison to other agribusiness projects due to the fact that the methods and technology involved with culturing abalone is very specific and there are limited personnel in Australia with the skills and knowledge needed to implement and manage a Project of this type. Abalone are sensitive to environment and significant losses are possible without careful management ([page 7](#)).

Taxation

ABA has received a Product Ruling [PR 2006/32](#) for the Project stating that 88% of the Application Fee is tax deductible in the application year and that all subsequent Management Fee payments are 100% tax deductible in the year in which they are invoiced ([page 8](#)).

1 Project Structure – What do I get?

1.1 What is the project?

The Australian Bight Abalone Project 2006 (“the Project”) is an Information Memorandum (IM) offering targeted towards Wholesale Investors. A Wholesale Investor is generally defined as a person who;

- Has Net Assets of at least \$2.5 million and has a Gross Income of at least \$250,000 in each of the previous 2 years.
- Is classified as a professional Investor under the Corporations Act.
- Makes a minimum investment of \$500,000 in the Project.

The Project provides Investors the opportunity to grow Greenlip Abalone (*Haliotis laevis*) in a commercial Abalone Aquafarm at Waldegrave Island located near Elliston on the western side of the Eyre Peninsula of South Australia. The primary market for Greenlip Abalone is China with the first harvest for the Project anticipated to occur in January 2007.

One Interest in the Project equates to 20 Abalone Baskets stocked in total with 4,400 juvenile Abalone. For the Project, there are up to 400 Interests available equaling 8,000 Abalone Baskets and 1.6 million juvenile Abalone, with oversubscriptions available at the discretion of the RE.

Upon application, Investors will enter into a Management Agreement with the Manager, Australian Bight Abalone Management Pty Ltd (Manager) and an Aquaculture and Cage Rental Agreement with the Marine Lease Owner, Australian Bight Infrastructure Pty Ltd (ABI).

- Management Agreement – Allows the Manager to be responsible for all establishing, managing, harvesting, marketing, accounting and reporting functions of the Project on behalf of Growers.
- Aquaculture and Cage Rental Agreement – Allows each Grower to be allocated 20 specific individually tagged Abalone baskets and a specific area to settle, maintain and harvest a crop of Abalone.

The anticipated term of the Project is 7 years, with the RE providing an extension of time in the case of an “event of destruction” as outlined in Section 8.3.1 of the report.

1.2 What is the minimum subscription?

The minimum subscription that Investors must invest in the Project is 1 Interest per Grower.

For the Project to commence, a minimum subscription level of 15 Interests must be reached.

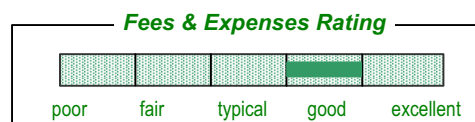
1.3 Can I share in any land/management ownership?

Investors cannot share in the ownership of land or management related to the Project.

1.4 Is there an exit strategy?

There is no secondary market for Interests in this Project, nor is there likely to be one in the future. As such, Investors should consider any investment in the Project as illiquid.

2 Fees and Expenses – What does it cost?



2.1 What are the subscription and on-going fees?

Table 1 summarises the relatively simple fee structure involved with the Project.

On application to participate in the Project, the amount payable by Investors is \$25,330 per Interest. This Application Fee covers the cost of purchasing juvenile Abalone, the costs of Abalone baskets, seeding and settling, and preparing the baskets prior to seeding.

As is evidenced in Table 1, Investors in the Project must pay Annual Fees to the Manager totaling \$4,298 per Interest which is adjusted annually to CPI. Included in the Annual Fees is an Annual Management Fee of \$2,448 per Interest for the management services provided by ABA, an Annual Cage Rental Fee of \$1,850 per Interest for Investors' share of an abalone cage and an annual RE Fee of \$100 for corporate reporting services. We note that Annual Management Fees and Annual RE Fees are deferred and payable only from Harvest Proceeds, while the Annual Cage Rental Fees are payable annually.

Application fee per unit	\$25,330
Annual Fees (adjusted for CPI)	
• Management Fee	\$2,448 (deferred and payable from HP)
• Cage Rental Fee	\$1,850 per annum
• RE Fee	\$100 (deferred and payable from HP)
Cycling Settling Fee	\$4,379 per cycle
Harvest Fee (adjusted for CPI)	\$4,239 per harvest
Sales Incentive Fee	50% of proceeds from sale of Produce in excess of \$37,500 per Harvest
Insurance	Optional
Average NPV of costs per Interest per year ^{Note 1}	\$9,735 (\$9,602 – \$11,842)

HP = Harvest Proceeds

Note: all costs exclude GST

Note: other projects include those in the previous financial year

Note 1: NPV = net present value of application costs, ongoing lease and management fees and marketing expenses assuming mid range case

Cycling Settling Fees of \$4,379 per Interest and Harvest Fees of \$4,239 per Interest (CPI adjusted annually) are also payable by Investors in the Project (Table 1). We note that these fees are only payable after each successive grow-out cycle and each Harvest in each cycle respectively. These Fees are payable only from Harvest Proceeds.

Table 1 illustrates the Sales Incentive Fee that is payable by Growers to the Manager for the sale of Produce in excess of \$37,500 per Interest. This fee is payable at 50% of the proceeds in excess of this threshold and is payable from Harvest Proceeds. This fee provides additional motivation to the Manager to maximise gross returns received in the Project and we believe this Incentive will benefit Growers in the Project.

