



Willmott Forests Premium Forestry Blend 2010

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

19 May 2010

Scope

Adviser Edge independent assessments are conducted by Barik Pty Ltd trading as Adviser Edge Investment Research (Adviser Edge) which has developed a key industry sector review process that follows a methodology developed specifically for this asset class.

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the project;
- evaluate project management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international – existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry and other MIS projects;
- weigh up the relevant risks of the project against projected returns;
- assess project structure and ownership;
- compare and substantiate project fees and expenses;
- determine if the project is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the project.

Site Assessment

Adviser Edge conducts a detailed site inspection of the project, meets with all levels of project management and inspects the project's infrastructure and market accessibility.

The site assessment considers the following areas:

- suitability of the project site for the purpose intended;
- performance of previous project stages located within close proximity to the proposed site;
- management skills, qualifications, capabilities and experience; and
- associated project risks and their management.

Star Rating

Projects are awarded a star rating out of a possible five stars and placed on the Adviser Edge web site www.adviseredge.com.au

The Adviser Edge web site provides a service to subscribers, allowing them to view the final assessment reviews. Only subscribers are permitted access to download completed assessment reviews.

Star ratings applied to 2009/10 projects are independent of previous year's star ratings.

Licensed Investment Adviser

Barik Pty Ltd trading as Adviser Edge Investment Research is licensed as an Australian Financial Services Licensee, Licence No. 236783, pursuant to section 913B of the Corporations Act 2001. The licence authorises Barik Pty Ltd, trading as Adviser Edge Investment Research to carry on a financial services business to:

provide general financial product advice only, for the following classes of financial products;

- interests in managed investment schemes excluding investor directed portfolio services limited to;
- primary production schemes to wholesale clients.

Privacy Policy

Adviser Edge collects only a limited amount of personal information from its clients. Our privacy policy can be viewed at www.adviseredge.com.au This will enable you to understand your rights, our obligations and what Adviser Edge does with any information that it collects about you.

General Financial Product Advice

This advice will not take into account your, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situation or needs.

Reproduction

Adviser Edge assessment reviews cannot be reproduced without prior written permission from Adviser Edge. Each assessment review completed by Adviser Edge is held under copyright. Extracts may not be reproduced. Requests to reproduce or use an Adviser Edge assessment review should be sent to info@adviseredge.com.au

Disclosure

Adviser Edge (or any associated persons) does not have any material interest in the financial products (or product issuer advised upon) that are subject to this report. This assessment has been undertaken by Adviser Edge on an independent basis and does not constitute an investment recommendation. It is designed to provide investment advisers with a third party view of the quality of this project, as an investment option.

Adviser Edge charges a standard and fixed fee for the third party review of MIS projects. This fee has been paid under the normal commercial terms of Adviser Edge. Adviser Edge (or any associated persons) has not or does not expect to receive any further benefit or compensation as a consequence of writing this report.

Report Date

19 May 2010

Project Summary	4
Structure and Fees	6
Management	9
Site Inspection	15
Marketing	19
Performance Parameters	23
Investment Analysis	26
Investment Risks	30
Disclaimer	31

Investment Summary

The Willmott Forests Premium Forestry Blend – 2010 Project (the Project) provides investors with the opportunity to become growers of Radiata pine softwood and tropical hardwoods, Silky oak and African mahogany. The softwood is intended to be sold as standing timber, while the hardwood is expected to be harvested and sold.

Willmott Forests Limited is the Responsible Entity (RE) and Project Manager for the Project. In addition to this, African Mahogany Australia, Hancock Victoria Plantations and Forests NSW have also been engaged to manage different aspects of the Project.

Willmott Forests Limited was established in 1979. The company has raised more than \$400 million and manages more than 53,000ha of predominantly softwood timber plantations. In total, the company manages 19 forestry managed investment projects.

Approximately 7,980 Forestry Interests are available under the offer. The size of each investment unit (Forestry Interest) is approximately 0.57ha. The term of the Project is approximately 17 years. Investors are required to pay an application fee of \$5,000 per Forestry Interest (excluding GST), with ongoing fees deferred until harvest and the sale of the standing timber. The structure of the Project incorporates prepaid leases, as well as a switch feature which mitigates the Project's exposure to the credit risk of Willmott Forests.

The Willmott Forests Premium Forestry Blend – 2010 Project has performed reasonably well under Adviser Edge's investment modelling process, as outlined in the Investment Analysis section of this report. The structure of the Project provides investor security and exposure to three different species, thereby offering a level of diversification. Adviser Edge has estimated a base case return of 7.28% p.a. (pre- and post-tax), with an estimated IRR range of between 5.28% and 7.82%.

Using Adviser Edge's investment ratings model, the Project has received a 4-star investment rating.



Adviser Edge Rating



Recommended Client Risk Tolerance

Project Details

Project Name	Willmott Forests Premium Forestry Blend – 2010 Project
Product	Softwood and hardwood sawlogs
Responsible Entity	Willmott Forests Limited
Project Manager	Willmott Forests Investment Management Pty Ltd

Investment Details

Investment Term	Approximately 17 years
Investment Unit Size	0.57ha on average
Application Fee	\$5,000 (excluding GST) per investment unit
Ongoing Fee Structure	Deferred rent and maintenance fees
Minimum Investment	One Forestry Interest
Close Date for FY2010	30 June 2010
Investor Finance	Available through Willmott Forests Finance Pty Ltd
ATO Product Ruling	PR 2010/4

Investor Returns

Potential Investment Returns (p.a., pre-tax)	5.28% – 7.82%
--	---------------

Key Points:

Strengths of Project

- Willmott Forests has a proven record in the establishment and management of plantation timber projects.
- Willmott Forests has put in a number of safeguards, including pre-paid and deferred rent/licence fees, and the automatic substitution of deferred fees to annual fees, which reduce reliance on the solvency of Willmott Forests.
- Agreements with Forests NSW and HVP allow Willmott Forests to effectively manage its land requirements for the Project.

Weaknesses of Project

- There is a general lack of information to support plantation yield and prices for Silky oak and African mahogany.
- High up-front fees means that there is still significant reliance on Willmott Forests for the completion of the higher cost initial establishment and management services.
- Willmott Forests is relatively reliant on MIS sales for income in the short-term.

Other considerations

- A liquid secondary market does not currently exist for MIS forestry investments, although this may change in the future.

Investor suitability

As a general note, investment in agribusiness should represent a balance between the various potential risks and the forecast returns. This Project offers a moderate to high-risk profile over the long-term, with reasonable pre-tax returns across the estimated range. This Project should be considered as part of a well-diversified portfolio.

Investment Specifications

Target subscription	7,980 ha (14,000 Forestry Interests), with capacity for oversubscriptions
Location	Victoria, New South Wales and Northern Territory
Investment unit size	0.57 ha (one Forestry Interest)
Minimum application	One Forestry Interest
Liquidity	Illiquid – no established secondary market
Insurance	Compulsory
Investor finance provider	Willmott Forests Finance Pty Ltd

Willmott Forests Limited (Willmott Forests) is offering investors the opportunity to participate in the plantation softwood and hardwood industry through the offer of approximately 14,000 Forestry Interests, with capacity for oversubscriptions, in the Willmott Forests Forest Premium Forestry Blend – 2010 Project (the Project).

The Project involves the planting approximately 0.43ha (75%) of Radiata pine softwood, 0.11ha (20%) of African mahogany hardwood, and 0.03ha (5%) of Silky oak hardwood plantations per Forestry Interest.

The Radiata pine (*pinus radiata*) plantations will be located in recognised forestry regions in New South Wales and Victoria in the Murray Valley, Bombala, Central Tablelands, Central Gippsland and the Ballarat-Otway regions. The African mahogany (*Khaya senegalensis*) plantations will be located on a property near Katherine, Northern Territory, and the Silky oak (*Grevillea robusta*) plantations will be planted in the Northern Rivers region of New South Wales, and in southern Queensland.

The Project has an expected term of approximately 17 years from investment. It is expected that by this time the Silky oak and African mahogany trees will be harvested and the resulting products sold. The Radiata pine plantations will also sold as standing timber by the end of this period. Willmott Forests has advised that approximately 1,000ha of softwood plantations will be planted between July and August 2010, with the balance to be planted 12 months later. The African mahogany plantations will be planted during the upcoming wet season between December 2010 and February 2011. The Silky oak plantations will either be planted in January 2011 to April 2011 or September 2011 to December 2011. For the purposes of investment modelling, Adviser Edge has assumed that the Silky oak will be established in the September 2011 to December 2011 period.

Thinning regimes will be undertaken with respect to the plantations, with the Radiata pine plantations being commercially thinned at age 13, the African mahogany plantations at age 8 and

Key Points

- Management fees are deferred until harvest, unless there is an insolvency event. An insolvency event would automatically convert the deferred fee into an annual fee.
- Insurance for the Forestry Interests are compulsory.
- A minimum stocking guarantee of 90% of the original stocking rate at 13 months of age is provided.

12, and the Silky oak plantations at age 10. Non-commercial thins have been planned at age three to five for African mahogany, and at age four for Silky oak, to maintain optimum growth rates while also allowing for tree selection.

Final harvest is expected to be at age 16 for African mahogany plantations, and age 15 for Silky oak plantations. The Constitution provides the ability for Willmott Forests to delay harvesting due to events beyond its control, or to bring forward harvesting where there is material damage to any part of the Project plantations.

The proceeds from harvest will be distributed to investors on a pro-rata basis, with a requirement that forestry income will be distributed within 12 months of receipt.

Willmott Forests has engaged the services of African Mahogany (Australia) Pty Ltd (AMA) to manage operations in the Northern Territory, and Hancock Victoria Plantations (HVP) and Forests NSW to manage the Radiata pine plantations in Victoria and New South Wales respectively.

Investors in the Project will have direct counterparty risk to Willmott Forests over the life of the Project in relation to the company's requirement to establish and manage the Project trees. As the Project is structured in such a manner that a substantial amount of fees are collected upfront, investors are reliant on Willmott Forests to remain solvent in order to meet its obligations to growers. However, the Project incorporates a 'switch' feature whereby, in the event of the insolvency of Willmott Forests, the deferred management fee (discussed in the Fee Schedule section of this report) is replaced with an annual management fee of \$142.50 per Forestry Interest, payable to the new RE. This is designed to ensure that the Project has sufficient funds available to meet ongoing costs. The deferred management fee will then be reduced by the amount of annual forestry management fees paid by investors.

Willmott Forests will enter into one or more Land Agreements with WFIM to procure the Forestry Rights. Alternatively, WFIM may enter into one or more Land Agreements and hold its rights under these agreements on behalf of Willmott Forests, or Willmott Forests may enter into a Land Agreement directly with a land provider. Where possible, the Land Agreements will be registered on title.

The Land Agreement entered between the RE and WFIM requires the RE to pay lease fees on a deferred basis. The Land Agreements entered into by WFIP and land providers will be structured so that rental/licence fees are paid up-front for the entire term of the Project (and for 25 years with respect to the Radiata pine plantations). Willmott Forests advises that there will be provisions in the sub-lease that require the RE to either assign the sub-lease to the purchaser, or to procure WFIM to grant a lease to the purchaser for a term that expires on the date of the Head Lease. This structure reduces the risk that the agreements can be terminated for non-payment.

The Land Agreements between Willmott Forests and WFIM (or another land provider) will be structured so that rental and licence fees are paid on a deferred basis (after receipt of Gross Timber Proceeds), or in advance to minimise the risk that the agreements can be terminated for non-payment of these fees prior to receipt of Gross Timber Proceeds by Willmott Forests .

