



AUSTRALIAN AGRIBUSINESS GROUP

WILLMOTT FORESTS PREMIUM FORESTRY BLEND – 2010 PROJECT

Retail Investment Research – April 2010

OVERALL SUMMARY RATING



The overall rating given to Willmott Forests Limited and the Willmott Forests Premium Forestry Blend – 2010 Project, which is outlined above, 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 Finance & Management Review, Part B Track Record Review and Part C Project Review including the disclaimer herein 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.

Underlying Ratings

Overall Summary Rating –

Part A – Finance & Management Review –

Part B – Track Record Review –

Part C – Project Review –



Underlying Comments

Ratings are awarded out of a maximum of five stars. A rating may include quarter stars. AAG has reviewed the answers to the self-assessment completed by the Directors and management of Willmott Forests Limited in January 2010. AAG has 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 read the separate reports.

Date: This report is valid at 22 April 2010

Project Summary

The Project is a mixed species timber project enabling investors to invest in four different end markets including sawn softwood, sawn hardwood, renewable energy and secondary market plantations. The project consists of 75% Radiata pine, 20% African mahogany and 5% Silky Oak. Plantations will be established in Victoria, New South Wales and the Northern Territory. Land leases are pre-paid which provides some protection for investors. Investors can expect to receive multiple income streams throughout the 16 year term of the Project, with the drivers of returns being the final African mahogany harvest and the sale of the standing pine plantations.

Project Details

Application Cost per Unit (ex GST)	\$5000
Min Number of Interests per investor	One
Asset Ownership	Nil
Size of Unit	0.57 hectares
Management Fees (ex GST)	10% of Net Proceeds
Lease Fees (ex GST)	2% of Net Proceeds
Finance available	Yes
AAG Est. Cash Returns (IRR after tax)	
⇒ Cash	7.1% (4.0% - 9.9%)
⇒ 5 Year P & I	6.9% (2.9% - 10.6%)
Project duration	16 Years
Commissions	5% + 1% trail over 9 years
Project Size and Raising	14,000 forestry interest - 7,980 hectares, or \$70m
Close Date for Investment	30 June 2010
Product ruling	PR 2010/4

PART A Finance & Management Review –

- + Willmott Forests has a long history of managing and developing plantations.
- + Directors of Willmott Forests are experienced in managing plantation assets.
- Willmott Forests completed a debt syndication facility in 2009 providing sufficient short and long term finance for its corporate and forestry operations, with the \$135m facility up for renewal in 2012.
- Willmott Forests are highly reliant on forestry MIS sales for its on-going operations.
- Non-current liabilities have increased by 41% over the past financial year.

PART B Track Record Review –

- + Willmott Forests has released 19 public investment offerings since 1989, of which a very large proportion is Radiata pine, developing over 53,585 ha.
- + Willmott Forests in association with Dongwha Holdings is developing a large processing facility in the Bombala region.
- + Willmott Forests has a number of marketing options for their past projects.
- Final markets for Willmott Forests plantings of She Oak and Silky Oak are unknown at present.
- Willmott Forests earlier pine projects have delivered lower than forecast growth results in comparison to PDS forecasts.
- A number of risks have materialised which have curtailed growth rates in past projects.

PART C Project Review –

- + The returns for the project are robust to changes in yield and/or price.
- + All land leases are prepaid providing a level of protection for investors.
- + Willmott Forests has a good track record in the establishment of softwood species.
- + 90% of the market value of the standing plantation for the Radiata pine is secured. A number of risks have the potential to impact on returns to this project including agricultural and climatic risks.
- Returns for this project are acceptable.
- 90% of the market value of the standing Radiata pine is guaranteed by Willmott Forests.
- Willmott Forests is less experienced in the management and development of hardwood plantations, namely Silky Oak and African mahogany which amount to 25% of this Project.
- The upfront fee model provides difficulties in the event of insolvency of Willmott Forests, but the annual fees that would then be payable are supposed to mitigate this risk.



Table of Contents

Overall Review	page i
Part A Finance & Management Review	pages A1 – A8
Part B Track Record Review	pages B1 – B8
Part C Project Review	pages C1 – C12

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 Willmott Forests. 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 Willmott Forests as to the outcome of the process culminating in this report, although Willmott Forests 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.

Beckmont Pty Ltd trading as Australian Agribusiness Group

Level 5, 406 Collins St, Melbourne, 3000 Australia

ph +61 3 9602 6500 fax +61 3 9642 8824

email info@ausagrigrp.com.au

web www.ausagrigrp.com.au

A.B.N 50 056 592 708

This document does not constitute advice and is issued under the terms and conditions of the disclaimer herein.

AAG holds an Australian Financial Services License (License no 244307)

Copyright © Australian Agribusiness Group (AAG) 2010



AUSTRALIAN AGRIBUSINESS GROUP

WILLMOTT FORESTS LIMITED

PART A FINANCE & MANAGEMENT REVIEW – April 2010

A

Part A Management & Finance Rating



Methodology

The Part A Management & Finance Rating above is given out of a maximum of five stars. A rating may include quarter stars. This Part A Report should be read in conjunction with the Part B Track Record Review and the Part C Project Review. This Finance & Management Review is designed to provide a clear independent third party assessment of the quality and stability 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.

Recent Highlights (page A2)

- ⇒ June 2009 – Willmott Forests announces after tax profit of \$14.4m in 2008/09 financial year.
- ⇒ October 2009 – Willmott Forests undertake capital raising to raise \$20.5m through placement and rights issue.
- ⇒ July 2009 – Biomass Supply agreement formed with Sunshine Energy.
- ⇒ March 2009 – Willmott Forests completes \$135m debt syndication facility.
- ⇒ January 2009 – Willmott Forests Limited (Willmott) secures Bombala pulpwood supply in deal with Visy.
- ⇒ September 2008 – Willmott Forests forms commercial agreement with Forests NSW (FNSW)
- ⇒ June 2008 – Willmott Forests records MIS sales in excess of \$97 million.
- ⇒ February 2008 – Willmott Forests completes takeover of BioEnergy Australia Limited (BioEnergy).
- ⇒ January 2008 – Willmott Forests wins major NSW Government wood supply tender and confirms the development of a \$60 million timber processing facility in Bombala through a joint venture with Dongwha Holdings.
- ⇒ 2007 – Willmott Forests purchases 51% stake in Ethanol Technologies (Ethtec).
- ⇒ 2006 – Willmott Forests forms commercial agreement with Hancock Plantations Pty Ltd (HVP) for the use of HVP second rotation plantations and the marketing of timber produced from these plantations.

Management (page A2)

- ⇒ Willmott Forests has a long history with managing and developing plantations.
- ⇒ Willmott Forests directors and senior management have key commercial competencies associated with the daily operation and management of a publicly listed company.
- ⇒ The Board has established a number of committees to oversee key areas of fiduciary, compliance and risk management which work toward mitigating against operational risk.
- ⇒ The Board and its sub committees are externally reviewed to improve performance and identify any possible management issues.

Compliance (page A4)

- ⇒ The Willmott Forests Compliance Committee is adequately skilled and experienced in its reporting and monitoring duties and has members which are accustomed to the forestry sector.
- ⇒ Compliance Committee reports are comprehensive, detailed and well structured with any recommendations clearly communicated to the Board.
- ⇒ Compliance Committee members are skilled in the areas of law, taxation, compliance, and corporate finance.

Finance (page A5)

- ⇒ Willmott Forests completed a debt syndication facility providing sufficient short and long term finance for its corporate and forestry operations.
- ⇒ Willmott Forests net profit after tax (from continuing operations) improved by 42% to \$14.4m in June 2009 (2008: \$8.2m).
- ⇒ Willmott Forests equity position improved 11% to \$115m at June 2009.
- ⇒ The capital raising in October 2009 for funding towards its Bombala sawmill and conversion of Perpetual Income Exchangeable Securities (PINES) in August 2009 has strengthened Willmott Forests' balance sheet position.

Management & Finance Ratings

The following ratings represent AAG's view of the key areas.

	Poor	Variable	Average	Good	Excellent
Management				████████	
Compliance			████████		
Financial			████████		



1 Highlights

Willmott Forests has a substantial degree of experience and history in plantation management and the sale of sawn softwood. Willmott Forests was founded in 1979 and has since developed in excess of 53,587 hectares of plantations which it manages to this day. Willmott Forests released its first prescribed investment scheme (PIS) in 1989 and a decade later merged all PIS and MIS projects under a single Responsible Entity. In 2000, Willmott Forests listed on the Australian Securities Exchange (ASX Code: WFL), and has since diversified with its timber processing acquisition in 2003 and recently a 50:50 joint venture with Dongwha (Australia) Holdings; and into biofuels with its 51% acquisition of Ethanol Technologies, and 100% acquisition of BioEnergy Australia Limited.

In 2006, Willmott Forests signed a commercial agreement with Hancock Victorian Plantations Pty Ltd (HVP) where HVP will make available to Willmott Forests second rotation sites for plantation development. The Willmott / HVP agreement also incorporates HVP in the marketing and processing of the timber produced from the occupied plantation sites along with daily on-ground management. Willmott Forests has also executed a similar arrangement with Forests NSW in 2009.

In January 2008, Willmott Timbers, a subsidiary of Willmott Forests, secures a 20 year major wood supply contract with the NSW Government for the long term supply of plantation-grown softwood sawlogs from the Monaro region and commenced the establishment of a \$60m softwood timber processing facility in Bombala, NSW. Since its first managed forestry investment in 1989, Willmott Forests has gained a solid reputation in the sector achieving record MIS sales in 2008 of \$97 million and rapidly becoming a substantial operator in the softwood industry.

In July 2009, Willmott Forests secured a biomass supply agreement with Sunshine Energy, providing Willmott Forests with the necessary market leverage to gain access to alternative energy markets.

Willmott Forests sought to strengthen its balance sheet and working capital funding through conversion of PINES in August 2009 and a capital raising through a placement and rights issue in October 2009.

2 Management

2.1 Group Experience

Willmott Forests Limited, (Willmott Forests) is a publicly listed and vertically integrated forestry company. It establishes, manages, harvests processes and supplies timber products from plantation grown timber resources, (predominantly in the softwood sector) for domestic and export markets. Willmott Forests has established infrastructure in processing and distribution, and is a market leader in the softwood timber industry. The company was listed on the Australian Securities Exchange in 2000, and as at February 2010 has a market capitalisation of approximately \$62m.

As at 5 November 2009, Nanmar Pty Ltd holds 19.3% followed by ANZ Nominees 8.24% - the top 2 largest shareholders.

Willmott Forests has released 19 public forestry investment offerings since 1989. In 1999, Willmott Forests consolidated its projects to be managed by a single RE under the Managed Investments Act, and changed its trading name from Timber Capital Limited to Willmott Forests in the same year. Since first establishing plantations in the Bombala region of NSW, Willmott Forests has focused on Radiata Pine, which has seen the company become the leading softwood plantation developer and manager of this species with an estate comprising over 46,300 hectares across southeast New South Wales and northwest Victoria in the Bombala and Murray Valley regions and in the Gippsland and Otway regions in eastern and western Victoria respectively.

Willmott Forests changed its strategic direction in early 2008 with the acquisition of BioEnergy Australia Limited (BioEnergy), which through a subsidiary BioForest Limited (BioForest) is active in growing Silky Oak for sawn hardwood and Casuarina (She-oak) for bio-energy production. Willmott Forests has advised AAG they have already integrated BioEnergy and BioForest operations within Willmott Forests' current operations to take advantage of positive operational and logistics synergies. Willmott Forests has also recently established African mahogany plantations based in the Douglas Daly / Katherine region of the Northern Territory. When combined with the Silky Oak, Casuarina and African mahogany plantations, Willmott Forests' forestry estate totals to approximately 53,984 hectares.

2.2 Directors

The directors of Willmott Forests display a range of applied skills in the areas of corporate finance, law and taxation. Willmott Forests' directors have gained extensive experience in plantation development and management through many years of experience developing the company's large softwood plantations. Willmott Forests' directors participate in the wider forestry industry through their involvement in boards and professional associations. The board members have displayed an active interest in plantation management and the impact of forestry operations on local communities through the implementation of *Good Neighbour Policy*.

Over the past 12 months the directors have visited the project sites a number of times including the development site of the new Bombala saw mill. Willmott Forests CEO Marcus Derham frequently visits plantation sites and is involved in the company's land acquisition process.

The Board is advised on projects and their ongoing management through monthly Board Packs prepared by Senior Executive on part of the CEO Management Reports. Board information packs are provided to directors 5 days in advance of scheduled meetings. AAG has viewed Willmott Forests' corporate Board Packs and can attest to the high level of analysis provided by senior management in the monthly reports. Board packs contain a range of financial performance analysis, financial forecasting and analysis of plantation performance. AAG is content with the level of feedback from directors to senior management through this process which is well documented.



Since AAG's last management review conducted in May 2009 there has been no change to the composition of the Willmott Forests Board or senior executives. The Board comprise of five directors of which a majority are independent, following ASX guidelines. Independence of the Willmott Forests Board is critical in achieving an optimum level of oversight and ensuring effective decision making. Board minutes outline directors are well informed of project operations, corporate affairs and fiduciary obligations. Over the past financial year, the director's board meeting attendance rate was 97.5%.

A Board Charter adopted by the Willmott Forests Board delineates the parameters of the Board including its roles, responsibilities, and corporate obligations. This extends to the company's commitment to its triple bottom line reporting. Independent reviews of the Board's performance is conducted annually, a requirement under the charter. Evidence of the independent annual reviews has been sighted by AAG suggests positive feedback and steps taken by Willmott Forests in reviewing the recommendations.

The Board has constituted four committees, comprising of Compliance Committee, Nomination Committee, Audit and Risk Committee and Remuneration Committee to assist in the implementation of its corporate governance practices, fiduciary and financial reporting and audit responsibilities. Willmott Forests has advised AAG that in the near future the sub committees will also be independently reviewed to evaluate their performance. Committee meetings are held quarterly and on some occasions monthly as required. Committees are chaired by a member of the Board to provide guidance and oversight.

The directors of the Willmott Forests Board are outlined below.

Jonathan Madgwick, Chairman

B Bus, ACA

Jonathan Madgwick is a Chartered Accountant with in excess of 28 years of experience in public practice accountancy. Concurrently, Jonathan operates his own accountancy firm J.D Madgwick & Associates and has been advising Willmott Forests for 20 years on a range of commercial aspects. Jonathan has been a Non-Executive Board member since 1994, Company Secretary from 2003 to 2009 and was appointed Chairman of the Board in 2009. Jonathan is also Chairman of the Nomination Committee and member of the Audit and Risk Management Committee.

Marcus Derham, Chief Executive Officer

FAICD, FAIM

Marcus Derham has been the Chief Executive Officer of Willmott for the past 18 years, which has allowed Marcus to gain an exceptional degree of experience in plantation establishment, listing Willmott on the ASX, and has developed extensive relationships across a range of industries. Marcus has extensive knowledge and practical expertise in forest development and management. Marcus is a Board member of the Australian Plantations Products and Paper Industry Council (A3P), and has been appointed as a member of the New South Wales Forests and Forest Product Ministerial Advisory Council. Marcus is a member of the Willmott Forests' Nomination Committee.

James Higgins, Non-Executive - Independent Director

LLB, LLM, FCPA

James Higgins is a commercial lawyer with extensive experience in corporate law. James was previously a Partner at Mallesons Stephen Jaques, and now practices from his own firm, James Higgins and Co. James now specialises in commercial law and estate planning. James has been an Independent Director of Willmott Forests since 2000, Chairman of the Board from 2000 to 2009 and is currently Chairman of the Willmott Forests Audit and Risk Management Committee and a member of Willmott Forests' Nomination Committee.