We note that in the event that the Harvest Proceeds do not exceed the deferred Annual Management Fees, RE Fees and Harvest Fees, the Grower will be liable for the higher of Harvest Proceeds or \$2,500.

Insurance is not compulsory in the Project (Table 1). However ABA states that it will assist Growers in locating appropriate insurance for the Project. AAG strongly recommends that Investors take insurance out for the Project. We have included a cost for insurance in the financial analysis.

2.2 Is finance available?

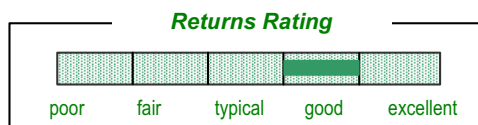
ABA states that although finance is not available through the Project, a number of independent financiers will be providing unsecured finance on standard industry terms.

2.3 What commissions are paid?

According to ABA, the maximum amount of commissions that it will pay to financial advisors and dealer groups is 10% of application monies. It does state however, that the majority of commissions will be payable at between 5-8% of application monies.

In recent times, commissions for other MIS projects have increased to around 10-15%. However, AAG would prefer to see commissions of between 5-8%.

3 Returns – What will I get back?



3.1 What are the underlying assumptions to the returns?

AAG generally model three scenarios when analysing a project's returns expectations:

- The Base Case scenario is our best estimate of the returns;
- The Lower Case scenario is a lower scenario based on the lower end of the underlying assumptions. This scenario is not necessarily the lowest returns possible, but is at the lower (not lowest) end of the potential sensible range of returns; and
- The Higher Case scenario is a higher scenario based on the higher end of the underlying assumptions. This scenario is not necessarily the highest returns possible, but is at the higher (not highest) end of the potential sensible range of returns.

Actual returns may fall outside of these ranges.

Those Investors who are more risk averse, should focus on the Lower Scenario in their investment decisions and conversely, those investors who have a greater appetite for risk should focus on the Higher Scenario. This is due to the fact that the Lower Scenario has a greater chance of being exceeded than the Higher Scenario.

Average Investors should focus on the Base Scenario outcomes with an understanding of the potential for variation, generally within the range of the Lower and Higher outcomes.

Table 2 outlines a summary of the underlying assumptions used in the financial analysis. It is not meant to be limiting or absolute in the values outlined and should be used with caution and read in conjunction with the entirety of this report.

Table 2 – Underlying Assumptions Used in the Financial Analysis

	Scenario		
	Lower Note 2	Base Note 3	Higher Note 4
Project Costs	Refer Section 2		
Yield	Base less 10%	30 mm/yr	Base plus 10%
Price	Base less 10%	\$46.50/kg	Base plus 10%
Inflation Rate	2.2%	2.5%	2.8%
Price Growth Escalation Factor	0%	0%	2.8%
Mortality Rate (on entry; each year)	2.2%; 5.5%	2%; 5%	1.8%; 4.5%

Note 2 – Towards the lower end of the potential range (not necessarily the lowest)

Note 3 – For use in quoting a base case assumption (not necessarily exactly between the Lower and Higher figures).

Note 4 – Towards the higher end of the potential range (not necessarily the highest)

3.1.1 Costs

Please refer to Section 2.1.

3.1.2 Yield and Quality

The total volume of abalone for sale will depend on the average growth rate, the weight of abalone and the number of abalone present.

The number of abalone present will vary over time. ABA will introduce 4,400 juvenile abalone introduced into the cages for each interest. Abalone will progressively grow but some will die naturally.

Not all the abalone will survive to be harvested. ABA has assumed mortality of 2% upon entry to the cages, and 5% in each of the following years in the cycle. While this mortality rate is significantly below the figures detailed in a report prepared by ABARE on a land based abalone farms it is in line with results to date for the first 6 months of operation for the previous ABA project.

Considering the abalone will be grown in their natural environment albeit in a much higher density, the assumptions made in relation to mortality are considered reasonable but should be used with some element of caution given the methodologies of production are really being pioneered by ABA.

ABA has suggested growth rates of 2.5 mm per month in its assumptions in the financial cash flows in the IM. This is equivalent to 30 mm per year and is at the top end of the ABARE report which suggests 20-30 mm per year as a being achievable (on a land based system).

Growth rates will vary greatly depending on water temperature, management techniques, quality of spat and feed type.

The agreement ABA has with the company which is providing the spat to the Project is for the abalone which have not achieved 2 mm per month by the time they are to be provided to ABA for entry into the Project to be removed and not included. While this is lower than the target growth rate, it is not unreasonable to assume that growth rates may be slower to start with and that this will result in abalone of better growth potential being used for the Project.

While we are prepared to accept the growth rates used by ABA and have used these in our Base Case, we note that there are uncertainties as to whether 30 mm/yr can be achieved on average over the three cycles. We have used $\pm 10\%$ for the Lower and Higher Case.

We have used the ratio of a 120 mm sized abalone weighing 220 g in shell in calculating the yield produced.

3.1.3 Price

Figure 1 shows the prices for abalone the two categories of export abalone (processed or fresh/frozen/chilled) along with the weighted average of these two.



