Herakles Farms
Value Drivers

LAND: Herakles Farms ("HF") management spent 2 years (2007-08) evaluating more than twenty large tracts of land across several countries of West Africa, from Sierra Leone to the Democratic Republic of Congo. These large parcels were evaluated with respect to multiple characteristics including rainfall, soil conditions, access to infrastructure, population density, environmental suitability, as well as the tax policies, fiscal incentives and political security assessment of the host government. Of all of the parcels evaluated not one came close to the potential value of HF's current land concession in Cameroon. The productivity of this land is equivalent to some of the best producing regions of Malaysia.

The current concession encompasses more than 73,000 hectares of which an estimated 60,000 is deemed suitable for planting. In addition, the current concession allows HF to add additional land on terms identical to the original. The land is leased from the Government of Cameroon for a period of 99 years. The initial lease rate is equal to $0.50 per hectare pre year until the parcel is providing commercial quantities of oil at which time the base lease rate will increase to $1.00 per hectare per year.

Land of this quality in Malaysia is estimated to cost between $3000 and $4000 per hectare undeveloped. At equivalent prices HF had begun its operations in 2009 on land with a value of $180 million to $240 million.

HF believes however that the current land in Cameroon has value significantly in excess of the equivalent land in Malaysia! This is due to several key advantages:

TAXES: HF's is entitled to an exemption from income taxes for the period of ten years from first production of commercial quantities of crude palm oil ("CPO"). In addition it is exempt from other taxes including any duties on imported goods and equipment and the export of CPO. After ten years the income tax rate is held constant at a rate of 15% for the balance of the term of the agreement.

By contrast Malaysia has a tax on income equal to 25% as well as a tax on exports of CPO at a level dependent upon the price of CPO. This results in a 33% increase in the amount of pre-tax income falling to the bottom line in Cameroon versus Malaysia. In addition to the income tax, there are also property taxes assessed on the land in Malaysia.

Based on the impact of taxes alone, HF would place a 30% premium on the value of the land in its concession compared to Malaysia.

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CPO Prices: Because the vast majority of CPO available for export currently originates in Malaysia and Indonesia and because almost every country in the Atlantic Basin (excluding Ivory Coast) imports CPO from the Southeast Asia Region, palm oil trades at a premium due to the additional costs of transporting the CPO to the Atlantic Basin markets. CPO typically trades at a 7.5% to 10% premium to CPO in Southeast Asia.

Based solely on the basin differential price for CPO, HF would place a 7.5% to 10% premium on the value of the land.

Labor Costs: Daily wages for manual labor in Malaysia average 5 to 6 euros per day nearly double the average wage in Cameroon. Manual labor has become extremely scarce in Malaysia as its economic development has made physical labor less attractive. Many of the field workers in Malaysia are now being imported from Indonesia. The difference in labor rates amounts to a $50 per ton advantage in Cameroon. Based upon a 6 ton of oil per hectare average this amounts to savings of $300 per hectare per year or approximately $18 million per year to the bottom line during the 25 year producing cycle or $450 million over each planting cycle. HF actually expects this differential to expand over the next ten years as wage pressures in Malaysia continue to drive accelerating increases in wage rates. The massive unemployment in Cameroon suggests that wage pressures will not be experienced for many years.

Based upon just the three issues described above HF believes it's land should be valued at a 50% premium to equivalent producing land in Malaysia or $4500 to $6000 per hectare undeveloped.

This would place a value of $270 million to $360 million on the land. And this is before taking into consideration nearly two million seedlings spread across four operating nurseries in Cameroon and one in Ghana with approximately 1.6 million maturing for field planting (equivalent of 7000 hectares) over the next 12 months.

Ghana: Included in Herakles Farms is an additional land bank of approximately 5000 hectares under lease in Ghana. Of this land more than 2000 hectares has already been fully planted with the initial trees planted in 2009 currently bearing its first fruit. HF estimates the value of the Ghana operation alone at $20 million to $25 million.

Additional potential upsides:

HF is in the process of going through the approval process with respect to the addition of other parcels of attractive land. HF believes that it will conclude the agreements on an additional 12,000 hectares by the end of 2013 and an additional 18,000 hectares in 2014. This would increase the land value by 50%.

HF is in negotiations with the Ministry of Forestry with respect to a potential joint venture to market the commercial value of the wood on the concession. HF believes that this has the potential to generate $1000 to $1500 of additional revenue per hectare during the land clearing process. This is a potential upside of $60 million to $90 million over the next 7 years.

HF has been offered significant additional parcels of land that while less suitable for oil palm is quite suitable for rubber and/or cocoa. HF has agreed that all new business development within the tropical agriculture sector will remain the property of HF.

Political Risk: Any suggestion that political risk is higher in Cameroon than in Malaysia is neutralized by the procurement of political risk insurance covering 90% of the investor's original investment. The ready availability in the private markets and low cost of this insurance is an indication of the insurance markets low assessment of political risk in Cameroon.

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