Hugh Davies, Non-Executive - Independent Director

BA, LLB

Hugh Davies is an experienced solicitor with over 43 year of experience in public practice. A substantial amount of Hugh's career has been spent with Rigby Cooke Solicitors where he was Partner from 1971 to 1995, and Managing Partner from 1989 to 1995. Hugh has practiced as a sessional member of the Victorian Civil and Administrative Tribunal since 1998, and is Chairman of the Victorian Fisheries Licensing Appeals Tribunal. Hugh has been an Independent Director since 2000 and is Chairman of Willmott's Compliance and Remuneration Committees.

Raymond Smith, Non-Executive - Independent Director

FAICD, FCPA, Dip Comm.

Ray Smith has extensive corporate and financial experience. Ray commenced his career with Alcoa Aluminium in 1966, and shortly after moved to Godfrey Hirst Carpets Pty Ltd where he was appointed General Manager of Finance. For the decade to 1988 Ray was employed by John Peeman Pty Ltd, a private timber, construction and real estate firm, in the capacity of General Manager. Following this, Ray joined Smorgon Steel where he held the role as Chief Finance Officer between 1996 and 2007. Ray currently presides on the Board of ASX listed K & S Corporation, and is a Trustee of the Melbourne Olympic Park Trust. Ray is a member of the Willmott Forests' Remuneration and Audit and Risk Management Committees.

Whilst AAG is satisfied with the level of independence on the Willmott Board, we would prefer the presiding Chairman to be independent.

2.3 On-ground Manager

The on-ground management of Willmott Forest's plantation estate is undertaken in-house, with the support of a number of skilled staff and consulting foresters. Willmott Forests has in excess of 25 years experience in plantation development and management within the forestry sector. For many years the company has had a core focus on *Pinus Radiata*, which still forms a significant proportion of the overall estate under management. In recent years Willmott Forests has undertaken plantings of Silky Oak, She-Oak and African mahogany. While the company is less experienced with these species, it has employed foresters with the appropriate skills in these species.



The acquisition of BioForest operations has required the employment of foresters skilled in the management of sub-tropical timber species. The management such species requires varied silvicultural and management practices to that of *Pinus radiata*, which Willmott Forests is accustomed to developing and managing. Whilst Willmott Forests outsources some of the on-ground operations to third parties such as HVP and African Mahogany Australia (AMA), its staff are still engaged to oversee and are responsible for the on-ground operations.

Willmott Forest's experienced on-ground management team is led by the company's Senior Executive of Forest Operations, David Smith who is supported by the senior forestry management team comprising of Stephen Addicott, Forest Business Manager, who is currently involved in the budget management on the plantation estate, plantation inventory and woodflows; Arjan Wilkie, Sustainable Systems Manager, who is involved with aspects pertaining to new plantation establishment, forestry policy, planning legislative, mapping and system developments; Angus McEachern, Softwood Plantations Manager, who manages the forestry operations for Bombala/Braidwood and Murray Valley overseeing the plantations located in Victoria where HVP operates and also in New South Wales where Forests NSW operates; Simon Penfold, Marketing and Logistics Manager, is responsible for logistics, strategy and contract development, Phillip Green, Technical Services Manager, is responsible for R&D implementation; and Ross Sigley, Hardwood Plantations Manager, who is responsible for the establishment and management of the North Coast New South Wales and Northern Territory hardwood plantations.

David Smith, Senior Executive – Forestry Operations
Dip For

David Smith has over 20 years experience with Willmott in the forestry sector. During this time David has undertaken various roles across the Company. David's current role has the responsibility for Willmott's daily forestry operations and administration requirements for the company's MIS plantation estate. Prior to joining Willmott, David was employed by mining company CRA Limited in the implementation and management of the company's information systems.

Stephen Addicott, Forest Business Manager
B Sc (For)

Stephen Addicott has 18 years forestry experience, four of which have been with Willmott. Prior positions held by Stephen include Senior Consultant with URS Forestry in Victoria and Canberra, as well as Catchment Coordinator and Assistant Forester with Central Highlands Water Authority, Victoria.

Arjan Wilkie, Sustainable Systems Manager
B Sc (For) B.Sc (Geology) (hons)

Arjan joined Willmott Forests in 1999 and has held various roles within the Forestry team during the in the intervening 11 years. Prior to joining Willmott Forests he worked as a geospatial consultant in the natural resource industry for 2 years. Arjan is involved with aspects pertaining to new plantation establishment, forestry policy, planning legislative, mapping and system developments

Phillip Green Operations Manager – Bombala / Braidwood
B Sc, Dip For

Phillip Green is a professional forester with over 27 years experience in the forestry industry. Prior to joining Willmott Forests' in 2002, Phillip spent 20 years working for Auspine Limited in several positions including Manager of Plantation Investments and Resource Forester.

Angus McEachern, Operations Manager – Murray Valley
B Sc (For)

Angus McEachern has been involved in the forestry industry since 1994 and has been employed by Willmott Forests' for five years. Prior to joining Willmott, Angus was the sole proprietor of a small business providing forestry consulting services. Angus is also a former Regional Forester at Treecorp Group, District Forester at Hancock Victoria Plantations and Forester with State Forests of New South Wales.

Ross Sigley, Operations Manager – North Coast
B Sc (For)

Ross Sigley joined Willmott Forests following its acquisition of BioForest in March 2007. Ross has been involved in the forestry industry since 1990. Prior to joining BioForest, Ross was employed in a number of positions and companies in the forestry industry including Operations Manager at Sustainable Forest Industries Limited and Forest Manager at State Forests of NSW. Ross has also previously lectured on forest operations and fire management courses at Southern Cross University and owned his own real estate business.

Simon Penfold, Marketing & Logistics Manager
Dip For, B For (Sc), MBA, FCID

Simon Penfold is a career plantation manager who joined Willmott Forests in early 2008. Prior to joining Willmott Forests, Simon was employed by Pentarch as General Manager of Forest Products for a period of 5 years where he coordinated the trading regime of various timber species to Asia. Previous positions held by Simon include Senior Forester at Treecorp Group, Plantation Manager at Western Australia's CALM and Senior Officer at Hancock Victorian Plantations. Simon also co-owns AMA and is actively involved in its management.

3 Compliance

The Responsible Entity (RE) for a Managed Investment Scheme (MIS) is required to produce a compliance plan for that project. The compliance plan outlines the procedures the RE will use to ensure that it complies with the Corporations Act, the scheme Constitution and ASIC policies. The RE must lodge a copy of the compliance plan with ASIC.

This compliance review is based on a self assessment undertaken by Willmott in relation to an AAG Management and Finance questionnaire dated January 2010.

The role of the compliance committee is a fundamental one as it exists to review the company's compliance with the compliance plan. Essentially the compliance committee's role is to ensure investors' interests are being overseen.



4 Finance

The Compliance Committee is comprised of two independent members and an internal compliance officer. The Committee is chaired by Hugh Davies, a member of the Willmott Forests Board, and experienced solicitor. The Committee is highly qualified displaying a breadth of skills in the areas of finance, auditing, law and taxation. An attendance register provided to AAG indicates members have attended meetings as scheduled.

The Willmott Forests Compliance Committee reports to the Board on a quarterly basis. The Committee prepares quarterly compliance reports which AAG has sighted. The reports are highly detailed and have provisions for feedback from the Board in the event an agenda item requires further clarification or analysis. A high level of quantitative information is contained within the reports covering all areas of the company.

Following our review of corporate documentation, AAG notes that only 3 breaches have occurred in the past 4 years. Breaches reported in 2006, 2008 and 2009 were minor timing related issues and did not represent any material risk to investors or corporate governance of the company. The low level of breaches indicates a strong adherence to the compliance plans of the schemes.

The Committee has adopted a Charter which is strictly adhered to, and is independently reviewed on an annual basis. The review of the Compliance and other Committees within the Willmott Forests' corporate structure indicates a ongoing commitment to continual improvement within the company.

The members of the compliance committee for Willmott Forests' are outlined below.

Hugh Davies, Independent Compliance Committee Chairman
BA, LLB

For more information on Hugh Davies please see section 2.2.

Ian Bond, Independent Committee Member
Dip Comm, Dip FA, CA, CPA

Ian Bond has been in corporate advisory roles and was attached to Burke Bond Partners Chartered Accountants from 1972 to 1997, where he was a Senior Partner there since 1985. The practice was multi faceted, consulting to a wide range of manufacturers, service industry and property clients. Simultaneously with the professional practice, the Burke Bond Securities Limited was developed, being an ASIC approved Trustee Company for Prescribed Interests under Corporation Law.

Adele Peiris, Senior Compliance Officer
LLB (Hons)

Adele commenced her career at JD Spicer Solicitors, where she was employed in Para-legal services. In 2006 Adele was employed by ELC Solicitors undertaking similar Para-legal tasks, as well as conveyance duties for both commercial and residential property transactions. In 2007, she started practicing as a junior solicitor. In July 2008, Adele commenced her employment with Willmott Forests and has since been responsible for the preparation of compliance reports and monthly reporting to the compliance manager.

Willmott Forests is a diversified forestry company with interests in biomass production, timber milling, plantation land, and plantation development and management.

The 2009 financial year presented a range of market issues for all MIS operators, resulting in industry wide reductions in sales and greater scrutiny over finance and debt arrangements. Despite this, Willmott Forests managed to achieve positive growth during the turbulent trading conditions. Willmott Forests increased its market share in the MIS sector to 30%, double that of the previous year.

Over the past 12 months Willmott Forests has exercised a range of measures on a corporate level to underpin its long term fiscal and strategic position.

In March 2009, the company completed a \$135m debt syndication facility with Commonwealth and St. George banks, to ensure adequate funding of its long dated liabilities is maintained.

In September 2009, Willmott Forests converted 56% of the 400,000 hybrid debt instruments known as PINES (Perpetual Income Exchangeable Security) into equity. Willmott Forests PINES offering which was released in 2004, raised \$40m for the purpose of establishing the company's land bank and infrastructure. The remaining 176,000 securities which were not elected by investors to be converted, have been re-invested for a further 5 years. The term and agreement structure of the hybrid securities has enabled a low cost option to strengthen the company's balance sheet.

In October 2009, Willmott Forests announced two separate share offerings, namely an institutional placement to professional investors and a renounceable rights issue to shareholders. The capital raisings were subscribed in full, raising \$20.5 million. The positive take up of the placement offer and rights issue by Willmott Forests' investors outlines a palatable degree of confidence in the company's on-going financial position and management. Willmott Forests has advised AAG that the funds raised assist in funding growth opportunities including the Bombala sawmill and for working capital.

In the financial year ending 30 June 2009 Willmott Forests' current asset position receded by 22% or \$31.5m to \$109.4m. Conversely, Willmott Forests increased non-current assets by 23% or \$47.6m to \$258.3m. The rise in non-current assets has been primarily driven by Willmott Forests' investment in plantation land.

In comparison to a number of other MIS operators, Willmott Forests is conservative when revaluing plantation land which results in the land being carried at cost rather than revaluing it each year. Meanwhile, the company's biological assets are also conservatively re-valued on an annual basis, and in FY2009 Willmott Forests' timber assets amounted to 4.1% of its overall non-current assets, representing an increase of 12% on its 2008 valuation, to \$10.6m.

Willmott Forests' total assets for the period rose marginally by 5% or \$16m to \$367.7m, (2008: \$351.7m).

Willmott Forests current liabilities reduced by 29% in FY2009 as a result of a substantial decrease in provisioning for unearned revenue to be received for the management of its forestry MIS projects. A reduction of provisions for future income tax payable from \$13.4m to nil further contributed to the reduction in current liabilities as outlined in Table 1.



The increase in non-current liabilities over the past financial year has been substantial (Table 1). A major driver behind this can be attributed to the additional debt required to fund plantation land investment. The \$135m debt facility has been syndicated between the Commonwealth Bank of Australia Ltd (CBA) and St George. The Willmott Forests 2009 Annual Report indicates the company has drawn up to \$87m and has \$48m in unused debt facility some of which will be used for funding grower loans in the 2010 project.

On viewing the Willmott Forests' board papers, it is apparent the company undertakes substantial financial modelling to periodically review its financial position.

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

	2008 ('000)	2009 ('000)	% Change
Current Assets	140,997	109,442	-22%
Non-current Assets	210,670	258,263	23%
Total Assets	351,667	367,705	5%
Current Liabilities	140,539	100,221	-29%
Non-current Liabilities	107,474	151,963	41%
Total Liabilities	248,013	252,184	2%
Net Assets	103,654	115,521	11%
Current Ratio	1.0	1.1	9%
Gearing ^{Note 1}	48%	46%	-4%
Gearing (inc. PINES) ^{Note 2}	27%	38%	39%

Note 1 – Gearing = Interest Bearing Debt = (D / (D+E))

Note 2 – Gearing treating PINES as equity.

Willmott Forests gearing level as at 30 June 2009 was 46% and in the current environment is considered to be moderate. However, following the equity raising in October 2009 and the August 2009 conversion of 56% of the PINES which are classified as debt on the balance sheet the gearing ratio was 38% as at 31 December 2009 when the half year results were released. We have included the amended gearing ratio which treats the conversion of PINES into equity (Table 1).

The current ratio of just 1.1 is considered low and should be closely monitored. The current liabilities of \$100m includes \$50m unearned income which is not a true liability and when this is taken into account the true current ratio is 2.17.

Willmott Forests consolidated Statement of Financial Performance is outlined in Table 2. In the 12 months to June 2009 of the \$66m sales revenue \$17.9m was recognised in FY2009. Compared to the \$22m MIS sales revenue recognised in FY2008 this represents a decline by 19% or \$4.3m.

Willmott Forests has adopted a policy of booking sales revenue according to the percentage of the plantation which has been established. The proportion of MIS sales revenue recognised in FY2009 accounted for 14.8% of total revenue booked to profit, representing a 19% reduction from the previous financial year's sales booked to profit. Diversified revenue sourced from previous MIS sales revenue increased by 53%. This brought total revenue for Willmott and its subsidiaries to \$121.2m for FY2009, representing a 33% increase over the period.

Total expenses for the financial year increased by 25% or \$22.4m in FY2009 reportedly mainly as a result of due diligence costs associated with the Bombala Saw Mill project. Willmott recorded an increase in its MIS marketing expenses as a result of record sales in 2008 which were held over until FY2009.

Overall, profit before tax increased by 57% to \$21.9m. Willmott's EBITDA increased by 18% to \$30.6m (Table 2).

Table 2 – Overview of Company's Consolidated Statement of Financial Performance

	2008 ('000)	2009 ('000)	% Change
MIS Sales Revenue	22,200	17,900	-19%
Deferred MIS Sales Revenue Recognised	34,748	75,054	53%
Other Revenue	33,871	28,284	16%
Total Revenue	90,819	121,238	33%
Total Expenses	76,850	99,291	25%
Profit (b/t)	13,968	21,947	57%
Profit (a/t)	8,252	14,404	42%
EBITDA	25,934	30,589	18%
MIS Sales :			
Total Revenue Ratio	24.4%	14.8%	-40%
Profit Margin	9.1%	11.9%	31%
ROA	2.3%	3.9%	67%
ROE	8.6%	13.3%	55%
Interest Coverage	2.8 times	3.3 times	19%
Interest Coverage (ex MIS sales)	-0.2 times	1.3 times	750%
Interest Coverage (ex MIS sales, inc land leasing costs)	-0.2 times	1.3 times	750%

Willmott Forests profit margin increased by 31% on the previous financial year to 11.9%. Other financial ratios including Willmott Forests return on assets (ROA) and return on equity (ROE) also improved over the past financial year by 67% and 55% respectively (Table 2).

