

Lachlan Farming Limited ACN 082 230 028

Fund Update - May 2009

Investment Objective

LFL is an unlisted public company, which was established in June 1998 and was one of the largest agricultural developments in Australia at that time. LFL holds, through various titles, one property in the Hillston district "Mooral Station" – formerly part of the property known as "Brooklyn".

LFL is currently in the process of selling down its land and water assets and is not expected to undertake further cropping activities.

LFL is closed to new investment.

Performance Update

Between July 2008 and May 2009 the unit pricing for LFL had been suspended due to commercial negotiations taking place relating to the takeover bid for Lachlan Farming Limited (LFL) by RFM Riverbank (RBK).

The table below shows the performance as at 31st May 2009. It should be noted that the 1 month, 3 month, and 6 month growth return figures are the result of absorbing all the price movement since the July 2008 unit pricing.

Past performance is not a reliable indicator of future performance.

Returns (as at 31 May 09)	1 mth	3 mth	6 mth	1 yr	2 yr*	3 yr*	4 yr*	5 yr*	Inception*
Distribution Returns	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.96%	0.00%	0.00%
Growth Returns	94.09%	94.09%	94.09%	165.25%	74.88%	8.66%	5.97%	-0.28%	-2.08%
Total Returns	94.09%	94.09%	94.09%	165.25%	74.88%	8.66%	5.97%	-0.28%	-2.08%

* Annualised figures.

Market Commentary

As many developed nations have entered recession, commodity prices have been unable to regain the upward momentum they enjoyed in 2007 and early 2008. Through the first quarter of 2009, corn futures fell approximately 5%, wheat futures fell 13%, and soybean futures declined 3%. Although commodity prices continued to decline slightly, the dramatic drops experienced during the latter half of 2008 have ceased. Additionally, these prices remain at historically high levels, with most commodities achieving stronger prices than they did three years ago.

The Australian Dollar (AUD) remained steady against the US Dollar through the first quarter. However, the AUD has since rallied with investors moving money out of US Treasuries and other traditional havens in favour of higher-yielding assets in commodity rich countries such as Australia. There has also been an increase in risk appetite. However, the rally in the AUD may be tempered with concerns that its strength may hurt Australia's trade balance and be a drag on an economy weakened by the Global Financial Crisis. This in turn may cause the Reserve Bank to consider intervening in currency markets.

Forecasts from the Australian Bureau of Agricultural and Resource Economics (ABARE) indicate that Australia's farm exports are growing strongly despite the global economic crisis. In its latest forecasts, ABARE suggests that rural exports will rise by 12.0% and top \$30bn in 2008-09, as a result of increased crop yields and a weaker Australian dollar. The combination of historically high commodity prices and a weaker Australian dollar has generated excellent terms of trade for Australian farmers. ABARE forecasts suggest that these terms of trade will persist, with rural exports expected to continue increasing through 2009-10.

In response to the falls in commodity prices experienced during late 2008, plantings of many key crops are expected to be reduced during the 2009 season. Weather events are also impacting upon global harvests, with Argentina, the world's third largest soybean producer, lowering harvest estimates as a result of severe drought. Additionally, the Argentinean drought is set to reduce wheat plantings, while US winter wheat crops have suffered freeze damage. Supply constraints such as these have the potential to place upward pressure on commodity prices, as demand remains strong.



Fund Commentary

LFL is currently in a strong financial position which is a result of having a cash holding of \$6 million, no outstanding debt and ownership of the Moorall property that contains a semi mature almond orchard.

The Moorall property is leased to RFM RiverBank (RiverBank) which is also managed by GSFM. The payment of lease payments by RiverBank to LFL is dependent on RiverBank receiving lease payments from Great Southern Managers Australia Ltd (GSMAL), a subsidiary of GSL. The next lease payment is due at the end of October 2009 and there is significant uncertainty about whether this payment will be made.

RiverBank was negotiating with LFL to purchase the Moorall property prior to Receivers being appointed to GSL. RiverBank intends to complete this purchase once the ownership of GSFM is separated from GSL.

The GSFM management team is continuing negotiations with the Receivers to acquire GSFM and thus separate from the Great Southern Group. This would allow RiverBank to obtain bank funding so that the sale of LFL assets to RiverBank can continue as originally proposed and GSFM continue to manage the LFL assets.

The complexity of GSL's receivership means there are uncertainties regarding the amount of capital required by LFL to dispose of its assets in an orderly fashion thus obtaining the best available value for shareholders. At this stage no distributions are planned until the outcome of these situations are known.

In the event that RiverBank defaults on its lease payment to LFL, the LFL Directors have resolved that in order to protect asset values they would maintain the orchard through a marketing program.

Fund Facts as at 31 May 2009

Fund Size	\$26m
Inception	June 1998
Unit Price	\$0.8279
Number of Investors	184

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