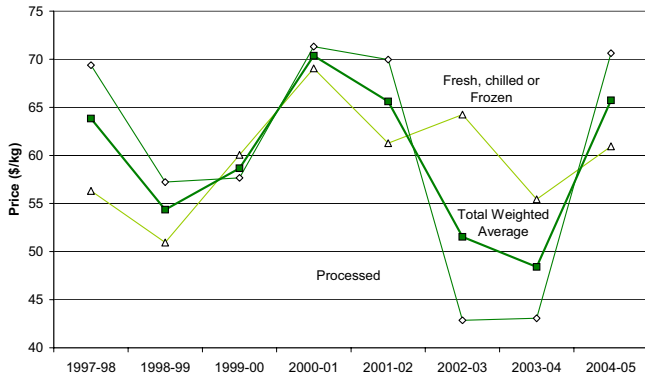


Figure 1 Chart showing the weighted average export prices (by volume) for the fresh/frozen/chilled market, the processed market and the average of these two (source: ABARE, 2005)

It is clear from Figure 1 that Free On Board (FOB) prices have varied substantially over the past few years, so forming a view as to what price is reasonable for estimation of Project returns is very difficult.

A risk for the Project is whether aquaculture grown abalone will receive the same or similar prices to wild catch abalone. Certainly aquaculture will have the potential to produce much larger volumes than that of the quota based wild catch system. The ABARE report suggests that "all other things being equal, prices for farmed abalone would be expected to be lower in the medium to long term as volumes increase".

ABA has used a price of \$46.50/kg in the financial analysis and cash flows outlined in the IM. Considering historic prices for abalone, and allowing for a reduction in price for aquacultured product and increased volumes we are prepared to accept this price in our analysis. This price would allow for a reasonable exporter margin. We have used $\pm 10\%$ for the Lower and Higher Cases.

3.1.4 Inflation Rate

Inflation will impact on the costs associated with managing this Project, but it is generally the average rate of inflation that is important over a 7 year Project life.

The Reserve Bank of Australia (RBA) has a mandated target rate for inflation of between 2% and 3%. The average rate for inflation for the past 10 years to June 2005 is 2.6%. The core inflation rate measured in December 2005 was 2.8%, however headline inflation has reached 3% on top of rising fuel prices.

AAG has used a range of 2.2% to 2.8% in its analysis with the midpoint of 2.5% in the Base Case scenario.

3.1.5 Price Growth Escalation Factor

The cash flows in the IM assume 0% growth in prices, i.e. a decline in real prices. We have also used 0% price growth in our analysis for the Lower and Base Scenarios, while for the Higher Scenario we have assumed prices move with CPI.

3.1.6 Other Assumptions

We have outlined returns with and without insurance in our analysis. ABA has informed AAG that insurance costs are \$600 per Interest and because the abalone have little value except in the harvest year (because of their size) insurance would only be considered in the year of harvest.

Exchange rates will impact on the returns to the Project as it will affect the prices that local buyers can pay for the product as they will most likely export product overseas. We have not factored exchange rate variations into the returns estimates.

We have used a mortality rate of 5% per annum in our Base and Higher Scenarios. When the abalone are introduced into the cages there is a shock factor which results in additional deaths and so we have assumed 2% upon entry in addition to the 5% for the remainder of that year. ABA have bettered these figures in the first 8 months of operations for the previous project. We have used $\pm 10\%$ for the Lower and Higher Cases (refer Table 2).

3.2 What are the estimated returns and how do these compare to other projects?

PLEASE NOTE: Investors should note that the AAG estimated returns are indicative only and AAG do not guarantee them. Investors must seek independent advice before considering investment.

ABA expects to be able to achieve three harvests over the seven year life of the Project through overlapping the introduction of new stock and the harvest of the previous cycle. ABA expects income to be received in years 3, 5 and 7.

Being aquaculture grown rather than wild harvested, the Manager is able to harvest abalone of different sizes at different times depending on the market interest, and so in reality harvesting will occur over a period rather than at one discreet time.

Table 3 outlines the AAG estimated returns based on the assumptions discussed in Section 3.1.

AAG Estimated Returns (IRR after tax @ 48.5%) ^{Notes 5, 6}	Lower	Base	Higher
Cash Basis – excluding insurance	4.9%	15.4%	24.4%
Cash Basis – including insurance	3.8%	14.5%	23.7%

Note 5 – As a standard across all projects, AAG Adjusted Returns assumes all GST is rebated and all tax is refunded in the year the expense is paid.

Note 6 – AAG Estimated Returns uses the ranges and variables as outlined in the Section 3.1.

It is clear that insurance has an impact, reducing returns by roughly 1%.

There is a very large range in returns. This is brought about mainly by our assumption of reduced yield by 20% for the Lower Scenario and prices growing with inflation in the Higher Scenario. If price growth is assumed to be at CPI rather than 0% for the Base Scenario returns equate to 18.5% excluding insurance and 17.6% including insurance.

While Base returns are good and basically reflective of the risks involved, the wide range in returns between the scenarios does suggest the Project will be inherently volatile.

Our returns estimates are before any effect of gearing which is likely to increase the returns slightly. We note, however, that Investors should consider returns on a cash basis when considering investing in any project. In our opinion, an investment should work on a cash basis to warrant investing in it.

3.3 What is the sensitivity of these returns?

Figure 2 outlines the impact of changes in abalone price or yield on the returns to investors. The line is fairly steep indicating that changes in abalone harvest yield and abalone price can readily translate to reduced returns.

The flattening of the line after the Base yield or price is reflective of the incentive fee commencing (Figure 2).

