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Background

In 2003 we became very interested in the global food supply/demand/stocks situation and concluded that in the light of the acute shortage of global cereal stocks and what was happening to the world population demographics, particularly in the Asian and Far Eastern nations, the world would have to produce considerably more food over the coming decades. This coincided with our existing activity in Russia and the strong personal relationship which we had with the head of the regional administration in Andropovsk Rayon and Stavropol Krai

We started the business in 2004 personally investing in the acquisition of the original leases (10,200 Ha) and in the establishment of a holding company, Global Agriculture Management Limited (GAM). Today GAM holds leases over some 14,000 Ha and owns all the related property assets. Some of our original 49 year leases are at rates as low as \$6.0/Ha per annum, to repeat such rates today would be quite impossible.

Andropovsk Farms Limited (AFL) was formed in 2006 to act as the farming company. In 2007 we raised £2.9 millions working capital to start operations.

Today both companies (AFL & GAM) have an almost identical shareholding and if we progress it is almost certain that one will merge with (or be acquired by) the other.

Objectives

We continue to believe, despite the current economic turmoil, that the fundamental global food situation remains unchanged from our views in 2003. The world's population, now 6.2 billion, quadrupled in the 20th century, and changed in drastic ways. In 1900, 86 percent of the world's people lived in rural areas and about 14 percent in urban areas. By 2000, urban communities were home to 47 percent of the population, with 53 percent still in the countryside.

Between now and 2030, when the global population is expected to reach about eight billion, almost all the growth will be in cities. In other words they will have to be fed as they will not be feeding themselves in the rural environment.

Furthermore we already know that, in Russia, we can grow milling wheat at under \$290 per Ha (excluding Capex, depreciation and debt servicing) which equates to under \$75 pmt. This is one of the lowest costs of wheat production anywhere in the world.

In 2008 AFL achieved the highest yield/Ha in Andropovsk Region which, considering it was the first year of cropping, was an excellent result. Given normal weather conditions and sufficient funding, this is expected to improve considerably in 2009 and 2010

The opportunity currently exists for AFL to expand its land base.

Fairly naturally the local government, while supportive, wanted to see how we performed in 2008. Having seen the results and commitment by AFL we have now been offered substantial blocks of additional land on extremely advantageous terms, both by the administration and by independent Russian Sovhoz/Cohoz (former state/co-operative farms).

This situation of availability is also tied into the current economic climate under which domestic Russian farmers are unable to obtain bank financing

Profitability

As stated a lead time of capital investment is required to bring unutilised land up to optimum yield performance. AFL has already completed the first two years on its initial 10,000 Hectares and we fully expect yield returns in 2009 on that land to approach optimum yields.

Assumptions / Projections

The following assumptions are the basis of the attached projections.

We are of the opinion that the optimum arable "unit size" is between 10,000 and 20,000 Hectares and that future expansion should be based around adding units of this size, this is the maximum size that an experienced senior farm manager can properly control if assisted by at least one other expat sub manager and a good agronomist. It is extremely unlikely to find, in our region, any Russian farm that does not have at least a 25% grass component, and usually closer to 35%

As a result of 20 years of under investment in silos, dryers, cleaners and other processing units, as well as farming itself the current Russian infrastructure in respect of cereal/oilseed handling and processing is weak. Much of the storage capacity is antiquated and, at best, only partially functional. Although roads have improved considerably and are the prime method of transport the rail system is now short of grain wagons as a large percentage were scrapped in the 90,s and not replaced. The situation is improving but the current shortage of finance may well slow this down.

The company already has 9000 mts of storage and proposes to construct drying, cleaning and storage facilities for up to 26,000 tonnes in due course

The core building block of any farm is its arable component and for AFL this is wheat, OSR, sunflower, soya bean and maize; operated under a conventional rotation structure but trying to build wheat up to a consistent 50-60%.

Only after the arable component is operating effectively can the other the other "bolt on" options such as beef or poultry or irrigated crops can be considered.

