

GPL Woodlot Project 2009 Blended Option



Lonsec Agribusiness Research
April 2009



GPL Woodlot Project 2009 – Blended Option



About this Project:	
Location	Tasmania and NSW
Product	<i>Eucalyptus</i> pulplogs & pruned sawlogs, and, <i>Pinus radiata</i> pulplogs and unpruned sawlogs
Target Project Size	2,000ha
Unit size	4ha
Target Raising	\$12.9m
Life of investment	25 years
Minimum outlay year 1	\$25,840 (ex GST)
Finance Available	Yes
Commissions & rebates (% of net harvest proceeds)	GPL pays a commission rate of 8% of the application fee to licensed dealer groups
Product Rulings	PR 2008/69 PR 2008/69A
Offer close date	30 June 2009
Risk and Return	
Level of Risk	Moderate
Lonsec IRR (after tax)*	
Mid case	8.9%
Indicative range of outcomes	8.1% - 9.6%
Zero IRR scenarios	
If Price falls by.....	77% then IRR = 0%
If Yield falls by.....	77% then IRR = 0%
If Yield and Price fall by...	64% then IRR = 0%
Robustness	High
Years to positive cumulative cashflow	13 years
* Calculated excluding the premium for optional woodlot insurance	

The Project Plan

- The Blended Option of the GPL Woodlot Project 2009 offers Investors the opportunity to participate in a regionally and sector diversified forestry Project over a 25 year term.
- One investment unit is comprised of two Option 1 woodlots and one woodlot in each of Option 2 and Option 3 of the GPL Woodlot Project 2009, equating to a total of 4 woodlots with a forest area of 4ha.
- Investors participate in growing *Eucalyptus* trees to produce pulp logs and pruned veneer logs in Tasmania, and *Pinus radiata* to produce pulp logs and unpruned sawlogs in Tasmania and NSW from seven commercial harvests.
- Entry into the Project is via an upfront Application Fee of \$25,840 (ex GST) per investment unit. This fee is discounted approximately 5% on the fee payable should the relevant woodlots be acquired individually. With the exception of pruning fees for the Option 2 woodlot, Investors pay no ongoing fees. Rent, Maintenance and Sales Commission fees are deferred until harvest and are paid as a proportion of net harvest proceeds.

➤ Gunns Plantations will establish, manage, harvest and market the timber produced in the Project on behalf of Investors.

Key Project Drivers

- Gunns has consolidated its position as a leading fully integrated forestry company via a number of acquisitions of plantation estates and major processing infrastructure.
- The Project provides agronomic, regional and market diversification benefits to Investors. This reduces the risk of any one production or market risk significantly impacting the financial returns of the Project.
- A floor price mechanism for timber produced in Option 1 and Option 2 woodlots provides some additional protection for Investor returns.
- GPL proposes to sub-contract all woodlot management obligations to Gunns Limited (Gunns), an experienced forestry manager.
- Investors enter into a Wood Sale Agreement with Gunns for the purchase of timber from Investors' Woodlots. Gunns has established relationships with major Japanese trading houses and the major pulp and paper manufacturers in Japan, Korea, Taiwan, Indonesia and China.

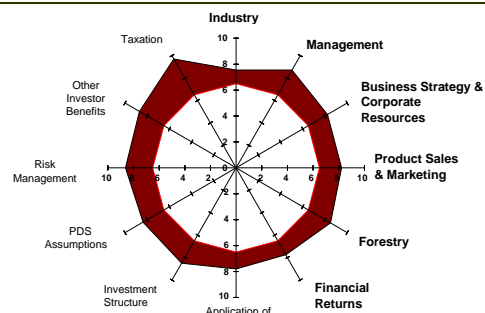
Key Project Risks

As with all long-term forestry ventures, the Project is exposed to agricultural and economic risks such as pest and disease, wind damage, malnutrition, inappropriate management and market failure.

Each investment unit of the Blended Option of the GPL Woodlot Project 2009 produces hardwood pulplogs and pruned veneer logs, and softwood pulplogs and unpruned sawlogs from plantations spread across regions in Tasmania and NSW. Therefore, the risk of any one event (e.g. wind, fire, frost, pest damage) significantly affecting the returns of the Project is reduced.

In categorising the Project's level of risk, Lonsec has made a qualitative risk assessment of each of the Project's three components, considered their respective contribution to Project returns and the overall diversification benefits of the Project. Subsequently, Lonsec has rated the Project risk level at the lower end of the 'Moderate' risk category.

Lonsec Ratings – Critical Determinants*



* The shaded area represents the amount by which the investment ratings exceed minimum approval score of 6.5.

Triggers for Review

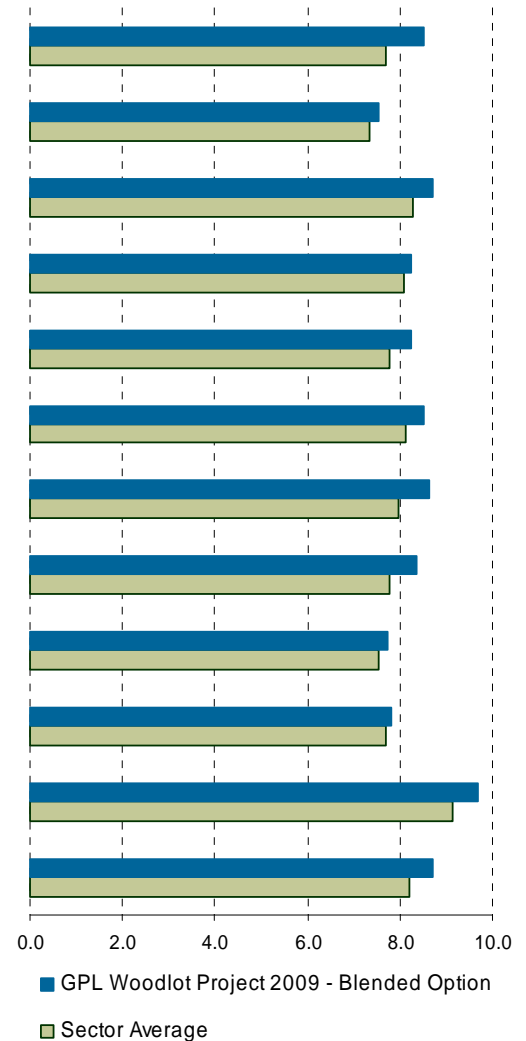
After the Research Report has been completed, Lonsec has asked to be notified of any significant changes, including supplementary offer documents, that materially or may materially affect the basis of our recommendation. This will allow Lonsec to reassess the recommendation.

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Comparative rating of Critical Determinants

A comparison of the Project’s rating in the 12 Critical Determinants (see left-hand table) against the corresponding agricultural Sector average in the Lonsec database is shown below:



GPL Woodlot Project 2009 – Blended Option



What the rating means

The **Recommended** rating indicates that the project is considered to be a worthy substitute for Highly Recommended products, given the manager is still considered to be well positioned overall to deliver stated objectives over the project term. A Highly Recommended rating has not been assigned due to one or more factors that are likely to impact the projects overall outcome.

Lonsec Scope and Approach

Lonsec Research (Lonsec), a division of Lonsec Ltd, has prepared this report for the Directors of Gunns Plantations Limited (GPL).

Scope

The research process has included, but is not restricted to, the Lonsec Ratings Process using over 100 areas of assessment to rate the 12 critical determinants of an agribusiness investment. Lonsec has not engaged a solicitor to review the Project agreements, legal structure and GPL's due diligence process. Where applicable, Lonsec has commented on issues arising from a limited review of specific agreements, as noted in the report.

Lonsec has not engaged a taxation specialist to provide advice on the implications of the Product Rulings and proposed deductibility of the Application Fees to Investors. Taxpayers who are considering participating in the Project are advised to confirm with their taxation advisors that changes in the law have not affected the Project's Product Ruling since it was issued.

A Product Ruling generally states that if the proposed arrangement is materially different from the arrangement that is actually carried out, the Ruling has no binding effect and will subsequently be withdrawn or modified.

Sources of Information

Lonsec has relied on information requested from GPL in relation to the GPL Woodlot Project 2009 – Blended Option (ARSN 135 490 292) PDS dated 8 April 2009, and information obtained from discussions with Project directors, management and key employees.

Lonsec has engaged Roger Underwood (York Gum Services, WA) as the Lonsec Consultant Forester (LCF) to undertake a Forestry Review of the Project, and has relied upon the information supplied therein. The Lonsec Consultant Forester conducted visits of the proposed sites for this project in December 2008.

Material Agreements

- Draft Wood Sale Agreement and Deed Poll (GPL, Gunns Ltd)
- Constitution (GPL)
- Compliance Plan (GPL)
- Management Agreement (Investor, GPL)
- Forestry Right Deed (Landowner, GPL)
- Sub-Forestry Right Deed (Investor, GPL)

License, Product Ruling and Approvals

- Australian Financial Services Licence No. 238701 held by Gunns Plantations Ltd
- ATO Product Ruling PR 2008/69
- ATO Product Ruling PR 2008/69A

Supporting Documents

- Gunns Limited and GPL biographies and qualifications of senior staff
- Gunns Limited Annual Reports, 2004, 2005, 2006, 2007 & 2008
- GPL Woodlot Project 2009 financial model (Investor and Manager)

Approach

Lonsec has rated the Project in accordance with the standard Lonsec rating methodology. Projects are assessed against a scale of 1-100, which is translated into the following descriptive ratings:

- "Highly Recommended" (85 to 100)
- "Recommended" (75 to 84.9)
- "Investment Grade" (65 to 74.9)
- "Not Approved" (less than 65)

A Project must rate greater than 65 in each of the six Major Determinants - Industry, Management, Corporate Resources, Product Sales and Marketing, Forestry and Financial Returns in order to pass as a whole, regardless of the total aggregate rating.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ➤ Gunns has extensive experience with both <i>Eucalyptus</i> and <i>Pinus radiata</i> plantations, and utilises well trained permanent managers and specialist contractors. ➤ As agents for the sale of Investors' timber, GPL will enter into a Wood Sale Agreement with Gunns for timber produced in the Option 1 and 2 woodlots, and timber produced in Tasmania under Option 3. The wood sale agreement will include all wood grown in Tasmania. ➤ Gunns has established relationships with major Japanese trading houses and the major pulp and paper manufacturers in Japan, Korea, Taiwan, Indonesia and China. ➤ Gunns provides a Floor Price mechanism for timber produced in Option 1 and 2 woodlots which is linked to the price Gunns receives for the finished value-added product. ➤ Gunns has significant downstream processing with existing infrastructure currently consuming around 4 million tonnes of wood per annum. ➤ Gunns has been certified to the Australian Forestry Standard (AFS), Chain of Custody (CoC) and operates an Environmental Management System (EMS) certified to ISO 14001. This commitment to world's best practice confirms Gunns role as a leader in Australian forest management. 	<ul style="list-style-type: none"> ➤ Gunns has not provided a Floor Price mechanism for the Option 3 woodlot within the Project. ➤ The Wood Sale Agreement is available for Tasmanian timber only and does not nominate specific volumes and prices. The timber will be sold as logs, effectively at the prevailing market stumpage price, having regard for the species, the location, quality and end use of the timber. ➤ The floor price mechanism for timber produced in the Option 1 and 2 woodlots is a derivative of a variable market price which is not as robust as a fixed floor price. ➤ Drought losses are not covered by the optional insurance. However, this risk is mitigated to the extent that the strict land selection procedures are implemented and by the provision of minimum stocking rate guarantees.
Opportunities	Threats
<ul style="list-style-type: none"> ➤ Until the recent global economic downturn, there has been strong worldwide demand for high quality hardwood pulp, particularly from Chinese, Japanese and South American pulp processors. This is expected to continue to drive demand over the long term. ➤ There is potential for the sale of timber into the sawntimber market if demand at the time of harvest, and timber produced, favour sale into this market. ➤ The sale of wood to the Gunns Bell Bay Pulp Mill, if approved for development by the Federal Government, would potentially increase market demand for timber and consequently has the potential to increase market stumpage price. 	<ul style="list-style-type: none"> ➤ Increasing production from maturing plantation resources worldwide could place downward pressure on international pricing within the term of the investment, particularly for pulpwood products produced under this Project. ➤ Rising fuel prices may erode some of Australia's cost competitive position for fibre exports to key Asian markets, particularly relative to expanding South East Asian timber resources. ➤ Adverse weather conditions, particularly the event of prolonged drought. ➤ A general downturn in Asian economic conditions resulting in reduced demand for pulp and paper products, which could impact on investor returns. ➤ Improvements in paper recycling technology and increased recovery rates of recycled paper fibre may impact demand dynamics.