Project structure and agreements

When investors are accepted into the Project they will be bound by a number of legal agreements that outline the rights and responsibilities of each party involved in the investment scheme. These agreements are outlined in the Project's Product Disclosure Statement (PDS). It is recommended that each potential investor and their adviser read and understand these agreements to ensure that the investment is suitable for the investor's objectives.

Fee Schedule

The fees outlined in the following tables relate to an investment made on or before 30 June 2010.

Initial Cost to the Investor

Payment Type	Cost Per Forestry Interest (ex. GST)
Application Fee	\$5,000

Investors into the Project are required to pay an application fee of \$5,000 per unit, which covers the services associated with establishing the plantation, including land preparation, procuring the supply of seedlings, and planting in accordance with good silvicultural practice.

Annual Fees

Payment Type	Cost Per Unit (ex. GST)
Insurance [^]	Actual cost of insurance plus the lesser of either \$100 or 10% of the cost of insurance.

Insurance against fire is compulsory for investors over the investment term, and investors will be invoiced the actual cost of this insurance. Willmott Forests will arrange insurance on behalf of investors and will charge an administration fee for doing so that is equal to the lesser of either 10% of the cost of the insurance or \$100 per Forestry Interest. Insurance costs will become payable by investors from FY2013 onwards. Annual insurance premiums are approximately 0.65% of the insured value.

Deferred Fees

Payment Type	Cost Per Unit (ex. GST)
Forestry Management Fee	10% of Gross Timber Proceeds
Rent	2% of Gross Timber Proceeds

Annual management fees and rent will be deferred and paid as a percentage of gross timber proceeds. Gross harvest proceeds refers to the proceeds received from the sale of the African mahogany and Silky oak timber net of the associated harvesting marketing costs, plus the net proceeds from the sale of the standing timber (Radiata pine). Proceeds will be distributed to investors after the deferred fees have been deducted from the gross timber proceeds.

In addition to this, the Constitution provides a safeguard should the Responsible Entity become insolvent. This safeguard is obtained through the provision of an annual Forestry Management Fee of \$142.50 per Forestry Interest, to be paid at the investors' expense.

Fee analysis

With any forestry MIS project, the application fee is generally dictated by the actual development cost incurred in establishing the plantation, other administration costs such as corporate overheads, marketing and PDS development expenses, and the profit margin taken by the Project manager.

The application fee for the Project remains unchanged from the previous years' offering, at \$5,000 per Forestry Interest (excluding GST). However, the size of each Forestry Interest has increased, with the size of the softwood component increasing by 22%. Although the overall size of the combined African mahogany and Silky oak offering is smaller than the previous Silky oak and she-oak offering, the African mahogany is considered to be a higher value species. The deferred fee component has increased from the previous offering, with an additional 1% to be deducted from Gross Timber Proceeds. When considered together, these changes appear to have improved the Project's value compared to the previous offering.

The application fee of \$5,000 (excluding GST) is considered to be reasonable and in line with other softwood MIS projects, especially when the portion of the Project devoted to high value timbers is taken into consideration.

In comparison to similar tree projects with a deferred fee structure, the combined deferred rent and management fees of 12%, which are charged as a percentage of gross timber proceeds, is considered to be reasonable, especially since there are no ongoing management or rental fees whatsoever. Additionally, the long-term nature of the Project gives more weight to the size of the total deferred fees.

Using the Direct Forest Expenditure (DFE) analysis provided by Willmott Forests limited, Adviser Edge has analysed the allocation of funds, as well as the costs associated with each plantation, by calculating the present value of the fees over the lifetime of the Project. Although the softwood component of the Project accounts for 75% of each Forestry Interest, approximately 46% of total rental payments made under the Project are for these plantations. This compares to the Silky oak and African mahogany components, which account for around 36% and 17% of total rental payments respectively, with silk oak representing only 5% of each Forestry Interest. This is due to the fact that the land to be utilised for the Silky oak project plantations is of a much higher value, and therefore commands a higher rental yield. Similarly, Silky oak and African mahogany each account for approximately 25% of the costs associated with establishing the Project plantations, with 50% devoted to establishing the softwood plantations. The greater allocation of funds for the establishment of the Silky oak and African mahogany plantations is to be expected as they are higher value timbers, and are to be planted at a significantly higher stocking rate.

Adviser Edge believes that the total deferred fee component of 12% of net harvest proceeds is acceptable. The deferred fee structure means that Willmott Forests has an incentive to seek positive outcomes for the Project, which is important in the absence of a performance incentive fee. The presence of this fee structure also reduces investors' exposure to volatility in key performance variables such as input costs.

Risk apportionment

Risk apportionment refers to the level of risk that the Project Manager/RE shares with investors as a consequence of the Project fee structure. When ongoing Project fees are linked to harvest proceeds, and therefore Project performance, the risk sharing between investors and the Project manager is considered to be more evenly aligned.

With the Project based on a deferred fee structure, there is already incentive for Willmott Forests to achieve the best outcomes for the Project.

Additional Information

Taxation

The Project has been issued a product ruling, PR 2010/4, which provides certainty in relation to the taxation consequences of investing in the Project.

Adviser Edge does not conduct detailed analysis on the implications of the Project's product ruling, and it is advised that investors seek appropriate professional advice in relation to the full financial and taxation implications of their investment.

Finance

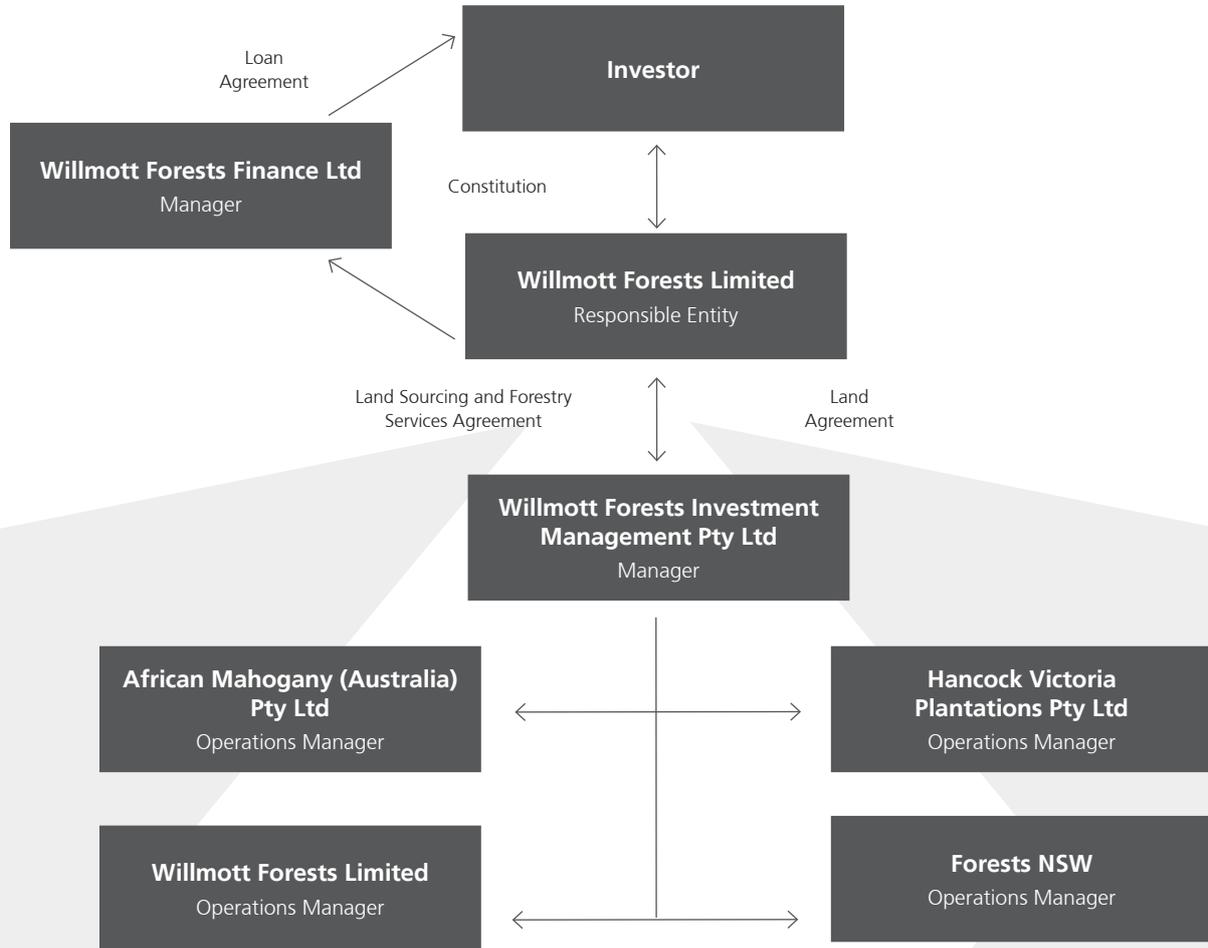
Finance is available from Willmott Forests Finance Pty Ltd to approved applicants. Basic loan details are provided below, and interested investors should contact the finance provider for full loan terms and conditions.

Finance Options

Finance Provider	Term	Interest Rate	Repayment Option
Willmott Forests Finance Pty Ltd	12 months	Interest free	Equal monthly principal payments
	3 years	14%*	Equal monthly principal and interest payments
	5 years	15%*	

* The interest rate is set at 14% provided that the 180-day BBSW published by the Australian Financial Review does not exceed 5%. Should the BBSW exceed 5%, then the prevailing rate will be the BBSW plus 930 basis points (three-year loan) and BBSW plus 1,030 basis points (five-year loan).
Source: Willmott Forests.

Key Counterparties



Willmott Forests Limited (Parent Company)

Established in 1979, Willmott Forests Limited is a forestry company with plantation and processing operations throughout the major softwood growing regions of eastern Australia. In 2000 it was publicly listed on the Australian Securities Exchange (ASX).

Willmott Forests has historically focused on softwood plantation and processing, as part of a joint venture with a global manufacturer of wood materials. Willmott Forests has a timber processing facility in Bombala, NSW. This facility has the ability to process a wide range of timber products, with a 20-year wood supply agreement with the NSW state government securing the viability of the plant.

Through the acquisition of BioEnergy Australia Ltd (holding company of the BioForest Group) and Ethanol Technologies Ltd, Willmott Forests is now also involved in the hardwood and biomass industries.

Willmott Forests offered its first softwood project under registered prospectus in 1989 and has since raised more than \$400 million,

Key Points

- Although its MIS sales are down, Willmott Forests is in a sound financial position.
- Willmott Forests has significant experience acting as Responsible Entity and Project Manager for forestry MIS projects.
- Hancock Victorian Plantations and Forests NSW will manage the radiata pine, and African Mahogany Australia will manage the Project's African mahogany plantations.

now managing more than 53,000ha of predominantly softwood timber plantations. In total, the company manages 19 forestry managed investment projects.

In FY2009, the company achieved MIS sales of around \$66 million, representing a 31.7% decrease on FY2008 woodlot sales. However, in an overall down market, Willmott Forests achieved the highest level of MIS sales in the industry.

Board of Directors

Board of Directors – Willmott Forests Limited			
Director	Credentials	MIS	Director
Jonathan Madgwick – Chairman (Non-Executive)	★	★	★
Marcus Derham – Chief Executive Officer	★	★	★
James Higgins – Non-Executive	★	★	★
Hugh Davies – Non-Executive	★	★	★
Raymond Smith – Non-Executive	★	★	★

Jonathan Madgwick has recently replaced James Higgins as Chairman of the Board.

Adviser Edge believes that the directors of Willmott Forests are suitably experienced and credentialed to provide effective leadership and management of the company. The quality of the management team and the various service providers to the company are viewed positively by Adviser Edge, along with the fact that the majority of the board is comprised of independent directors.