Essentially the western farmer operating in Russia must attempt to be self sufficient in as many areas as possible if one is to reduce/eliminate the risk of theft, petty corruption and unreliable subcontractors. This is usually not possible at the outset without substantially high capital/debt facilities and in the pre optimum yield years not actually necessary. We believe that is it critically important to establish the validity of any unit and the strength of local government support/participation before committing to expensive fixed capital expenditure.

It takes between three and four years to take an unused arable field from redundancy to optimum yield. First year costs, in land which has not been farmed at all for over five years, can be as high

as \$95.0 Ha. This sum falls considerably if there has been cultivation within the preceding three years

We describe part reclaimed land as that which has been cultivated but not had any chemical weed treatment.

Land values in Russia rose sharply in 2007 and 2008 but have fallen back considerably over the last five months. Prices of up to Rbls 18,500 per hectare for partially (cultivated but not sprayed) reclaimed land were achieved to our certain knowledge with asking prices often considerably higher. Non reclaimed land reached levels of Rbls 12,000 per hectare in 2008

We believe that prices for part reclaimed and non reclaimed have fallen by 40-50%.

Fully reclaimed land rose to in excess of Rbls 28,000 per hectare and values have fallen by 20 – 40%.

Beef

The case for beef in Russia is well documented as the country presently imports some 49% % of its beef requirement.

The *USDA report of 10 October 2008* forecasts a 2% fall in Russian beef production in 2009 and that imports will rise to over 1.0 million tonnes; this represents some 51% of Russian beef requirements

AFL currently has 3500 Ha of excellent pasture which is unused. There are a number of synergies between beef and arable including the off-take of secondary grain by the beef unit and the supply of high nitrogen manure from the beef unit to the arable farm.

AFL has commissioned a feasibility study from the Scottish Agricultural College (SAC) who are internationally recognised in this field. A field visit to Kursavka was completed by their personnel and the preliminary findings were very positive the full report is currently in preparation and expected in April.

Relationships

One of the main reasons that we are located in Andropovsk Rayon (the others being climate, land & communications) is that we have excellent personal relationships within the Government; from the Governor (Gaevsky Valery Vieninovich) downwards including both the judicial and police departments. As a consequence we have direct access to the Governor and his office and continual support from his administration.

Capital/debt requirement

The amount of capital raised by AFL in 2007 was, in reality, insufficient to start full farming operations and acquire all the required machinery. However the decision was taken in 2007 to start work on land reclamation with a view to planting an autumn crop of wheat and Oilseed Rape (OSR). AFL negotiated a loan of \$1.0 millions with Eagric Ltd, which was subsequently increased in 2008 to \$3.0 millions, for the purchase of essential machinery. Eagric are currently seeking repayment of this loan

During the harvest last year we identified certain areas which, if we are to develop properly, will definitely require additional capital investment; these are drying, storage and greater handling/combining capacity.

Allowing for the repayment of existing debt we are seeking to raise some \$US7.0 millions in either equity, debt or a combination.

Operating cash requirement

It is very important to understand the lead times in Russian farming. Basically that land which has not been farmed for any length of time, some of ours for over ten years, will not come into optimum production for at least two full seasons and usually three to four seasons. This is because of compaction, field surface deterioration, nutrient leaching and, most importantly the weed "seed bank" which has developed.

On its first 10,200 hectares we are now into season three

AFL has managed to get to the start of year three with 7500 Hectares drilled (6700 wheat, 800 OSR) in autumn 2008 on \$5.1 millions of equity and \$3.0 millions of debt.

Asset Valuation

Machinery

I attach a list of machinery including that acquired in 2007/8 together with current depreciated values.

Land

Agricultural land values (including long leases) rose sharply in 2007/8, peaking in about April 2008. Our estimation today is that fully or largely reclaimed leased arable land stands at around \$500 - \$600 per Ha (down some 30% from the high). This values the existing AFL arable only leases at some \$US 5.0 millions

Pasture land, of which we have some 3500 ha of very good quality, is impossible to value accurately but I would estimate at under \$30 per Ha in an unutilised state.

Buildings and other assets.

GAM owns over thirty properties of which a few are critical to the operation of the farm.

The company also owns three renovated houses, for expat management and a fully renovated administration unit.

GRSC / 02 /09