Key Drivers of the Project

Lonsec believes that the following key project components will drive the success of the GPL Woodlot Project 2009 – Blended Option.

Experience and strength of the Manager

GPL, the Responsible Entity (RE) for the Projects, is one of Australia's largest agribusiness investment managers with over \$575m of funds under management. The company has (currently and previously) offered a range of agribusiness investments including GPL's Woodlot Projects, Winegrape Projects and Walnut Projects.

Gunns Limited (the parent company) is well structured to provide the necessary financial support for its subsidiaries (including GPL), and provides a range of synergies between divisions and subsidiaries. Gunns' diversification, with timber processing and value adding operations is positive for the sustainability of the group and will help extract greater returns for Investors.

Lonsec believes that both Gunns Ltd and GPL demonstrate the appropriate management experience to successfully manage ongoing core business activities.

Market Outlook

Pulpwood produced by the Project will be sold into a deep global market, with Gunns large scale of production allowing the produce to be marketed directly.

It is difficult to project future woodchip prices as a result of the many factors that influence price. However, over the last 3 years, woodchip prices have shown strong growth and whilst over the longer term Lonsec believes price growth will moderate, it is expected that woodchip prices will at least hold relatively stable in real terms.

Investors should refer to the series of industry outlooks, located on the Lonsec website (www.lonsec.com.au), for further details on the market outlook.

Past Performance of timber projects

GPL has demonstrated a strong ability to successfully establish and manage *Eucalypt* plantations in Tasmania. The Independent Expert's reports reviewed by Lonsec generally express the strong performance of GPL's 12 previous timber project (see Section 3.7 of this report for more detail).

Similarly, *Pinus radiata* is the most widely used plantation timber species in Australia. Gunns will be able to draw upon the well refined silvicultural, harvesting and processing techniques which have evolved from decades of industry research and development. This, in addition to the availability of genetically improved seed stock, will assist in reducing production risks and aid in optimising growth rates and timber yields in the Option 3 woodlot.

Project diversification

The Project aims to produce a range of products targeting different timber markets: namely the construction, appearance, and pulpwood industries. Markets are both domestic and international and are driven by differing fundamentals which diversifies the Project's exposure to market risks.

Woodlots in the Project will be established across a range of locations with different management strategies and harvest timetables. The species and geographic diversity reduces the risk of any one localised event (e.g. wind, fire, drought or pest or disease attack) significantly impacting on pooled Project returns.

1. Investment Offer and Structure

1.1. Project Outline

The PDS dated 8 April 2009 constitutes a retail offer, with the opportunity to participate in the GPL Woodlot Project 2009 – Blended Option. The Australian Tax Office (ATO) has issued Product Rulings (PR 2008/69 and PR 2008/69A) for applications received before 30 June 2009.

Key features of the Project

The Blended Option of the GPL Woodlot Project 2009 offers Investors the opportunity to participate in a geographically and sector diversified forestry project. One investment unit in the Project consists of two Option 1 woodlots and one woodlot in each of Option 2 and Option 3 Projects offered under the GPL Woodlot Project 2009 PDS. This equates to a total of 4 woodlots per investment unit having a total area of 4 hectares.

The key features of the respective woodlots which comprise this Project are:

➤ Option 1 is a 13 year project growing *Eucalyptus nitens* (Shining gum) and *Eucalyptus globulus* (Tasmanian Blue-

gum) pulplogs to be processed into hardwood pulpwood. A commercial thinning is expected to be carried out in year 9 of the Project, with clearfall harvest expected in year 13. Woodlots of 1.0ha will be located in Tasmania.

➤ Option 2 is a 20 year project growing *Eucalyptus nitens* pulplogs and pruned veneer logs. A commercial thinning is expected in year 9 of the project with clearfall harvest expected in year 20. Woodlots of 1.0 ha will be located in Tasmania.

➤ Option 3 is a 25 year project growing unpruned *Pinus radiata* pulplogs to be processed into softwood pulpwood. Commercial thinnings are expected in years 13 and 18 with clearfall harvest expected in year 25. Woodlots of 1.0ha will be located in Tasmania and NSW.

Investors are required to pay pruning fees in years 4, 6 and 7 of the project for pruning the Option 2 woodlot.

Investors, upon acceptance into the project, appoint the RE to manage the plantations in accordance with the Project

Constitution and Compliance plan, and carry on the future management and maintenance of Investors' woodlots.

Establishment Fee

Upon application Investors must pay an Establishment Fee of \$25,840 (ex GST) per unit, this being for the preparation of the land, supply and planting of the seedlings and other forestry establishment services for each of the woodlots in the Project. The offer closes to Investors on 30 June 2009.

The Project's Establishment Fee is discounted approximately 5% on the fee payable should the relevant woodlots be acquired individually.

Rent and Maintenance and Sales Commission

Rent, Maintenance Fees and Sales Commission are deferred until harvest. Investors pay a Maintenance Fee of 8% (ex GST), a Land Rental Fee of 5% (ex GST) and Sales Commission of 2% (ex GST), all of which are deducted from net harvest proceeds, before distributions to Investors.

This deferred fee as a percentage of harvest proceeds effectively aligns the interests of the Responsible Entity and Investors, providing the Responsible Entity with an incentive to maximise returns, for the benefit of both parties.

GST application on investor payments

Division 394 of the ITAA 1997, the GSTR 2008/D1 and the ruling on the High Court ruling on non-forestry MIS projects in December 2008, GST is not payable on investor payments made in relation to some Agribusiness MIS projects, where the investor is deemed not to be caring on a business. However, if an investor under the Product Ruling is deemed to be caring on a business, investors should note that GST is payable and therefore, participants in these schemes must ensure that they are registered for GST, in order to receive input tax credits.

The Product Ruling for the Gunns Woodlot Project 2009 – Blended Option, identifies that, for taxation purposes the investor is carrying on a business, and as a result GST is payable on all fees.

Pruning Fee

The Option 2 woodlot will require three pruning operations in approximately years 4, 6 and 7 of the Project. These fees are equal to \$736, \$788 and \$840 per unit of investment respectively, indexed at CPI. The RE will invoice Investors by 30 June in the year that pruning has been completed.

Optional insurance

Investors can elect to insure their Woodlots against loss from fire and other usual risks. If requested in writing, GPL will use its best endeavours to arrange insurance requested by an Investor. The Investor will be invoiced for the cost of the insurance plus a 10% service charge (plus any applicable GST). For more detail on insurance see Section 7.4 of this report.

Timber sales

Investors will receive a payment for wood sold following thinning and clearfall harvests. The RE will take on the

responsibility as agent for Investors to sell the harvested wood.

All timber grown under the Project will be sold as either pullogs or sawlogs and purchased from Investors on a stumpage basis. In accordance with the Wood Sale Agreement, the purchase price of all wood produced in this Project will not be less than the average comparative price, and for wood produced in Option 1 and Option 2, will also not be less than the relevant Floor Price.

All proceeds of timber sales with respect to each Option will be pooled. Investors will share in the proceeds for each pool pro-rata to the number of Woodlots, less their share of land and management fees, which will be deducted from the Harvest Proceeds before distribution. Lonsec notes the advantage for Investor with a pooling returns structure, as risk faced by individual Investors from losses and partial damage resulting from diseases, pests and the impact of weather and climatic events on their individual Woodlots is distributed across all project investors.

Secondary market

Commencing 1 July 2007, the Federal Government (Australia) passed legislation that allows "investors in forestry managed investment schemes (forestry MIS) to trade their interests once they have been held by the initial investor for a period of at least four years. More information is available on the Lonsec website.

1.2. Project agreements

➤ The relevant Agreements relating to the establishment, management and sale of the Project and timber are:

- Constitution
- Compliance Plan
- Management Agreement
- Sub-Forestry Right Agreement
- Wood Sale Agreement (*Draft*)
- Deed Poll

The material agreements which govern or have an influence on the relationship between GPL (as the Responsible Entity) and the Investors are summarised in Section 22 of the PDS. Complete copies of these agreements are available on application from the Responsible Entity. Where applicable, Lonsec has reviewed the summary information provided in the PDS pertaining to the material agreements. Lonsec has not engaged a solicitor to review the Project agreements, legal structure and the Promoter's Project due diligence process. As such, Lonsec has not provided a detailed assessment of these documents within the scope of this report.

Investors should also seek their own independent professional advice prior to entering into any of the Project Agreements.

Constitution

This document establishes the Project and is the primary document governing the relationship between GPL and the Investors. It defines the Project terms, application process, management of project funds, business management, and

legal rights and obligations that apply to the Responsible Entity and Investors under applicable laws and regulations.

Compliance Plan

The Compliance Plan sets out the measures, processes, and procedures the Responsible Entity will use in managing the project to ensure compliance with the material project agreements, Corporations Act, ASIC policy, and the ATO Product Ruling specifications.

Management Agreement

Under the Management Agreement, GPL is appointed as Manager and will carry out Services, defined as Establishment Services and Maintenance Services, on behalf of each Investor.

The Manager must use its best endeavours to complete the Establishment Services within 18 months of the end of the financial year in which the Establishment Fee is paid (by 31 December 2010).

The Maintenance Services (clause 5) will be provided during the Term of the Sub-Forestry Right Deed. The Manager will replant any trees on an Investor's Woodlot which die for any cause during the first 2 years after the Commencement Date to maintain a minimum stocking level of 90% of the average initial planting density.

If requested by the Investor, GPL will endeavour to procure insurance cover against destruction or damage of the Investor's Woodlot by fire and other usual risks. In addition, GPL will be responsible for insuring the Plantation against

public risk for an amount of not less than \$20,000,000 during the Term of the Project.

Sub-Forestry Right Agreement

Investors execute a Sub-Forestry Right Deed with GPL as the Grantor. GPL grant to the Investor the right to carry out the Project's tree farming activities from the Commencement Date. The Investor has, at all times, full right, title and interest in the Trees and the right to have the Trees sold for their benefit. This agreement states that GPL is entitled to a Rental Fee which will be deducted from the Wood Sale Proceeds.

Wood Sale Agreement (Draft)

Lonsec has only viewed a draft of the Wood Sale Agreement.