Board documents reviewed by AAG in January 2010 indicates Willmott Forests has achieved direct forestry expense savings of \$7.6 million in the 6 months to 31 December 2009, as a direct result of improved operational performance.

Willmott Forests total forestry MIS sales will determine the level of expenses Willmott Forests will incur in FY2010. In the event of a decrease in forestry MIS sales, the total expenses incurred will decrease proportionately. In 2009, it appears that Willmott Forests incurred approximately \$50m in expenses which were directly related to the \$93m in forestry MIS sales revenue, of which \$75.1m was brought to account from MIS sales undertaken in FY2008.

The amount of interest bearing debt and gearing levels for Willmott Forests is outlined in Figure 1. The historical analysis of Willmott Forests interest bearing debt outlines an initial peak in interest bearing debt which occurred in 2005/06, driven by land purchasing to establish the Willmott plantation estate. We have reclassified interest bearing debt to treat PINES as equity rather debt. A substantial reduction in debt in 2006/07 has seen the amount of interest bearing debt remain fairly constant over the past three years.

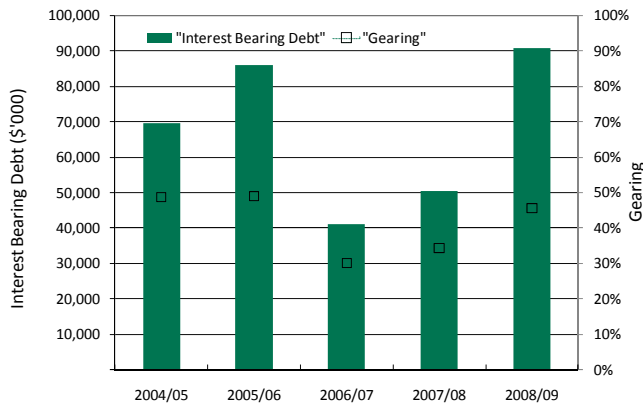


Figure 1 Interest bearing liabilities over time

Willmott Forests interest coverage in comparison to the industry average is outlined in Figure 2. Over the past five Willmott Forests interest coverage ratio has remained fairly stable in comparison to the wider MIS industry (Figure 2). However, there has been a dramatic improvement in the interest coverage ratio after excluding MIS sales and including land lease costs (Table 2). As at 30 June the company could fund its land lease and interest obligations from non-MIS profits to the tune of 1.3 times.

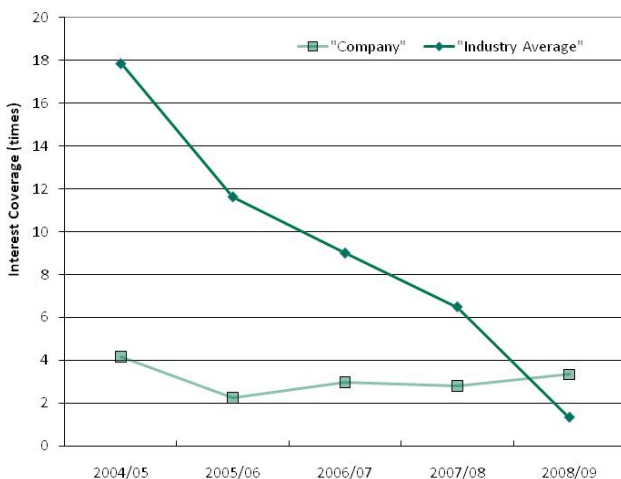


Figure 2 Interest coverage over time

Over the past 12 months Willmott Forest sustained a significant decrease in its year-end cash position, which has primarily been driven by the reduced sales of MIS products in the 2008/09 financial year. Record sales in the 2008 financial year saw Willmott's year-end cash position rise to \$61.4m, but in 2009 the company reported a 62% fall to \$23.2m.

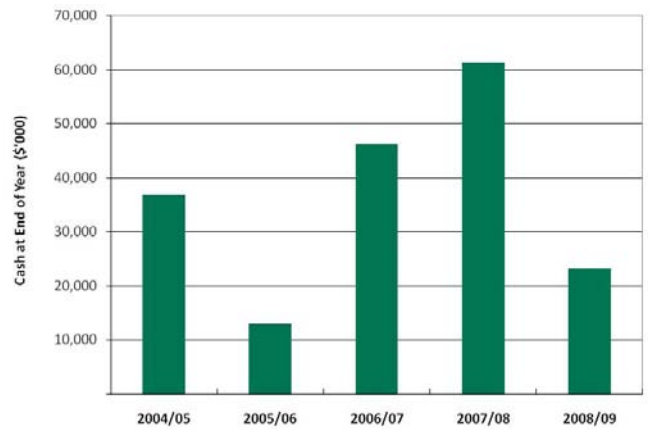


Figure 3 Year end cash position

As at January 2010 John Rutledge, Willmott Forests Deputy CEO, noted in his response to AAG's questionnaires that the company had sufficient capital to fund its immediate cash flow requirements. We have sighted the company's cash flow forecasts for both the short and medium term.

Willmott Forests cash flow forecasting works towards ensuring that the company has sufficient cash for their immediate and long term operating needs. This includes adequate cash reserves for the funding of its forestry MIS investment offerings over the duration of the projects. AAG is content with the amount of financial information provided to the Willmott Forests Board and the level of detail surrounding the company's operations; this enables company directors to regularly review corporate financial performance.



This page has been intentionally left blank



AUSTRALIAN AGRIBUSINESS GROUP

WILLMOTT FORESTS LIMITED

PART B TRACK RECORD REVIEW – April 2010

B

Part B Track Record Rating



Methodology

The Part B Track Record Rating above is given out of a maximum of five stars. A rating may include quarter stars. This Part B Report should be read in conjunction with the Part A Management & Finance Review and the Part C Project Review. This Track Record Review is designed to provide 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.

Past Projects (page B1)

- ⇒ Willmott Forests Limited (Willmott) is the Responsible Entity (RE) and on-ground manager for all past projects released by the company.
- ⇒ Willmott Forests has approximately 53,585 hectares of plantation under management and is integrated into the processing of its harvested timber.
- ⇒ Willmott Forests has released 19 public investment offerings since 1989, of which a very large proportion is Radiata pine.
- ⇒ Willmott Forests' acquisition of BioForest, involved the acquisition of approximately 5,015 ha of Silky Oak and She-Oak. In December 2008, Willmott Forests replaced BioForests Ltd as responsible entity for all the acquired BioForest projects.

Infrastructure for Past Projects (page B2)

- ⇒ Willmott Forests are currently building a new major softwood timber mill in the Bombala region in association with its joint venture partner, Dongwha Australia Holdings Pty Ltd.
- ⇒ A number of processing facility options are available for Willmott Forests' plantations located in the Bombala, Murray Valley, Gippsland regions and in north coast NSW.

Silvicultural Performance (page B3)

- ⇒ Willmott Forests earlier pine projects have delivered lower than forecast growth results in comparison to PDS forecasts.
- ⇒ Recent projects have performed in line with original growth forecasts, excluding projects which have been adversely affected by unforeseen climate risks, including drought, fire, hail, and snow.

Returns (page B5)

- ⇒ A range of risks which have materialised to some of the earlier projects will have the propensity to reduce final returns distributed to investors. More recent projects released appear to be tracking on target to achieve forecast growth rates and therefore returns.
- ⇒ Projects released after 2004 are too young to determine the likelihood of potential returns.

Markets and Marketing for Past Projects (page B6)

- ⇒ A number of processing agreements are in place for Willmott Forest's past projects, including with Visy and Sunshine Energy.
- ⇒ Although Willmott Forests has commenced negotiations with several end users, the company has yet to enter into any sale agreements for any of the Silky Oak plantations under management.

Risks (page B7)

- ⇒ Prolonged drought in parts of the Willmott Forests estate has resulted in a number of projects with reduced growth rates. Recent above average rainfall is improving this situation which has affected all other plantations in the region.
- ⇒ Flow on effects from a severe frost in 2007 and hail/snow in 2008, curbed growth rates in affected areas in the Bombala region. These projects are now showing signs of recovery and the affected areas represent less than 3% of the entire Willmott Forests estate under management.

Taxation (page B8)

- ⇒ All key dates and prescribed development activities with regards to product rulings for past projects (including projects acquired from BioForest) have been met.
- ⇒ Investors in all the past projects have received the forecast deductions as outlined in the project prospectuses.

Track Record Ratings

The following ratings represent the average of performance of each of the Company's underlying commodities.

	Poor	Variable	Average	Good	Excellent
Past Projects					████████
Infrastructure				████████	
Markets & Marketing				████████	
Agricultural Performance			████████		
Risks				████████	
Returns			████████		
Taxation					████████



1 Past Projects

Since 1989, Willmott Forests has released 19 forestry investment offerings covering approximately 52,965 hectares of plantations, most of which is Radiata Pine. To date, Willmott has raised in excess of \$400m for the establishment of plantations located throughout New South Wales, Victoria and Queensland. Prior to 1994, Willmott Forests attracted investment into its pine plantations through prescribed investment scheme (PIS) structures. The PIS fee structures vary and as such the capital raisings between 1989 and 1993 have been aggregated for simplification purposes (Table 1).

In the 2008/09 financial year, despite the difficult market conditions for all MIS operators, Willmott Forests managed to generate above industry average sales, raising over \$66m to enable 6,912 ha in plantation development.

Table 1 outlines Willmott Forests past projects.

Table 1 – Overview of Willmott Forest's previous projects

Project	Year	Location	Size (ha)	Funds Raised (\$m)
2009 PDS	2009	Bombala / Murray Valley, NSW; Gippsland, Vic	6,912	\$66.5
2008 PDS	2008	Bombala / Murray Valley, NSW; Gippsland, Vic	7,914	\$61.7
2007 PDS	2007	Bombala / Murray Valley, NSW; Gippsland, Vic	4,420	\$34.5
2006 PDS	2006	Bombala / Murray Valley, NSW; Gippsland, Vic	5,309	\$37.1
2005 PDS	2005	Bombala / Murray Valley, NSW	6,021	\$42.1
2004 PDS	2004	Bombala / Murray Valley, NSW	5,106	\$35.7
2003 PDS	2003	Bombala, NSW	2,755	\$19.3
2002 PDS	2002	Bombala, NSW	1,035	\$7.2
2001 PDS	2001	Bombala, NSW	1,092	\$8.0
2000 PDS	2000	Bombala, NSW	655	\$3.3
1999 PDS	1999	Bombala, NSW	876	\$6.1
1998 PDS	1998	Bombala, NSW	1,445	\$7.9
1997 PDS	1997	Bombala, NSW	1,288	\$7.7
1996 PDS	1996	Bombala, NSW	1,030	\$5.1
1995 PDS	1995	Bombala, NSW	990	\$4.8
1994 PDS	1994	Bombala, NSW	560	\$2.5
1989 - 1993	N/A	Bombala, NSW	540	N/A
Total			47,948	\$349.5

In 2008, Willmott Forests acquired BioEnergy Australia Limited, and consequently acquired the firm's subsidiary BioForest Limited (BioForest) the Responsible Entity for four forestry MIS projects. Table 2 outlines key project details for BioForest. In total, BioForest established in excess of 5,000 hectares raising just under \$50 million in subscription monies.

Table 2 – Overview of BioForest's projects acquired by Willmott previous projects

Project	Year	Location	Size (ha)	Funds Raised (\$m)
Sustainable Timber and Biofuel Project	2007 – 2008	Northern NSW	3,560	\$35.6
Sustainable Timber and Biofuel Project	2007	Banyabba, northern NSW	1,058	\$10.6
Dual Income Project 2006	2006	Maclean, northern NSW	306	\$3.0
Wholesale Project 2005	2005	Booyong, northern NSW	96	\$0.5
Total			5,019	\$49.7

All BioForest Projects outlined in Table 2, contain Silky Oak (*Grevillea robusta*) and She-oak (*Casuarina*). The Silky Oak plantings end use will be directed into high value timber and veneer production, while the Casuarina species will be used for renewable energy production. The acquisition of BioForest and its projects provides a point of differentiation from Willmott Forest current plantation estate of Radiata Pine.

In total, Willmott Forests has approximately 46,310 ha of Radiata pine across land owned and leased in Bombala, the Murray Valley and Gippsland regions. In the North Coast region of New South Wales, Willmott Forests now has approximately 4,370 ha of Silky Oak and 2,900 ha of She-oak, bringing the total estate under management to 53,585 ha.

2 Forestry Operations

2.1 Introduction

A large proportion of Willmott Forests' plantation has been established using the softwood species Radiata Pine (*Pinus radiata*), which has been in high demand, driven by the Australian construction industry. Radiata pine is principally used in the form of sawn timber in domestic house frame construction. The high demand for sawn softwood supports the development of Willmott Forest's joint venture with Dongwha Holdings in the Bombala Region.

2.2 Infrastructure

Willmott Forests has a range of options for processing harvested timber from the various sites where its plantations are located. A number of independent and corporate saw mills are located within short haulage distances by road transport.

Plantations located in the Gippsland region can be processed by local operators such as Carter Holt Harvey and/or Nippon Paper which have the largest throughput capacity in the region. Supply contracts enables Willmott Forests to leverage off HVP's long term supply contracts with these operators which will provide an advantage in timber marketing at harvest.

Willmott Forests large plantation base of Radiata pine located in the Bombala region is currently being processed by its small scale Bombala saw mill. Processing of the company's earlier pre-MIS projects from its 1983 to 1987 Projects includes a combination of clearfall harvest and thinnings. The saw mill is currently capable of processing Willmott Forests softwood into framing timber and treated posts and rails.

In 2012, Willmott Forests will complete the construction of its new joint venture Bombala saw mill which will have greater throughput capacity and flexibility of processing options. The mill is expected to lower the company's operating costs per tonne and deliver greater efficiency per log processed. The construction of the new mill is being undertaken through a joint venture with Dongwha Australia Holdings Limited. Willmott Forests has developed a strategic partnership with Dongwha, who are an international producer of wood products with production facilities in Korea, Malaysia, Indonesia and New Zealand.

Willmott Forests has a range of processing facility options available in the Murray Valley region, which include sawn timber and MDF particle board production in North East Victoria. Plantations are within reasonable distance by road transport to the respective processing facilities.

The Willmott Forests plantations located in the Northern Rivers region of New South Wales also have a number of processing facility options, including many small private local saw mills specialising in hardwood timbers. Willmott Forests are yet to draft processing agreements with local saw mills in the region given the length of time away from harvest. Willmott Forests signed a contractual agreement with Sunshine Energy in July 2009, to process the company's She-oak into biomass for renewable energy.

In 2010, Willmott Forests commenced development of its African mahogany (*K. senegalensis*) plantings located on its Rocktear property in the Katherine region, Northern Territory. Willmott Forests has advised AAG that it is investigating possible processing facilities in this region. Given it is considerable time before harvest, Willmott Forests has a number of years to determine its sales, marketing and processing options.

2.3 Land

Since 1980 Willmott has established in excess of 48,570 hectares of plantations in locations spread throughout Victoria, New South Wales and Northern Territory. In early projects released, Willmott purchased land outright for the development of plantations most of which has been located in the Bombala region. Many of the recent plantation sites selected are in the Murray Valley and Gippsland regions and have been leased. All leased properties which Willmott Forests establish its plantations have lease payments paid in advance for the term of the project. Evidence of prepayments can be found in Willmott Forests' financial statements, as at December 2009 \$38m is recorded as pre-paid rent in advance. This is a measure which reduces any downside risk to investors in the event Willmott Forests as RE becomes insolvent.