Corporate governance

Adviser Edge has reviewed the corporate governance and financial management documents of Willmott Forests and believes that they have adopted corporate and financial management procedures that are consistent with industry best practice. Willmott Forests has reported compliance with the ASX Corporate Governance Principles and Recommendations.

The Managed Investment Scheme (MIS) industry has recently been under intense pressure, with the collapse of Great Southern, Timbercorp and, more recently Forest Enterprises Australia (FEA) drawing adverse publicity to the whole sector. This, coupled with the onset of the global financial crisis, has led to a fall in the demand for all MIS products, with sales across the industry falling by around 75% in FY2009.

Willmott Forests' MIS sales fell by approximately 31.7% in FY2009, which, while less than the industry wide fall, had a significant impact on the company's FY2009 operating cash flows. Despite this, the company was able to maintain strong profitability ratios, with a 61% increase in net profit and improved profit margins.

This is partly due to the company's revenue recognition policy, whereby MIS sales income is brought to account as the establishment works are performed, generally in the following financial year.

Financial performance

Key Financial Data – As at 30 June			
Financial Profitability	HY2010*	2009	2008
Revenue (\$m)	40.2	121.2	90.8
Net profit (\$m)	9.3	14.4	8.9
Profit margin (%)	23.06%	11.9%	9.9%
ROCE (%)	5.6%	11.5%	11.9%
ROE (%)	5.7%	12.5%	8.6%
Market Measures	HY2010*	2009	2008
EPS (basic/cents)		24.7	14.0
P/E ratio		2.1	10.0
DPS (cents)		8.0	10.0
Dividend yield (%)		15.1%	7.1%
Dividend payout ratio		0.32	0.71
Financial Liquidity/ Solvency	HY2010*	2009	2008
Net working Capital (\$m)	15.28	9.22	0.46
Current Ratio	1.28	1.09	1.00
Quick Ratio	0.65	0.60	0.70
Net debt to equity ratio	0.58	0.93	0.28
Interest Cover (including PINES)	3.14	3.15	3.02
NTA per Share (\$)	1.13	1.92	1.74

Source: Willmott Forests Ltd, Annual Report 2009 and Financial Report for the half-year year ending 31 December 2009.

The financial ratios are based on share price information provided for the close of trading on the last day of the financial year for which they are quoted.

* HY2010 refers to the half-year ending 31 December 2009.

Therefore, reduced MIS sales in FY2009 are expected to have an impact on the reported revenue for FY2010. This was demonstrated in the FY2010 half-year accounts, which show a decrease in revenue from the previous corresponding period.

During 2009, Willmott Forests announced a number of transactions which were designed to improve the company's financial position. In October 2009, Willmott Forests raised \$20.5 million through an institutional placement and a renounceable rights issue.

In September 2009, Willmott Forests announced that 56% of the hybrid debt securities, known as PINES, would be converted into ordinary shares. The remaining 44% were reset on the same terms for a further five years. This has the impact of reducing the company's annual financing costs.

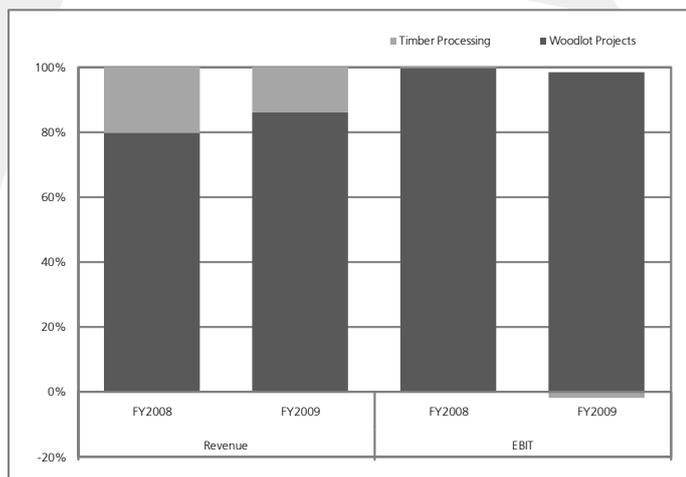
The implementation of these capital management strategies has resulted in a decrease in the company's net debt to equity ratio from 0.93 as at 30 June 2009, to 0.58 as at 31 December 2009. This is largely a result of the conversion of the PINES to ordinary shares. PINES are classified as debt for reporting purposes. Should an investor wish to exit their investment in PINES, Willmott Forests has the right to convert the PINES to ordinary shares, to procure the acquisition of PINES by a third party, or to buy back or cancel the PINES. At no time can an investor demand cash payment for PINES, and as such it is appropriate to treat the preference shares as equity when analysing Willmott Forests' credit risk. If the PINES are reclassified as equity, Willmott Forests' net debt to equity ratio remained unchanged from the end of FY2009 to 31 December 2009, at 0.43.

In March 2009, Willmott Forests announced that it had increased its bank finance facilities with Commonwealth Bank of Australia and St George Bank to \$135 million, from \$100 million.

In March 2009, Willmott Forests successfully completed a \$135 million debt syndication with the Commonwealth Bank of Australia and St George Bank, which was provided in two tranches, with a \$55 million two-year revolving facility to be reset in 2011, and an \$80 million three-year core debt facility to be reset in 2012. There are three covenants in place that are applicable to the syndicated debt facility, which include interest cover ratio, leverage ratio and gearing ratio. All these covenants are adjusted to account for the PINES. As at 31 December 2010, \$47 million of the \$55 million facility remained undrawn.

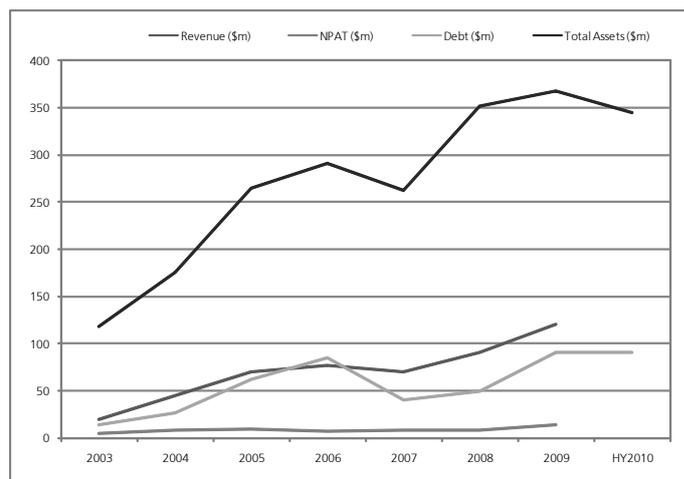
Willmott Forests' ability to service debt has remained strong, with interest cover of 3.47 times (4.60 when adjusted for PINES) as at 30 June 2009. However, given that the majority of Willmott Forests' ongoing revenue and profits are generated from MIS sales, as can be seen in the following chart, Willmott Forests will need to maintain reasonable sales levels to ensure that the company remains within its financial covenants.

WFL Segment Breakdown (%)



Willmott Forests generates revenues from timber processing facilities in Bombala, which are 50% owned by Dongwha Australia Holdings Pty Ltd. Revenue from timber processing activities contributed 13.9% of Willmott Forests' total revenue in FY2009, with MIS sales revenue accounting for the remainder. However, Willmott Forests continues to be reliant on MIS sales to generate profits, with the sector contributing over 100% of EBIT in FY2009, while the timber processing sector operated at a loss.

Financial performance (2003 – 2009)



Note: Debt levels presented in the chart have been adjusted to classify the PINES as equity.

Willmott Forests' short-term financial position is considered to be good, with adequate cash reserves and finance facilities available. Willmott Forests' practice of prepaying lease obligations also provides assurances that the long-term lease obligations to investors will be met, although it is unclear how many of Willmott Forests' previous projects adopted this strategy. Nevertheless, Willmott Forests will continue to be reliant on MIS sales to meet project establishment expenditure, as well as the ongoing recurrent expenditure associated with managing the MIS projects and Willmott Forests' debt facilities.

Willmott Forests Limited (Responsible Entity and Project Manager)

Willmott Forests will act as the Responsible Entity (RE) and operational manager for the Project. Willmott Forests holds an Australian Financial Service Licence (AFSL 233 215), which authorises the company to undertake the management of agribusiness MIS projects.

Willmott Forests currently has 80 permanent staff. All management responsibilities for the plantations will be with Willmott Forests, although external contractors will perform forestry activities, including site preparation and planting. Hancock Victorian Plantations (HVP) and Forests NSW have been sub-contracted to manage Willmott Forests' plantations that

are planted on HVP second rotation sites. African Mahogany (Australia) Pty Ltd (AMA) has been sub-contracted to manage Willmott Forests' African mahogany plantations.

Key Operational Personnel – Willmott Forests Limited

Key Personnel	Credentials	Industry	MIS
David Smith – Senior Executive (Forestry Operations)	★	★	★
Stephen Addicott – Forest Business Manager	★	★	★
Angus McEachem – General Manager, Forestry Operations	★	★	★
Phillip Green – Technical Services Manager	★	★	★
Ross Sigley – Hardwood Plantations Manager	★	★	★
Simon Penfold – Marketing & Logistics Manager	★	★	★
Arjan Wilkie – Sustainable Systems Manager	★	★	★

David Smith has been employed by Willmott Forests since 1990, and acts as the Senior Executive of the Forestry Group. Mr Smith is a qualified forester holding an Advanced Diploma in Forestry with University of Melbourne and is a member of the Australian Forests Growers (AFG). Having worked with Willmott Forests for more than 20 years, Mr Smith has been directly involved with all aspects of the company's MIS plantation estate.

Stephen Addicott has been employed with Willmott Forests since 2004, and currently acts as the Forest Business Manager for the company. Mr Addicott is a qualified forester holding a Bachelor of Science (Forestry) from University of Melbourne, in addition to a Masters in International Business from Deakin University. Prior to his employment with Willmott Forests, he was engaged as senior consultant with URS Forestry. Mr Addicott has been involved with all aspects of commercial forestry and has experience with both hardwood and softwood species.

Angus McEachem joined Willmott Forests in 2004. Mr McEachem holds a Bachelor of Science (Forestry) with ANU, and has nearly 15 years of experience in the forestry industry. Prior to his employment with Willmott Forests, he worked as a private forestry consultant, and acted as a regional forester with a recognised forestry company.

Phillip Green joined Willmott Forests in 2002. Phillip is a professional forester with over 27 years' experience. Prior to joining Willmott Forests in 2002, Mr Green worked for 20 years at Auspine Limited in several forestry positions, including as Manager of Plantation Investment.

Ross Sigley has been employed with Willmott Forests since 2006, and acts as the Hardwood Plantations Manager. Mr Sigley is a qualified forester holding a Bachelor of Science (Forestry) with the ANU, and has been involved in the forestry sector since 1991. He has previous experience with Forests NSW (11 years), and has also worked as a lecturer with Southern Cross University.

Marketing and Logistics Manager Simon Penfold has been employed by Willmott Forests since 2008. Mr Penfold was engaged as the General Manager (Forests and Ports) with Pentarch Forest Products prior to his employment with Willmott Forests, and has just less than 30 years of forestry experience. He holds a number of qualifications, including a Bachelor of Forest Science with University of Melbourne and an MBA with Deakin University. Mr Penfold is also a co-owner of the Operations Manager for the Project, African Mahogany (Australia) Pty Ltd.

Arjan Wilkie has been employed at Willmott Forests since 1999 in various roles. Mr Wilkie holds a Bachelor of Science from the Australian National University and completed his honours year at the University of New England. Prior to joining Willmott Forests, he worked for the Environmental Research and Information Consortium.