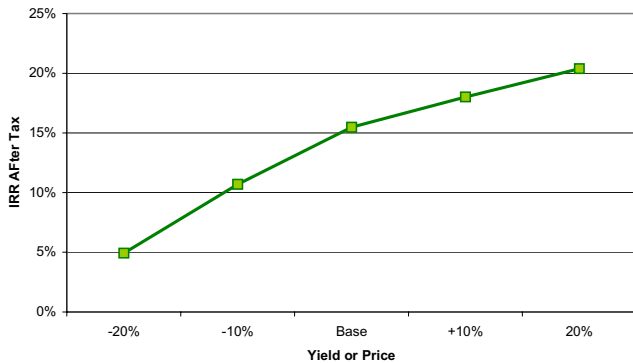


Figure 2 Chart showing the impact of changes in yield and price on returns (excluding insurance) to investors

A benefit cost ratio (BCR) is the ratio of the value of benefits to the value of costs (discounted at 7%). A BCR of less than a value of one means that the costs of the project over time outweigh the benefits paid while conversely a BCR value of greater than one means that benefits outweigh the costs. Larger positive BCRs mean that the benefits significantly outweigh the costs. A BCR of 1.0 equates to a before tax return of 7%.

Table 4 outlines the BCRs for the Project, which are considered to be reasonable under the Base and Higher Scenarios.

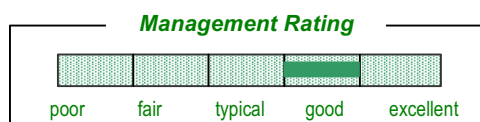
	Lower	Base	Higher
Benefit Cost Ratio @ 7% ^{Note 7}	0.96	1.20	1.37
Breakeven Point on a Cumulative Discount Basis (yrs)	Nil	7	5
Threshold analysis ^{Note 8} – Price	9%	27%	48%
Threshold analysis ^{Note 8} – Yield	9%	27%	48%

^{Note 7} Excluding any shares, options or insurance. Up front cash and before tax basis.
^{Note 8} Threshold analysis is the % reduction in price or yield where break even occurs (i.e. when IRR = 0%)

The Project breaks even on a cumulative discount basis under the Base Scenario in the final year, but breaks even in year 5 on a non-discount basis.

A reduction in price or yield by 27% will force a breakeven situation. We consider this to be low considering the risks involved.

4 Management – who is running the business for me?



4.1 What is the Corporate Structure?

The Responsible Entity (RE) for the Project is **Australian Bight Abalone Ltd (ABA)**. ABA is also the parent entity of the subsidiaries involved in the Project and was established in July 2004, specifically for large-scale commercial abalone growing.

Australian Bight Abalone Management Pty Ltd (Manager) is a wholly owned subsidiary of the RE and is responsible for the operation and technical aspects of the Project.

Australian Bight Infrastructure Pty Ltd (ABI), another wholly owned subsidiary of ABA is the Marine Lease Owner and owns the entire infrastructure involved in the Project.

4.2 Is the Responsible Entity Skilled and Experienced?

With only one previous project under management, ABA is a relatively inexperienced MIS operator. A project called the Australian Bight Abalone Project was released in 2005 and comprised approximately 10 hectares of abalone cages. While ABA has been managing that project for less than a year, we do note that individual Board members have extensive experience in both the operation of managed investments and developing and managing aquaculture systems similar to the Project.

A brief summary of the Directors of ABA is outlined below:

John McAuley, Non-Executive Chairman

B Com, CA

- Involved in the financial and investment industry since 1994.
- Experienced in raising and investing capital in a variety of industries.
- Began his career at Dawson & Partners Chartered Accountants before moving to Wearne & Co in 1996.
- Became a Partner at Wearne & Co in 1999 and has been its Chairman since 2004.
- Director of Denison Capital Ltd.
- Currently Company Secretary of Tinshed Investments, which is the scheme manager for Tinshed Corporation Pty Ltd, a venture capital and investment company.

Peter Woodhead, Executive Director

B Bus (Acc), CA

- 29 years experience as a Chartered Accountant, along with being a tax agent and registered auditor.
- Began his career at Duesbury Johnston & Marks, before moving to Pannel Kerr Forster, both of which are Chartered Accountant firms.
- Current partner at Wearne & Co Chartered Accountants, having been at the company since 1982.
- Current Director and Member of the Compliance Committee at International All Sports Ltd, an ASX listed company.
- Former Director and Treasurer of the Variety Club of NSW and Past Chairman of the Institute of Chartered Accountants Small Business Committee of NSW.

Kenneth Bascomb, Executive Director

- Director of ABA since 2004.
- Began his career in abalone farming in 1970 as an Abalone Sheller in Elliston, South Australia.
- Purchased his first Abalone License in 1981.
- Founding Director of Western Abalone Processors, an abalone processing and marketing company, of which he is still a Director.
- Currently a Partner in RBK Oysters and former Director of Southern Export Abalone Products.

Andrew Ferguson, Chief Executive Officer and Company Secretary

Grad Dip Leg Stud

- Qualified solicitor who specialises in practicing corporate commercial law.
- Admitted to the Supreme Court of NSW in 1995.
- Currently manages his own individual and private corporate advertising company.
- Previous positions held include working at Leigh Virtue & Associates, Pieterse & Pieterse Solicitors and in the AMP Superannuation Legal Department.