3 Silvicultural Performance

3.1 Radiata Pine Overview

Willmott Forests' current management of Radiata pine plantations range in age classes from recently planted to harvest age and grade trees. In earlier projects, Willmott generally limited its plantations to the Bombala region, although in recent years the company has disaggregated its site selections to other areas as outlined above. Under our analysis of past project performance we note that a wide range of environmental conditions exist which have required the company's on ground managers to alter their management systems to tailor product for the final product.

Willmott Forests has commenced harvesting its older *prescribed investment schemes* (PIS), which are managed on behalf of private and corporate investors. Willmott Forests is a number of years away from final harvesting of its earlier MIS projects.

Table 3 outlines Willmott Forests' yield estimates for the projects released between 1980 and 2009.

Table 3 – Overview of Willmott Forests yield estimates the forestry projects between 1980 – 2009

Project	Original Target MAI (m ³ /ha/year)	Estimated MAI at harvest (m ³ /ha/year)	% Total Plantation Estate
2009	15-25 m ³ /ha/year	Too young	10.0%
2008	15-25 m ³ /ha/year	Too young	17.1%
2007	15-25 m ³ /ha/year	Too young	9.5%
2006	15-25 m ³ /ha/year	21.4 m ³ /ha/year	11.5%
2005	21.8 m ³ /ha/year	20.6 m ³ /ha/year	13.0%
2004	25.0 m ³ /ha/year	19.9 m ³ /ha/year	11.0%
2003	25.0 m ³ /ha/year	17.0 m ³ /ha/year	5.9%
2002	25.0 m ³ /ha/year	19.2 m ³ /ha/year	2.2%
2001	18-24 m ³ /ha/year	18.8 m ³ /ha/year	2.4%
2000	16-24 m ³ /ha/year	17.6 m ³ /ha/year	1.4%
1999	20.0 m ³ /ha/year	17.0 m ³ /ha/year	1.9%
1998	20.0 m ³ /ha/year	16.5 m ³ /ha/year	3.1%
1997	24.4 m ³ /ha/year	16.6 m ³ /ha/year	2.8%
1996	24.4 m ³ /ha/year	17.8 m ³ /ha/year	2.2%
1995	24.4 m ³ /ha/year	17.3 m ³ /ha/year	2.1%
1994	23.2 m ³ /ha/year	16.1 m ³ /ha/year	1.2%
1980 - 93	24.8 m ³ /ha/year	20.1 m ³ /ha/year	2.5%

The following comments are based on information provided in the 2009 annual growers report to investors for each project and site inspections conducted by AAG.



3.1.1 1980-93 Projects

Between 1980 and 1993 Willmott Forests established 1,162 ha of Radiata pine at both Murray Valley and Bombala regions, which account for 2.5% of the Willmott Forests estate. The projects established during this period have already been, or are currently being thinned in preparation for clearfall harvest. Willmott Forests has experienced some difficulty in scheduling harvested timber into local processing facilities which has delayed harvesting programmes. The major issue has been finding a suitable market for the thinnings which are mostly pulp quality which has now been successfully put in place through the deal with Visy.

Willmott Forests has advised investors in Projects during 1980 to 1993 that drought conditions in the growing areas have reduced growth rates in the final years of the projects. Willmott Forests has now reached an agreement with local processors to accept deliveries of harvested timber. Plantations developed from 1983 to 1993 onwards are being thinned prior to harvest which will be undertaken over the next 5-7 years. Thinnings are being processed by Willmott Timbers/TASCO sawmill in Bombala and a small number of other processors depending on the location of the plantations. End product from harvest activities has been spread between pulp, palings, salvage and export logs.

3.1.2 1994 Project

The 1994 Project developed 560 ha of plantations located in the Bombala region, consisting of 1.2% of the Willmott Forests estate. The plantations have shown consistent growth since planting, and have shown resilience given the drought conditions prevalent in the region. A number of actions were undertaken during 2009/10 including noxious weed control and fire break clearing. Thinning of the Project commenced in July 2009.

3.1.3 1995 Project

The 1995 Project consists of 990 ha or 2.1% of the Willmott Forests estate. The plantation was planted on time and was spread over 2 sites located in the Bombala regions. The project now age 14 has shown very good signs of growth and will be thinned earlier than planned as a result.

3.1.4 1996 Project

The 1996 Project across various properties in Victoria and Bombala, consists of 1,030 ha or 2.2% of the Willmott Forests estate. During 2009, 2 of the properties in the Project which comprise of 1.6% of the Willmott Forests plantation estate suffered some weather events, of which one of them was affected by snow in July 2007 and the other affected by a severe hail storm in February 2009, which stripped the trees of foliage and subsequently caused reduced growth for most of the year. A short while after the hail storm event, a fungal infection targeted the open wounds caused by the hail storm. Willmott Forests has advised AAG that this resulted in the loss of the 'leader' shoots and in some cases resulted in tree death. Willmott Forests is continuing to assess this damage to quantify the financial position for investor's insurance policies and negotiations with the insurers are continuing.

Willmott Forests advises that unaffected areas of the plantation are performing well, with visible signs of 'new' green growth. Weed control has been maintained by cattle grazing around the perimeter of the plantation.

3.1.5 1997 Project

The 1997 Project consists of 1,288 ha of the Willmott Forests estate. Similar to other projects located in the Bombala region, the February 2009 hail storm also affected one of the properties in this project. Willmott Forests is continuing to assess this damage to quantify the financial position for investor's insurance policies and negotiations with the insurers are continuing. Following a separate hail event that occurred in 2007 which affected one property, an insurance claim within the coverage of the existing policy was subsequently lodged and settled. The total of these 2 properties equate to approximately 0.5% of the Willmott Forests plantation estate.

Willmott Forests report that good rainfall in the months to December 2009, have improved recovery rates and trees are showing new growth.

3.1.6 1998 Project

The 1998 Project has been established over 6 different properties, consisting of 1,445 ha, or 3.1% of the Willmott Forests estate. Similar to other projects located in the Bombala region, two of the properties were affected by the hail event which occurred in February 2009 which is approximately 0.63% of the Willmott Forests' plantation estate. As a result, growth in the trees on the affected properties is expected to be significantly impacted. In conjunction with the insurance assessor, where the damaged trees were ruled no longer commercial, and for the trees determined suitable to remain, Willmott Forests devised an appropriate silvicultural operation strategy to ensure long-term productivity of those standing trees.

3.1.7 1999 Project

The 1999 Project has been developed over 876 ha in the Bombala region. Noxious weeds have been a concern and in the past year Willmott Forests has undertaken extensive herbicide applications to control blackberries and serrated tussock. One of the properties comprising of approximately 0.1% of Willmott Forests' plantations estate suffered significant damage from snow. On the basis of preference of affected growers, Willmott Forests will proceed to clearfell the damaged trees and apply ongoing management strategy for the remaining trees on the plantation. Meanwhile, Willmott Forests have successfully completed fuel reduction burn in conjunction with Rural Fire Service and NSW National Parks and Wildlife.

3.1.8 2000 Project

The 2000 Project was developed over 655 ha in the Bombala region. One of the properties (Bombala 2) was affected by the same hail storm event in February 2009 and Willmott Forests is continuing to assess this damage to quantify the financial position for investor's insurance policies and negotiations with the insurers are continuing. A number of issues have arisen as a result of weed competition from woody weeds and grasses. Weed competition and reduced rainfall have reduced growth rates in this plantation. Remedial works have been undertaken to control weed growth.

3.1.9 2001 Project

The 2001 Project developed over 1,092 ha is performing well, displaying good signs of growth with dark green foliar coverage present throughout the plantation. Willmott Forests foresters report that the plantation is achieving canopy closure which corresponds with the reduction in competition from woody weeds.

3.1.10 2002 Project

The 2002 Project consists of 1,035 ha or 2.2% of the overall Willmott Forests' estate. The form of trees remains adequate and Willmott Forests had undertaken a foliar analysis which shows adequate nutrient levels.

3.1.11 2003 Project

The 2003 Project incorporates a number of individual plantation sites located between Canberra and Bombala, covering up to 2,755 ha. One of the properties in Bombala which was approximately 0.5% of the Willmott Forests plantation estate was affected by the same hail event that took place in February 2009. Willmott Forests is continuing to assess this damage to quantify the financial position for investor's insurance policies and negotiations with the insurers are continuing. Meanwhile the trees in the unaffected areas and surrounding the affected property were inspected and no damage was recorded, showing good colour, form and growth.

3.1.12 2004 Project

The 2004 Project comprises of 5,106ha established over properties in Bombala and the Murray Valley. This Project was the first of Willmott Forests' projects to plant outside the Bombala region, as a result of the need for additional land and varied growing conditions. Plantations located in the Bombala region commenced showing signs of long term dry conditions with discolouration to the foliar tips caused by *Diplodia* a fungal infection caused by tree stress and has the propensity to cause damage to tree health. Willmott Forests has advised that they will continue to monitor these trees and it is considered that the trees will respond to increased soil moisture and a return to long-term average rainfall patterns when normal conditions return. Regular foliar sampling and analysis was carried out across the plantations and results indicate good nutrient level.

In early 2009, 3 of the properties in the Project in Victoria were affected by fire, which the total area affected was approximately 167 hectares. The plantation area affected by fire was fully insured and in accordance with the stocking guarantee the damaged trees were replaced at no cost to the investors and were successfully replanted in winter 2009.

Similar to other projects located in the Bombala region, the February 2009 hail storm affected one of the properties in this project. Willmott Forests in conjunction with the insurance assessors have inspected and reported no material damage at this stage but will closely monitor the plantation health over the next 12 months.

In other locations, animal browsing has reduced stocking rates to fall below 90%, which has required replanting. This has been undertaken within Willmott Forests stocking guarantee, at no cost to investors. Noxious weeds have also presented a number of minor issues and have subsequently been controlled by systemic herbicide application.

3.1.13 2005 Project

The 2005 Project was developed over properties both owned and/or leased by Willmott Forests, in total spanning 6,021 ha, making up 13% of the total estate under management. Willmott Forests undertook plantation development on second rotation sites in the regional areas of NSW and Victoria which is the result of the agreement with HVP (Hancock Victorian Plantations). The Project has benefited from the HVP agreement which has provided a number of second rotation sites which provides known site performance.

Since planting, a small proportion of the Project has been plagued by issues beyond the control of Willmott Forests including continuing dry conditions.

Animal browsing has also been reported by Willmott Forests as an issue within this project. A number of management strategies have been put into place to minimise this issue. Foresters report that general tree health is very good, including new growth as a result of higher than average rainfall.

3.1.14 2006 Project

The 2006 project has been established on properties located across Bombala, Murray Valley and regional areas of Victoria. In early 2009, a section covering approximately 109 ha was destroyed by fires. The plantation area affected by fire was fully insured, affected investors were compensated and had their trees replaced at no cost.

Projects located in the Gippsland region have also been affected by woody weed regrowth which has been restricting tree growth and removing nutrients and lowering moisture levels. Plantation managers have applied a number of herbicide treatments and used a rotary mulcher to break down the weed growth. General tree health appears to be very good with visible signs of new growth as a result of higher than average rainfall in the area.

3.1.15 2007 Project

The 2007 project was established over 4,420 ha which makes up 9.5% of the Willmott Forests estate. Similar to the 2006 Project, the trees were planted on properties located in Bombala, Murray Valley, and regional areas Victoria. Several properties in this Project totalling to approximately 164ha was destroyed by the same fire event that occurred in early 2009. The plantation area affected by fire was fully insured, and in accordance with the stocking guarantee the damaged trees were replaced at no cost to the investors.

A recent site inspection by AAG outlined tree health in the Gippsland region to be very good on second rotation sites. A number of sites outlined new growth as a result of recent fertilizer applications and higher than average rainfall.

3.1.16 2008 Project

The 2008 project has been established on a number of different site including second rotation and green-field sites in the Bombala, Murray Valley and regional areas of NSW and Victoria, covering 7,914 ha. This total plantation established under this Project makes up just over 17% of the Willmott Forests estate under management (Table 3). Planting of the project was completed on time and occurred concurrently across the various sites within the project. Sites were well prepared and suitable applications of herbicide was applied to minimise weed competition during the early stages of the tree development. Willmott Forests advises that the trees have received good rainfall within months of planting and have since displayed good signs of new growth. Willmott Forests is currently undertaking a survival count which is expected to be similar to the 2007 project results.

3.1.17 2009 Project

The 2009 project consists of 6,912 ha of Radiata pine plantations spread across the Company's Bombala and Murray Valley region and second rotation sites. .



Willmott Forests' forecast MAI (mean annual increment) for each project is outlined in Table 3. The first clearfall harvest of public offered plantations isn't expected to occur until 2015 at the earliest. We are advised that the first public investment offering will be thinned in the coming months. Willmott Forests has advised that scheduled thinning activities have been delayed to allow for an improvement in log sizes, although AAG understands a number of marketing related activities were also being pursued during this time. Willmott Forests' target MAI at harvest is at the upper end of the scale which, if achieved should deliver reasonable returns to investors. On a weighted average scenario, Willmott Forests is forecast to achieve a weighted average estimated MAI at harvest of 20.07 m³/ha/yr. This represents a reduction on original PDS targets of 7% below a weighted average target of 21.74 m³/ha/yr. We believe this to be acceptable and within the bands of agricultural risk tolerances.

3.2 She-Oak & Silky Oak Overview

Willmott Forests She-oak & Silky Oak (*Casuarina*, *Grevillea robusta*) yield estimates are outlined in Table 4 & Table 5, respectively.

Table 4 – Overview of Willmott Forests yield estimates for Silky Oak

Project	Original Target MAI (m ³ /ha/yr)	Estimated MAI at harvest (m ³ /ha/yr)	% of total Silky Oak plantation base
2009	22.4-28.8 m ³ /ha/year	Too early to forecast	42.6%
2008	22.4-28.8 m ³ /ha/year		40.7%

Table 5 – Overview of Willmott Forests yield estimates for She-oak

Project	Original Target (t/ha/ 3 yrs)	Estimated MAI at harvest (t/ha/ 3 yrs)	% of total She-oak plantation base
2009	70 tonnes per ha (per 4 year period)	Too early to forecast	13.7%
2008			61.2%
2007			18.2%
2006			5.3%
2005	60-78 tonnes (t/ha/ 3 - 4 yrs)	60-78 tonnes (t/ha/ 3 - 4 yrs) harvesting operations in early 2010	1.6%

3.2.1 2005 BioForest Project

In 2006, Willmott Forests completed the establishment of 96 ha of mix plantings comprising of Silky Oak and She-oak in the Northern Rivers region of New South Wales. The She-oak (*Casuarina*) has exhibited balanced growth with overall tree height of 6 meters and butt diameter size of 150 mm. Willmott Forests' foresters have indicated the plantation is in very good conditions despite frost burn which occurred in 2007, which has caused varying degrees of impact on the Silky Oak trees established on flat areas of the property. Following the first harvest of She-oak, recoppicing of She-oak will take place on the harvested areas. Willmott Forests are expecting the target volume per hectare for She-oak to be reached on schedule.

Plantings of Silky Oak (*Grevillea robusta*) are also showing good signs of new growth. Willmott Forests has advised that the stands will be pruned under a trial programme to potentially result in higher final timber grades by producing semi-clearwood for veneer and furniture production.

3.2.2 2006 BioForest Project

The 2006 Project is comprised of 306.5 ha and comprises of mix plantings of Silky Oak and She-oak. Heavy rainfall after planting caused significant weed control issues, which was compounded by warm sub tropical weather in the Northern Rivers Region. With excessive rainfall having restricted access and subsequently allowed weeds to overcome plantings. This event has caused Willmott Forests to delay planned harvesting by an estimated six months.