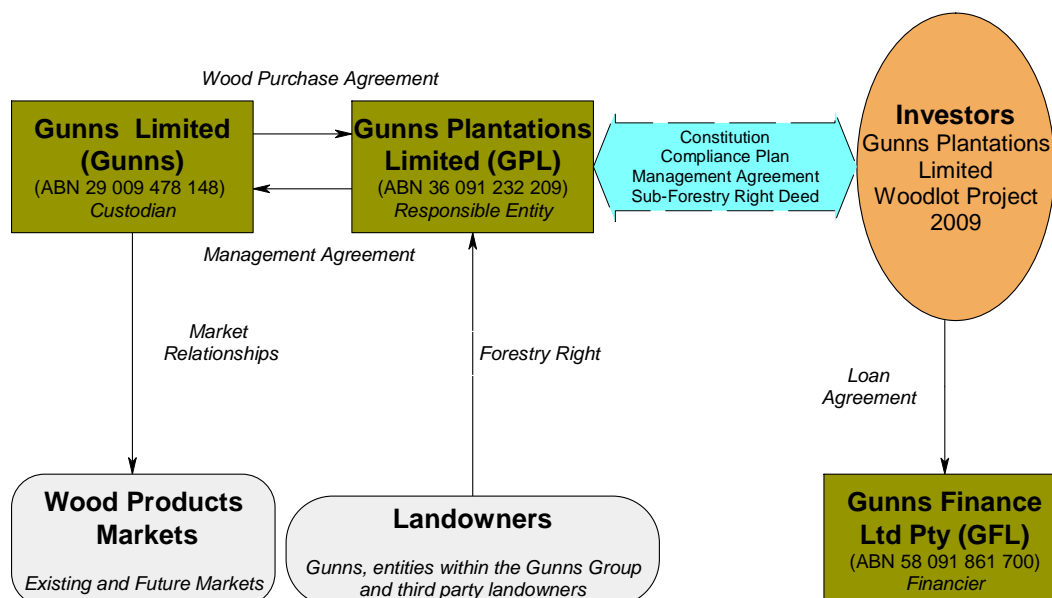
Under the Draft Wood Sale Agreement, Gunns will pay Investors the greater of either the market stumpage price or the price determined by applying the "floor price" mechanism at the time of harvest for wood harvested under Option 1 and Option 2. See Section 5 of this report for more detail.

Deed Poll

The Deed Poll commits Gunns to enter into a Wood Sale Agreement for the Investors' wood.

1.3. Project Structure

Figure 1.1 Project Structure, including the external and Project related parties



2. Industry Outlook

Lonsec has conducted an in-depth industry review of each forestry sector in which this Project will participate. Lonsec refers prospective Investors to the relevant Industry Outlook reports available on the Lonsec website for a detailed review of the respective industry dynamics. These reports are available from,

<http://www.lonsec.com.au/asp/public/General/DocumentList.aspx?ModuleID=151&ModuleStructureID=4569>

Lonsec's Industry Outlook reports analyse key components of agricultural industries. Domestic and international supply

and demand trends and outlooks are discussed in conjunction with the past, present and likely future trends of key and emerging markets. The market relationships are analysed to discuss how they may influence both domestic and global prices for the particular commodity in the future. Key economic, political and agricultural issues facing the industry are identified as are some of the strategies which are being employed to overcome such challenges.

3. Management

The Gunns group of companies comprises Gunns Ltd and its subsidiaries, including GPL and Gunns Finance Pty Ltd (GFL).

3.1. Gunns Limited (Gunns)

Gunns is one of Australia's most prominent forestry production and value-adding companies with primary activities in the growing, harvesting, milling and processing of woodchips for export (both hardwood and softwood) as well as timber for hardware and building supplies. Gunns, as an ASX listed company, had a market capitalisation of \$541.3 million at 9 April 2009. Gunns acts as the Custodian for the MIS projects managed by its subsidiary, GPL.

3.2. Gunns Plantations Ltd (GPL)

GPL acts as the Responsible Entity (RE) for Managed Investment Scheme (MIS) Projects, and is one of Australia's largest agribusiness investment managers with over \$575m of funds under management. The company has (currently and previously) offered a range of agribusiness investments including GPL's Woodlot Projects, Winegrape Projects and Walnut Projects.

3.3. Board of Directors of GPL

John Gay (Executive Chairman)

Experience: Gay has been a Director of the Company since 1986. He has solid knowledge of the forestry and manufacturing industries accumulated in more than thirty years experience in management of the Group.

Leslie Baker B Sc (For) (Executive Director)

Experience: Baker has managerial experience in forestry and agricultural MIS including overseeing the development of the MIS projects offered by GPL. Baker is currently the general manager of the Bell Bay pulp mill project, a Director of National Association of Forestry Industries (NAFI), and a member of the Institute of Company Directors.

Rodney Loone (Non-Executive Director)

Experience: Loone is a Fellow of the Institute of Chartered Accountants and is the Managing Principal of the chartered accounting firm, Garrotts. He has experience in accounting, taxation, and the agriculture and forestry industries.

Patrick Sullivan LLB (Hons) (Non-Executive Director)

Experience: Sullivan is a retired solicitor whose practice was largely in the area of commercial law. He has previous experience as a board member of both private and public companies.

Robert Graham BA DipEd (Non-Executive Director)

Experience: Graham has a history of executive and non-executive board positions principally on companies servicing the timber and building industries in both Australia and overseas. Currently a director of GPL concentrating on MIS Compliance Management, Graham is also a Director of Rees Operations Pty Ltd and SEAS SAPFOR Harvesting Pty Ltd (a subsidiary of Auspine Ltd). Graham holds the position of Chairman of Imperial Jade International Pty (L) Ltd and is the chairman and managing director, respectively, of Barnaby Pty Ltd and Project Control Systems Pty Ltd (two family owned companies).

Robin Gray BAGSci (Executive Director)

Experience: Gray entered State politics as a member of the House of Assembly in 1976. He was elected as Leader of the Opposition in 1981 and as Premier of the State for seven years from 1982. Gray retired from parliament in 1995 and is currently practising as an agricultural consultant. During his period in Parliament Gray served as State Treasurer and Minister for Forests.

All Directors of Gunns and GPL have considerable experience in finance, agriculture and business management, providing a strong mix of skills for a successful corporate management team.

3.4. Senior Managers of GPL

Leslie Baker
B Sc (For) (Executive Director)

Refer to comments in Section 3.3.

Ian Blanden
BSc (For), Cert For Eng (General Manager)

Experience: Blanden has managerial experience operating forestry and agricultural MIS projects. He has been responsible for the establishment of GPL's managed investment schemes since inception in 1999 encompassing in excess of 145,000 hectares of plantations, over 240 hectares of vineyards and more than 1,200 hectares of walnuts, as well as being responsible for the maintenance of approximately 150,000 hectares of timber plantation estate managed by Gunns. Blanden currently serves as a Director of the Tasmanian Agricultural Productivity Group (TAPG).

3.5. Forestry Operational Management

GPL contracts all forestry operations to the Plantation Division of Gunns Ltd (GPD). GPD has a long history of forestry management in Tasmania. The company currently has four operational centres in the following areas: north-eastern Tasmania, north-western Tasmania, south-eastern Tasmania and the southern highlands of NSW, with staff located in each region.

Gunns first commenced plantation development (*Pinus radiata*) in Tasmania in the 1950's and soon after commenced establishing eucalypt plantations. The area of eucalypt plantations expanded at a more rapid rate in the 1970's and early 1980's.

Robin Dickson
Cert Forestry (Operations Manager - GPL)

Experience: Dickson has over 28 years experience in the management of natural resources, particularly in the development and operations of tree farms, including financial/budget control, strategic planning, and issues management. Dickson has worked as Operations Manager for major Tasmanian Forestry companies including Forest Resources (14 years), North Forest Products (3 years), and GPL for the last 10 years.

Brent Donaldson
BAGSci (Hons.) (Manager – GPD)

Experience: Donaldson has a good combination of forestry operations and management experience suited to the responsibilities held as Manager of GPD. He has over 10 years of specific industry experience gained throughout Australia and New Zealand.

As manager of GPD, he is responsible for the overall establishment and maintenance of forestry plantations.

Lonsec believes the management of GPD is suitably experienced to manage the GPL woodlot projects.

3.6. Compliance Committee

GPL has established a Compliance Committee to monitor and report on the performance of its duties and obligations as set out under the Compliance Plan. Robert Wood, GPL's Compliance Manager, reports to the Compliance Committee every second month.

The members of the Compliance Committee are the members of the GPL board.

3.7. Past Performance of Managed Investment Schemes

Performance of GPL Projects

GPL has offered 21 MIS projects in the past (Appendix 1) with the following areas established:

- Forestry – 100,104 ha
- Winegrape – 246 ha
- Walnuts – 664 ha

Figures 3.1 and 3.2 show the development schedule of forestry, walnut and winegrape plantings respectively.

Figure 3.1 – GPL Forestry Plantings from FY2000 to FY2008

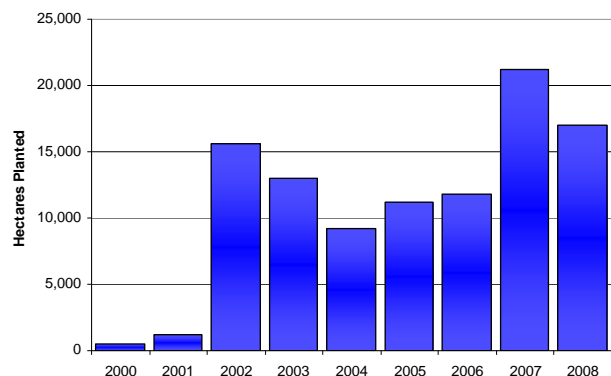
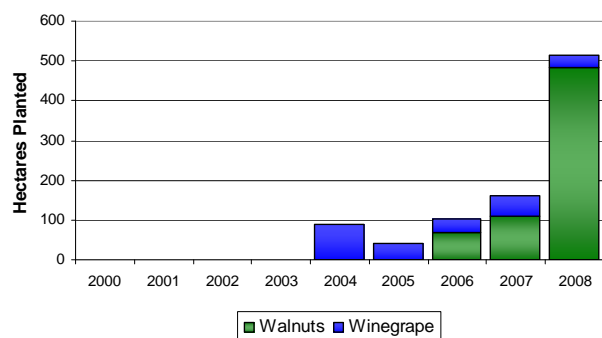


Figure 3.2 – Walnut and Winegrape Plantings from FY2004 to FY2008



Lonsec has reviewed independent forestry reports for all GPL's woodlot projects between 2000 and 2008. The forestry review conducted by VDFC Forestry Consultants generally reports strong performance of all the eucalypt and pine options.

The 2000 and 2001 woodlot Projects are reported to be growing at a rate above PDS projections (confirmed by formal inventory), with the 2002 Project inventory due to be carried out in summer 2008/09.

The 2003 to 2008 Projects are currently too young to definitively assess yield and growth performance. However, the independent forester's report(s) generally express strong vigour and appearance. Browsing by animals has been highlighted as an issue in parts of the 2003 and 2005 Projects, however it is not considered to have had any significant impact on yield.

Lonsec is aware that GPL has commenced the thinning harvest of the 2000 woodlot project (Option 1 & 2) and Woodlot Project 2001 as at April 2009.

Investors in Option 2 received a distribution in August and October 2008, with the remaining instalments for thinning proceeds expected in January, April and July 2009. GPL has

achieved a thinnings price for the timber sold of \$37.40/m³ stumpage, which is 18% above the original Prospectus forecast.

Gunns also reports that the trees are growing up to 35% faster (Option 2) and 19% faster (Option 1) than originally predicted, and are forecast to achieve growth rates well in excess of 33 MAI (m³/ha/annum) at maturity. In the case of Planting Option 2 (Hardwood Veneer & Pulpwood) distributions to investors will be paid approximately four years ahead of schedule. For Investors in Planting Option 1 (Hardwood Pulpwood) no thinning was forecast in the original Prospectus and thus this distribution will positively influence overall investor returns.