4.3 Is the on-ground Manager Skilled and Experienced?

Like the previous project, the management of this Project will be undertaken through Australian Bight Abalone Management Pty Ltd (Manager) which will provide the management and day-to-day services to the Project. In this position, the Manager is responsible for implementing the management strategies of the Project including establishing, seeding, managing, harvesting and marketing the abalone in a way in which returns to Investors are maximised.

Although relatively new to abalone farming, ABA has employed the experienced Darren Tressider as Operations Manager for the Project. ABA has also recently employed Rachel Lawrie as the internal Biologist. She was previously the Independent Biologist for the Projects.

Darren is responsible for all water operations including the management of divers, harvesting and husbandry. Darren has significant experience in the cultivation of abalone and is highly regarded as a leading marine scientist specifically in the field of Greenlip Abalone. Darren will be critical to the success of the Project.

Rachel as the internal Biologist is responsible for ensuring the best animal husbandry practices are implemented to the Project, with particular emphasis in the environmental, biological, scientific and managerial fields. Amongst other things, Rachel will be responsible for implementing the Research and Development program of ABA and will submit monthly and yearly reports to the Operations Manager and Chief Executive Officer.

Darren Tressider, Operations Manager

- Involved in the fishing and aquaculture industry on an operational and managerial basis since 1991.
- Former Fleet Manager for Australia's largest tuna company, Australian Fishing Enterprises Pty Ltd.
- Holds a controlling interest in an abalone aquaculture operation which operates through Eyre Peninsula Aquaculture Pty Ltd.
- Inventor of the 'Abalone Basket' which will be used in the Project.

Rachel Lawrie, Biologist

B Sci

- Began at ABA in 2005.
- 7 years experience as a Marine Biologist.
- Former Chief Marine Biologist at South Australian Abalone Developments.
- Former Marine Biologist with Massena Abalone and voluntary member of the South Australian Abalone Growers Association.
- Former Chief Marine Biologist at Australian Fishing Enterprises Pty Ltd.

5 Market Overview – where will the product be sold?

Australia is one of the world's largest producers of abalone, accounting for approximately 40% of the world supply. Abalone has traditionally been caught and sold from 'wild' stock, however with wild abalone fisheries declining in countries worldwide, interest in aquaculture products has increased substantially. As a result of declining wild abalone stocks, quotas and strict control of the amount sourced from the wild have been put in place by the Australian Government. Aquaculture provides the ideal environment where demand for fresh product can be met, as the abalone produce can be harvested for 'on-ground' delivery, rather than relying on the 'hit and miss' supply which is typical of wild catch produce.

In Australia, abalone aquaculture began in Port Lincoln and Tasmania during the early 1980's. Aquaculture techniques currently in use in Australia include the use of sea cages, recirculation tanks on land and ranching abalone on existing and constructed reefs. Of a number of wild abalone species that grow in Australian marine water, only Greenlip and Blacklip are currently produced commercially in aquaculture programs. Of these two species, research has shown that Greenlip culture may be preferable to Blacklip culture because of the potentially faster growth rates achievable by this species.

Australia produced approximately 5,900 tonnes of abalone worth \$252 million in 2004/05. The largest producing states in Australia are Tasmania, Victoria and South Australia who account for 47%, 27% and 17% of Australia's production respectively.

The majority of Australia's abalone product is exported to Asian markets with exports to Hong Kong representing approximately 56% of Australia's total abalone exports. Only a small amount of Australian produced abalone is currently sold on the domestic market. Live abalone product is usually sold direct to a distributor in Hong Kong, Singapore or Japan, while canned or fresh-frozen abalone is sold to local abalone processors who then sell to wholesalers in Asia.

The main issue for the abalone industry in the short to medium term is whether or not the demand for the product is capable of overcoming the expected increased supply of the product due to new aquaculture projects coming on line. If not, the supply and demand dynamics of the abalone industry may result in Australian producers receiving lower future prices for their product.

6 Marketing – how will the product be sold?



Under the Management Agreement, the Manager is responsible for the harvesting and marketing of abalone produced in the Project. Investors produce from the Project will be pooled into a Marketing Pool after each harvest and marketed together. This process reduces a Growers exposure to price and volume risk and also simplifies the process and maximises the proceeds at each harvest. It is expected that the proceeds from the sale of abalone will be distributed to Growers in the Marketing Pool in the 2009, 2011 and 2013 financial years, minus the fees and costs involved with the Project. We note that Growers have the option of not pooling their produce in the Marketing Pool, but we consider this option increases the risk to Investors.

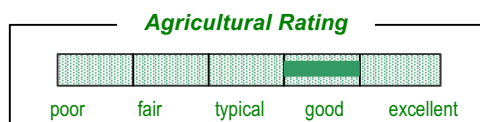
According to ABA, the first harvest for the Project will occur in January 2007 and from then, will generally take place all year round. The periods where the bulk of stock will be harvested include around Chinese New Year from the end of January to the end of February and for special events such as the 2008 Chinese Olympics. In being able to supply consumers all year around, ABA has a large advantage over 'wild' abalone fishermen, who are restricted in the amount they can source from the wild. One advantage is that prices of abalone sold by ABA in the 'wild' catch abalone off season may be greater due to reduced supply.

ABA intends to sell 100% of the abalone produced from the Project overseas, with special emphasis on Hong Kong and China. This is due to the fact that domestic market for Greenlip Abalone is quite small and consumers in Asia are willing to pay premium prices for fresh wild abalone.