Adviser Edge believes that the management personnel involved in Willmott Forests' forestry operations are sufficiently experienced to manage the different plantation

Willmott Forests Premium Forestry Blend 2010 Compliance Committee

Committee Member	Position	Details
Ian Bond	External Member	A Chartered Accountant, Ian Bond has worked in a number of corporate advisory roles, as well as possessing experience in the management of companies acting as trustee. Ian Bond was a director of associated company BioForests when Willmott Forests acquired it in 2008.
Adele Villa	Compliance Officer	As a recently qualified solicitor, Ms Villa joined Willmott Forests in mid-2008, in the legal and compliance department. She is the compliance officer for Willmott Forests and for this Project.
Hugh Davies	Committee Chairman	Mr Davies is a practicing solicitor with over 40 years' experience in a variety of roles, holding qualifications in the development of quality systems and as a mediator.

species included in the Blend Project. Willmott Forests has particularly strong experience in the production of softwood. Willmott Forests will also apply the same monitoring systems to other sub-contractors to HVP, Forests NSW and AMA, which is necessary to ensure that the plantations are managed according to the best interests of the investor.

Compliance committee

In addition to preparing a compliance plan for the Project, Willmott Forests has also established a compliance committee, as required, to monitor the RE and to ensure that it performs its responsibilities while adhering to the compliance plan.

The compliance committee established to monitor the Project consists of members with the appropriate experience in the relevant fields of accountancy and compliance. However, with only one independent member, Adviser Edge would prefer that the majority of the compliance committee be composed of external members.

African Mahogany (Australia) Pty Ltd (Operations Manager)

African Mahogany (Australia) Pty Ltd (AMA) has been engaged to manage the African mahogany plantations for the Project. Acting for global investment funds and forestry companies, AMA manages approximately 30,000ha of land supporting various production systems. Although the majority of this land is utilised for tree production, the company is also involved in hay and cattle production.

AMA has significant experience in establishing and managing African mahogany plantations in Australia, having developed over 4,900ha of plantations, and is the largest plantation manager of African mahogany in Australia. All African mahogany plantations under its management are located in the Northern Territory, and the company expects to have around 10,000ha of African mahogany plantations under its management in the near future.

Although AMA is a relatively small company, its familiarity with the region coupled with its experience in the management of African mahogany plantations leads Adviser Edge to believe that it is a suitable candidate as Operational Manager for the Project. As the African mahogany estate under its management continues to expand, so will the resources of the company, which will be highly beneficial to the long-term outcomes of the Project.

Hancock Victorian Plantations Pty Ltd (Operations Manager)

Hancock Victoria Plantations Pty Limited (HVP) has been engaged to establish and manage Radiata pine plantations for the Project.

A subsidiary of the US-based investment management company Hancock Natural Resource Group (HNRG), HVP was established in 1998 to manage plantations on behalf of HNRG, and is now Australia’s largest private timber plantation company. HVP is co-owned by a number of Australian superannuation funds and United States institutional funds. HVP is the first forestry company in Australia to be awarded international Forest Stewardship Council (FSC) certification.

HVP currently manages approximately 245,000ha of land across Victoria. It currently supplies approximately 3 million tonnes of softwood and 300,000 tonnes of hardwood per annum to various wood processors and pulp and paper mills in Australia and overseas.

With extensive experience all areas of forestry management, as well as familiarity with many plantation regions across Victoria, Adviser Edge is confident that HVP is suitably qualified to complete its required responsibilities under the operational contract for the Project.

Forests NSW (Operations Manager)

Forests NSW is a public trading enterprise within New South Wales Department of Primary Industries. Forests NSW manages more than 2 million hectares of native and planted state forest land. Forests NSW manages in excess of 30,000ha of softwood plantations in the Bombala region. Forests NSW undertakes and offers a range of services to the forestry industry. It offers services such as forestry and plantation establishment and management services, as well as trading forest-based carbon credits, running nurseries. Forests NSW also offers various other services.

Forests NSW is a very experienced manager of plantations in New South Wales and is familiar with site and silvicultural requirements for softwood in the Bombala region.

Independent Experts

Willmott Forests has engaged two parties to prepare independent research reports for inclusion in the Willmott Forests Premium Forestry Blend – 2010 PDS.

Independent Experts		
Focus	Company	Responsible Person
Forestry Report	Forsci Pty Ltd	John Turner
Market Report	Poyry Forest Industry Pty Ltd	Rudolf van Rensburg

John Turner of Forsci Pty Ltd has more than 40 years’ experience in the forestry industry. Mr Turner has performed extensive research into forest management, having written more than 180 scientific publications.

He holds a number of qualifications, including a Bachelor of Science in Forestry (ANU) and a Doctor of Philosophy (University of Washington) in Forestry Science. He is a member of a number of professional forestry organisations, including the Institute of Foresters of Australia and the Australian Forest Growers. As well as providing the Forestry Report for use in the PDS, Forsci will have an ongoing role in the project as the Advising Forester to Willmott Forests. In this role it will assist with site selection and undertake annual assessments of the plantations, and will provide suitable management advice while also providing annual progress reports to Willmott Forests.

Pöyry Management Consulting (Australia) Pty Ltd (Pöyry) is one of the world's leading advisors in the forest products industry. Pöyry has offices in Melbourne, as well as around 50 countries worldwide, employing more than 8,000 industry professionals. Pöyry's Australian office has over 25 years' experience in the Australian and international forestry sectors, covering all aspects of the forestry project cycle.

Adviser Edge believes that the independent experts are suitably experienced and qualified to perform their respective duties under contract to Willmott Forests. Willmott Forests has indicated that John Turner from Forsci Pty Ltd will have an ongoing role with this and other projects, having been engaged to review the progress of plantations for investors on an annual basis.



Adviser Edge conducted a site visit to Willmott Forest's African mahogany operations on 23 February 2010, its Silky oak operations on 25 February 2010, and its Gippsland softwood operations on 13 April 2010.

Accompanying Adviser Edge throughout the visits was Willmott Forests Marketing and Logistics Manager, Simon Penfold, and Product Design and Development Manager, Claudia Mah. Mr Penfold is also a co-owner of AMA, the operational manager for the African mahogany component of the Project.

The African mahogany visit enabled Adviser Edge to inspect the Rocktear property, on which Willmott Forests had recently established 400ha as part of its Timberland Fund, as well as a number of trial plots located in the region. The trees established by AMA, on behalf of Willmott Forests, appeared to be in good health, displaying strong early survival rates.

The Silky oak site inspection provided the opportunity to visit a range of age classes established by Willmott Forests in the region. It was apparent from the visit that significant improvements have been made to the silvicultural regime employed on the Silky oak plantations since the first commercial plantations were established. Adviser Edge was also able to inspect an 18-year-old trial plot, located on a very high quality site, which appeared to be performing well.

During the Gippsland site inspection, Adviser Edge visited a number of plantations located on HVP land and managed by HVP, established between 2007 and 2009. The softwood plantations in the region appeared to be well-managed and were achieving reasonable results.

The site visit reinforced Adviser Edge's positive view regarding Willmott Forests' management capabilities. Willmott Forests has adapted well to the challenges posed by tropical forestry management and continues to make improvements in overall forestry management.

Key Points

- The Project will be located in at least three distinct regions in Australia.
- A large proportion of the Project is expected to be located on second rotation sites, which should provide a good estimate for productive capacity.
- Although silvicultural practices in general are less developed for African mahogany and Silky oak when compared to softwood, Willmott Forests appears to have managed these plantations relatively well.

Planting regions

The Project plantations are to be established in the Northern Territory and across various regions of Victoria and New South Wales. It is expected that the Radiata pine plantations will be established in the Murray Valley, Bombala and Central Tableland regions of New South Wales, and various regions across Victoria. The Silky oak plantations will be established in the Northern Rivers region of New South Wales, and the African mahogany will be grown in the Katherine region of the Northern Territory.

The Murray Valley and Bombala regions are located in south-east New South Wales on the western and eastern edges of the Great Dividing Range. The Murray Valley region also extends into north-eastern Victoria. The Central Tablelands region is located further north in New South Wales to the west of the Blue Mountains. The cleared zones in these regions are generally dominated by the plantation forestry (mainly softwood) and beef cattle industries. A number of large wood processing facilities have been established in the area to manage and process the large volumes of native and plantation-grown timber harvested from the region.

These regions experience mild summers and cool winters, with snowfall occurring at elevated heights. Frost events are also very common during the autumn, winter and spring months. Average rainfall is variable across the region, ranging from 300mm to over 1,200mm p.a., most of which occurs during the winter months. The Central Gippsland and Ballarat-Otway regions of Victoria are very similar to these regions, located in undulating country with comparable rainfall. Significant tracts of forestry plantations are currently maintained in these areas.

The Northern Rivers region of New South Wales supports a diverse range of agricultural industries, including forestry, horticulture, and broad acre cropping and livestock production. The rate of plantation forestry development in this region has grown significantly in recent years, with the attraction of higher rainfall and more economically priced land than traditional plantation forestry regions in southern Australia. The Northern Rivers region of New South Wales experiences a sub-tropical climate with warm summers and mild winters. While rainfall is summer-dominant, it is highly variable, declining considerably further inland.

The southern reaches of north-east New South Wales, including Walcha, experience a more temperate climate, with short and mild summers, and long, cool winters.

The African mahogany component of the Project will be established on the Rocktear property, which is located near Katherine in the Northern Territory. The region houses a range of mixed farming enterprises with intensive and broadacre pastoral production most prevalent. Irrigation is present in some areas and the production of high value crops is common, with the average annual rainfall of the area being approximately 1,200mm. The majority of this rainfall is received over the summer months, between October and April, with a five to six month dry season. The property is located approximately 150km from the Douglas Daly region, where the majority of Australia's commercial mahogany plantations have been established.

The intended planting regions are well suited to the selected species.

Site selection

When identifying suitable land, Willmott Forests has established comprehensive site selection protocols, employing the following criteria:

Radiata pine

- Annual rainfall of at least 650mm
- Fertile, well drained soils, with no hard pans
- An altitude of less than 1,000m to reduce the risk of snow

Silky oak

- Annual rainfall of at least 950mm
- Minimum soil depth of 700mm
- Soil pH between 4.5 and 6
- Alluvial river flats or gently undulating grazing country
- Well drained, non-sodic and non-saline soils

African mahogany

- Annual rainfall of at least 1,000mm
- Minimum soil depth of 600mm
- Well drained soils with acceptable depth and texture, and low occurrence of sodicity and termites

All plantation sites are required to be in close proximity to major arterial routes and major ports.

Before being selected, potential sites are inspected by the regional operations manager and the independent forester to ensure that they meet site selection criteria. The site investigation process includes soil testing across different parts of the property. All land acquisitions must be approved and signed off by the Willmott Forests Board of Directors.

Willmott Forest's forestry management team has extensive experience in land selection and acquisition. Regional operations manager in northern NSW, Ross Sigley, has previously worked in the real estate sector, and Willmott Forests has strong working relationships with real estate agents in each region.

Willmott Forests has already secured a significant amount of land across several of the identified regions for this year's project. The African mahogany will be planted on the 5,200ha Rocktear property, which is owned by Willmott Forests, and has approximately 1,600ha available for planting. Willmott Forests established 400ha of African mahogany on this property during the 2009-10 wet season, as part of the Timberland Fund. Willmott Forests owns a further 302ha of land in the northern rivers region which is suitable for Silky oak establishment, and the company has already secured access to approximately 5,762ha of company-owned and leased land for the establishment of the radiata pine component of the Project.

Willmott Forests has a commercial arrangement in place with both Forests NSW and HVP which provides access to second and third-rotation sites that meet the land selection criteria for softwood.