4. Business Strategy and Corporate Resources

4.1. Strategic Objectives

Gunns was established in 1875 by brothers John and Thomas Gunn, and has grown through the acquisition of a range of assets, particularly in recent years. While Lonsec has not reviewed Gunns' business plan, the following strategic objectives have been identified:

- Increase the Group's plantation area under management
- Develop the revenue base in key markets and realise cost efficiency benefits from the integration of businesses acquired
- Diversification of production and entry to new product segments

4.2. Strategic Approach

The company has diversified its earnings and product base through:

- Purchase of Tamar Ridge Estates (viticulture) business in 2003
- Increased expansion into the softwood segment of the forestry industry facilitated through the purchase of Auspine, finalised in 2008
- Expansion of MIS product offerings beyond Tasmania (Option 3 softwood in Tumut/Tumbarumba and Walnuts in the Riverina).
- Progression of the pulp mill project, which will provide a significant value adding opportunity

GPL management commenced plantation forestry operations outside of Tasmania with softwood operations in the southern highlands regions of NSW. GPL has also added a walnut project based at Griffith, NSW. GPL now has a diversified offering of agribusiness investments across sectors and locations.

On 5 January 2009 the Federal Environment Minister gave further approvals for the Bell Bay pulp mill Environmental Impact Management Plan modules. With this announcement Gunns has now received approval for 13 of the 16 environmental modules submitted. Three remaining modules

have provisional approval, pending completion of modelling for which the scope has been agreed. As a result Gunns can now commence construction of the \$2 billion project, subject to the availability of finance.

The Bell Bay pulp mill project is a key focus for the Board and Management. The pulp mill project is based on value adding to forest products and generating shareholder value and economic growth.

The company has progressed commercial aspects of the project. These matters will now be completed in the near-term and the project will be presented for final sign-off by the Gunns' Board.

Gunns acquired Auspine Limited during the 2008 financial year. The investment in Auspine is a strategic investment for Gunns as its core business is the production of high quality structural softwood timber. In addition, Auspine is a major softwood fibre exporter.

Auspine assets included 46,000 hectares of freehold land with over 40,000 hectares of productive *Radiata* pine forest, a softwood sawmill (500,000 m³ capacity) at Tarpeena, SA and a woodchip export facility at Portland, Victoria. This investment represents a solid platform to further develop the business within the Green Triangle region of South Australia and western Victoria.

4.3. Strategic Issues

Key issues facing Gunns in the near future will revolve around the ongoing management of the Bell Bay pulp mill project. Federal and State Governments have placed some of the most stringent conditions on the development of the pulp mill which will need to be carefully managed by Gunns.

As discussed earlier in this report, on 5 January 2009 Gunns gained approval by the Environment Minister for 13 out of 16 of its Environmental Impact Plan modules for the pulpmill submissions. Gunns remains positive that the Government approval will be achieved in time, however another concern is the ability of the company to gain access to sufficient funding before construction is to begin. With the loss of the

ANZ as principal financier, Gunns will have to seek funds from other sources which may include participation by institutional equity partners and foreign investment banks.

Other issues facing Gunns include the strategic management and integration of Auspine. With the recent acquisition of Auspine, it is essential that Gunns' board and management effectively integrate with its new subsidiary.

Lonsec is pleased to note the appointment of Auspine's previous Chairman as an independent Director to the Gunns board.

4.4. Financial Resources

MIS Sales Summary

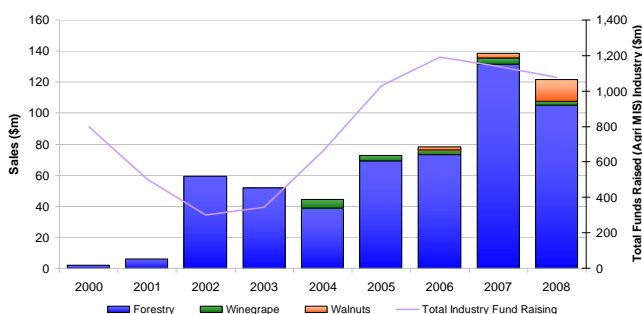
GPL, as a subsidiary of Gunns, has offered 21 MIS projects in the past, raising a total of \$575.5m in funds, including:

- 12 Timber Projects (\$538.0);
- 5 Winegrape Projects (\$17.6m)
- 4 Walnut Projects (\$19.9m).

As shown in Appendix 1 and Figure 4.1, Gunns' MIS sales in FY2008 can be broken down between the projects as follows: Woodlot Project \$105.2m (86%), Winegrape Project \$2.4m (2.4%), and the Walnut Project \$14.1m (12%) including GST.

In the 2008 financial year GPL experienced a decline in MIS sales revenue similar to that of competitors within the tax effective MIS sector. In FY2008 GPL's MIS sales revenue fell 12% to \$121.8 million.

**Figure 4.1 – GPL Sales Summary
FY2000 - FY2008**



Whilst in the broader MIS market, sales were impacted by poor investor sentiment in the wake of the recent global financial uncertainty, Lonsec notes that Gunns' sales reduced primarily in response to a deliberate move to reduce sales. This decision by Gunns was in response to the high price and unsuitability of available land, and the fact that GPL is nearing its target estate size for Tasmania. In the future GPL will rely principally on second and third rotation land (ie existing freehold), supplemented by strategic leases and land purchases, for its new MIS projects.

4.5. Profit and Loss Summary

Gunns produced a strong growth in total revenue during FY2008, which increased by 26% from FY2007 to \$862m. This is a strong result given the uncertainty in the broader market, and was attributable to an increase in Forest

Products revenue by 47% to \$634m, and revenue contributed by the newly acquired Auspine business of \$194m.

However, unlike the company's processing division, Gunns' MIS sales revenue fell by 12%, with the company's merchandising, construction and wine operations also experiencing a small decline in revenue by 2%.

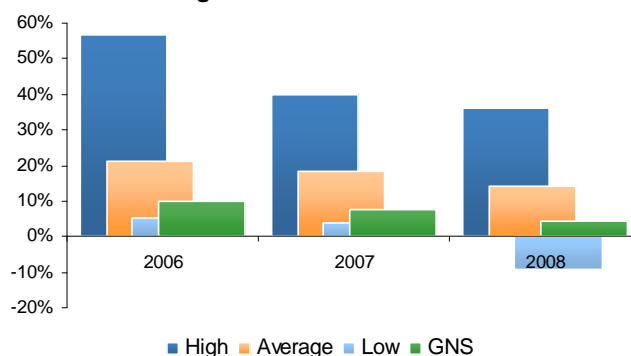
Despite these mixed results, Gunns overall recorded growth in EBIT, increasing by 4.3% from 2007 to \$145.6m. Gunns' diversified business structure is a key reason why the company was able to maintain strong EBIT in FY2008, with exposure to a range of sectors providing robustness in revenue generation and insulating the business from poor economic and market conditions during the year.

In contrast to the strong EBIT, Gunns' NPAT slid considerably during FY2008, falling 16% to \$64m. This is a disappointing result, yet reflects the impact of a significant jump in borrowing costs, which rose 86% from FY2007 to \$81m. However, given the difficult economic environment both for MIS fund raising and business operations in general, Lonsec believes it is likely that Gunns will post more positive results in FY2009, building on optimism in the timber industry (especially woodchip prices) and a more settled investment sector.

In comparison to the Lonsec database average, Gunns' Lonsec adjusted ROE for FY2008 was low at 4% (Figure 4.2), reflecting the impact of high financing costs on the company's NPAT.

However despite this, Lonsec believes that Gunns' debt reduction activities that occurred after 30 June 2008, (as discussed below in section 4.6), will have a positive influence through relieving the financing cost burden, improving the company's profitability in the next period.

**Figure 4.2 – Adjusted Return on Equity 2006- 2008
against Lonsec Database**



4.6. Balance Sheet Summary

Lonsec considers Gunns' balance sheet to be well capitalised with sufficient strength to facilitate growth and expansion and to gain access to additional capital. Gunns' balance sheet capitalisation at 30 June 2008 was at \$2.04b, with Net Assets of \$933m.

The company's gearing is considered to be moderate to high on a Net Debt/Equity basis, at 106% in FY2008 which is above the Lonsec database average for corporate

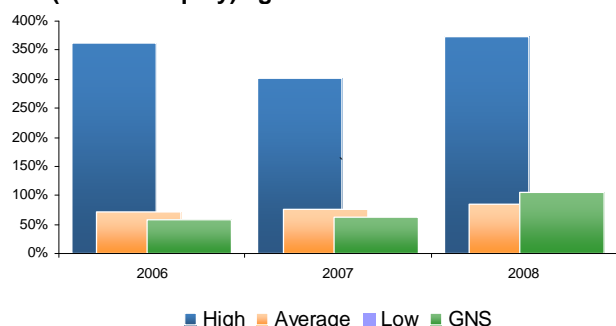
agribusinesses gearing levels (database average Net Debt/Equity is 71%).

Whilst Gunns' gearing may not appear high in comparison to businesses within other sectors, it is important to acknowledge the type of assets which are generally funded by this debt. Agribusiness asset bases usually consist of land, infrastructure and water, which are highly illiquid. With volatile cash flows common in the Agribusiness MIS sector, this poses a threat to liquidity if the business experiences a reduction in revenue as a result of economic, regulatory or market related issues. However, Lonsec notes that Gunns has considerable downstream integration which will provide insulation to cash flows in the event that MIS sales were depressed.

Whilst Lonsec considers Gunns' gearing to be at the higher end, it is also important to consider gearing in relation to business growth activities. As a result, Lonsec believes that the company's gearing level does not present any immediate concern, however the influence of high financing costs in FY2008 may warrant a focus on debt reduction in 2009.

Gunns' debt increased by 160% in FY2008. This increase was a product of the debt financing employed to fund the development activities for the Bell Bay Mill and the acquisition of Auspine. Compared with FY2007 Gunns increased Short and Long term secured borrowings by \$386.9m.

Figure 4.3 – Gunns Gearing 2006-2008 (net debt/equity) against the Lonsec database



Lonsec notes that the data presented above is based on the company's June 2008 results and therefore excludes events that occurred after this period. Because of this, Lonsec feels it is pertinent to highlight Gunns' debt reduction activities that have occurred since the end of FY2008. Two major events, including the divestment of plantation estates and an equity raising, have occurred in FY2009.

On 25 November 2008 the company entered an agreement with GMO Renewable Resources for sale of approximately 33,000 hectares of standing pine timber in the Green Triangle, representing approximately 75% of the managed softwood plantations owned by Auspine. GPL reports that gross proceeds from the sale will amount to approximately \$175.2m.

In addition, Gunns announced on 4 September 2008 that it raised \$336m through an institutional equity raising, issuing approximately 224 million new shares at \$1.50 per share.

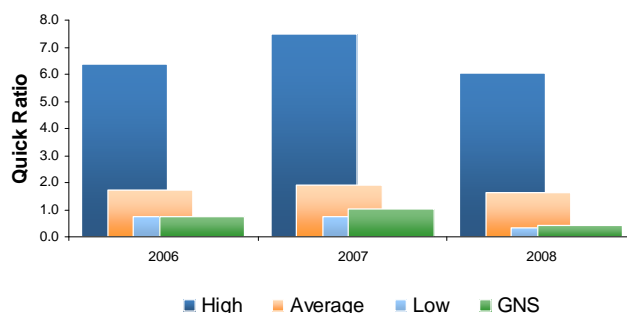
Lonsec believes that both these debt reduction activities will help bring the company's gearing back to a more sustainable level, which combined with a reducing cost of debt over the

last few months, will assist in relieving the interest burden on the company, which should contribute to strong profit results for FY2009.

