

Tim Shay/Brauer (WR #'s 112789 & 113030)

From: "Gray, M (Mark)" <[REDACTED]>
 To: [REDACTED] <[REDACTED]>
 Cc: "Webber, M (Michael) (Australia)" <[REDACTED]>
 Date: Thu, 17 Sep 2009 10:11:35 +1000

[REDACTED]

While on the surface the LSR is OK for this request (albeit some subjectivity re the mining lease obviously continues on) , gearing is high and serviceability is very hard to get a grip on. Perhaps they are in a pretty good frame of mind in the US and maybe that frame of mind has not had them fully consider the implications 2 years down the track.

From now until 2012 this request does not work, and most of the 2013 assessment is hypothetical – a lot can change between now and then.

I haven't phoned to discuss, only because there are a few issues that it is probably easier for you if I note them down and you can have some time to consider – but please phone me to talk them through if you would like.

So, I have a number of initial observations/questions where your feedback will be important in assisting me to come to a conclusion here , which in brief dot point are:

- Details of rental income by property
- Details of rental property values & how they have been determined
- Details of rental property liabilities, loan interest rates and repayment schedules , council rates, agents commission , strata fees, management fees etc.,
- Details of all other entities (an org chart will help here) and trading results
- Will subdivision occur prior to settlement, is this built into the contract for sale – can I have a copy of the sale contract please
- How has the sale price on the US property been determined, how saleable is it in the current US housing market, is there a debt on this property to be repaid, what exchange rate has been used & is FX risk allowed for against the appreciating AUD
- 10 -13 bulls is insufficient for 600 breeders
- 90% calving cows and 85% calving heifers is too high
- 300 calves included as purchases for March 2011, but no expense allowed . If these are based on cow with calf at foot, then the breeder purchase price of \$850/head seems low
- What is the:
 - o break down of trade cattle purchase weights, age and price/kg
 - o basis of weight gains/day
 - o break down of trade cattle sale weight and price/kg
 - o break down of progeny sale weight and price/kg
- I struggle with the concept of buying trade steers at \$450/head, and selling at \$1,000/head within 6 months
- How realistic is it for them to buy and sell 80 head/month in 2013
- Cull cow sales of 100 head pa @ \$750/head with replacement purchases of 100 head at the same price seems optimistic – sale price should be lower than purchase price as they should be buying better quality than cfa's
- What are the specific details of lease arrangements & what assumptions are there behind substituting agistment income if the vendor moves off shortly
- What have historic drawings been, how will they pay for living costs in the US at \$18kpa (return flights for this property purchase transaction, holidays, schooling, normal living costs, return flights when they come home etc.,)
- Ongoing, drawings at \$18k pa at \$345/week for 2 adults & 3 children seems light on
- Some past drawings are recorded as \$83k in 2002 , \$87 in '03, \$33 in '04 and \$43 in '05 – and they were living in Australia then
- What are the ages of the children and what is the succession plan they have at this point
- Employee wages in 2013 @ \$18k seems quite unrealistic , what will their employee requirements be
- Loan purpose is in part to capitalise interest and operating losses (ie 2011 loss of \$822k) and costs while they are in the US could see expenditure over the next 1- 2 years blow out. Should we be looking to fund shorter term needs (if we fund anything at all) and consider medium term funding (including cattle purchases once we know the market at the time) once they get back from the US
- What is the cropping area and how is their cropping production expense derived
- Assumptions seem to have the properties running at (or close to) full capacity YOY, what is the likelihood of being able to sustain this

I have not reworked the application & look forward to your response.

Regards
 Mark