Species and seedling supply

Three separate tree species will be grown as part of the Project. Radiata pine (*Pinus radiata*) will be established as the softwood species, and African mahogany (*Khaya senegalensis*) and Silky oak (*Grevillea robusta*) have been selected as the hardwood species.

Radiata pine has been proven as an ideal plantation species, with strong growth and survival rates across a broad range of sites. Radiata pine is recognised as Australia's major softwood species, accounting for an estimated 75% of all softwood plantations.

Silky oak is native to the Northern Rivers region. Silky oak has not been previously grown on as a plantation species on a commercial scale in Australia, although the species has been grown in plantations overseas. Silky oak has historically been used in a number of high quality veneer and sawn timber products, which compare well with those from native forests.

Khaya senegalensis is regarded as the most tolerant of all the African mahogany species to drought conditions. It is well adapted to the Northern Territory climate and grows naturally in regions that have prolonged dry conditions. Commercial plantations of African mahogany have been established in Australia, Cuba, India, Indonesia, South Africa and Vietnam. African mahogany is a quality timber used for high-end applications. Its uses include high-grade furniture, interior windows and doors, timber decking and boat building and fittings.

Willmott Forests will source seedlings from a number of nurseries for use in the Project. The softwood component will use container cuttings and bare root cuttings.

The African mahogany component of the Project will use mainly container seedlings, which will be sourced from two nurseries, Territory Tree Nursery (TTN) and Lincfel nursery. The TTN nursery has tissue culture propagation facilities, although it is unlikely that cuttings will be used for the Project. Provenance seed will be collected from Africa and grown out in the local nurseries, which is likely to benefit investors in future projects.

The growth performance of Radiata pine is well supported, with a large base of technical information available on the species. By contrast, information concerning the growth of commercially grown African mahogany and Silky oak in Australia is more limited.

Site development and maintenance

While the site development methods will be similar for each species, there will be certain adjustments for each variety and some variation to account for differences in soil types, the pest and weed spectrum, and whether the site is ex-pasture or second rotation.

Following the clearing of residual vegetation, planting lines will be deep-ripped and mounded, and various measures will be employed to minimise weed and growth and the occurrence of pests prior to planting. The planting window for Radiata pine is July-August and December-February for African mahogany. The Silky oak will be planted between either January-April, or September-December. It is anticipated that each species will be planted at the following rate.

Anticipated Planting Densities

Radiata pine	1,100 to 1,500 stems per hectare
Silky oak	1,250 to 1,650 stems per hectare
African mahogany	1,000 to 1,600 stems per hectare

Willmott Forests maintains a minimum-stocking guarantee of 90% of the original stocking rate for a period of 13 months from the date that the initial planting of the respective species is completed. If a replant is required, this will occur at the expense of Willmott Forests.

The relatively high stocking levels prescribed for Silky oak and African mahogany are to allow for a greater selection of trees for the final harvest, particularly in terms of form and straightness. The plantations for both species will be progressively thinned across their lifetime, with the actual timing of thinning based primarily on stand conditions. Market conditions will also have an influence on the timing of thinnings. The final stocking rates at harvest for Silky oak and African Mahogany are expected to be approximately 400 trees per hectare and 250 to 300 trees per hectare respectively.

As the soils in the Northern Territory generally contain low levels of nutrients, the establishment regime for African mahogany will place a greater focus on the trees' nutrient requirements, most likely resulting in a greater application of fertiliser compared to the other species. In addition to this, along with other fertilisers the trace element Boron will be routinely applied to the African mahogany and Radiata pine plantations in the majority of cases.

Following establishment, Willmott Forests will monitor the plantations and implement appropriate control measures if insect and weed invasion adversely affect the development and growth of the plantations. Each site will be analysed for nutrient deficiencies and suitable fertilisers will be applied when necessary. This is likely to occur more regularly with the African mahogany plantations, as previously discussed.

Willmott Forests will develop permanent sample plots (PSP's) to monitor the performance, and to improve stand growth models for predicting yields in future projects. Survival surveys will be regularly conducted for both species, particularly in the case of Radiata pine, with automatic tree counts using infra-red satellite information to occur regularly between years five and 10.

Harvesting and processing

It is expected that harvesting of the Silky oak and African mahogany plantations will occur at various times once the trees reach eight years of age, and will continue until clearfell harvest at approximately 16 years of age. The specific timing of these harvests (thinning and clearfell) will be determined by market opportunities and site productivity. Willmott Forests will be responsible for the thinning and clearfell harvests of these species over the Project term. It is expected that harvesting and haulage contractors will be engaged to perform these operations.

The timing and specific method of harvest will largely be determined by negotiation with the purchaser, especially since the end markets for both Silky oak and African mahogany have yet to be determined.

The softwood planting regions selected by Willmott Forests are serviced by extensive timber processing infrastructure. In particular, the Murray Valley has some of Australia's largest and most advanced softwood processors. Extensive milling, as well as value-adding infrastructure (e.g. medium density fibreboard (MDF) and kraft liner production), are all within close proximity to sites currently being established in the region.

The Northern Rivers region of New South Wales, where the Silky-oak plantations are to be located, also boasts an established timber processing industry. A number of the processing facilities in the region focus on the production of high-value hardwood timbers such as plantation grown Silky oak. The south coast of Queensland also boasts timber-processing infrastructure, and this can be utilised if required.

The Douglas Daly region in the Northern Territory has limited timber processing facilities. However, as the number of tropical hardwood plantations in the region continues to increase, the scope for the development of processing facilities will grow. Alternatively, the fact that the region is located within approximately 250km of the port of Darwin means that exporting the timber as whole logs is a viable option.

Market Overview			
	Radiata pine	African mahogany	Silky oak
Product type	Softwood timber	African mahogany timber	Silky oak timber
Primary use	Sawlog and pulpwood	Sawlog and veneer	Sawlog and veneer
Key target market	Domestic processors	Domestic and export	Domestic and export
Major competitors	Domestic softwood producers	Domestic and international hardwood timber producers	Domestic and international hardwood timber producers
Product sales agreements	N/A	N/A	N/A

Marketing strategy

Softwood

Willmott Forests has indicated that, following the first thinning of the trees around age 13, it will sell the softwood plantations on the secondary market to a Timberland Investment Management Organisation (TIMO) or other form of institutional investor. It is expected that the standing timber will be sold in project year 15 (FY2026) using a tender process. While Willmott Forests has not entered into any agreements with potential buyers, it believes that the demand for immature softwood plantations will be strong in the future. Willmott Forests has indicated that it will incorporate a 'guarantee facility' mechanism to ensure that investors receive a fair price for their softwood plantations at the time of sale. Details of the 'guarantee facility' are provided in the Performance Parameters section of this report.

Although Adviser Edge believes that, while the marketing strategy for the softwood timber is reasonable, the use of the secondary market for the standing timber has its risks. If the demand for immature softwood plantations is weak at the time of the sale, the guarantee facility will reduce the risk that investors will receive a low price for the standing timber. For this reason, the incorporation of this guarantee is considered a positive feature of the Blend Project.

A positive feature of this marketing strategy is that investors will receive revenue much earlier than other softwood projects, where they generally have to wait at least 25 years until the mature plantation is harvested.

African mahogany

The African mahogany to be produced under the Project may be marketed via several different channels, with no marketing arrangements entered into. While it will remain unclear until the time of harvest, Willmott Forests has indicated that options for marketing the timber include the domestic production of plywood, and the development of an export operation at Darwin.

As Willmott Forests intends to increase the scale of its African mahogany plantations, it has outlined the possibility of developing

Key Points

- The softwood plantation will be sold on the secondary market as standing timber, as opposed to being grown through until clearfell harvest.
- Market conditions need to be positive at the time of the proposed secondary market sale of the plantations.
- Willmott Forests intends to market the hardwood timber closer to the time of harvest.
- With restricted supply from native resources, the global tropical hardwood market is expected to become more lucrative in the future.

a stand-alone plywood manufacturing facility. This would become increasingly viable as MIS and other parties continue to develop African mahogany plantations in the Northern Territory.

Given that the first commercial African mahogany harvest is not expected to take place until 2019, it is acceptable for Willmott Forests to delay the negotiation of marketing contracts in the medium-term. With this in mind, the relative infancy of the Australian market and the lack of appropriate processing facilities currently limit the available marketing arrangements. However, Adviser Edge is of the view that the export of African mahogany could prove to be viable in the future as global supply continues to tighten.

Silky oak

Willmott Forests will target the domestic market for the Silky oak timber produced from the Project, although export markets will also be considered should the opportunity become available. While no formal marketing agreements have been arranged, Willmott Forests is confident that the timber will be appealing to sawmilling companies that operate in the local region. While the demand for tropical hardwood species is strong, sourcing sawn material from species such as Silky oak is difficult and it is expected that local sawmills will only be interested in using Silky oak if consistent supplies of this species can be assured.

While there are no formal marketing agreements in place, Adviser Edge believes that the marketing strategy for the Silky oak component is sufficient, as there is a reasonable amount of time before the first harvest. This is provided that further sources of Silky oak are developed in the region over the short-term to ensure that a critical mass is available for the saw-milling sector.

Market overview

Radiata pine

Radiata pine logs are generally sold as pulpwood or sawlogs in Australia. Pulpwood is mainly used in the manufacture of rough papers such as newsprint and kraft liner for cardboard manufacture, although it can also be used to produce manufactured wood products such as medium density fibreboard (MDF) or particleboard. The majority of softwood pulpwood produced in Australia is processed for domestic use.

Softwood sawlogs are processed into a wide range of timber grades, the most important being the structural grades. The majority of structural grade timber sold in the Australian market is sourced from softwood plantations (mainly Radiata pine). Most softwood sawlogs that are produced in Australia are processed and consumed domestically.

Secondary markets for softwood plantations

The secondary market allows for plantations to be bought and sold before the plantations are ready to be clear-felled. Immature plantation resources can be sold on the secondary market in a number of ways, with most transactions involving the plantations being sold exclusively, or sold in combination with the underlying land.

Plantations have been sold on the secondary market for more than 25 years, mostly in the United States. In recent years, this market has expanded both internationally and in Australia. The main driver behind this growth has been the increasing level of investments being made by financial institutions in investment vehicles, such as Timberland Investment Management Organisations (TIMOs) and Real Estate Investment Trusts (REITs). TIMOs purchase and manage forestry investments on behalf of institutional investors, while REITs are corporations that invest in real estate as a means of reducing an investor's taxable income. A number of factors have helped attract these institutions to the forestry sector. These include the fact that returns that are competitive but are weakly correlated to the returns of other major asset classes. Returns from forestry assets have been positively correlated with inflation.

There are 18 TIMOs operating in the United States, of which seven were formed after 2003. Today the value of forestry assets under TIMO management is estimated at approximately US\$24 billion; this figure has grown significantly since 1996 (US\$4 billion).

In Australia, large-scale forestry assets were first sold on the secondary market during the 1990s. Institutional investors, such as TIMOs have been the most active participants in the market. Well-known transactions include the sale of the Victorian government's 165,000ha plantation estate to HVP in 1998 (valued at \$550 million), and the sale of Australian Paper's 55,000ha plantation estate to HVP in 2001 (valued at \$152 million). Hancock Timber Resource Group (HTRG), a large United States-based TIMO, owns HVP. Other TIMOs active in the Australian market include GMO Renewable Resources and Global Forest Partners (GFP). Forestry companies have also been active in the secondary market, with Gunns and Marubeni respectively purchasing 28,000ha and 14,000ha of hardwood pulpwood resources in recent years.