While ABA has not signed any contracts for the sale of abalone produced in the Project it states that it has an informal agreement with a large agent company through which harvested abalone will be sold. According to ABA, this company has a 20 year relationship with its Hong Kong based distributors and has developed numerous supply chain relationships with companies in China, which are in strong demand for ABA abalone. AAG toured this facility during our site inspection.

We are confident that ABA will be capable of selling the abalone produced from the Project. Even if the informal agreement falls through, there is a large publicly traded market for abalone. Although somewhat distorted by limited buyer numbers, selling the product can be achieved and Kenneth Bascomb's experience in the industry will be of significant value here.

7 Agricultural Feasibility and Assumptions – Is it agriculturally sound?



7.1 Where is the project located?

ABA has selected the South Australian town of Elliston located on the Eyre Peninsula to be the initial land base for the Project, with the sea based structures housing the abalone to be situated just off Elliston at in Anxious Bay. As part of ABA's previous project, ABA currently has 13 cages, growing approximately 1.3 million Greenlip Abalone in the same area intended for this Project. Renowned for the abundant wild abalone that grows naturally in the Anxious Bay area, the Independent Biologists Report states that the location is suitable for abalone production.

7.2 What is the aquaculture management regime?

The primary aim of the Project is to 'culture' the Greenlip Abalone in its natural form in marine based cages. The cages provide the abalone with a close to natural environment and protection from predators, whilst providing ease of stock management for feeding. Similar cages used in the Project have been used for decades to raise tuna and salmon. The cages are 45 metres in diameter and using their in-built buoyancy control mechanism, are able to support themselves at varying depths. Each cage holds up to 540 polypropylene abalone baskets, which provides a safe environment that cultivates algae on which the abalone feeds.

The cages are anchored to the sea floor using a grid based system that is capable of withstanding significant storms. This is a system that is being retrofitted to the previous project and should provide for added protection to the cages. The current marker buoys/lights at the corners of the marine lease site provides for some protection but individual lights on each cage as suggested by the Independent Biologist may assist further in mitigating against any damage from passing vessels crashing into the cages.

The cages provide the substrate on which weed growth occurs. The weed is what feeds the abalone and this would be very similar to their natural diet.

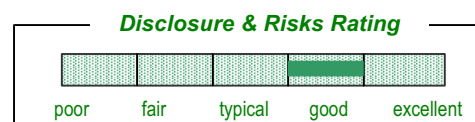
ABA has selected Greenlip Abalone (*Haliotis laevigata*) as the abalone species to be used in the Project. Greenlip Abalone is endemic to Australian waters and according to the Independent Biologist are recognised for their strong growth rates. They are the dominant abalone species along the west coast of the Eyre Peninsula where the Project is located.

The Project incorporates the use of a nursery system to grow seed stock of abalone. Juvenile abalone for the Project will be spawned on contract from SAM Abalone in special purpose aquaculture tanks on the mainland in Elliston and will continue to grow for 4-5 months. From here the sorting and grading of abalone will occur with suitable abalone transported in shade cloth covered parcels to sea based nursery cages. The abalone will then be seeded to a pre conditioned basket. Baskets containing the abalone will then be placed in the cages located approximately 2 kilometres off shore which provides them with more space and a cleaner environment to grow.

The monitoring and auditing of the abalone and the environment of which it lives is critical to the success of maximising productivity of the Project. ABA intends to use net panel observations to monitor disease, larvae and algae settlement in the cages to be recorded by a data logger. Ongoing monitoring of the abalone stock through the use of control boxes within the sea cages to measure growth rates will be used, with monthly stock size estimates taken to estimate the time of harvest.

The structure of the cages in the Project will be monitored by means of diving, surface snorkeling and the use of a submersible video, with any repairs to cage structure or the removal of unwanted species conducted as required. ABA has employed its own divers to undertake these tasks. The Project will involve 3 overlapping cycles of abalone over the 7 year Project life.

8 Disclosure and Risks



8.1 Disclosure

ABA has in place a compliance committee for the Project, which is comprised of internal member Peter Woodhead and external members John Burrows, John Martin, Dr. Winston Ponder and Steven Kirby. Peter is an Executive Director of ABA and as such, a brief description of him can be found in Section 1.1.

Dr. Winston Ponder was appointed as a compliance committee member in 2005 and is a world expert Marine Biologist on molluscs. Dr. Ponder recently retired from the Australian Museum where he was a Principal Research Scientist and is currently supervising 5 PhD students.

Steven Kirby was also appointed to the compliance committee in 2005 and brings with him extensive knowledge of the agribusiness sector and significant corporate finance experience. Steven is a former Director and Joint Head of Forestry and Agribusiness at Rothschild Australia where he structured investments for wholesale and retail clients.

John Burrows has broad experience as a financial consultant, accountant and auditor and has worked in various industries including manufacturing, retailing, oil production and banking and insurance. John is a former Senior Partner of Arthur Andersen, a past Chairman of a number of ASX listed companies, his own property related corporate finance and Managed Investment company, Denison Capital Limited. He is also a Non-Executive Director of a number of funds management and technology companies.

John Martin is a solicitor having practiced at Cowley Hearne Lawyers Pty Ltd since 1984. He became a partner in 1988 and a principal when the firm was incorporated in 2002.

The IM provides excellent disclosure while the compliance committee members are an experienced group.

8.2 Reporting to Investors

Each year within 2 months of the end of June, Growers in the Project will be provided with a Managers Report documenting the operations for the period and comments on the health and progress of the crop. In addition Growers will receive a quarterly Growers Report from ABA.