3.2.3 2007 BioForest Project

The 2007 Project consists of seven properties incorporating 574 ha of Silky Oak and 633 ha of She-Oak. The plantings are located around the towns of Casino and Grafton, New South Wales. Planted in 2008, both species were developed on time and have since recorded very high survival rates. Regular herbicide applications have minimised weed competition. Small areas of the plantations have been affected by animal browsing, which has been abated by tree guards. Both Silky Oak and She-oak species appear to be healthy and showing signs of new growth.

3.2.4 2008 BioForest Project

The 2008 Project consists of 1,778 ha of Silky Oak and 1,778 ha of She-oak. The plantations are located in the Hastings Valley of New South Wales and Gympie region of South East Queensland. The project was developed on time and has recorded high survival rates to date. Since planting a range of fertiliser and herbicide applications have been undertaken. It is imperative that weed control is maintained to ensure maximum growth is achieved during the early stages of growth. Seedlings are reported to be healthy and standing freely after planting.

3.3 Marketing Arrangements – Key points

3.3.1 Pine Operations

⇒ January 2009 – Willmott Forests secures Bombala pulpwood supply in deal with Visy.

⇒ September 2008 – Willmott Forests forms a commercial agreement with Forests NSW (FNSW) where FNSW will provide log marketing arrangements for the timber established on FNSW land.

⇒ August 2006 – Willmott Forests enters into a Wood Purchase Agreement (WPA) with Willmott Timbers Pty Ltd (now trading as TASCOS) under joint venture with Dongwha for timber produced from plantations established in the Bombala / Braidwood region.

⇒ March 2006 – Willmott Forests forms a commercial agreement with Hancock Victorian Plantations Pty Ltd (HVP) where HVP will provide log marketing arrangements for the timber established on HVP land.

⇒ September 2005 – Willmott Forests secures an agreement with Visy Pulp and Paper Limited (Visy) in relation to pulpwood logs produced from plantations located in the Murray Valley region. There are no agreements in place yet for sawn timber harvested from this region.

3.3.2 Silky Oak operations

Willmott Forests has advised there are currently no off take agreements in place for the company's Silky Oak plantations. The marketing strategy for Silky Oak timber includes sawn timber production for domestic and export use, sawlog export market and also for veneer production. Most sawmills in the region are currently being upgraded to cater for increased throughput of plantation sawlogs. A number of sawmills within the region have the capacity to process the harvested Silky Oak, including Big Rivers in Grafton which have the processing facilities to peel veneer.

3.3.3 She-oak operations

In July 2009, Willmott Forests secured a Biomass Supply agreement with Sunshine Energy. The agreement will cover Willmott Forests past She-oak plantations.

3.3.4 African Mahogany operations

Willmott Forests are yet to establish off-take agreement for the African mahogany being developed in the Katherine region in the Northern Territory. Willmott Forests has advised AAG that thinnings will be either processed as bio-pellets in the event saw grade logs are not achieved, which is a conservative option put forward by Willmott Forests.

Given Willmott Forests' African mahogany plantations have only been recently established, no prior track record of sales, MAI's, or solid market performance can be provided. Small volumes of mahogany have been sold from trial blocks in the Northern Territory which are not substantial or commercial sized volumes. The marketing arrangements for the timber from these plantations will depend on the scale of operations that are developed over time in the region.

3.4 Project Risks

The levels of agricultural risks associated with Willmott Forests' projects are not dissimilar to other managed forestry projects. The impact of agricultural risk is driven by a range of factors including the location of plantations sites, soil, climate and management.

Willmott Forests has had a number of risks materialise since developing plantations in 1993, all with varying degrees of impact. The following are material risks which have actually occurred in Willmott Forests' plantations:

In July 2007, a number of Willmott Forests' plantations located in the Bombala region were subjected to a heavy snow event. According to the Australian Bureau of Meteorology, 38 cm which was recorded caused limb breakages as a result of the additional weight of the snow. Minor damage was recorded and posed no major threat to investors returns.

Although insured, a number of plantations in the Bombala region were damaged by a severe hail storm which occurred in February 2009. The storm event caused limb breakages and splitting which has caused minor damage. Whilst this direct damage was minor, it was the subsequent fungal attacks which caused significant damage, resulting in growth reductions.

Fungal infestations have the propensity to cause widespread losses. Willmott Forests has advised AAG that the (abovementioned) hail storm along with prolonged drought has stressed plantation radiata pine and exacerbated the incidence of the fungi known as *Diplodia*, common in trees under significant stress. Willmott Forests' Expert Forester, Dr John Turner has advised that affected trees will recover with a period of above average rainfall. During the recovery time Willmott Forests expect growth rates to slow.

Weed competition has been prevalent in Willmott Forests' Silky Oak and She-oak plantations located in the Northern Rivers region of Northern New South Wales. Regular rainfall and sub tropical weather in some cases has exacerbated weed growth and has caused issues with on ground management of the species.

Willmott Forests has recorded a small number of trees in various growing areas to be affected by "wind throw". Plantations which have exposed edges have been most at risk according to Dr. Turner. The effects of wind throw have been minimal.

3.5 Returns

3.5.1 Costs

Willmott Forests has informed AAG that for all previous projects (including the BioForest projects), investors have not had to pay any extra costs not originally outlined in the original offer documents.

3.5.2 Yield

Please refer to Section 3.

3.5.3 Price growth escalation factor

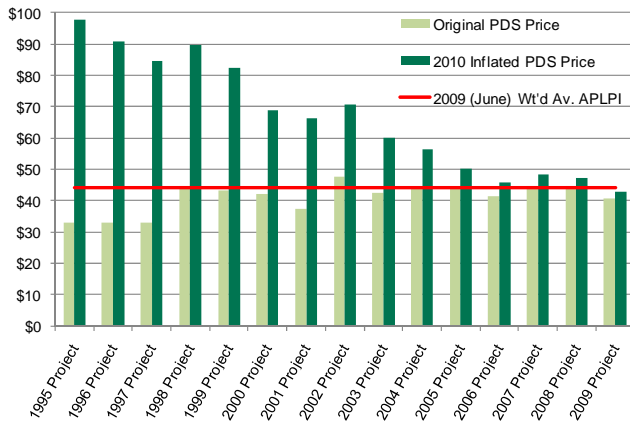
In past projects, Willmott Forests have assumed varying levels of price growth within their financial modelling. Earlier Projects released from 1995 through to 2005 assumed price growth increases of 5.0% to 7.5% per annum nominal on the basis that softwood prices over the long term had historically increased by between 0-2% above the inflation rate which was between 3% -5% for this period. Projects released from 2005 onwards have assumed a price growth in line with inflation targets of 2.5%.

AAG has utilised data obtained from the Australian Pine Log Price Index (APLPI) to arrive at prices for the various product classes to be produced by Willmott Forests from the respective projects. The APLPI data indicates minimal price fluctuation over the period during 2005 to 2008, although in the past 2 years prices for some timber classes increased by up to 6%. Large sawlogs and salvage logs recorded the largest increases in value over the past two years. We used the APLPI data and the product mix of the current project offering to calculate a weighted average price for each project.

Demand for softwood is continuing to rise on the back of increased use in the construction sector and softwood woodchip consumption. Leading Industry analyst Robert Eastment has outlined that growing demand will see prices continue to grow in domestic and international sales of softwood sawlogs and pulp.



Figure 1 outlines an analysis of past project price and price growth assumptions used in original investment offer documents.



Note 1. Weighted average Australian Pine Log Price Index is valid at the current release dated June 2009.

Figure 1 Comparison of Willmott Forests past projects against APLPI and original PDS forecasts

Analysis in Figure 1 outlines all Projects released by Willmott Forests appear to have overestimated prices when compared against the APLPI and price growth used in modelling forecast returns on a weighted average basis. Investors in these earlier projects may receive lower than forecast returns based on this analysis.

For each of the projects previously released by BioForest, the company assumed She-oak prices would move in line with inflation. In relation to the Silky Oak, BioForest has assumed real price growth of 1%. Because the projects are still in their early years, it is too early to draw any conclusion about price movements against price forecasts.

3.5.4 Inflation on costs

Willmott Forests projects released prior to 2001 were structured as upfront fee and deferred payment investments. This model used by Willmott Forests does not require inflation rate forecasts within its financial models.

Projects released to investors prior to 2001 and for those projects previously released by BioForest, inflation rate estimates of between 2% and 3% were used. Given the average rate of inflation in the past 10 years (2.7%) and the Reserve Bank of Australia (RBA) mandated target rate of inflation (between 2.0% and 3.0%), we believe these estimates remain valid.

3.6 Likelihood of achieving the forecast returns for previous projects

Approximately 50% of the Willmott Forests Estate has performed under its stated growth forecasts in original offer documents. Yields across these projects are likely to be under original forecasts. Unless Willmott Forests achieve net prices higher than those originally forecast, returns to investors will be lower than expected. We suggest that past Willmott Forests price estimates are likely to have overestimated prices considering where current pine prices are at today. As a result, we believe that many of the pine projects will achieve below originally forecast returns.

It is too early to determine the likelihood of returns for projects released from 2004 and onwards. It is evident from earlier projects that rainfall and other climate associated risk is a key factor that has influenced returns. If plantations receive average rainfall on a consistent basis, investors are likely to achieve returns close to those originally forecast.

As BioForest's past projects have only recently or have yet to be established, it is too early to form an opinion on the likelihood of investors achieving forecast returns.

4 Disclosure and Risks

4.1 Risks

The most prominent risk which has materialised within the Willmott Forests estate has been the lower than forecasted growth rates. The underlying issues impacting growth rates outlined in Section 3, have been lower than average rainfall, frost, fire, hail and snow, all of which have had varying degrees of impact. As outlined within the Silvicultural Overview, plantations which have sustained substantial losses, Willmott has processed insurance claims which have covered investors for their losses. In some cases Willmott has replanted affected areas.

A number of other risks which have materialised across the Willmott Forests and BioForest plantings include ongoing issues with weed control and animal browsing. In cases where Willmott Forests has replanted areas, this will have varying degrees of impact on investors depending on the length of time by which harvest is delayed.

4.2 Investor Communication

Willmott Forests provide investors with a comprehensive online platform for up to date information and announcements regarding their forestry investments. Willmott Forests use their web site to communicate with investors to provide comprehensive annual reports on the progress of projects and any issues which have arisen over the year.

5 Taxation

Willmott Forests advise that all key dates and prescribed activities with respect to the product rulings for the past projects (including those acquired from BioForest) have been met. All investors in these previously released projects have received the forecast deductions as outlined in the original product documents.

Willmott Forests has advised AAG that the ATO has visited project sites in a several occasions, with no issues forthcoming. Willmott Forests also notes that it completes and submits an ATO audit questionnaire in July each year. No issues from these questionnaires have ensued to date.



AUSTRALIAN AGRIBUSINESS GROUP

WILLMOTT FORESTS PREMIUM FORESTRY BLEND – 2010 PROJECT



Part C Project Rating



Methodology

The Project Rating above is given out of a maximum of five stars. A rating may include quarter stars. This Part C Project Review should be read in conjunction with the Part A Management & Finance Review and the Part B Track Record Review. This Project Review is designed to provide comment on the PDS offering to give 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.

Management (page C4)

- ⇒ The Responsible Entity (RE) and on ground manager for this project is Willmott Forests Limited (Willmott Forests).
- ⇒ Willmott Forests is an integrated forestry company and managers of one of Australia's largest softwood resources.
- ⇒ Willmott Forests is highly experienced in the management of Radiata pine, though less experienced in the management of African mahogany and Silky oak.

Markets for this Project (page C4)

- ⇒ There is likely to be a supply deficit in softwood products in the future which should help to support softwood prices.
- ⇒ The rate of transactions of free standing timber has increased worldwide, driven by institutions seeking assets to back long dated liabilities. Return expectations for such investors may be higher than retail MIS investors.
- ⇒ Markets for the African mahogany and Silky oak have traditionally commanded high prices for uniqueness of the timber finishes in both species.
- ⇒ Typically African mahogany and Silky oak are sold in low quantities to manufacturers of furniture and high grade decorative panelling.

Fees (page C5)

- ⇒ Investors do not pay any ongoing fees other than compulsory insurance.
- ⇒ Willmott Forests will pre-pay leases for land which used for the project which investors apply for Forestry Interest in.

Marketing (page C6)

- ⇒ The Radiata pine will be sold via a tender process as standing timber at age 15.
- ⇒ A number of agreements are in place for the first thinning harvest for the Radiata pine component.
- ⇒ Marketing arrangements for the African mahogany and Silky oak have not been finalised to date.

Agricultural Parameters and Returns (page C6)

- ⇒ The project delivers acceptable cash returns and is robust to changes in both price and yield.
- ⇒ The 12-month interest free option enhances returns and is a sensible option for investors.
- ⇒ Approximately 65% of gross income is derived from the sale of Radiata pine, 27% African mahogany and 8% of Silky oak under AAG modelling.

Disclosure and Risks (page C11)

- ⇒ A number of risks pertinent to the achievable price and yield of both African mahogany and Silky oak, may impact investors' returns.
- ⇒ A number of climatic issues may impact on growth rates and overall returns to investors.
- ⇒ The pre-payment of land rentals and the annual management fee required to be paid if Willmott Forests becomes insolvent are designed to enhance the protection of investors funds.

Taxation (page C12)

- ⇒ Willmott Forests has received a Product Ruling (PR2010/4) for the 2010 Growers in this Project.
- ⇒ This product ruling outlines that 100% of application monies are tax deductible in the initial year of investment.



1 Project Structure – What do I get?

1.1 What is the project?

The Willmott Forests Premium Forestry Blend – 2010 Project (ARSN: 142 722 585, the 'Project') is a mixed species timber project enabling investors to invest in three different end markets including sawn softwood, sawn hardwood, and secondary market plantations. The unit of investment in the Project is termed a Forestry Interest and represents approximately 0.57 hectares of plantation including:

- ⇒ 0.43 hectares of Radiata pine (*Pinus radiata*);
- ⇒ 0.11 hectares of African mahogany (*Khaya senegalensis*); and
- ⇒ 0.03 hectares of Silky Oak (*Grevillea robusta*)

According to the RE, the targeted size of the Project is approximately 14,000 Forestry Interests (7,980 hectares) with the option to accept oversubscriptions. The composition of the timber mix provides investors with several income streams throughout the term of the Project. The conclusion of the Project should coincide with the clearfall harvest of the African mahogany plantations at age 16 and sale of standing Radiata pine plantations in around age 15.

Investors will enter into the following two agreements with the RE upon subscribing to the Project:

- ⇒ *Land Sourcing and Forestry Services Agreement* – allows the RE to establish, manage, harvest and market the products grown on the leased land on behalf of the investor; and
- ⇒ *Land Agreement* – allows investors to lease the land on which their trees will be established. To procure land (and the necessary Forestry Rights) for the Project.

1.2 What is the minimum subscription?

The minimum subscription for investors to subscribe to the Project is one forestry interest. There is no minimum subscription that is required to be raised for the Project to commence, meaning that the Project could proceed irrespective of how many investment units are subscribed to.

1.3 Can I share in any land/management ownership?

Investors in this project are investing in timber assets without the direct ownership of land. Investors may purchase shares in Willmott Forests through the ASX as an indirect way to get an exposure to land which is the major asset of Willmott Forests.

1.4 Is there an exit strategy?

As with most forestry agri MIS, there is no active secondary market for interests in the Project. Any investment in the Project should be considered illiquid in nature.