Historically, the number of transactions made on the Australian secondary market has been currently constrained by the small number of plantations on offer. More recently, however, there has been a significant volume of secondary market plantations entering the market. More secondary market plantations are expected to enter the market in the near future, most notably, the Queensland state-owned plantations, Timbercorp and Great Southern plantations, and the FEA forestry assets. The collapse of the three major MIS companies has undoubtedly distorted the market. This distortion is unlikely to occur again in anywhere near the same magnitude.

While it is difficult to know whether the number of plantations offered on the secondary market will increase in the future, it is believed that activity in this market will increase if any of the state governments choose to privatise their forestry sectors. In its Independent Market Report, URS Forestry has suggested that a number of factors will assist in further developing the secondary market in the future. Increased interest by TIMOs and other institutional investors should foster growth in this market. In addition to this, a dwindling forestry resource base will foster strong competition for softwood plantations in the future in many growing regions.

The secondary market for plantations in Australia has been active for more than a decade. There has been a small but significant number of transactions made in recent times, with a current spike in offerings linked to government sell-offs and MIS company failures. In the long-term, the health of this market will continue to depend on the supply of immature plantations for sale and the demand for timber resources in the future.

African mahogany

African mahogany is a long established, flexible and widely used timber for furniture, flooring and marine applications. Mahogany timbers are renowned as quality woods for use in a range of furniture. Mahoganies from Africa and South America have been traded for centuries and are well known in global timber markets. African mahogany is native to the forests of Central West Africa

and was originally sourced by European traders as a substitute for the dwindling supply of mahogany from South America, which is traditionally the most highly valued mahogany species.

Due to its high value, much of Africa's mahogany is illegally harvested, making it difficult to estimate global production and trade. Global supply of African mahogany is almost entirely based on the harvesting of native forests in West Africa, with Ghana, Cameroon and the Republic of Congo being major producers. The United States currently imports the greatest volume of African mahogany, utilising it as a substitute for the dwindling supplies of American mahogany, which is now listed with the Convention on International Trade in Endangered Species (CITES). The restricted supply of South American mahogany is exemplified by the fact that timber imports of it into the United States fell from approximately 104,000m³ in 2001 to less than 50,000m³ in 2006. (ITTO, 2007) Other major importers include China and the United Kingdom. Global trade is further restricted by the fact that most of the countries supporting the biggest native African mahogany stands are politically unstable.

Although it is increasing in popularity, domestic plantations of African mahogany are believed to total approximately 6,000ha, with the majority established under MIS. As a result, the supply of African mahogany is currently limited in Australia. However, there is a significant level of demand for this timber from furniture manufacturers and the like, with local demand currently satisfied by imports.

The key driver of the international price and demand for African mahogany is the supply of South American mahogany. As the supply of South American mahogany falls, the demand for substitutes such as African mahogany increases.

Silky oak

As with African mahogany, Silky oak is a prized timber valued by cabinet and furniture-makers for its colour and workability. However, Silky oak occurs naturally in the coastal region in northern New South Wales and southern Queensland. As a result, local furniture makers in this area have used this particular timber for decades.

Silky oak has also been introduced in Africa, India, Sri Lanka, Brazil and some southern states of the United States where it is predominantly grown in plantations. The international market for Silky oak is currently restricted with local production generally consumed in the country of origin. While there is relatively strong demand from the United States, due to its cost and limited supply, Australian Silky oak is rarely exported, with the majority of United States demand met by Brazilian imports.

Within Australia, Silky oak has traditionally been sourced from native forests in northern New South Wales and southern Queensland. Very small volumes of Silky oak are currently

harvested in Australia, and as such there is very little domestic market information available on this particular species. Willmott Forests anticipates that the Silky oak will be used for high-value applications such as cabinet and furniture making. In the past, small volumes of Silky oak have been harvested and exported from Queensland to South Korea. With the increased supply from the Project's plantations, the export of Silky oak may become more prevalent in the future.

Traditionally, domestically-grown Australian sawlogs have been sourced from native forests. However, environmental pressures and declining availability have resulted in many Australian states beginning to limit the supply of resources harvested from native forests. As a result, small volumes of hardwood imports are sourced from native forests in South-East Asia.

Market Outlook

Softwood

Australian softwood sawn timber consumption is driven largely by building construction rates, and is therefore related closely to population growth and the strength of the prevailing economy. Economic conditions will fluctuate considerably over the term of this Project, and there is potential for the softwood market to be weak at the time the plantation is sold, thereby affecting prices. Although the real prices for softwood have been declining in recent years, the softwood resource has remained, and is expected to remain, relatively static for the next 20 years at around 1 million hectares.

Due to high transport costs, Australian domestic softwood producers have traditionally been able to compete with imported softwood producers. New Zealand poses the biggest threat of competition, being the largest exporter of forest products (in terms of value and volume) into Australia. Canada is also a large exporter of softwood products into Australia, but the level of imports from this country has generally declined in recent years. The New Zealand industry has historically supplied the Australian market with products that are not produced in this country, including treated structural timber and clear timber. While there is scope for Australian timber mills to focus on producing timber for these markets, the industry is currently limited by the availability of processing infrastructure that is suited to producing this timber.

Particularly affecting the softwood industry are the long-term contracts that exist in relation to government-owned plantations. These contracts have resulted in artificially lower log prices, which do not adequately reflect the relative scarcity of the softwood supply. In order to promote softwood prices that reflect the value of softwood timber, these administratively priced contracts need to expire and/or be reviewed. The increasing consolidation of the softwood processing industry is also concerning; this has occurred as a consequence of the lower sawn-wood prices.

Hardwood

As the international market for tropical hardwood continues to grow on the back of tightening fundamentals, it is likely that there will be significant opportunities for plantation-grown hardwoods. The potential of African mahogany to penetrate global markets into the future hinges on the continued tightening supply of the superior South American mahogany. While the local market is likely to consume a portion of the increased volumes as plantations begin to mature, the lack of domestic processing facilities may mean that much of the timber will be exported.

While it is unlikely that the United States will demand Australian-grown African mahogany due to the freight advantage held by West African nations, the increased demand for high value hardwood from South-East Asia, and in particular China, may be sourced from Australian plantations. Additionally, buyers are increasingly seeking to purchase certified wood, which may give advantage to Australian producers who are FSC certified.

Although previously an export commodity, the limited supply of Silky oak in Australia over recent years has resulted in the species becoming a known timber. As a consequence, there are no established market channels for the consumption of Silky oak. This makes it difficult to forecast the opportunities for plantation-grown timber in the future. Due to its desirable aesthetic and workability characteristics it appears that there is potential for Silky oak to have a significant presence in the decorative veneer market going forward, provided that the current imbalance between supply and demand remains. Whether or not plantation-grown Silky oak will be suitable for this market, or any other higher value applications, remains to be seen.

The following section provides a discussion of the key project parameters that directly affect the performance of the investment.

Timber Yield

Yield Parameter	Willmott Forests Estimates	
	Total Yield (m ³ /ha)	MAI (m ³ /ha/year)
Softwood	539	21.6
African mahogany	214	13.4
Silky oak	310	20.7

Source: Willmott Forests 2010.

¹ Mean Annual Increment of recoverable timber.

Softwood

Radiata pine is classed as a long-rotation species in Australia, with a maturity profile of between 25 and 30 years. As the Project has an investment term that precedes the rotation length of a standard management regime, Willmott Forests plans to sell the plantations mid-rotation as standing timber. Willmott Forests anticipates that investors will also receive a commercial return from thinning operations performed before the standing timber is sold, when the trees are 13 years of age (Project year 14). The estimated yields assumed to calculate proceeds from the first thinning operation and to calculate a value for standing timber are 90m³/ha at age 13, 140m³/ha at age 18, and 309m³/ha at age 25.

Although average growth rates for Radiata pine in East Gippsland and Bombala have been estimated at around 16m³/ha/year, actual productivity is largely site-dependent, with growth rates in excess of 30m³/ha/year being achieved in highly productive sites. Accordingly, provided that Willmott Forests selects appropriate sites for establishment, better than average productivity can be achieved in the Project.

Supporting estimated yields is Willmott Forests’ strategy of establishing approximately 70% of the Project on second and third rotation sites, which provides more accurate yield estimates based on previous harvest results. The independent forester has commented that on the existing plantations used to estimate productivity, growth rates have been variable, ranging between 14m³/ha/year and 24m³/ha/year. The independent forester commented that this may be conservative, as many of the previous rotations were subject to low levels of genetic improvement and minimal management inputs. On first rotation sites, Willmott Forests will use productivity achieved on nearby equivalent sites, as well as predictive modelling that takes into account climate and soil characteristics.

Site selection and acquisition protocol established by Willmott Forests, including independent assessment of the site, provides confidence that land selected is capable of achieving potential yields.

Key Points

- Growth rates of existing softwood plantations have been slightly below expectations.
- Yield will be largely dependent on site selection and management.
- There is limited information available to verify full-rotation yield and price assumptions for Silky oak and African mahogany.
- The softwood plantations are intended to be sold as standing timber in Project year 15.

Using historical productivity estimates can provide a level of conservatism to the estimated yield due to expected genetic improvement in the seedlings to be planted. Willmott Forests incorporates a small allowance for genetic improvement in third generation softwood genetics over second generation softwood genetics.

The method by which the standing softwood timber will be valued has not yet been determined. In its cash flow model, Willmott Forests has assumed that the standing timber will be valued by estimating the indicative sales value of the plantations based on the discounted cash flows that are expected to be generated from the future harvests. This method involves developing assumptions for future timber yields, log recovery rates, log prices for different grades of timber, and estimating management and harvesting costs to determine anticipated cash flows over time. Discounting the net cash flows provides a net present value of the standing timber at mid-rotation.

African mahogany

The African mahogany plantations will be non-commercially thinned between the ages of three and five in order to select the better performing trees to be carried to commercial thinnings and final harvest. Commercial thinnings are estimated to occur at age eight and 12, with final clearfell harvest estimated to occur at age 16. Total yield estimated for the African mahogany component is 214m³/ha, and corresponds to an MAI of 13.4m³/ha/year.

However, the independent forester has commented that there are no reliable estimates for the long-term growth and yield for African mahogany in the Northern Territory. Overall, merchantable yield will not only be dependent on growth but also on tree form and survival during the Project term.

As the African mahogany plantation industry in Australia is still in its infancy, it is difficult to make accurate predictions regarding plantation yields for the species. The independent forester has noted that Willmott Forests’ estimates of productivity are speculative but conservative, and take into account variations in productivity and quality across sites.

Silky oak

The Silky oak plantations will be commercially thinned at age 10 and clearfelled at age 15. Willmott Forests has estimated that the plantations will yield 310m³/ha over the Project term, made up of 90m³/ha at thinning and 220m³/ha at clearfell. This corresponds to a Mean Annual Increment (MAI) of 20.7m³/ha/year. Minimum rainfall requirements contained in the selection criteria of 950mm are considered to be appropriate, as low rainfall increases the risk of dieback as the trees mature, as well as the possibility of forking if subject to drought stress.

Robust information relating to yields from plantation grown Silky oak in Australia is limited, and as a consequence, it is difficult to verify the yield assumptions proposed by Willmott Forests. While the yield estimates for Silky oak is based on production data gathered from a trial plot located in the region, there are yet to be sufficient yield results from a range of commercial plantations in the region, which can provide greater certainty with respect to the yields estimated.

There is limited available information on the yield potential for commercially grown Silky oak plantations. Accordingly, Adviser Edge has used a wide range of estimates in forecasting potential returns.

Past performance

Willmott Forests has been establishing and managing radiate pine plantations for over 30 years, and now has approximately 46,310ha of softwood plantations under management. Willmott Forests has indicated that most of the softwood plantations established between 1990 and 2003 are under-performing, with estimated growth rates slightly below initial parameter forecasts. Willmott Forests has advised that in excess of 97% of all plantations established and managed by Willmott Forests are yielding an estimated MAI of between 14m³/ha/year and 25m³/ha/year.