Following each harvest, the Manager will provide a Harvest Report for Investors who have their product pooled showing the quantity of the produce and sale proceeds from the harvest.

8.3 Risks

AAG believes the major risks to the Project can be classified into the following 3 main categories. This is only a brief summary of the risks involved in the Project and we advise that Investors should read the Investment Risk section in the Information Memorandum for a more detailed assessment of the risks associated with the Project. While many of the risks can be mitigated against, we note that the Project is utilising new technology and systems at this scale and the Independent Biologist notes that ABA is pioneering this method of sea-based abalone production.

8.3.1 Agricultural Risks

Like any agribusiness investment, the major agricultural risk to this Project is not achieving the estimated yields, in turn reducing returns to Investors. In relation to abalone production, the main agricultural risks include storms, wind, pollution, disease, pests and nutritional deficiencies. Many of these risks can be prevented by implementing good husbandry management systems.



With Operations Manager Darren Tressider and Executive Director Kenneth Bascomb involved with the Project, AAG has confidence in ABA implementing a program where these risks can be minimised.

ABA states that in relation to storms and wind, the risk is reduced by the selection of the site which is located behind an island. We note that should wind or storms cause damage to cage equipment, Growers will not be responsible for replacement. In the event where more than 75% of the Growers stock is destroyed, the Manager will provide the Grower with an extension of the Management Agreement. In addition, the rental term provided by ABI will be extended by up to 3 years.

The possibility of contamination by chemicals and pollution is another agricultural risk to the Project. However ABA believes this risk has been mitigated by the fact that the lease site is located in a 'pristine' environment located in an area too shallow for ocean going vessels to cross and is not located near any sea transport lanes.

The Independent Biologist notes in his report that there is sufficient algal growth in theory to support the abalone. He notes that algal die off is a risk to the Project as this is the source of food for the abalone to grow on. ABA has trialed supplemental feeding which could be used in such an emergency. ABA would require a license from Primary Industries South Australia to undertake this activity. Competition from sea pests is a risk but ABA undertakes a control program as part of routine maintenance.

8.3.2 Management Risks

Management risks involved with the Project includes the loss of key advisors, consultants and management staff. In comparison to other agribusiness projects, this risk is even greater to this Project due to the fact that the methods and technology involved in culturing abalone is very specific. There are a limited number of personnel in Australia with the skills and knowledge needed to implement and manage a Project of this type and the project site is located in an area some may consider isolated.

However, we do note that the culture of abalone is a growing industry in Australia and as such the pool of people involved with the industry is increasing. ABA has recently employed Rachel Lawrie which provides backup to Darren Tressider and Kenneth Bascomb. In terms of personnel to undertake the in-sea activities, the location of the Project may provide issues with employing appropriate people. At this stage of development, ABA has not had too many issues in this regard.

8.3.3 External Risks

The main external risk to the Project is not achieving the targeted sale price as a result of the supply and demand dynamics of the abalone industry. As is evidenced in Section 2.1, there are incentives in place for the Manager to sell the product at the best possible price. On the supply side of the equation, increasing volumes of abalone placed on the market may cause prices to fall in the future, but we do note that the demand for the product in the intended market of China is likely to increase due to the growth in the Chinese middle class.

Because the majority of the product produced in the Project is expected to be sold in China, currency fluctuations may be a source of price instability for the Project.

Another external risk to the Project is poaching and theft of abalone from the Project site. However the Manager maintains its own security procedures, including physical and electronic monitoring of cages. ABA states that there is a likelihood of detection due to the small amount of licenses in the community meaning that detection of poached product is a strong possibility.

Disclosure and Disclaimer

AAG nor any of its Directors or employees have any involvement with any of the companies outlined within the PDS/prospectus for this Project other than through the normal commercial terms of undertaking this review. AAG has received a standard and fixed fee for undertaking this report from ABA. We do not warrant a rating outcome or project sales. This document has been prepared for use by Financial Planners and Investors. AAG notes that this report is for information purposes only; it does not constitute stand-alone advice. The user must undertake their own research prior to any investment decision and such investment decision is made entirely on the recognisance of the investor. This report is not a warranty, express or implied of any outcome. AAG makes every reasonable effort to ensure that this report is accurate and reasonably reflects the facts. We undertake this review without fear or favour and no warranty is given to ABA as to the outcome of the process culminating in this report, although ABA has been given the opportunity to comment on this report prior to publication. Information is sourced from industry experts, private and public sector research, public domain sources and the web, as well as from the substantial in-house resources of AAG. AAG and its employees disclaim any liability for any error, inaccuracy or omission from the information contained in this report and disclaim any liability for direct or consequential loss, damage or injury claimed by any entity relying on this information, or its accuracy, completeness, currency or reliability. AAG point out that this industry, project and all commercial activity is affected by the passage of time, management decisions, income, yield and expense factors which may affect the rating or opinion provided. In reading this report the user accepts this statement and sole responsibility for the impact of such change on their investment decisions.

9 Taxation

9.1 Is there a product ruling?

ABA has received a Product Ruling PR 2006/32 for the Project stating that 88% of the Application Fee is tax deductible in the application year and that all subsequent Management Fee payments are 100% tax deductible in the year in which they are invoiced. Investors should consult their accountant for advice on the taxation implications of an investment in this Project. The Product Ruling only applies to those Investors who do not elect to harvest and market their own abalone produce.