1.5 How are investors' funds handled?

Willmott Forests has outlined to AAG the flow of investors application monies and this appears to be satisfactory under the current ASIC regulations. However, ASIC has released Consultation Paper 133 which anticipates a more stringent separation of funds and an alternative (annual) payment model or at a minimum, increased disclosure in the PDS. We note that this project requires investors to pay annual management fees in lieu of deferred management fees payable out of harvest proceeds if Willmott Forests becomes insolvent. This feature is designed to ensure that the scheme will have sufficient inflows to fund the ongoing expenses of the project after the trees are planted and as such meets the objective of the annual payment model recommended in Consultation Paper 133.

At the time Willmott Forests receive application monies from investors, funds are held in an Application Agency Trust Account until applications are accepted. Willmott Forests (as RE of the Project) then engages WFIM (the Manager) under the Land Sourcing and Forestry Services Agreement to procure land for the Project and provide forestry services in consideration for which Willmott Forests as RE of the Project pays to WFIM a fee of \$5,000 for every Forestry Interest that is issued to investors. The fee is generally payable within 24 hours of the Forestry Interest being issued out of the Project Property which at that time comprises the application money paid by investors. WFIM is entitled to those fees and WFIM must then source and establish the plantations under the Land Sourcing and Forestry Services Agreement.

Once the fees are received by WFIM, until such time that all of the trees are planted (which must take place by no later than 31 December 2011) there are no security measures in place to protect the viability of the Project in the event of insolvency of Willmott Forests as RE or its subsidiary WFIM.

Under the Land Sourcing and Forestry Services Agreement in the event that WFIM is insolvent (which would mean that it would not be able to source any remaining land not already secured within 15 months of 30 June 2010 as required under the agreement), WFIM must refund the fees referable to such remaining land to the RE. If WFIM is insolvent at that time, it is unlikely to have the funds available to pay the refund.

As described above, once all of the land is secured and trees are planted there are good prospects for the project to continue if Willmott Forests or WFIM suffer insolvency at a later time. The reasons for this are that the rent / licence fees on all land will be pre-paid upfront on commencement of each lease/licence. This means that the land tenure agreements cannot be terminated for non payment of rent / licence fees and because investors will have an obligation to pay annual fees of \$142.50 per forestry interest in lieu of the deferred fees.

Accordingly, the biggest risk to investors from an insolvency event is between the time of application funds being accepted until the trees are planted which is somewhat mitigated by the fact that the majority of land has been identified and the trees established progressively during the 18month period required under the product ruling.

Investors must be aware that any failure on behalf of Willmott Forests at any stage throughout the life cycle of this investment, and in particular before the trees are actually planted, will be detrimental to the value of their investment. Investors should refer to the review of the corporate financial position and performance outlined in Part A Management & Finance Review for some analysis on the financial strength of Willmott Forests.

2 Agricultural Feasibility and Assumptions – Is it agriculturally sound?

2.1 Where is the project located?

Willmott Forests will establish the Radiata pine plantations in temperate regions of southeast Australia, including the Bombala and Murray Valley regions of southern NSW and the Gippsland, Ballarat south west and north east regions in Victoria. Over the past four years Willmott Forests has sought to diversify its plantation estate by leasing land from HVP (Hancock Plantations Victoria) in the Gippsland and Otway regions of Victoria. The geographic diversification of Willmott Forests' plantation estate provides a range of growing conditions and processing options.

The proposed planting of Willmott Forests' Silky oak will be in the Northern Rivers region of Northern New South Wales and/or Southern Queensland. The region is known for its good rainfall and sub tropical growing environment. Despite the advantages of the environment, a number of issues surrounding weed control can give rise to plantation management challenges through excessive weed growth.

Aside from the 4,370 hectares of Silky oak Willmott Forests has established to date in the Northern Rivers region of NSW and the proposed 400 hectare development for this Project, there are no other large scale commercial plantings of the species in Australia. A number of unknowns surround the species which has only been commercially planted in Australia by Willmott Forests and a number of small plots by other participants in the region.

The African mahogany plantations will be located on land owned by Willmott Forests in the Douglas Daly / Katherine region, in the Northern Territory. The sub tropical region of the Douglas Daly has had a number of trial plantations developed. This planting will be the second African mahogany plantation to be established by Willmott Forests in this region having already established over 159 hectares under the Willmott Forests Premium Timberland Fund No.1.

The location of the properties selected for Willmott Forests' Projects for each species are inspected by Angus McEachern prior to and after signing off on any land leasing/purchasing agreements. A further land selection 'auditing' role is undertaken by Willmott Forests Independent Forester, Dr. John Turner, who ensures the company's land selection criteria and protocol is being adhered to and followed. AAG considers this to be an effective measure to ensure appropriate land selection for Willmott Forests' Projects, which if mismanaged, can lead to a number of factors which can affect plantation performance and ultimately returns.

2.2 What is the plantation management regime?

Although the pre-establishment practices Willmott Forests will apply will be similar for all properties included within the Project, the establishment and ongoing management regimes that will be implemented for the three species comprising the Project will differ according to site requirements.

The Radiata pine will be planted at a minimum of approximately 1,100 stems per hectare, with investors receiving income from the first thinning at age 13. Traditionally, Radiata pine plantations have been grown on a rotation of a minimum of 25 years. Willmott Forests

has structured the Project so that the Radiata pine component will be sold prior to the full rotation. Willmott Forests intends to sell the standing Radiata pine plantation at age 15 through a tender process (in around year 16). The African mahogany and Silky Oak species will be grown through their full rotation.

The African mahogany will be planted at a minimum of 1,000 stems per hectare, with two thinnings being planned to take place at ages 8 and 12 with final harvest at age 16 (around year 17). The higher density planting will allow for better selection ratio of approximately 1:4.

Willmott Forests intends to establish the Silky Oak plantations at minimum 1,250 stems per hectare (Table 1). It is the current intention that an early non-commercial thinning of the Silky Oak will be carried out in year 5, reducing the stocking to 800 trees per hectare. A commercial thinning is expected to take place at age 10 to further reduce the stocking rate to 400 trees per hectare. This is expected to allow the remaining stems to strengthen and fill out prior to clearfall harvest which is expected to take place at age 15 (around year 16). Commercial trees are planned to be pruned as required to discourage knot development along the length of the trunk.

Table 1 outlines Willmott Forests' plantation management regime covering the three species being planted within this Project.

Table 1 – Summary of Plantation Management Regime

Species	Radiata pine	Silky Oak	African mahogany
Genus	<i>Pinus radiata</i>	<i>Grevillea robusta</i>	<i>Khaya senegalensis</i>
Stocking (min)	~1,100 trees/ha	~1,250 trees/ha	~1,000 trees/ha
Rotation (from time of planting)	25 years (investors will sell as standing timber after 15 years of growth)	15 years	16 Years
Pruning (from time of planting)	No set timing, but may occur	Age 4 & 10	Years 3 & 5
Harvests (from time of planting)			
• Thinning 1	Age 13	Age 10	Age 8
• Thinning 2	N/A	N/A	Age 12
• Clearfall	N/A	Age 15	Age 16
Sale of standing timber	Age 15	N/A	N/A

Willmott Forests provides a stocking guarantee to ensure a minimum survival rate of 90% of the original number of trees planted for each species. The stocking guarantee applies for 13 months from the date of completion of the planting of a species of tree. Throughout the stocking guarantee period, Willmott Forests will undertake regular monitoring for key risks which can affect young tree seedlings. During the guarantee period Willmott Forests will undertake scheduled fertilising and weed control programs. This also allows for any seedlings which have died to be replaced.

Weed control during the establishment phase is critical in achieving forecast survival and annual growth rates. Weed control is critical in the regions where the African mahogany and Silky oak will be planted, given the higher rainfall and sub tropical temperature encourages rapid weed growth.



3 Management – who is running the business for me?

3.1 What is the Corporate Structure?

The Responsible Entity (RE) for the Project is **Willmott Forests Limited** (Willmott Forests) who is responsible for all aspects of the Project including the establishment, maintenance and marketing of the trees. As RE of the Project, Willmott Forests will engage WFIM (the manager) to manage the operational and technical aspects of the Project. WFIM will procure and then lease to Willmott Forests, the RE, the requisite land necessary for the development of the Project.

Investors may choose to finance their investment through the RE's subsidiary **Willmott Finance Pty Ltd** (Willmott Finance).

Hancock Victoria Plantations Pty Ltd (HVP) and Forests NSW will provide plantation management, maintenance and marketing services for plantations located their respective regions. These services will be provided under the direction of Willmott's senior forestry staff who have full marketing and operational control of the plantations. Willmott Forests has entered into an agreement with **Visy Pulp and Paper Ltd** (Visy) for the pulpwood produced from the Murray Valley region which may cover this and earlier projects.

3.2 Is the Group Skilled and Experienced?

Willmott Forests was established in 1979 and is a fully integrated forestry company specialising in the softwood industry. Willmott Forests was listed on the Australian Stock Exchange in 2000 (code: WFL) and had a market capitalisation of \$51 million at 1 April 2010.

Willmott has released 19 public forestry offerings since 1989, all of which have involved the establishment of Radiata pine. Of late, Willmott Forests has diversified into She Oak and Silky Oak which has been principally developed in the Northern Rivers and Southern Queensland regions. In February 2008, Willmott Forests acquired BioEnergy Australia Limited (BioEnergy) a Responsible Entity of four MIS timber projects covering 5,015 ha. In total, Willmott Forests has 53,585 ha under management, of which a very large proportion is Radiata pine.

Willmott Forests is also involved in the development and commercialisation of ethanol technologies after its 51% purchase of Ethanol Technologies (Ethtec) in 2007. In January 2008, Willmott Forests tender was accepted by Forests NSW for the long term purchase of the Monaro region's timber resource from Forests NSW.

Willmott Forests vertical integration is leveraged from its softwood timber processing, of which a large quantity is undertaken in the Bombala region. All processing activities are undertaken by Willmott Timbers Pty Ltd (Willmott Timbers), which is now 50% owned by Dongwha Holdings Australia Limited. An equity partnership was formed by a joint venture agreement to develop a \$60m saw mill which will have the capacity to undertake a wide range of processing activities. This saw mill is currently being built and is expected to be operational in late 2012.

Willmott Forests' senior management team involved in the establishment and ongoing management of its plantation resource is highly experienced. In addition, the Willmott Board comprises experienced Directors in a wide range of professions including law, forestry and financial accounting. Further information, including summaries of the Directors and on-ground management team can be found in Part A Management & Finance Review.

HVP and Forests NSW manages a number of Willmott Forests past projects totalling over 10,000 ha. Both are highly experienced plantation managers with over 245,000 ha across Victoria and 30,000 ha in Bombala, respectively. HVP and Forests NSW have agreements with a number of manufacturers which principally use softwood in particle board manufacturing and sawn timber production.

4 Market Overview – where will the product be sold?

4.1.1 Radiata Pine

Australia has a long history associated with the establishment of softwood plantations, with the first established in Victoria and South Australia in the 1870's. Over the past 15 years, demand for softwood in Australia has grown by more than 44%. Radiata pine stands as the main softwood species which has been widely planted by private and public institutions over the past forty years. In 2009, Australia had over 1,000,000 ha of Radiata pine planted, most of which was located in Victoria, New South Wales and South Australia.

Analysis undertaken by leading timber industry analyst Robert Eastment of Industry Edge, indicates a significant supply shortfall over the next decade and notes price instability has been a disincentive to expand Australia's softwood resource base. Forecast harvest volumes for saw logs and pulpwood are expected to decline substantially by 32% and 16%, respectively, over the next decade. Mr Eastment has identified the Green Triangle and Murray Valley regions to be in very short supply of mature harvestable softwood species which have traditionally supplied domestic timber demand.

The outlook for softwood prices in Australia is seen as being positive, given the likely shortfall in supply over the coming decades due to decreased planting rates and increased steady population growth driving housing construction.

4.1.2 African Mahogany

Khaya senegalensis, along with several other species in Africa, fall under the common name of African mahogany. Native to central Africa, *Khaya senegalensis* has traditionally been used for furniture, cabinetry products, joinery, fixtures and interior decoration purposes due to its density and highly sought after finish when milled and dressed.

Due to the illegal logging of African mahogany and political instability in countries where the tree is native, there is very little data identifying the exact volume of production and trade of the timber. The tree is predominantly sourced from central Africa, however over-logging has resulted in these countries imposing limits/bans on raw log harvest and export of the species. The US is the leading importer of the timber, using it as a substitute for American mahogany in the furniture sector. Other leading importers of *Khaya senegalensis* include the UK and China, with furniture being the predominant use of the timber in both countries.

In the past couple of decades, *Khaya senegalensis* has been planted in plantations across Asia and northern Australia. *Khaya senegalensis* was first introduced to Australia in Darwin where it was planted as street trees in the 1950's. Since then the timber has been planted in a number of trial and commercial plantations across northern Australia. The plantation base currently stands at 6,200 hectares across Northern Australia and at this stage all plantings are many years from being harvested.

As commercial African mahogany plantations were only recently established, Australia does not currently supply the timber resource to international markets. Despite the current demand for the species being high relative to supply, it is unknown what the demand will be for the timber in Australia or on the international market when harvesting does commence in Australia, which isn't expected to occur for at least another decade.

4.1.3 Silky Oak

Silky Oak is a high value timber which is used in cabinet making and handmade furniture production. Traditionally the species has been harvested from native stands in the Clarence River region of NSW and Maryborough district in Queensland, although over three decades, commercial logging has depleted this high value timber resource. Australia has relied for some time on the importation of specialty timbers for its use in specialised trades which require decorative timber finishes in joinery and cabinet making.

Despite a history of past transactions of Silky Oak in Australian and international markets, the current supply deficit has narrowed the market for newly harvested Australian Silky Oak timber. According to industry analysts, traditional buyers of the species are purchasing other high value hardwood species such as African mahogany and Teak.

A number of marketing activities will be required prior to clearfall harvest to ensure buyers are located for the entirety of the harvested timber. Some risk is present in this approach to marketing which must be considered by investors.

5 Marketing – how will the product be sold?

5.1.1 Pine Operations

Willmott Forests will sell the pine component of the investment as standing timber at age 15. Prior to selling the free standing Radiata pine plantation investors will receive a thinning income at around age 13. The majority of the thinnings will be sold as pulpwood as Willmott Forests has a supply contract with Visy who use pulpwood to make pulp for cardboard box manufacturing. HVP and Forests NSW also have contracts with Visy and a number of other processors in their respective regions.

Changes in legislation allowing the sale of MIS interests on the secondary market occurred on 1 July 2007. This enables investors in long rotation timber crops, such as pine, to sell prior to the completion of the rotation. Willmott Forest's adjusted investment model has sought to take advantage of the changes to the taxation legislation.

The secondary market for Radiata pine is relatively liquid given the substantial supply shortfall currently being experienced throughout Australia. A number of recent large acquisitions by institutional investors of Radiata pine have occurred. The drivers behind the attractiveness of purchasing standing timber relatively closer to maturity is that the cashflows from the plantations can be estimated / forecasted much more accurately than for younger plantations and importantly forestry assets provide an effective hedge against inflation and negative correlation to mainstream markets.

5.1.2 African mahogany Operations

Willmott Forests has advised AAG that it does not have off-take agreements in place for its plantings of African mahogany as yet as it is far too early. Processing facilities for the timber which will be planted in the Katherine region of the Northern Territory are yet to be established, although a number of small scale processors may have the capability to upgrade their facilities to enable the throughput of the African mahogany. The focus for the timber produced from the Project will be predominantly export orientated into Asia.

Markets for African mahogany in Australia have and for some time will continue to be import orientated. Most African mahogany used in Australia is imported in the form of sawlogs or milled and dressed timber.

Willmott Forests will seek interested parties closer to the date of final harvest to ensure a viable off-take agreement is in place. Whilst this is not an ideal marketing strategy, AAG is of the opinion that a number of buyers of the timber both domestically and internationally are likely to express interest in this highly valued hardwood timber.