Adviser Edge has been advised that the main factor contributing to the under-performance of these plantations is the below average rainfall that was experienced for the six years leading up to 2009.

Prices

Softwood

Willmott Forests proposes that investors will be offered a stumpage price for their softwood.

The stumpage price is determined from the free on board (FOB) or mill door prices, and converted back by subtracting all the costs of harvesting, chipping, transportation and marketing, and by incorporating the relevant conversion factors (i.e. volume-to-weight, green-to-dry, etc). The table below contains the current day stumpage prices estimated by Willmott Forests for the various grades of softwood timber.

The price estimates provided by Willmott Forests are similar, although slightly higher, than the average weighted prices given in the KPMG APLPI report updated in June 2009, and the prices quoted in the independent market report. KPMG's Australian Pine Log Price Index demonstrated an increase in all sawlog indices except the small sawlog index over the six months to June 2009.

Investors should note that estimated log prices from the second thinning and clearfell harvests will be used in determining the projected standing timber value when the plantations are sold.

While it is difficult to forecast future price trends, it is expected that the market for softwood will strengthen if the anticipated shortfall in the supply of softwood and hardwood sawlogs occurs in the key plantation regions. The demand for softwood resources, which is primarily driven by the rate of housing development, is the other primary factor that will dictate prices at harvest. Given the cyclical nature of the housing market, it is expected that the demand for softwood resources will fluctuate over the next 25 years.

The length of the softwood rotation means that it is difficult to accurately forecast future prices for these resources over the Project term. The estimated prices provided by Willmott Forests are considered to be reasonable, although Adviser Edge has adopted the slightly lower prices used in the independent market report.

In order to estimate average stumpage prices, Willmott Forests has stratified each harvest into the estimated grades of timber that will be produced. Actual grades achieved at harvest will be dependent on genetics, site characteristics, stand management and agronomic conditions over the Project term.

The sawlog recovery information provided by Willmott Forests is derived from the independent forester's report that is included in the PDS. The sawlog recovery estimates provided by the independent forester are considered to be reasonable.

Price Parameters (\$/m³)*

	Pulpwood	Preservation	Sawlog <24cm	Sawlog 24-32cm	Sawlog 32-45cm	Sawlog >45cm
Stumpage Price	12.20	24.68	36.55	50.62	71.74	86.91

Recovery of Sawlog (Softwood)						
Operation	Pulpwood	Preservation	Sawlog <24cm	Sawlog 24-32cm	Sawlog 32-45cm	Sawlog >45cm
Thinning 1	68.9%	17.8%	13.3%	–	–	–
Thinning 2	21.4%	12.9%	25.0%	21.4%	19.3%	–
Clearfell	8.4%	–	32.4%	19.1%	19.7%	20.4%

To reflect a degree of uncertainty, Adviser Edge has factored in a moderate level of volatility when calculating potential returns.

African mahogany

Price Parameters (\$/m ³)	
	Stumpage Price
Thinning 1	\$30.75
Thinning 2	\$153.75
Clearfell	\$325.95

Source: Willmott Forests, 2010.

The prices for African mahogany are derived by deducting the cost of harvest, transport and ocean freight from the FOB price for African mahogany B-grade logs and BC/C-grade logs. The independent market report quotes a price achieved in 2007 at auction of \$250/m³ for butt logs that were 6m in length and had an over-bark diameter at breast height (DBH) of 40cm to 60cm. This represented a discount to the price of native grown log, which is about \$410/m³. Internationally, the FOB African sawlog price range for native sawlogs trading between US\$194/m³ and US\$260/m³, which is significantly down from the 2008 peak range of US\$250/m³ and US\$350/m³.

It is difficult to estimate potential African sawlog prices over the Project term. Actual prices achieved will reflect changes in the demand and supply dynamics at the time of harvest. Current prices suggest estimates are at the higher end of the range, due to the current discount that plantation African mahogany is expected to receive when compared to native sources. However, the expected reduction in supply in the future may substantially change in the future, resulting in real price appreciation and/or reduction in the discount for plantation-grown timber.

Silky oak

Price Parameters (\$/m ³)	
	Average Stumpage Price Range
Thinning 1	\$123
Clearfell	\$205

Source: Willmott Forests, 2008.

No direct pricing information is available to support the price estimates for the plantation-grown Silky oak timber. Willmott Forest's price estimate for the Silky oak sawlog is based on market research that the company has conducted on sawn and dried timber products. The actual price achieved for the harvested timber will also be strongly dictated by sawlog recovery rates.

Due to limited information, it is difficult to estimate potential Silky oak prices to be achieved by the Project. Accordingly, Adviser Edge has adopted a wide range when estimating potential returns from the Project. Nonetheless, the overall outlook remains positive, with supply constraints expected for hardwood sawlogs in the future, including as a result of export tariffs imposed on Russian supplies in the medium-term, and reduced native supplies over the long-term.

The following section provides an analysis of the potential investment returns for the Project. Please note that this analysis is based on estimated performance assumptions, which may change over the Project term. Investors need to be aware of the way in which these assumptions may influence investment returns, and should seek additional professional advice to determine whether or not this investment is suitable for their own risk and return objectives.

Adviser Edge Returns Modelling		
	Pre-Tax	Post-Tax ²
Adviser Edge Base Case	7.28%	7.28%
IRR Range ¹	5.28% – 7.82%	5.28% – 7.82%
Median Return	6.86%	6.86%
Percentage of results that are break even or better	87.18%	87.18%
Percentage of results with an IRR of 7% or better	45.75%	45.75%

¹ The IRR range represents the range of results that occur within the 20th and 80th percentile in the simulated model. The range is based on Adviser Edge’s modelling of potential outcomes for the Project using Monte Carlo simulations. These are subject to a number of limitations, which are discussed further below. Accordingly, the range is provided as a guide only. Investors should seek additional professional advice regarding the impact of changes in key variables on Project returns given their individual financial circumstances. The analysis does not consider investor finance arrangements.

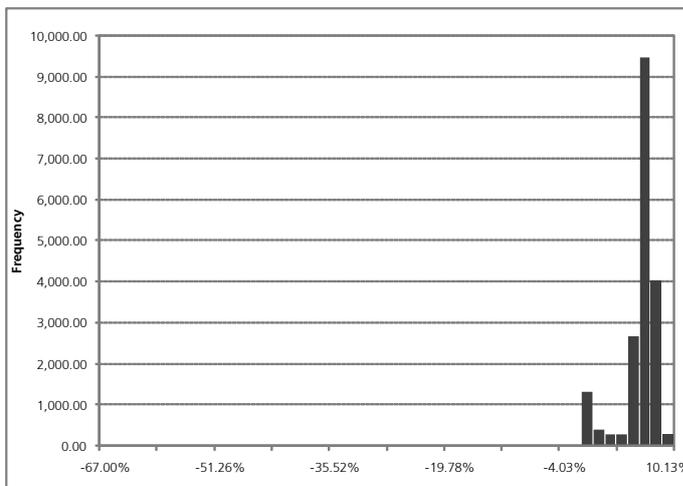
² The analysis assumes a 46.5% marginal tax rate, that investors are registered for GST, and that all GST is rebated in the year paid.

Scenario testing

In reviewing the Project, Adviser Edge has undertaken scenario testing of potential returns from the Project using Monte Carlo simulations. The scenario testing is based on variations to key assumptions relating to price, yield, costs, and the potential for severe adverse events to occur, and the relative impact of these events on returns. Investors should be aware of the limitations associated with this kind of scenario testing. The model used incorporates a number of subjective judgements made by Adviser Edge, which may not be empirically verifiable and does not include all the variables that affect returns. Accordingly, the predictive capability of financial modelling is limited. Nonetheless, Adviser Edge believes that the use of such modelling practices provides an improved insight on the risk-return profile of a particular investment when compared with static investment modelling techniques.

Returns modelling undertaken by Adviser Edge suggests that the Project displays a median internal rate of return of 6.86% p.a. on a pre- and post-tax basis, assuming that an investor maintains the same tax rate throughout the life of the Project. This is lower than Adviser Edge’s base case return of 7.28% p.a., which is based on the assumptions outlined below.

Pre-tax investor returns



This is partly due to the incorporation of a potential insurable event (e.g. bushfire) or a potential insolvency event into the returns modelling process.

Key Investment Analysis Performance Assumptions

The estimated Project returns provided by Adviser Edge have been calculated using various performance assumptions. The key assumptions adopted by Adviser Edge are presented in the following table. These assumptions have been determined from information provided in the PDS, directly by Willmott Forests, from the independent forester’s report and independent market report, and from independent research performed by Adviser Edge. The following table also includes the performance assumptions adopted by Willmott Forests, as discussed in the Performance Parameters section of this report.

Yield

While Willmott Forests’s softwood estimates are considered to be reasonable and achievable, these targets will only be possible if high quality sites are selected and quality management protocols are adhered to, and if the average annual rainfall is experienced consistently throughout the rotation. However, the inclusion of second rotation sites does provide a greater level of certainty with respect to the potential productivity outcomes, and genetic improvement of species also provides some upside with respect to productivity, when compared to the previous rotation.

However, Adviser Edge recognises the risks associated with predicting potential yields, especially for species such as Silky oak and African mahogany, which has limited historical data over the Project’s proposed rotation. In addition to this, under-performance in previous softwood plantations means that, although potential yields are expected to be more reliable, a level of conservatism is still warranted. For this reason, Adviser Edge has adopted slightly more conservative assumptions with respect to yields.

Performance Assumptions	Adviser Edge			Willmott Forests		
	Thinning 1	Thinning 2	Clearfell	Thinning 1	Thinning 2	Clearfell
Softwood yield (m ³ /ha)	85.5	133	294	90	140	309
Softwood stumpage price (\$/m ³)	\$17.02	\$38.07	\$52.28	\$17.67	\$39.61	\$54.40
Softwood MAI (m ³ /ha/year)		20.48			21.56	
Discount rate ¹		13%			11%	
Silky oak yield (m ³ /ha)	N/A	85.5	209	N/A	90	220
Silky oak stumpage price (\$/m ³)	N/A	100	205	N/A	123	205
Silky oak MAI (m ³ /ha/year)		19.63			20.67	
African mahogany yield (m ³ /ha)	18	38	140	26.7	45	142.5
African mahogany stumpage price (\$/m ³)	30.75	153.75	325.95	30.75	153.75	325.95
African mahogany MAI (m ³ /ha/year)		12.25			13.39	
Stumpage price inflation		2.9%			2.5%	
Cost price inflation		2.9%			2.5%	

¹ Nominal discount rate used to calculate the value of standing timber for the softwood plantations.

In assessing potential returns range, Adviser Edge has adopted higher variability with respect to African mahogany and Silky oak yields, reflecting both the inherent uncertainty associated with estimating target yields and ordinary agricultural risks.

Price

Prices supporting potential softwood prices are considered to be robust and fairly reliable, although there is still the ordinary level of uncertainty associated with the proportion of final grades of softwood, and changes in the softwood supply and demand over the Project term. Adviser Edge has adopted assumptions which are very similar to those used by Willmott Forests.

The potential prices that may be achieved for African mahogany and Silky oak are difficult to estimate due to limited market data for plantation-grown timber. However, Willmott Forests has adopted more conservative price assumptions when compared to other MIS managers with respect to prices for African mahogany. Nonetheless, in the absence of more robust data regarding price and quality, Adviser Edge has taken a more conservative approach to stumpage prices by applying a relatively high level of volatility and a small reduction in stumpage prices over the Project term.

Due to the time remaining until harvest, Adviser Edge has assumed that stumpage prices will increase in line with its forecast inflation of 2.9%.