4.7. Liquidity

Liquidity has become an increasing concern for many agricultural businesses in recent times as debt financing costs place pressure on companies to generate sufficient cash and maintain asset allocation in order to sustain ample liquidity to operate the business and service debt. Figure 4.4 below shows Gunns quick ratio in comparison to the Lonsec database.

Figure 4.4 – Gunns Quick Ratio 2006 – 2008 against the Lonsec Database



Gunns' quick ratio, a key measure of liquidity, shown in Figure 4.4 highlights that the company's high gearing levels has placed considerable stress on Gunns' liquidity during FY2008. Gunns' quick ratio (Current Assets /less Inventories)/Current Liabilities) fell to 0.4, the result of a decline in revenue from some of its businesses units (MIS sales and merchandising, construction and wine businesses), in combination with high net borrowing costs of \$60.7m. When considering this result in conjunction with Gunns' current cash/ debt coverage ratio of 0.2, Lonsec believes that it is important that the company monitors debt level and asset allocations to avoid liquidity stress in the future.

However, because of Gunns' diversified businesses structure, it is less likely that the company will experience stress as a result of this reduced liquidity if market conditions improve. In circumstances where revenues remain constrained, it would be advantageous for Gunns to improve its liquidity position.

4.8. Cash Flow Summary

In FY2008, Operating Cash Flow rose substantially from the previous year, increasing from a \$15.6 million deficit to \$69.5m. This large increase was primarily the result of a reduction in and collection of receivables, which fell by \$108.4m, down from \$171m in FY2007 to \$63m in FY2008.

In contrast, Gunns' net cash flow fell to a deficit of \$41.8m as a result of the large outflow associated with investing activities.

Investing cash outflow associated with acquisitions totalled \$221m and was largely attributable to the acquisition of Auspine. Other major expenditure included \$50.4m on the development of the Bell Bay mill.

Figure 4.5 – Summary of Gunns Limited Financial Statements – 2005 to 2008

Gunns Ltd Year ended 30 June	AIFRS 2005	AIFRS 2006	AIFRS 2007	AIFRS 2008
PROFIT AND LOSS ANALYSIS (\$m)				
Lonsec Adjusted Operating Revenue*	670.4	637.6	673.9	842.2
Other Revenue	8.9	5.1	15.3	29.3
SGARA	42.2	31.1	17.8	36.6
Reported Revenue	721.5	673.8	682.2	861.9
Lonsec Adjusted Revenue**	679.3	642.7	664.4	825.3
Earnings Before Interest and Tax	172.8	153.5	139.7	145.7
Net Borrowing Cost (less Interest Income)	(29.4)	(29.8)	(35.0)	(60.7)
Reported Profit Before Tax	143.4	123.6	104.7	85.4
Lonsec Adjusted taxation expense	(30.5)	(27.1)	(23.6)	(10.0)
Lonsec Adjusted Net Profit After Tax (before asset revaluations)	70.7	65.4	63.3	38.8
EBIT/Sales Ratio	24%	23%	20%	17%
Adjusted Return on Equity	14%	10%	8%	4%
Interest Cover (Times)	5.9	5.1	4.0	2.4
SUMMARY BALANCE SHEET (\$m)				
Current Assets	259.0	305.3	310.2	387.0
Non-Current Assets	1,006.5	1,141.7	1,504.0	2,204.0
Total Assets	1,265.5	1,447.0	1,814.2	2,591.0
Current Liabilities	247.0	252.9	198.3	577.0
Non-Current Liabilities	442.0	465.1	723.4	1,020.7
Total Liabilities	689.0	718.0	921.7	1,597.7
Net Assets/Shareholders' Funds	576.5	729.1	892.5	993.3
Working Capital Ratio	1.05	1.21	1.56	0.67
GEARING (\$m)				
Long Term Debt	304.4	308.2	542.5	705.3
Short Term Debt	85.2	128.4	36.7	353.1
Less Cash at Bank	7.4	5.4	17.9	9.5
Net Debt	382.2	431.1	561.4	1,048.9
Net Debt/Equity	66%	59%	63%	106%
SUMMARY CASH FLOW (\$m)				
Opening Cash	(5.6)	(8.1)	(17.8)	13.4
Operating Cash Flow	79.9	66.9	(15.6)	69.5
Investment Cash Flow	(113.2)	(157.5)	(143.8)	(362.1)
Financing Cash Flow	30.7	80.9	190.5	237.3
Net Cash Flow	(2.5)	(9.6)	31.1	(55.2)
Closing Cash	(8.1)	(17.8)	13.4	(41.8)
Current Cash/Debt Coverage Ratio	0.33	0.27	-0.07	0.18

** Lonsec Adjusted Operating Revenue = Total Revenue less Interest Revenue and SGARA revenue

4.9. Credit Risk Assessment

The Lonsec Agribusiness Credit Risk assessment (Figure 4.6) provides a graphical snapshot of a range of key risk measures used to quantitatively and qualitatively identify Gunns relative and comparative exposure to debt, financing counterparties and the overall risk created by financing to future solvency.

Risks (in Figure 4.6) are categorised as Low, Moderate or High, based on Lonsec's opinion of the risks inherent in the financing arrangements used by Gunns and the agreements between counterparties on both an investor and corporate level.

These risks, outlined in Figure 4.6 identify the relative level of financing risk adopted by the corporate entity in its financing operations and the counterparty risks associated with the parties involved in these transactions. At the project level, this analysis shows Lonsec's opinion of the risk to projects and their investors created by the investor financing arrangements and the potential risk to the corporate entity generated by investor default, investor loan structures and agreements, and the counterparties associated with the project/investor finance arrangements.

Figure 4.6: Credit Risk Assessment

Corporate Credit Risk and Exposure	Risk Level		
	Low	Moderate	High
Short-term Liquidity			
Debt Ratio (TA/TL)			
Leverage (Debt/ Equity)			
Counterparty Risk (Credit Risk)			
Project Credit Risk and Exposure	Low	Moderate	High
Counterparty Risk (Credit Risk)			
Project finance structure & securitisation			
Default Risk			

Corporate Credit Risk and Exposure refers to the elements which create financing risk and uncertainty for the corporate entity. This analysis provides the basis for Lonsec's opinion of Gunns risk in relation to the company's level of short and long term gearing, level of liquidity and relevant exposure to counterparty risk with the financing arrangements.

Lonsec believes that Gunns' risk level in relation to leverage is high. This is primarily because the company had relatively low liquidity at 30 June 2008, negative net cash flow and a gearing ratio greater than 100% (on a debt to equity basis).

The Project Credit Risk and Exposure identifies the risk to Gunns generated by investor loan arrangements. The finance terms, associated counterparties, including third party financiers, in addition to rates of default recorded by Gunns within other projects, provided a measure of the relative risk associated with the project finance arrangements.

Lonsec believes that the corporate borrowing used by Gunns is satisfactory, with the use of reputable credit sources and acceptable protocols. Based on Gunns' annual report (FY2008), Lonsec believes that Gunns gearing strategy has placed pressures on the company's liquidity which, coupled with the company's high level of gearing is of concern. Given strong profit generation in the next period, in addition to Gunns debt reduction activities, mentioned earlier in this report, the company should be able to improve its liquidity; however Lonsec remains cautious with high gearing strategies, given the uncertain economic environment impacting the broader market.

5. Product Sales and Marketing

5.1. Marketing

GPL has developed a marketing plan supporting the Project. The strategy aims to market Investors' wood with off-take agreements for all wood grown under all three Planting Options.

Gunns, through the establishment of a Deed Poll, is committed to entering into a wood sale agreement for the purpose of purchasing all wood grown in Tasmania (at thinning and final harvest) and is committed to paying Investors the greater of either the prevailing market stumpage for their wood or a Floor Price linked to the price Gunns receives for export woodchips (FOB price).

Trees on a Investor's Woodlot will be sold on a stumpage basis where it is standing on the stump and does not include the cost of harvesting and processing which will be the responsibility of the purchaser.

Gunns has significant and long established relationships with woodchip, sawn timber and veneer customers in over 20 different countries, with existing markets of around 5 million tonnes of wood per annum. Gunns is the world's largest exporter of hardwood chips. It has maintained strong relationships in Asia for about three decades. The woodchips are generally sold under evergreen 3-5 year contracts with the price negotiated annually.

Lonsec holds the opinion that Gunns is strategically well positioned to take advantage of emerging market opportunities throughout the Asian region.

The combination of customer relationships, proximity to international customers and the construction of the pulp mill will support Gunns future strategic objectives and business growth opportunities.

5.2. Pooling

The timber harvested from the Project will be marketed on a collective basis. The harvest proceeds will be pooled and will be shared by Investors pro-rata to the number of Woodlots held in the Project.

5.3. Determination of Purchase Price

A number of key factors are set out in the Draft Wood Sale Agreement which Gunns must account for in the determination of a "fair and reasonable" purchase price. An extract from the summary of material agreements stated in the PDS includes:

- The proposed end-use of the wood
- The price or prices being paid by other bona fide wood processors for wood of the same or similar species, quantity and quality in Tasmania and in other states of Australia.
- Customary methods of determining the price of wood of the same or similar species, quantity and quality in Tasmania and in other states of Australia.
- The quality of the wood offered for sale to the extent that it would affect the purpose of wood use.
- The timing of the commencement of harvesting of the timber so that the wood being sold is harvested and marketed in an orderly way.
- Relevant information supplied by any party including statistics or indices relevant to wood prices published by the Australian Bureau of Agricultural and Resource Economics (ABARE), the Australian Bureau of Statistics (ABS) or any other government authority or industry body.

Furthermore, the PDS identifies that the relevant price paid to Investors will not be less than both the relevant Floor Price and the price paid by Gunns to other major Tasmanian plantation timber suppliers for wood of the same or similar species, quality and quantity as determined by GPL (Average Comparative Price).

In determining the Average Comparative Price, GPL will exclude prices paid for wood where the volume levels are not material or where the terms of the sale were not at arms

length. Lonsec is of the view that publicly available comparative pricing benchmarks are difficult to obtain.

This may particularly be the case for entities that are not participants in the export trade, and where these are quality and quantity specific.

Furthermore, this is somewhat complicated by the related party transaction process, with GPL a wholly owned subsidiary of Gunns, acting as agent for the Investors' timber products. While GPL may seek offers from interested third parties, Gunns maintain a right of first refusal and concessional time periods for negotiating offers, and counter-offers.

To this extent, Investors will largely be reliant on the transparency of pricing negotiations between Gunns and GPL, and the Investors' ability to source relevant, timely, and independent pricing data for comparison.

The "floor price" mechanism is simple and applies to both wood sold as pulp logs as well as those sold as veneer logs in Option 1 and Option 2. The pulpwood floor price paid to investors at clear fall for wood purchased at the stump is 39% of the "Free on Board" (FOB) price for hardwood wood fibre exports at the time of harvest (expressed in green metric tonnes (GMT) and is approximately 48% of the price in bone dry metric tonnes (BDMT)). The floor price paid to investors at thinning is 90% of this figure.

The veneer Floor Price is determined as 7% of the saleable veneer value in cubic metres. There are approximately 600 square metres of veneer leaves per cubic metre of veneer log.

Given the 2009 FOB price is \$207.40/BDMT, the pulpwood floor price stumpage at clearfall would equate to \$38.83/GMT. Similarly, the current average selling price for veneer leaves of \$2.90/m², the veneer log floor price equates to \$121.80 per GMT.

Lonsec notes that this mechanism does offer a further degree of price confidence such that FOB prices are set at an annual benchmark and that there is significant industry analysis for Investors to access regarding the likely future trends in FOB prices for plantation woodchip. However, it is difficult to reconcile this mechanism as a true Price Floor as it is inherently linked to the prevailing market price, and not to a fixed price point.