5.1.3 Silky Oak Operations

Willmott Forests does not have off-take agreements in place for past or future plantings of Silky oak. A number of possible market options may be available when the timber approaches clearfall harvest including both domestic and export sales as sawn logs. A further option to sell higher grade logs for processing into veneer is also an option which can be undertaken at the Big Rivers mill in Grafton.

Traditionally, Silky oak has been used for high grade furniture production and decorative veneer panels for cabinet making. Prior to harvest the Silky oak a number of marketing activities will need to be undertaken to ensure suitable buyers can be found, both in Australia and internationally. Willmott Forests will have the opportunity to sell the timber in bulk or disaggregate the harvest and on-sell the timber to smaller buyers.

6 Fees and Expenses – what does it cost?

6.1 What are the subscription and on-going fees?

The fees and expenses associated with the Project are outlined in Table 2. This project's structure is straightforward and simple.

Application fee per unit	\$5,000
Application fee per hectare	\$8,772
Deferred Management Fees	10% of Net Proceeds
Project Rental fees	2% of Net Proceeds
Insurance ⇒ FY2012 onwards	Compulsory payments by growers
Average NPV of costs per hectare per year ^{Note 1}	\$711 (\$680 – \$754)

Note: all costs exclude GST

Note 1: NPV = net present value of application costs, ongoing lease and management fees and marketing expenses assuming Base Scenario assumptions (figures in brackets are the Lower and Higher Scenarios).



Other than compulsory insurance which is payable annually after the expiry of the stocking guarantee period, investors in this Project pay no ongoing costs associated with the Project. All other costs not covered by the original application fee including, harvesting, haulage and marketing are subtracted from harvest proceeds. Willmott Forests will charge a deferred forestry management fee of 10% of harvest proceeds at each harvest. Project rental fees are also deducted out of harvest proceeds which constitute 2% of net proceeds.

As projects vary in fee structure and amounts charged, we use a present value (PV) of costs (@7%) per hectare per year to compare between projects. To be clear, the PV of costs is the sum of all future costs of the projects (excluding harvesting and production costs) discounted to a present day value at 7% discount rate. Figure 1 compares the PV of costs for this Project with other similar projects rated by AAG in the previous 12 months.

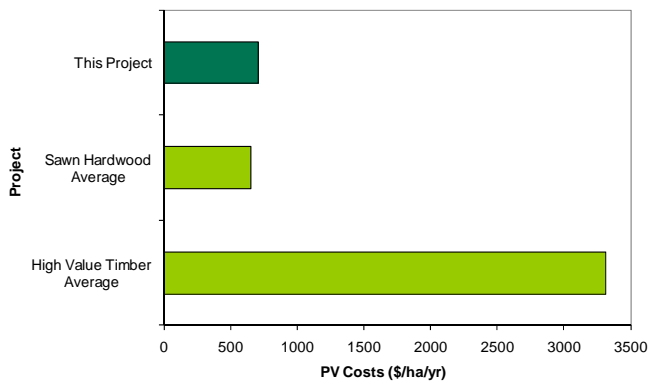


Figure 1 – Chart comparing the PV of costs (\$/ha/yr) for the Project and other relevant projects AAG has reviewed over the past 12 months

Whilst the costs of this project look high in comparison to other softwood projects, this is because the costs of those other projects are being apportioned over a longer period than the 16 year pine component of this project and this past project includes two other more management intensive species.

6.2 Is finance available?

An overview of the finance options available to investors is outlined in Table 3. Willmott Forests through its subsidiary Willmott Finance Pty Ltd (Willmott Finance) can provide three finance options for investors in this Project. Willmott Forests has advised AAG that finance will only be offered to investors investing in between 10 and 20 forestry interests for the 3 and 5 year finance option.

Option	Details
12-month interest free	12 monthly instalments of \$417 per month
3-years P&I loan	<ul style="list-style-type: none"> ⇒ Variable rate to be determined at 30 June 2010. ⇒ Application fee of: 0.3% or \$250 (whichever is greater) ⇒ Generally, Willmott Forests will only consider finance for investments of 10 – 20 forestry interests.
5-years P&I loan	<ul style="list-style-type: none"> ⇒ 3 Year P & I loan will attract a 14% interest rate ^{Note 1}. ⇒ The 5 Year P & I will attract a 15% interest rate. Both rates may be subject to change at 30 June 2010 ^{Note 1}.

I=Interest, P=Principal

Note 1: Interest rates for the 3 & 5 Year P & I loan have been provided by Willmott Finance as an indicative interest rate.

The finance rate will be set at 30 June 2010 once all investments in the Project have been approved. Interest rates for both finance options appear to be very high. We strongly recommend investors fully consider their options before committing to such a facility.

6.3 What commissions are paid?

Willmott Forests has advised AAG that it will pay financial advisors commissions or brokerage up to 5% or \$250 (ex GST) per forestry interest. Willmott Forests may also pay a further 1% or \$50 per forestry interest (ex GST) per annum over a 9 year period for additional marketing related expenses incurred by financial advisors.

7 Returns- What will I get back?

7.1 What are the underlying assumptions to the returns?

AAG generally models 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 estimates; 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 estimates.

Actual returns may fall outside of these ranges and investors should expect variability to the returns.

Those investors who are more risk averse, should focus on the Lower Scenario in their investment decisions and conversely, 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.

Investors with an average appetite for risk should focus on the possibilities detailed around the Base Scenario outcomes with an understanding of the potential for variation, generally within the range of the Lower and Higher outcomes. Of course, investors should note that returns may fall outside of the range specified for their particular risk level.

Table 4 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.

Investors and financial planners should also refer to the cash flow calculator available from Willmott Forests when considering forecast returns. It can be used to calculate returns based on their own considered underlying assumptions.

Table 4 – Underlining assumptions Used in the Financial Analysis

	Scenario		
	Lower Note 1	Base Note 2	Higher Note 3
Project Costs	Refer to Section 6		
Timber Yield			
⇒ Pine T1	Base less 10%	Ref. Sec 7.3.1	Base + 10%
⇒ African Mahogany	Base less 20%	Ref. Sec 7.3.2	Base + 20%
⇒ Silky Oak T1	Base less 10%	90 m ³ /ha	Base + 10%
⇒ Silky Oak CF	Base less 10%	220 m ³ /ha	Base + 10%
Timber Price			
⇒ Pine T1	Base less 10%	Ref. Sec 7.4.1	Base + 10%
⇒ African Mahogany	Base less 20%	Ref. Sec 7.4.2	Base + 20%
⇒ Silky Oak	Base less 10%	Ref. Sec 7.4.3	Base + 10%
Discount Rate	13%	11%	9%
Inflation Rate	2.2%	2.5%	2.8%
Price Growth Escalation Factor	2.2%	2.5%	2.8%

Note 1 – Towards the lower end of the potential range (not necessarily the lowest)

Note 2 – For use in quoting a base case assumption (not necessarily exactly between the Lower and Higher figures).

Note 3 – Towards the higher end of the potential range (not necessarily the highest)

7.2 Costs

Please refer to Section 6.1.

Our analysis includes the cost of insurance as part of the calculations for the Project from FY2013 (Year 3) onwards. Our estimates are based on forecast costs provided by Willmott Forests, and are calculated as \$39 per forestry interest increasing by 2.8% p.a. of the initial investment by investors. Insurance is compulsory for investors in this Project, which is the only annual cost payable by investors in this Project.

7.3 Yield and Quality

7.3.1 Radiata Pine

Softwood plantations will produce a range of log qualities throughout the three harvests. Whilst investors will not receive proceeds from the harvests at ages 18 and 25 it is important to consider the yields and quality at these harvests as they impact the price of the standing timber at sale at age 15. Table 5 outlines the volumes of timber under a 21.6m³/ha/yr growth scenario as provided by the Independent Forester in his report in the PDS.

Table 5 – Radiata pine Yields used in the Financial Analysis

	Age 13	Age 18	Age 25	Total
Pulpwood (m ³ /ha)	62	30	26	118
Preservation (m ³ /ha)	16	18		34
Sawlog (m ³ /ha) <24cm	12	35	100	147
Sawlog (m ³ /ha) 24-32cm		30	59	89
Sawlog (m ³ /ha) 32-45cm		27	61	88
Sawlog (m ³ /ha) >45cm			63	63
Total (m³/ha)	90	140	309	539

Note: Based on MAI of 21.6 m³/ha/year

Plantations yields in the Radiata pine development may vary depending on a number of key factors which can affect growth levels. These include site selection, nutrition, weed/pest control and climate conditions.

Willmott Forests Independent Forester, Dr John Turner of Forsci Pty Ltd has advised on achievable growth rates. Dr Turner has based his assumptions on the basis that plantations are located in high rainfall areas with well drained soils. Willmott Forests has measured current yields at between 16.1 and 21.4 m³/ha/yr in past projects. For more information see Part B Track Record Review. Achievable growth rates in this project will be dependent on suitable site selection and management in a number of geographic locations. Willmott Forests will be developing the 2010 Project on both second and third rotation sites which have a proven track record of growth performance.

Dr John Turner has outlined in his report that growth rates in areas with less than 600mm of rainfall may fall below 15 m³/ha/yr, whilst second rotation sites for HVP and Forests NSW have yielded growth rates of 14 to 30 m³/ha/yr, dependent on consistent annual rainfall.

We have adopted the suggested 21.6 m³/ha/yr for the Base scenario with ±10% for the Lower and Higher Scenarios.

7.3.2 African mahogany

African mahogany is native to sub-Saharan Africa where it grows in a range of environments. African mahogany was first grown in Darwin in the 1950's and has been grown across various sites across the Northern Territory for the past 20 years, albeit at a very small scale. The commercial scale plantations of African mahogany have only very recently been established in the Douglas Daly region of the Northern Territory. Research conducted by Dr. Turner indicates a positive correlation between productivity gains and higher stocking rates. The research indicates that stocking rates of 1100-1200 stems per ha provide for suitable thinnings yield at years 9 & 13. Willmott Forests will be stocking the African mahogany plantation at 1,250 stems per ha. Dr. Turner has provided analysis to support the benefits of two thinning harvests which allows better stem selection at a ratio of 1:4 trees/ha.

The Independent Forester's report in the PDS suggests growth rates of 10.8 to 15.5 m³/ha/yr. AAG has adopted the bottom end of this range for use in the financial analysis. There is very little supporting evidence for yields in the Australian context. This is why we feel it prudent to be conservative. Table 6 outlines the harvest yields from our assumptions for the Base scenario. For the Lower and Higher Scenarios, we have used ±20%, respectively.

Table 6 – African mahogany yields used in the Financial Analysis

Harvesting Schedule	Yield (m ³)
1 st Thinning – T1	22
2 nd Thinning – T2	37
Clearfall harvest	117
Total	176



Quality levels in the African mahogany plantings will be dependent on a number of factors including nutrition and the control of relevant pests and diseases which can reduce growth and quality levels. Dr. Turner has advised that thinnings which have been planned have a reasonable chance in achieving forecast growth rates. Given the relatively limited data available on African mahogany harvested and processed in the area a number of unknowns remain with this species.

7.3.3 Silky Oak

Market analysis by Pöyry Forest Industry Pty Ltd (Pöyry) indicates no large scale commercial plantations of Silky oak exist in Australia. To date Willmott Forests will be the sole grower of the species on a large scale. A number of small trial plot of less than 5 ha have been planted and inspected by AAG in the Northern Rivers region of NSW.

Industry research indicates a number of factors have the propensity to alter timber quality, which predominantly include tree nutrition, weed and pest control. It has been widely noted that tree age is not correlated with colour formation in Silky oak, which is beneficial for the 15 year rotation planned by Willmott Forests.

Dr Turner notes in his report in the PDS that Willmott Forests has based its yield estimates on a number of small trials which have been undertaken in the sub-tropical regions where the plantations will be established. There are very limited plantings to make assessments of the likely yields that can be achieved. This adds unknowns and risks to the project. However, this must be balanced by the fact that Silky oak is a very small proportion of this project.

Dr. John Turner notes a potential (total yield) of 90 m³/ha at the first planned thinning, and a further 220 m³/ha at clearfall harvest. This represents an MAI of 20.7 m³/ha/yr. AAG has used \pm 20% for the Lower and Higher Scenarios in our internal financial modelling of the Projects returns.

7.4 Price

7.4.1 Radiata pine

The Radiata pine component of this investment offer will be sold as standing timber at age 15. AAG has utilised a discounted cash flow methodology in evaluating the net present value of the standing timber to arrive at the estimated sale price. We have applied a discount rate of 11% for our Base Scenario and 9% and 13% for the Higher and Lower scenarios, respectively. AAG's discount rates are consistent with industry standards in arriving at the respective rates.

Information supplied by Willmott Forests supporting their price assumptions for their Radiata pine is based on independent market research by Pöyry Forestry and KPMG Australia's – Australian Pine Log Price Index (APLPI). Whilst the PDS lists the APLPI data for December 2008 we have used the more recent data released subsequent to the finalisation of the PDS. This data is listed in Table 7 which we have used as the Base Scenario. We have used \pm 10% for the Lower and Higher scenarios.

Table 7 – Radiata pine Prices used in the Financial Analysis

Pine Log Grade	Stumpage Price (\$/m ³)
Pulpwood (m ³)	\$12.05
Preservation	\$25.36
Sawlog (m ³) <24 cm	\$34.43
Sawlog (m ³) 24 to <32 cm	\$49.45
Sawlog (m ³) 32 to <45 cm	\$70.75
Sawlog (m ³) >45 cm	\$85.34

Note: Based on APLPI prices published June 2009 by KPMG Australia.

7.4.2 African mahogany

Given that commercial African mahogany plantings in Northern Australia have only occurred recently there is very limited information available on the likely price which can be achieved for the saw logs at thinning or clearfall harvest. Willmott Forests has modelled its pricing of the species on prices received in the international market place on data research by ITTO (International Tropical Timber Organisation) and Pöyry. A common view is held that there is a significant shortfall in supply which is likely to have a positive effect on prices for a number of tropical timber species, including African mahogany. Price analysis over the past 10 years indicates prices for B Grade saw logs have risen by approximately 58% as a result of supply and demand imbalances.

Prices applied in the AAG Base Scenario are listed in Table 8. Despite global prices being available, this information tends to be for sawn timber from native grown logs which would attract a premium at this stage due to the higher quality product. Prices for the Lower and Higher Scenarios have been adjusted accordingly by \pm 20% given the significant uncertainty surrounding the Base prices used.

Table 8 – African mahogany Prices used in the Financial Analysis

Harvesting Schedule	Stumpage Price (\$/m ³)
1 st Thinning – T1	\$30
2 nd Thinning – T2	\$150
Clearfall harvest	\$318

A number of factors may affect the prices paid at scheduled thinning and clearfall harvest including timber colour profile, basal diameter and overall timber quality which will determine the final use of the product.

Investors should note the risks surrounding uncertainties in pricing of this species and Silky oak.

7.4.3 Silky oak

Willmott Forests intend to produce high grade Silky oak saw logs which could be used in a range of applications including furniture and joinery. Willmott Forests has also advised that it may be possible to process a range of higher grade sawlogs through rotary peeling to create high value veneer.

The Independent Market report included in the PDS and prepared by Pöyry notes estimates of prices for Silky oak of \$150 to \$220/m³. We note this is based on very limited data and as such these estimates involve inherent uncertainty.

Willmott Forests has assumed a stumpage thinning price of \$120 m³ at year 11 and \$200 m³ at clearfall harvest. We have used this in our Base Scenario with ±20% under both the Lower and Higher scenarios due to the risks surrounding these prices.