9.2 How does the product ruling system work?

A product ruling is a binding statement by the ATO with respect to deductions of fees available under the current Australian Taxation Laws with respect to an investment in a particular project. If there are material changes made to the expenditure, timing and establishment of a particular project, then that particular product ruling ceases to have any effect.

The product ruling system provides certainty to potential investors in the MIS industry confirming the taxation benefits for a particular project, where the scheme manager complies with the commitments made.

10 AAG Opinion

The AAG use a model that has been developed in-house to rate Managed Investment Schemes. Numerous points of assessment are made to ensure the important aspects of a project and project manager are assessed on an even basis.

Ratings are out of five stars in quarter star increments.

The report should be read in its entirety and in conjunction with Part A – Corporate Governance Review (Ernst & Young) and Part B – Track Record Review (AAG).

The opinion of AAG is outlined throughout the report and a summary is found on page 1.

11 AAG Profile and Contact Details

Australian Agribusiness Group (AAG) was formed in 1997 to provide experienced agribusiness consulting skills to the SME (small and medium sized enterprises) sector.

AAG has a broad focus. Not only is AAG the leader in the research of agribusiness investments providing the largest volume of high quality research on the agribusiness Managed Investment Schemes (MIS) sector in Australia, but AAG also provides project management and consulting services to the wider agribusiness community.

AAG provides the management skills, expertise, staff and office support to incubate businesses in their critical stages as part of our project management services. AAG provides a range of consulting services to assist agribusiness companies throughout the growth stages of their businesses.

For more information about the AAG please visit www.ausagrigroup.com.au.

Australian Agribusiness Group Financial Services Guide

We are required to give this FSG to retail clients under the requirements of our Australian Financial Services Licence. It is an important document and provides you with information about Australian Agribusiness Group (AAG) to help you decide whether to use the financial services that we provide. This FSG explains the services we can offer to you and the types of products we offer. It also explains how we are remunerated in relation to those services and includes information on our internal and external complaints handling procedures.

You may also receive other documents in relation to the financial products which we may provide advice on, from other parties.

A Statement of Advice (SOA) describes the type of advice being given, and must be provided where an adviser is giving personal advice. As detailed below, Beckmont does not provide personal advice and therefore will not provide an SOA.

A Product Disclosure Statement (PDS) is a document which contains information about a particular financial product which will assist you in making an informed decision about that product. However, as we do not issue, sell, or offer to issue or sell financial products, or give personal advice, we are not required to provide a PDS.

This FSG is dated 28 February 2006.

1. Who are we?

Beckmont Pty Ltd (ABN 50 056 592 708) (Beckmont) trading as Australian Agribusiness Group (AAG) is licensed under the Corporations Act to provide particular financial services to you on its own behalf. These may be provided to you by Beckmont representatives.

Beckmont's Australian Financial Services License number is 244307.

2. What financial services do we offer?

Beckmont can provide, for the purpose of preparing research reports in relation to primary production managed investment schemes, financial product advice for interests in primary production managed investment schemes (excluding investor directed portfolio services) to retail and wholesale clients.

Beckmont does not provide personal financial advice. As such our employees and representatives will not be taking into account your personal objectives, financial situation and needs. If you require personal financial product advice, please consult a financial planner.

3. How can you do business with us?

You can register for access to our research and information on primary production managed investment schemes via our website (www.ausagrigrp.com.au). Information is accessed via that site by a personal login name and password.

4. How are we remunerated for the services we provide?

Wholesale clients do not currently pay anything for access to our services.

Retail clients pay a maximum \$69 for access to each project report.

5. What commissions, fees or other benefits are received?

Beckmont is paid a standard and fixed fee by project managers (i.e. the product providers of agribusiness managed investment schemes) of \$25,300 for the first project for each project manager and then \$13,200 per project thereafter for that project manager. Any associated travel, accommodation and reimbursements are additional to this charge.

Employees of Beckmont Pty Ltd do not receive particular payments or commissions in respect of the authorised services and are employed on a salary basis in respect of these services.

You may receive advice from financial planners and dealer groups to whom we provide research. These financial planners and dealer groups do not receive remuneration from us, nor we from them.

6. How do we safeguard your private information?

Your privacy is important to us. In general we may collect information about you to manage your access to our website. You can access our Privacy Policy at our website (www.ausagrigrp.com.au).

7. What should you do if you have a complaint?

Please contact our Compliance Officer on (03) 9602-6500.

Our staff will review the situation and if possible resolve it immediately. If the matter has not been resolved to your satisfaction, please contact the Managing Director by writing to:

The Managing Director
Australian Agribusiness Group
Level 7, 99 Queen St
Melbourne VIC 3000

If, after giving us the opportunity to resolve your complaint, you feel we have not resolved it satisfactorily, you may be able to lodge a complaint with:

Financial Industry Complaints Service (FICS)
PO Box 579, Collins St West
Melbourne VIC 8007
or call them on 1300 780 808

8. You can contact us by

- phone on (03) 9602-6500
- fax on (03) 9642-8824
- visiting www.ausagrigrp.com.au
- writing to us at Level 7, 99 Queen St
Melbourne VIC 3000
- email on info@ausagrigrp.com.au





AUSTRALIAN AGRIBUSINESS GROUP

AUSTRALIAN BIGHT ABALONE PROJECT 2006

AAG Agribusiness Project Research – March 2006

retail investment research