5.4. Determination of Grade and Quantity

Investors' wood will be graded by a Timber Classification Officer (TCO) in accordance with the Harvest Plan (which is specified under the Draft Wood Sale Agreement) and recognised industry standards, as agreed to by GPL.

Lonsec is concerned with the independence of this arrangement, and believes that given the particular importance of quality and quantity in the determination of price, Investors' interests are best served where the Timber Classification Officer and Harvest Supervisor are independent of Gunns, or where GPL, representing the interest of Investors, is able to verify the quality and quality assessment process.

GPL has informed Lonsec that the intention is to have suitably qualified people within GPL to represent the interests of Investors.

6. Forestry

The Project comprises woodlots in Option 1, Option 2 and Option 3 of the GPL Woodlot Project 2009. The Lonsec Consultant Forester has conducted a detailed assessment of the forestry aspects of each of these individual Projects which is presented in the individual Option reports available on the Lonsec website at:

<http://www.lonsec.com.au/aspx/Agribusiness/RecommendedList.aspx>.

As Option 2 is only investable via this Blended Option, Lonsec has not prepared an individual report for Option 2. However, given there are considerable similarities between the Option 1 and Option 2 woodlots in terms of species used and establishment and management techniques, the

commentary provided in the Option 1 report is also applicable to the Option 2 woodlot.

Lonsec strongly encourages prospective Investors to read Section 6 of the Option 1 and Option 3 reports before making an investment decision.

The Forestry sections discuss the operational management and competencies of the Project manager, provide a review and assessment of the forestry practices to be employed, identify critical issues specific to the project and also presents concluding opinions and comments with regard to forestry aspects of the Project more broadly.

7. Risk and Risk Management

7.1. Lonsec Risk Assessment

Investors must be aware that an investment in this project entails risks inherent to all long term commercial forestry projects, risks particular to *Eucalyptus* and *Pinus radiata* plantations, financial risks and other risks. The PDS outlines in Section 11 (page 28) a range of risks specific to the Project and GPL management procedures in dealing with these risks. Investors should read and understand these issues before investing in this Project.

The Lonsec analysis of risks aims to assess the degree of Project risks within five categories from Low to Extreme. The formulation of the overall risk category is a combination of analysis including:

- Lonsec Determinant Ratings Analysis - incorporating qualitative and quantitative assessment criteria.
- Lonsec Consultant Forester's Opinion – detailing specific risks associated with forestry operations.

- Risk Profile Table - includes an assessment of the likelihood, consequence, and management of risks.
- PDS and Project Expert Reports – a review of the information provided by project management.

When assessing the relative impact of any risk to the Project, Lonsec calculated the weighted contribution of each component of the Project to the Net Present Value (NPV) of forecast Harvest Proceeds at Lonsec mid case assumptions. The outcome of this weighting is:

Component	Weighting by unit Area	Weighting by NPV of Harvest Proceeds
Option 1 woodlots	50%	41%
Option 2 woodlot	25%	40%
Option 3 woodlot	25%	19%

The Options comprising the Blended Option aim to produce different timber products from plantations spread across a number of areas. Therefore the risk of any one localised climatic event (e.g. wind, frost, fire, pest damage) significantly affecting the returns of the Project is reduced.

While it is difficult to quantify the reduction in risk, Lonsec has made a qualitative assessment of this diversification effect on the overall level of risk. This qualitative assessment was made on the basis that Investors in this Project will benefit from:

- Diversity in the geographic spread of the Project
- Diversity in the products and forestry systems in the Project
- Diversity in the market and customer base for the timber produced from the Project.

Recognising the diversification benefits of the Project, Lonsec has rated the GPL Woodlot Project 2009 – Blended Option at the lower end of the “Moderate” risk category.



7.2. Principal Forestry Risks

Lonsec refers prospective Investors to the Risk and Risk Management section (section 7) of Lonsec’s Option 1 and Option 3 reports of the GPL Woodlot Project 2009 for comments from the Lonsec Consultant Forester on risks specific to Option 1 and Option 3 woodlots which are constituents of the Blended Option. These reports are available on the Lonsec Agribusiness Recommended List page: <http://www.lonsec.com.au/asp/Agribusiness/RecommendedList.aspx>.

The LCF discusses the nature of the risks, how they may impact on the Project and the remedial action required to reduce the threat of these risks.

Given there are considerable similarities between the Option 1 and Option 2 woodlots in terms of the species used, location and establishment and management techniques, specific risks identified in the Option 1 report are also

applicable to the Option 2 woodlot. However, the Lonsec Consultant Forester has identified additional risks associated with the Option 2 woodlot. These additional risks are reproduced below and are identified by a light green background.

Lonsec strongly advises prospective investors to read and understand the following risks and the risks identified in the Option 1 and Option 3 reports before making an investment decision.

Marketing the Option 2 timber products

Option 2 of the Woodlot Project 2009 will produce two products:

- hardwood pulpwood for the new pulpmill or for export as woodchips; and
- Knot-free *E nitens* logs for veneer production

In addition, it is likely that the project will produce some low quality sawlogs from the stands being grown for pulpwood.

It is essential for the success of each project that all these products are marketable on time. However, the risk of no market is low for both products. They are secured by off-take agreements which are already in place.

The question of markets is intricately tied up to the question of price. The Lonsec Consultant Forester has assumed that Gunns (i.e. the pulpmill) will pay GPL export parity price for eucalypt woodchips. It would not be in the interests of Investors if a lower price was paid.

Impact of *Eucalypt* pruning on stand development in Option 2 woodlots

The Option 2 project aims to produce veneer quality logs by pruning. Pruning minimises the size of the “knotty core” in the log, ensuring it is surrounded by knot-free clear wood, which makes the highest quality veneer. GPL proposes that the *E nitens* stands are pruned three times, commencing with limb removal to about 3 metres at age 3-4. The second and third lifts extend the pruned length up the bole of the tree. The three pruning operations will be carried out before the stand reaches age 9 years, i.e., before first thinning. Initial selection of final crop trees will be made at the time of first pruning, but 350 trees will be pruned, with the objective of providing some margin of error in achieving 300 final crop trees at age 20.

Forestry experience elsewhere and the early results of pruning eucalypt plantations in Tasmania has demonstrated that (i) it is often difficult to identify final crop trees at age 3 – 4; (ii) pruning contractors often select the easiest trees to prune, rather than the most vigorous trees, which tend to have bigger branches; and (iii) pruned trees within un-thinned stands can lose dominance. As a result the yield of the highest value product declines.

GPL is aware of this issue and has recently modified its pruning prescription to reduce the volume of tree crown removed at first and second thinning. GPD has a system in place to minimise the risk of poor tree selection by pruners. This problem is not project-threatening, but if not handled professionally will result in a lower yield of logs at the final felling.

7.3. Risk Profile Table

Lonsec Risk Profile Tables were prepared for each of the three Options which comprise the Blended Option of the GPL Woodlot Project 2009. These seek to quantify the key risks associated with each individual Option and were constructed according to the AS/NZS 4360:1999 standards.

Table 7.1 outlines the range of risks that were considered by Lonsec. Each of the three Options comprising this Project were rated as though they were stand alone projects, with the top five risks in each component identified in **bold** type. However, in categorising the Project’s level of risk, the individual Options’ level of risk, their contribution to total Project revenue and the overall diversification benefits of the Project were considered.

Table 7.1 - Lonsec Risk Profile Table based on the AS/NZS 4360:1999 standards

GPL Woodlot Project 2009 - Blended Option		Lonsec's AS/NZS Based Risk Assessment		
Description of Risk	Possible Outcome	Net Level of Risk for individual woodlots		
		Option 1 woodlots	Option 2 woodlot	Option 3 woodlot
Forestry Risks				
Trees destroyed or damaged by wind or storm	Timber yield reduced, revenue reduced	Low	Low	Low
Quality of the timber is lower than expected	Revenue reduced	Low	Moderate	Low
Growth rates lower than expected	Timber yield reduced	Low-Mod	Low-Mod	Low
Trees destroyed or damaged by drought	Timber yield reduced	Low-Mod	Low-Mod	Low-Mod
Trees destroyed or damaged by fire	Timber yield and quality reduced	Low	Low	Low
Trees destroyed, damaged or suppressed by weeds, pests or disease	Timber yield and quality reduced	Low	Low	Low
Management Risks				
Loss of key staff or failure to recruit suitably skilled staff and contractors	Skills, experience and local knowledge lost, quality of product may be compromised	Low	Low	Low
Failure of Responsible Entity or withdrawal of Licence	RE can be replaced, possible delay in bringing in new Investors	Low		
Insolvency or default of Operational Manager	Replacement Manager may not have required capability. Access to infrastructure may be impaired	Low		
Marketing Risks				
Market demand lower than expected, competition from substitutes, changes in consumer tastes	Volume of timber sold reduced, price possibly weakened, revenue reduced	Moderate	Moderate	Moderate
Failure to establish relationships with significant timber buyers	Timber sold at open market price, lower than contract price	Low	Low-Mod	Low
Timber prices lower than expected	Revenue reduced	Moderate	Moderate	Low-Mod
Other Project Risks				
Fluctuations in exchange rates	Investors exposed to decrease in Timber or Oil price expressed in A\$	Low	Low	Low
Changes in substance or interpretation of applicable laws relating to Income Tax, GST, environmental matters	Adverse financial impact on Investors	Low		
Supporting infrastructure	Loss of facilities to harvest and transport the Project produce	Low	Low	Low
Insufficient land available to allow establishment of project to a scalable size	Economies of scale not achieved for Investors and Operational Manager	Low	Low	Low

8. Product Disclosure Statement Assumptions

8.1. Financial Model and Directors' Assumptions

The Responsible Entity has sought opinions on key project assumptions from experienced industry consultants in their fields of expertise, including timber growth rates, future prices, and future costs.

Lonsec's assessment of key project assumptions is based on the expert advice of the Lonsec Consultant Forester, the PDS Independent Forester Report and benchmarking to verifiable industry benchmarks and historical results.

Lonsec has stated a reasonable range for each key assumption, and notes that the likelihood of any long term assumption (greater than two years) being achieved varies inversely with the time period projected.

Investors should be aware that unforeseen circumstances could impact on the stated assumptions in the PDS. It is important to recognise that long range returns will be based on economic, physical, and environmental inputs that are impossible to predict with accuracy.

Key Project assumptions for each of the Options comprising this Project and a discussion about the derivation of these assumptions are provided in the individual Option reports of the GPL Woodlot Project 2009, available on the Lonsec website. Lonsec refers prospective Investors to the Product Disclosure Statement Assumptions sections (section 8) of these reports to evaluate the assumptions used in the financial modelling of this Project.

However, what is not included in the Option 1 and Option 3 reports is commentary by the Lonsec Consultant Forester specific to the yield and price assumptions proposed by Gunns for Option 2. Subsequently, quotations from the LCF regarding these assumptions are provided below, identified by a light green background.

Lonsec strongly advises prospective Investors to read and evaluate the key assumptions, and the commentary on their derivation, in the Option 1 and Option 3 reports in addition to the LCF comments regarding Option 2 assumptions below.

8.2. Yield

Option 2:

GPL has assumed a yield projection for Option 2 (Eucalypt veneer and pulpwood) of 27.4 m³/ha/yr.

GPL has a sophisticated inventory system and a good data base of information on the growth and yield of E nitens in Tasmania, especially when grown for pulpwood. These data provide GPL with a sound basis for its projections. There is less information available on the yield of veneer logs from stands to be grown under Option 2, and there is a possibility that yield may be slightly reduced by pruning. Nevertheless the projections appear to be realistic.