7.5 Inflation Rate

The average rate for inflation for the past 10 years was 2.5%, with the inflation rate measured for the year ending December 2008 running at 3.7%. The Reserve Bank of Australia (RBA) has a mandated target rate for inflation of between 2% and 3%. Using the mandated target rate as a guide, we have used the midpoint (2.5%) as our Base Scenario and 2.2% and 2.8% as our Lower and Higher Scenarios respectively.

7.6 Price Growth Escalation Factor

Research conducted by Robert Eastment outlines the arithmetic average across all softwood log grades has declined slightly over the past decade, whilst real prices of most sawlog grades have receded significantly. A chart in the PDS market report illustrates this decline in softwood prices. In recent years, softwood pricing has flattened out with minor recovery being made according to data obtained from the APLPI.

Mr Eastment has advised AAG that the significant supply shortfall of softwood is evident in the quantity being imported into Australia to achieve demand and supply equilibrium. Industry analysis suggests that some recovery will be made and real prices may begin to recover, seeing softwood sawn timber and woodchip prices moving in line or greater than inflation in the short to medium term.

Prospects for Willmott Forests African mahogany and Silky oak over the medium to long term appear to be positive, driven by harvesting restrictions imposed on harvesting of native hardwood species. Furthermore supporting this is the negative connotations associated with the harvesting of native forests which is being seen buyer purchasing patterns over the past five years. On the basis of information available from leading timber research it AAG is of the view that sawn hardwood log and woodchip prices will move in line with inflation.

7.7 Other Assumptions

Willmott Forests has advised AAG that WFIM has secured 97.5% of land required to establish the 2010 Project. We have assumed the harvest year is the year one longer than the age of trees at harvest. For example, the pine plantations will be sold at age 15 so we have assumed this will be in year 16 of the project.

7.8 What are the estimated returns?

A number of revenue streams are derived from the sale of thinning activities and clearfall harvest from three species within the Project. The primary revenue generated from the project is the through the sale of standing Radiata pine at year 16 (Figure 3), with total income from the radiate pine component amounting to 65% of the overall gross income received in the Project (Figure 2). This is followed by African mahogany and Silky oak delivering the remaining 27% and 8%, of gross income respectively. Willmott Forests has outlined that 75% of each forestry interest will be allocated to the planting of Radiata pine, followed by African mahogany (20%) and Silky Oak (5%) so it is clear that the African mahogany and Silky Oak are the higher returning species.

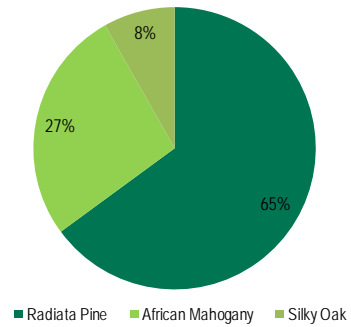


Figure 2 Income disaggregated by species under the Base Scenario

Figure 2 outlines the cash flows that result from the above assumptions.

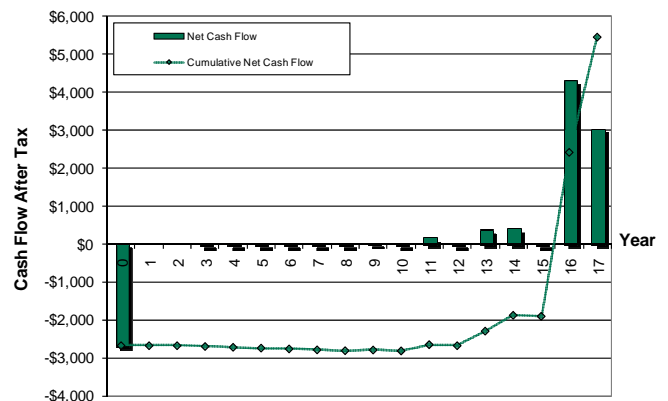


Figure 3 – Chart showing the net cash flow after tax and cumulative net cash flow after tax (@46.5%) under the Base Scenario

The Project can be classified as a 'lump sum' investment with investors receiving the majority of their income from the sale of standing Radiata pine (year 16) and clearfall harvest of the African mahogany (year 17) and Silky oak (year 16). Annual insurance payments hold the cumulative net cash flow relatively flat until year 11 when the thinning of the Silky oak is undertaken.

The potential after tax rates of return for the project are outlined in Table 9, using AAG's Base Scenario prices and yields. Overall the Cash returns for the Project is acceptable, delivering 7.1% compounded after tax.



Table 9 Rates of Return for the Project (IRR after tax @ 46.5%)

AAG Estimated Returns Notes 1 & 2	Lower	Base	Higher
Cash	4.0%	7.1%	9.9%
12-month interest free	4.6%	8.2%	11.5%
5 Year P & I	2.9%	6.9%	10.6%

Note 1 – 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 2 – AAG Estimated Returns uses the ranges and variables as outlined in the Section 3.1.

Analysis of the potential rates of return on a geared basis from Willmott Finance for the project is outlined in Table 9. Given the high interest rate and the return of the project on a cash basis there is limited incentive to utilise finance to increase returns. The 12-month interest free option appears to be the logical choice for investment in this Project as for no extra cost investors can materially increase their returns.

AAG has included a graph comparing the returns for this Project with other similar projects released in the last 12 months (Figure 4). We note that this graph should not be taken into isolation when comparing between projects. Under analysis, this project trails behind other projects which have offered both sawn hardwood and high value timber.

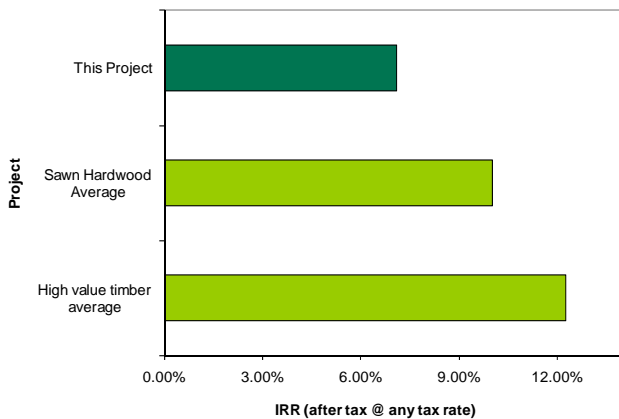


Figure 4 – Chart comparing IRR for this Project and other relevant projects AAG has reviewed over the past 12 months

7.9 What is the sensitivity of these returns?

The analysis of changes in yield and price on the base scenario is outlined in Figure 5. The returns appear to be stable in relation to changes in yield or price. The slope of the lines in Figure 5 illustrates that the Project is relatively robust to changes in price and yield.

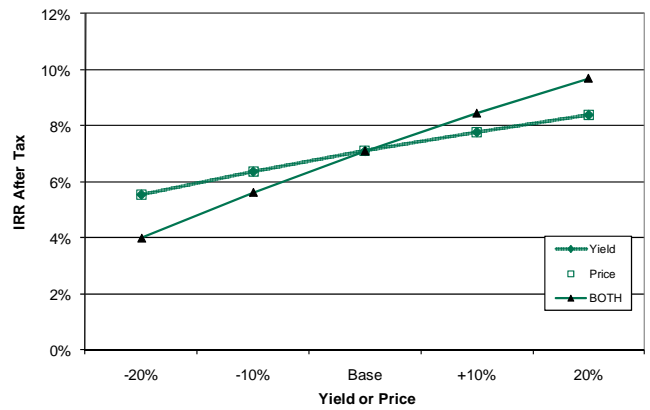


Figure 5 – Chart showing the impact of changes in yield and price on the Base Scenario returns at 46.5% tax rate.

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 after accounting for the time value of money (@7%). Larger positive BCR's mean that the benefits significantly outweigh the costs. A BCR of 1.0 equates to a before tax return of 7% (Table 10).

Table 10 – Financial Analysis and Sensitivities for the Project (Cash Basis)

	Lower	Base	Higher
Benefit Cost Ratio @ 7% Note 1	0.68	1.01	1.42
Breakeven Point (yrs)	16	16	16
Threshold analysis Note 2 – Price	-44%	-64%	-76%
Threshold analysis Note 2 – Yield	-44%	-64%	-76%
Threshold analysis Note 2 – Price & Yield	-25%	-40%	-51%

Note 1 Excluding any shares, options. Up front cash and before tax basis.

Note 2: Threshold analysis is the % reduction in price or yield where break even occurs (i.e. when IRR = 0%)

The BCR's outlined in Table 10 appear to be in line with the modelled returns. The Lower Scenario could be improved. Under the Base Scenario the project outlines its robustness in response to changes in yield and price. Outlined in the table above, prices and yield would have to fall by 40% in order to achieve a break even scenario. The Breakeven point under all scenarios is 16 years.



8 Disclosure and Risks

8.1 Disclosure

Discussed in detail in Part A Management & Finance Review, Willmott Forests has a highly skilled Compliance Committee and internal compliance resource. The Willmott Forests Compliance Committee produce highly detailed and structured compliance reports for the Board on a quarterly basis. This project will be subject to greater levels of scrutiny due to the additional trust account which has been established to manage investor's application monies for the period to acceptance of applications.

8.2 Reporting to Investors

Willmott Forests provide investors with a range of communication mediums to inform investors about their investments. Willmott Forests has a fully integrated web site which allows investors to keep track of up to date information pertaining to their allotments, and any other relevant communication Willmott Forests feel necessary to communicate.

Willmott Forests also provide a comprehensive Annual Growers Report which covers all projects released by the company. Annual site visits are also an option for investors to participate in.

8.3 Risks

8.3.1 Summary of Major Risks

Table 11 is a summary of the major risks involved. It is not meant to be limiting by number. There will be other risks involved in this project, some of which are discussed in more detail in the following sections.

Risk	Risk Level		
	Low	Moderate	High
Not achieving yield			
⇒ Radiata pine		High	
⇒ African mahogany			High
⇒ Silky oak		High	
History of the crop			
⇒ Radiata pine	High		
⇒ African mahogany			High
⇒ Silky oak			High
Climatic			
⇒ Radiata pine		High	
⇒ African mahogany			
⇒ Silky oak		High	
Project duration			
⇒ Radiata pine			High
⇒ African mahogany			High
⇒ Silky oak			High
Management's finances			High
History of management with crop			
⇒ Radiata pine	High		
⇒ African mahogany			High
⇒ Silky oak			High
Market risk			
⇒ Radiata pine		High	
⇒ African mahogany			
⇒ Silky oak		High	
Crop price			
⇒ Radiata pine		High	
⇒ African mahogany			High
⇒ Silky oak			High
Project structure		High	

8.3.2 Agricultural Risks

Agricultural risk is any risk which has the propensity to impact on impact on growth rates and subsequent yields at harvest time. In relation to plantation forestry, climatic and climatic associated risks such as fire, drought, frost, snow, hail and wind are considered the main physical risks to the species being planted in this Project. Willmott Forests works towards abating these risks which are largely out of the companys' control by following a rigorous site selection strategy and diversifying the geographic areas in which the plantations are located. In addition, Willmott Forests provide a 13 month stocking guarantee from the date of completion of planting and require investors to maintain compulsory insurance premiums for their forestry interests held.

Pests and weeds present a significant risk to all forestry plantations irrespective of species planted. Weeds and pests have the ability substantially reduce yields by removing vital soil nutrients and moisture levels and affecting tree health. These risks are largely controlled by the on-ground management team.



Projects in Northern New South Wales and Southern Queensland regions where Willmott Forests' Silky oak plantings are located can be challenging to control weed growth with sup tropical temperatures and high rainfall. If left unmanaged, competition from weeds can have a profound effect on the ability to reach forecast returns.

A species related risk pertinent to this project is the limited knowledge and track record of Silky oak and African mahogany plantings. It is a key risk to investors that yields and prices may not be achieved due to both internal and external influences.

The ongoing effect of reduced rainfall in South East Australia has had varying impacts on plantations in Willmott Forests' estate. Reduced rainfall will reduce growth rates and subsequently follow on to the investors final returns at harvest. Extended periods of below average rainfall is a possible risk event which must be considered by investors.

Fire is a high risk event which has the potential to destroy plantations in their entirety. Dry conditions from below average rainfall has raised the level of fire risk for all plantation managers throughout Australia. Willmott Forests has a dedicated fire response team which regularly patrol plantations in times of high fire risk. As mentioned above, compulsory insurance is payable by investors which will provide compensatory relief in the event of a plantation fire.

The biggest risk in this area is the unknowns surrounding the yields of both African mahogany and Silky oak. Investors should be aware that yields will likely vary from those estimated in the PDS and used in the returns estimates here. As a result, returns estimates should be used with caution.

8.3.3 Management Risks

Management risk includes the loss of key personnel in the Project, impacting upon its performance to adequately perform both the on-ground and RE management. Willmott Forests is considered one of Australia's leading operators in the softwood industry and we are confident in the company's ability to cover any loss of key management staff involved in the pine plantations during the term of the Project.

Other management risks include the lack of continuity of key entities to the Project. As Willmott Forests is currently in a stable financial position and is not reliant on any one party entity for operational or marketing activities, we believe this risk is minor in nature, but failure could certainly be catastrophic to investors. Whilst there is an annual fee that is required to be paid if Willmott Forests goes into administration, if a number of investors fail to pay the fee then the project may still be uneconomic and may be wound up. The biggest risk to investors is the period between acceptance of the application and trees being planted. During this time investors funds would be at the biggest risk.

8.3.4 External Risk

The largest risk within this project is the price and yield risk associated with African mahogany and to a lesser extent Silky oak. There is very limited pricing information available and as such the returns are likely to vary from those estimated above.

Whilst there is a small risk in finding a buyer of the standing Radiata pine at age 16 at an appropriate discount rate, we believe that given the interest in pine plantations as an investment overseas, there will likely be suitable buyers available.

9 Taxation

9.1 Is there a product ruling?

Willmott Forests has received Product Ruling ([PR 2010/04](#)) for 2010 Growers in the Project. This Product Ruling outlines that 100% of the application fee is tax deductible in the initial year.

9.2 What is a product ruling?

A product ruling is a binding statement by the Australian Taxation Office (ATO) regarding deductions of fees available under the current Australian Taxation Laws for 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.

Australian Agribusiness Group Financial Services Guide

We are required to give this FSG to retail clients under the requirements of our Australian Financial Services License. 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 5 August 2009.

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.ausagrigroup.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 \$29,920 for the first project for each project manager and then \$17,325 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.ausagrigroup.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:

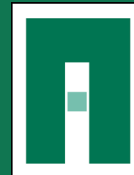
The Managing Director
Australian Agribusiness Group
Level 5, 406 Collins St
Melbourne VIC 3000

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 Ombudsman Service
GPO Box 3
Melbourne VIC 3001
or call them on 1300 78 08 08

8. You can contact us by

- phone on (03) 9602-6500
- fax on (03) 9642-8824
- visiting www.ausagrigroup.com.au
- writing to us a Level 5, 406 Collins St
Melbourne VIC 3000
email on info@ausagrigroup.com.au



AUSTRALIAN AGRIBUSINESS GROUP

WILLMOTT FORESTS PREMIUM FORESTRY BLEND – 2010 PROJECT

Retail Investment Research – April 2010

Beckmont Pty Ltd trading as Australian Agribusiness Group
Level 5, 406 Collins St, Melbourne, 3000 Australia
ph +61 3 9602 6500 fax +61 3 9642 8824
email info@ausagrigroup.com.au
web www.ausagrigroup.com.au
A.B.N 50 056 592 708

This document does not constitute advice and is issued under
the terms and conditions of the disclaimer herein.
AAG holds an Australian Financial Services License (License no 244307)
Copyright © Australian Agribusiness Group (AAG) 2010