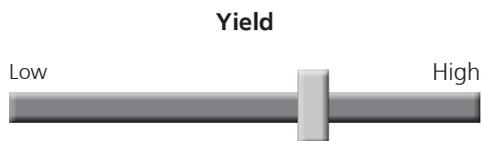
Other assumptions

As well as assessing the key variables of yield, price, and harvesting and processing costs, Adviser Edge has incorporated the potential for RE insolvency and its expected impact into the investment modelling.

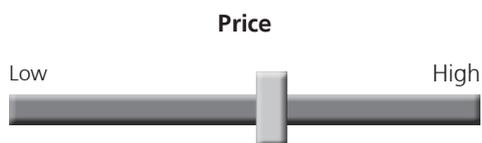
In assessing the likelihood of an insolvency event, Adviser Edge has taken into account Willmott Forests's financial position, its access to capital, and its ability to generate, and certainty with respect to, future cash flow. In addition to this, Adviser Edge has also assessed the potential consequences to the Project should an insolvency event occur.

Adviser Edge's financial modelling has demonstrated that the potential adverse financial consequences of an insolvency event are reduced due to the Project's structure. Willmott Forests' policy of entering into leases that incorporate pre-paid rent, or deferred and matching expected harvest proceeds, substantially reduces the risk of Project interests being terminated as a result of non-payment of rent. In addition to this, the conversion of the deferred management fee to an annual ongoing management fee reduces the risk associated with completing a Project restructure should an insolvency event occur.

The modelling of Project returns has also incorporated the cost of insurance, the probability of an insurable event occurring, and the proceeds should an insurable event occur.



Yield risk is considered to be moderate to moderately high, with the higher certainty associated with softwood plantations being offset by the uncertainty associated with the tropical timbers. In addition to this, there is a degree of risk associated with forecasting yields due to normal the volatility associated with variations in rainfall, frost and other seasonal conditions, as well as the impact of pests and diseases.



Price risk is affected by changes in the level of construction activity. In addition to this, prices for tropical timbers are affected by an added level of uncertainty associated with a lack of empirical evidence to substantiate stumpage prices.



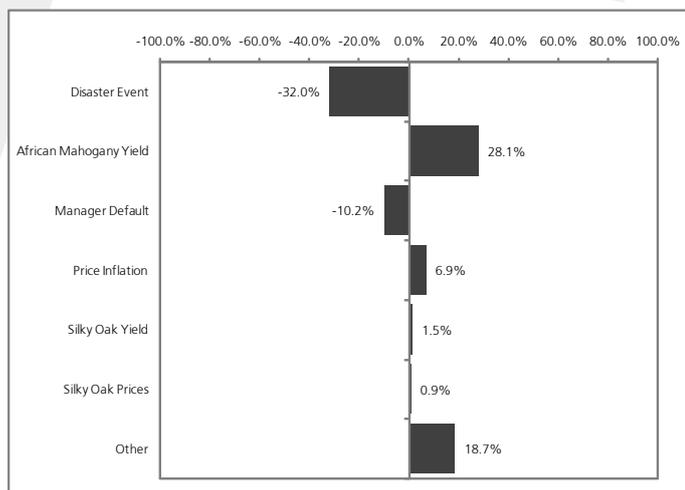
With costs to investors in the Project defined as a proportion of harvest proceeds, the risk of achieving the cost outcomes budgeted is substantially mitigated. That said, cost assumptions are affected by the continued solvency of Willmott Forests over the Project term. Should Willmott Forests not be able to meet these obligations, earlier payment of fees may be applied.

It is difficult to estimate the probability and impact of these assumptions regarding investment returns, due to the limited information available to verify the underlying assumptions. However, Adviser Edge believes that by including its judgment on the potential impact of these events, investment returns modelling will be more reliable when compared to less sophisticated assessments.

Sensitivities

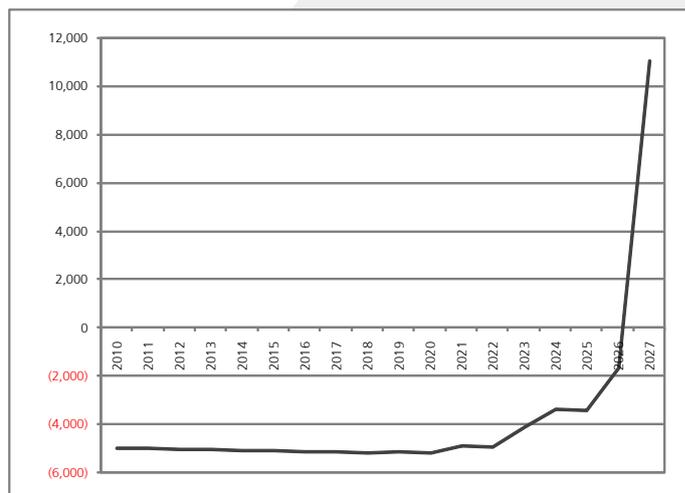
The Project’s ability to achieve key assumptions is a function of both the inherent volatility of the underlying activity as well as the assumption risk, which is the accuracy of the initial estimate. Accordingly, the volatility used in Adviser Edge’s modelling depends on the quality of the data supporting the assumptions, and an assessment of the expected volatility of the underlying activity during the course of the Project.

IRR sensitivity



The table above is the resulting sensitivity of investment returns to the various assumptions used in Adviser Edge’s financial model. This table indicates that the impact of any potential disaster events has the greatest impact on potential returns. This feature is a reflection of the long-term of the Project, which increases this risk factor to the Project. IRR sensitivity also demonstrated the potential for African mahogany yields to provide upside to the Project. Better than expected growth rates and recovery rates can significantly improve returns.

Pre-tax cash flow per forestry interest



Pre-tax Cash Flow per Forestry Interest

The Project aims to harvest the hardwood species at various ages over the Project term, and to sell the softwood plantations as standing timber at mid-rotation. An indicative cumulative pre-tax cash flow is presented in the following charts.

These cash flows have been calculated using the performance assumptions adopted by Adviser Edge.

Post-Tax Potential

The post-tax returns earned by an investor will depend on the investor's marginal tax rate when harvest returns are received. The post-tax IRR range provided by Adviser Edge assumes that the investor maintains the same marginal tax rate of 46.5% throughout the investment term.

However, it is likely that an investor's tax status will change over the life of the Project. A change in tax status may result from a change in circumstance for the investor, or a change in tax policy administered by the Australian government. It is important that investors are aware of how these changes may affect the Project's post-tax performance of the Project.

Adviser Edge recommends that investors consult with qualified specialists who understand how changes to an investor's tax status may affect investment returns.

Investors in Project will be subject to the risks associated with short to medium-term forestry investments. All potential investors should carefully consider the risks outlined in the project PDS, and the specific risks outlined in the Adviser Edge research report.

Management, structure, and fees risks

MIS management encompasses not only the operational capabilities of the project counterparties, but also the corporate abilities of Willmott Forests to monitor operational performance, and to meet the regulatory and statutory responsibilities required of it as Project RE.

For all MIS projects there is a risk that if the financial position or performance of management deteriorates, asset condition, Project outcomes and/or regulatory outcomes may be temporarily or permanently compromised.

The switch feature helps to reduce the long-term dependence on the solvency of the RE by providing an annual source of revenue for a replacement Responsible Entity. However, there remains a short-term counterparty risk between the time of application and the time of completion of the establishment services. There is a risk that WFIM may be unable to complete the planting program under the Land Sourcing and Forestry Services Agreement if Willmott Forests fails to renegotiate the first tranche of the debt facility in March 2011, or if there is an absence of other available funds.

Site and silvicultural risks

Investors should be aware of the risks associated with the site and management of the Project. Key areas of risk identified by Adviser Edge are as follows.

Site selection

There is a risk that the selected land may not be suitable for the respective species or their targeted growth rates. Even where strict controls are placed on land selection, there is a risk that the land may not perform to expectations.

Pests and weeds

Insect damage and weed invasion can have an adverse impact on yield. Weeds can also affect growth rates through competition for water and nutrient supplies, or may introduce unwanted insects or diseases to the plantation site. While the operational manager endeavours to limit the impact of pests and weeds, there is a risk that these control measures could fail to prevent damage to a plantation.

Environment

Forestry is exposed to similar risks as those that are inherent in other agricultural production systems. Risks relevant to the timber industry include climate-related issues such as low rainfall, excessive heat, frost and wind, and seasonal aspects such as fire, pests and diseases. These threats can be mitigated through good site selection.

Performance risks

Information risk

In addition to the site and silvicultural risks discussed, investors' returns can be adversely affected if the assumptions used to estimate returns and determine sites are incorrect due to incomplete information and/or lack of knowledge. This risk is relatively higher for the silky oak and the African mahogany plantations, and lower for the softwood plantations.

Price and costs

Investors' returns will be directly affected by the price received for the project resources, and indirectly by the costs of harvesting and processing. While prices and costs are generally dictated by the dynamics of supply and demand, changes in certain macro-economic factors can also have an impact. Such factors include exchange rates, interest rates, and inflation. Investors need to be aware that these factors can negatively affect investor returns.

Marketing

As with any MIS project, there is a risk that the market for the Project resources will encounter a significant downturn at the time of harvest. This may be due to factors such as competition, regulation and/or market preferences. The effect of reduced demand may have an impact on resource prices, which could potentially reduce investors' returns.

Although all reasonable care has been taken to ensure that the information contained in this document is accurate, neither the Adviser Edge Investment Research nor its respective officers, advisers or agents makes any representation or warranty, express or implied as to the accuracy, completeness, currency or reliability of such information or any other information provided whether in writing or orally to any recipient or its officers, advisers or agents. Adviser Edge Investment Research and its respective officers, advisers, or agents do not accept:

- any responsibility arising in any way for any errors in or omissions from any information contained in this document or for any lack of accuracy, completeness, currency or reliability of any information made available to any recipient, its officers, advisers, or agents; or
- any liability for any director or consequential loss, damage or injury suffered or incurred by the recipient, or any other person as a result of or arising out of that person placing any reliance on the information or its accuracy, completeness, currency or reliability.

This document contains statements which reflect current views and opinions of management and information which is current at the time of its release but which may relate to intended or anticipated future performance or activities. Such statements and financial information provided have been estimated only and are based on certain assumptions and management's analysis of the information available at the time this document was prepared and are subject to risk and uncertainties given their anticipatory nature. Actual results may differ materially from current indications due to the variety of factors. Accordingly, nothing in the document is or should be relied upon as a promise or representation as to the future or any event or activity in the future and there is no representation, warranty or other assurance that any projections or estimations will be realised.

By accepting the opportunity to review this document the recipient of this information acknowledges that:

it will conduct its own investigation and analysis regarding any information, representation or statement contained in this or any other written or oral information made available to it and will rely on its own inquiries and seek appropriate professional advice in deciding whether to investigate further the business, operations and assets of the business; and

to the extent that this document includes forecasts, qualitative statements and associated commentary, including estimates in relation to future or anticipated performance, no representation is made that any forecast, statement or estimate will be achieved or is accurate, and it is acknowledged that actual future operations may vary significantly from the estimates and forecasts and accordingly, all recipients will make their own investigations and inquiries regarding all assumptions, uncertainties and contingencies which may affect the future operations of the business.

In providing this document, Adviser Edge Investment Research reserves the right to amend, replace or withdraw the document at any time. Adviser Edge Investment Research has no obligation to provide the recipient with any access to additional information or to release the results of or update any information or opinion contained in this document.



Level 5, 437 St Kilda Road,
Melbourne Victoria 3004
Telephone: 03 8807 1666
Facsimile: 03 8807 1667
Email: info@adviseredge.com.au
Web: www.adviseredge.com.au