8.3. Timber Prices

Option 2:

There are no current forestry projects producing clearwood plantation-grown eucalypt logs for veneer production which would allow a comparison with the projected prices in the PDS for Option 2. The GPL Independent Forester has produced an analysis comparing this product with clearwood radiata used as sawlogs or peelers. This analysis appears sensible, as is his conclusion that a stumpage of \$136 per cubic metre for veneer quality eucalypt logs grown in northern Tasmania and sold to Gunn's own veneer mill will be achievable.

8.4. Summary of Assumptions

Table 8.1 - Summary of Key Assumptions – Options 1 & 2

Assumption – Options 1 & 2	Low case	Mid case	High case	Source of estimate
Option 1 assumptions				
Yield – (MAI) m ³ /ha/year	22.2	24.7	27.2	GPL/Lonsec
Pulpwood (thinning) (\$/m ³)	\$36.81	\$39.00	\$41.19	GPL/ Lonsec
Pulpwood (clearfall) (\$/m ³)	\$39.64	\$42.00	\$44.36	GPL/ Lonsec
Option 2 assumptions				
Yield – (MAI) m ³ /ha/year	24.6	27.4	30.1	GPL/Lonsec
Pulpwood (thinning) (\$/m ³)	\$36.81	\$39.00	\$41.19	GPL/ Lonsec
Pulpwood (clearfall) (\$/m ³)	\$39.64	\$42.00	\$44.36	GPL/ Lonsec
Pruned veneer log (clearfall) (\$/m ³)	\$127.42	\$135.00	\$142.58	GPL/Lonsec
Other assumptions				
Compound price inflation % pa	2.0%	2.6%	3.0%	Lonsec

Table 8.2 - Summary of Key Assumptions – Option 3

Assumption – Option 3	Low case	Mid case	High case	Source of estimate
Yield – (MAI) m ³ /ha/year	19.8	22.0	24.2	GPL/Lonsec
Pulpwood (\$/m ³)	\$17.04	\$19.00	\$20.96	GPL/ Lonsec
Sawlog < 24cm (\$/m ³)	\$27.31	\$29.40	\$31.49	GPL/ Lonsec
Sawlog 24cm to 32cm (\$/m ³)	\$45.48	\$48.65	\$51.82	GPL/Lonsec
Sawlog 32cm to 45cm (\$/m ³)	\$63.92	\$69.30	\$74.68	GPL/ Lonsec
Sawlog 45cm+ (\$/m ³)	\$73.26	\$78.75	\$84.24	GPL/ Lonsec
Compound price inflation % pa	1.4%	2.6%	3.0%	Lonsec

9. Financial Returns

9.1. Investment Cashflow

The focus of the Lonsec financial performance measure is defined by the Internal Rate of Return (IRR) of the Project and related model sensitivities. Whilst not a holistic measure of project performance, the IRR analysis generates a single number that summarises the merits of an investment based on the cash flows. The financial returns and IRR are compared with Lonsec’s benchmarks and relative to the Project’s ‘Peers’ in the sector.

In order to comply with ASIC guidelines, the PDS does not have IRR estimations.

It is important to recognise that the Lonsec IRR estimates disclosed below should not be used as a basis for an investment decision by potential Investors. The Lonsec possible IRR outcomes are simply an assessment by Lonsec that the Project meets industry and Lonsec benchmarks, and is limited by the typical uncertainty of long term forecasts.

There is a considerable degree of judgement involved in making long-term forecasts, and future outcomes may differ substantially from the estimated Lonsec IRR estimates. Lonsec also examines the sensitivity of the Project to varying assumptions which identifies those key variables which have the most sensitive correlation to potential Project returns.

Lonsec strongly advises Investors and financial planners to simulate their own long term financial projections using their own selected assumptions to provide a basis for investment decision making. This is in line with current ASIC guidelines.

9.2. Financial Returns

Lonsec has estimated the ungeared mid-case assumption based scenarios for the GPL Woodlot Project 2009 – Blended Option. The Project is expected to produce reasonable after tax returns relative to the overall risk assessment of the project and other similar projects, based on the achievement of the key performance variables as listed in section 8 of this report.

Lonsec has provided a assessment of returns with and without optional insurance to allow comparison to other Managed Investment Schemes (Table 9.1). The scenario modelling has been conducted through adjusting one key assumption (yield, price or price inflation). Table 9.1 shows the likely range of returns for Investors who opt to take out optional insurance, and also for those who do not.

Table 9.1 - Mid-case Investor Returns

	IRR after tax Ungeared		
	Lonsec lower	Lonsec mid case	Lonsec upper
No Insurance	8.1%	8.9%	9.6%
Insurance	7.5%	8.4%	9.0%

The mid-case returns shown above have been generated by modelling the assumptions shown in Tables 8.1 and 8.2.

The upper and lower case returns represent the highest and lowest Investor IRR generated by adjusting one key assumption (yield, net price, price inflation or cost inflation). The full range of Investor IRR’s is presented in Table 9.2.

9.3. Scenario Modelling

Lonsec has modelled a number of scenarios to reflect the impact on the project of varying the key assumptions through the upper and lower ranges identified in Section 8.6. The key financial performance measure that Lonsec focuses on is the ungeared after tax IRR.

Table 9.2 - Scenario Modeling - Impact on Investor IRR (exc optional insurance)

Scenario	Assumptions	After Tax IRR
High case yields	See Table 8.1 and 8.2 for respective High, Mid and Low case assumptions	9.6%
High case prices		9.3%
High case price inflation		9.3%
Mid-case assumptions		8.9%
Low case prices		8.5%
Low case yields		8.2%
Low case price inflation		8.1%

Lonsec notes that as a result of the floor price mechanism applicable to timber produced in Option 1 and 2 woodlots, Investors will experience some insulation against downside price movements. With regard to pulpwood, Gunns report that the FOB price in 2009 has been set at \$207.40/BDMT which equates to a Floor Price of \$38.83/GMT. Similarly, Gunns report that at today’s average selling price for veneer leaves of \$2.90/m², the veneer log Floor Price would equate to \$121.80/GMT.

Relative to the Project’s forestry sector “peers” in the Lonsec database, the scenario modelling in Table 9.2 indicates the Project has an ‘average’ IRR with a ‘narrow’ spread of potential returns indicating that the Project’s cluster of possible return outcomes are concentrated about the mid case. The high case yield scenario has the greatest influence on upside returns, whilst the low case price inflation scenario has the most adverse effect on Project returns.

9.4. Gearing

The use of financing to effectively defer the payment of the Establishment Fee may facilitate an Investors entry into the Project and also has the effect of increasing the after tax IRR for the Investor. However, the Investor still has the obligation to repay the debt principal over the agreed term, plus the additional obligation to pay interest on the debt principal over the agreed term. Investors will need to assess whether these additional obligations increase the overall level of risk of participation in this Project, and whether the enhanced

returns adequately compensate for any increase in the level of risk.

Investors in the Project may borrow up to 100% of the Application Fee when seeking finance through Gunns Finance Limited, plus any Loan Application Fee that is payable.

A summary of the impacts of the gearing packages available through Gunns Finance Limited is provided in Table 9.3, below.

Table 9.3 – effect of financing on the mid-case scenario after tax IRR

Level of Gearing	1 Year Interest Free	3 Years Principal and Interest	5 Years Principal and Interest	10 Years Principal and Interest	15 Years Principal and Interest
50%	8.8%	8.9%	9.1%	9.6%	10.2%
75%	9.1%	9.3%	9.7%	11.0%	13.7%
100%	9.4%	9.7%	10.5%	16.1%	17.4% [#]

[#] due to the cash flow structure and limitations in IRR calculation, the highest measurable IRR is at a gearing level 79%

The after tax IRR’s presented in Table 9.3 represent geared returns including the approximate cost of full replacement cost insurance. Further loan details are outlined in section 12.1 of this report and further information about the gearing packages can be obtained from the GPL website.

9.5. Sensitivity Analysis

Figure 9.1 below identifies the sensitivity of potential project returns, subject to a change in key project parameters. The Lonsec Mid Case parameters were used as the basis for assessment about which each parameter was varied over a nominal range of +/- 30%.

Figure 9.1 Sensitivity Chart of the Project IRR outcomes over a range of key parameters

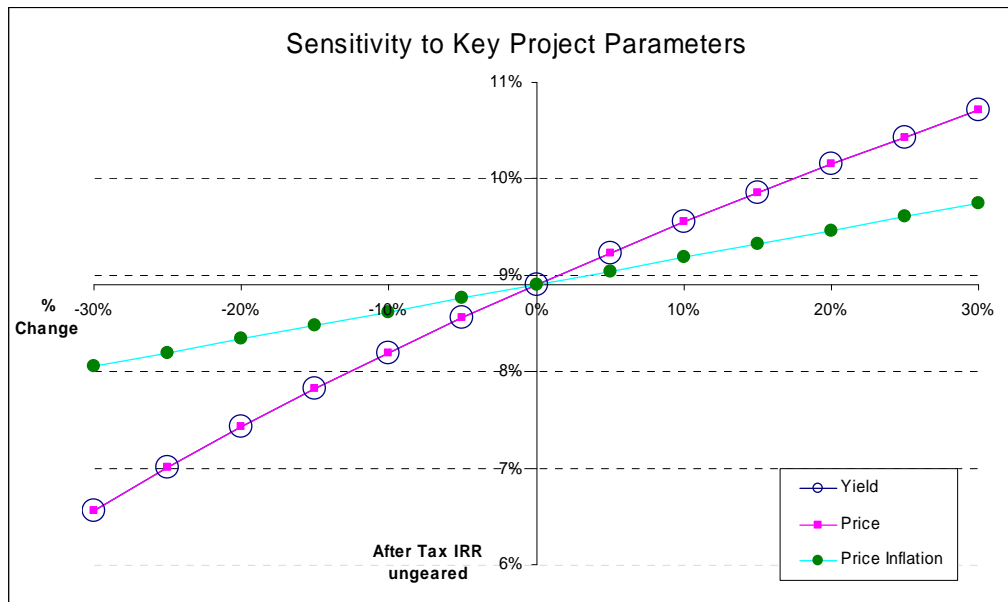


Figure 9.1 shows that the Blended Option is less sensitive to movements in Price Inflation relative to movements in Price and Yield. Overall, Lonsec considers the Project to have a moderate level of sensitivity to key Project assumptions, attributed to the deferred fee structure which is proportional to net harvest proceeds.

9.6. Zero IRR conditions

The following table shows the extent of the variations in yield and/or price that are needed to drive the after tax IRR to Investors down to zero. At the zero after tax IRR position an Investor would receive back a sum of money exactly equal to the total of the initial outlay plus any annual payments that had been made.

In this situation the Investor has not lost money, as such, but the Investor's financial position has been weakened because of the opportunity cost of that money, being the income foregone had the money been in a profitable investment.

The zero IRR position must not be seen as some form of a capital guarantee, because the project manager makes no such guarantee. If, for example, stumpages price fell by 78%, the after tax IRR would be *negative* 0.3% and the Investor would receive at harvest a sum of money less than the total of the initial outlay plus any ongoing payments that may have been made.

The analysis suggests that the GPL Woodlot Project 2009 – Blended Option, relative to its peers, has a 'High' level of robustness in financial returns, requiring a simultaneous fall in both yield and price of 64% to drive the IRR down to zero.

Table 9.4 Scenario Modelling - Zero IRR conditions

Scenario	% change	IRR after tax ungeared
Timber price only falls by...	77%	0.0%
Timber yields only falls by...	77%	0.0%
Timber yields and prices fall by...	64%	0.0%

9.7. Summary of Financial Analysis

Lonsec assesses potential Project returns by using a range of analytical techniques explained in Section 9.1. The results were compared with those from similar Forestry sector projects and projects from the broader MIS Agribusiness sector in the Lonsec database.

Results from any one analytical technique are rarely sufficient to assess the relative merits of a project, and to this end this summary section considers a holistic view of the results from the analysis conducted by Lonsec.

The indicative IRR calculated for the Project is useful to compare against other projects and industry benchmarks. Lonsec has determined the Project to have an indicative after tax IRR of 8.9% when calculated excluding the expected premiums for optional insurance. Lonsec considers the Project mid case return to be reasonable when considered in conjunction with the ‘moderate’ risk profile of the Project, and when compared to the forestry sector average of 8.6% in the Lonsec database.

Further to the mid-case IRR, Lonsec has calculated an IRR range based on likely scenarios as determined from the best available industry information. The IRR range applies changes to key assumptions, namely price, yield and price inflation. Lonsec, in conjunction with the Lonsec Consultant Forester, conduct infield and industry research and analysis to identify a reasonable range of variance of each of the key assumptions over the term of the Project.

Under this analysis, Lonsec has determined that the Project’s IRR may range between 8.1% and 9.6% which Lonsec considers ‘narrow’ relative to its forestry sector peers. From this, Lonsec can measure the quantitative change in returns from the mid case to the high and low case

scenarios (IRR spectrum) as a relative measure of exposure to upside potential and downside risk. This analysis indicates that an Investor in the Project is exposed to slightly greater downside risk than upside potential. Investors should note that the spread of returns may be greater if more than one of the key assumptions move in unison.

Lonsec has analysed the sensitivity of each Project’s returns to nominal changes in the key drivers of financial returns, being price, yield and price inflation. The Project displays a moderate level of sensitivity to key Project parameters.

It is important to note that the Project’s fee structure does contribute to the Project’s robust returns, with management fees proportional to net proceeds, and the presence of a floor price mechanism providing some downside protection to declining stumpage prices.

Finally, Lonsec has conducted a zero IRR analysis that assesses the robustness of the Project IRR by adjusting key drivers (price and yield) downwards until a zero IRR position is obtained. When compared to its peers, analysis shows that the Project IRR exhibits a ‘high’ level of robustness to changes under the ‘price and yield’ scenario.

The assumptions applied throughout the analysis are based on current industry information. These assumptions are subject to a level of uncertainty associated with formulating long-range forecasts and may impact the final return on investment.

Table - 9.5 Summary of financial analysis

	Units	Value	Relative to Sector Peers
Cashflow profile	Years to cumulative positive cashflow	13	Average
Mid-case return	IRR	8.9%	Average
Spread of returns	IRR	8.1% - 9.6%	Narrow
Robustness	Zero IRR ('Price & Yield')	64%	High

10. Application of Funds and Ongoing Costs

10.1. Direct Forestry Expenditure

Direct Forestry Expenditure (DFE) refers to the amount of Investor funds expended by the manager (of an MIS forestry project) to fund the establishment, tending, felling and harvesting of the trees. The DFE legislation (in general) requires the project manager to expense no less than 70% of investors’ funds on Direct Forestry Expenditure. This legislation simplifies taxation for MIS forestry projects, through eliminating the need to ‘prove’ investors are carrying on the business of ‘growing trees’ (a requirement to qualify for the tax deduction for the investor contributions). Therefore the legislation ensures that at least 70% of

investor funds are expensed on DFE’s, allowing investors to claim 100% of their contributions as a tax deduction.

Schedule 8 of the Tax Law Amendment Bill, amends the Income Tax Assessment Act 1997 (ITAA 1997) to provide that initial investors in forestry managed investment schemes (forestry schemes) receive a tax deduction equal to 100% of their contributions and secondary investors will receive a tax deduction for their ongoing contributions to forestry schemes, provided that the scheme manager can identify on application for the Product Ruling that at least 70% of the scheme manager’s expenditure, under the scheme, is expenditure attributable to establishing, tending, felling and harvesting of trees (direct forestry expenditure or DFE).

The definition of the DFE rule in the Bill is very broad (set out in section 394-35 (of the Bill)).

“The rule provides that the amount of DFE under the scheme (the sum of the net present values of all DFE under the scheme) divided by the amount of payments under the scheme (the sum of the net present values of all amounts that participants in the scheme have paid or will pay) must be greater than or equal to 70%.

“This is an objective test of what is a reasonable estimate of 70% expenditure on DFE, based on the actions that a reasonable person in the scheme manager’s position would take in making such an estimate. A market value substitution rule operates where the expenditure differs from market value.”

A major change that has resulted through this amendment is that the Responsible Entity of the project and participating investors, are no longer required for tax purposes, to demonstrate that they are ‘carrying on a business’ in order to access the deduction, and also are not required to demonstrate that returns paid is of a revenue nature from the operation.

Direct Forestry expenditure defined in the Bill, covers a broad range of items, and includes: “amounts spent by the scheme manager (or an associate of the scheme manager) under the scheme that are attributable to establishing, tending, felling and harvesting trees; and amounts of notional expenditure reflecting the market value of land, goods and services provided by the scheme manager that are used for establishing, tending, felling and harvesting trees”.

Table 10.1 - Investor Payments to GPL – GPL Woodlot Project 2009 – Blended Option

Investor Payments \$/ha (ex GST)	First 3 years		Project life	
Establishment costs	6,460	100%	6,460	51%
Manager’s sales commission	0	0%	728	6%
Land rental	0	0%	1,819	14%
Forest maintenance	0	0%	2,911	23%
Pruning Fee	0	0%	685	5%
Total	6,460	100%	12,602	100%

10.3. Manager Revenues, Expenses and Profit

Investors must be aware that the Lonsec analysis of Revenues, Expense and Profits focuses on ‘on-ground’ expenditures and therefore may exclude cost items included in the DFE legislation. Therefore in Table 10.2 below, the Total On-Ground Forestry Expenditure refers only to expenses made directly in relation to the plantations as opposed to the more broad classification under the DFE legislation.

Lonsec has reviewed the cashflow model provided by GPL and has extracted the following revenue and expense information. The expenses stated are the cumulative total cost over the first three years and over the life of the Project, and include the effect of inflation.

10.2. Investors’ establishment and ongoing fees

Details of Investor fees are provided in the PDS and in Section 1 in this report.

The Application Fee per hectare for this project is \$6,460 (\$25,840 per investment unit of 4ha in size) which is above average when compared to the Lonsec dataset for forestry projects (average = \$5,825 from 45 data points). However, Investors must recognise that this Project is diversified in nature relative to the majority of the Projects from which this average is calculated. Prospective Investors must consider this when assessing the appropriateness of the Project’s Application Fee.

Investors are liable to pay Rent, Maintenance and Sales Commission fees for each of the woodlots which comprise the Project. These are deferred and are equal to the respective fees applicable to the individual woodlots, as outlined in section 1 of this report and section 9 of the PDS. That is, total fees will amount to 15% (ex GST) of wood sale proceeds, plus, pruning fees in years 4, 6 and 7 for the Option 2 woodlot.

The deferred fee structure provides the Manager with a strong incentive to maximize harvest proceeds, to the joint benefit of both the Investor and the Manager.

The revenue and expense breakdown in Table 10.1 and Table 10.2 are modelled on the 2009 project cashflow and exclude the cost of optional woodlot insurance.

Table 10.2 – GPL allocation of Investor Payments – GPL Woodlot Project 2009 – Blended Option

Manager Costs \$/ha (exc GST)	First 3 years		Project life	
Preparation and Planting costs	2,664	41.2%	2,664	21.1%
Rental Expense	352	5.4%	3,590	28.5%
Maintenance Expense	21	0.3%	400	3.2%
Pruning Expense	0	0.0%	503	4.0%
Overheads and Management	59	0.9%	236	1.9%
Total on-ground forestry expenditure	3,096	47.9%	7,394	58.7%
Commissions to Advisers	544	8.4%	544	4.3%
Sales Commission	136	2.1%	136	1.1%
Tax Refund / (Payable)	805	12.5%	1,359	10.8%
Net Cash Flow After Tax (to Manager)	1,879	29.1%	3,170	25.2%
Total	6,460	100%	12,602	100%

As shown in Table 10.2 above, Lonsec has estimated that on an accounting basis, 58.7% of Investor contributions will be expensed on on-ground forestry expenditure over the life of the Project. Based on this analysis GPL is targeting an after tax net cash flow margin of 25.2% on the total funds paid by the Investor.

Another method of assessing the reasonableness of the Manager's profit is to calculate the net present value (NPV) of cash flows, discounted at the Investor's IRR. The NPV (8.9%) of the Manager's after-tax cash flow is \$1,602 per hectare, compared to the Lonsec database average of \$1,393 for all forestry projects.

The NPV(8.9%) of manager after tax cash flows indicates that the returns from the Project may be skewed toward the manager. In very broad terms it can be argued that the Manager probably faces a higher overall level of risk than the Investor and should therefore receive a greater share of Project returns. The difficulty comes, however, in determining whether the apportionment of the returns between the two parties is appropriate and equitable. On this matter, Investors will need to make their own assessment, having regard to their particular circumstances.

11. Taxation

The Australian Taxation Office (ATO) has issued a Product Ruling (PR2008/69 and PR 2008/69A) in respect of the GPL Woodlot Project 2009 – Blended Option.

The Product Ruling generally confirms that an Investor in this Project **is not required to be assessed as carrying on a business** in order to qualify for a deduction; and that it is reasonable to expect that the '70% DFE rule' will be satisfied. The Product Ruling confirms the tax deductibility for the Application Fee and other project expenses as set out in the Ruling.

A deduction will generally be available for the abovementioned Project expenses in the year of income in which the expenses are incurred by a Investor, subject to the particular circumstances of each Investor. Access to the Product Ruling will be available from GPL free of charge or can be downloaded from either the GPL website at www.gunns.com.au/plantations or at the ATO's website at www.ato.gov.au.

Investors should be aware that the Ruling:

- Will only apply to applications made after the Product Ruling has been issued.
- Will only apply to Investors who have their applications accepted before 30 June 2009.
- Will only be a ruling on the application of taxation law (as it stands at the date of issue).
- Will only be binding on the Commissioner of Taxation if the Project is implemented in the specific manner provided in the Product Ruling.
- Will be withdrawn on 30 June 2009.

- The ATO does not expressly or impliedly guarantee or endorse the commercial viability of the Project, the soundness or otherwise of the Project as an investment or the reasonableness or commerciality of fees charged in connection with the Project.

Interest incurred on borrowings in respect of an Investor's participation in the Project may, prima facie, be deductible, but subject to a number of conditions as outlined in the Income Tax Assessment Act.

Prospective investors in the GPL Woodlot Project 2009 should seek their own taxation advice before investing in the Project.

11.1. History of compliance with previous Product Rulings

Lonsec has been informed by GPL Plantations that there have been no material breaches of the terms and conditions of previous ATO Product Rulings with respect to any of GPL's previous MIS forestry projects.

12. Other Investor Benefits

12.1. Finance Packages

Table 12.1 outlines the packages offered by Gunns Finance Limited for its 2009 projects. Investors are offered finance for up to 100% of application monies to facilitate investment in the Project.

An establishment fee of \$150 plus 0.4% of the balance of the Application fee will be payable by the Investor. These fees are capitalised into the loan amount and repaid as part of the monthly P&I payments.

Table 12.1 - Finance offered by Gunns Finance Pty Ltd

Term (yrs)	Interest Rate (% p.a)	Repayment type
1	0%	Monthly principal instalments over a period of 12 months
3	8.5%	Monthly repayments of principal and interest
5	9.0%	Monthly repayments of principal and interest
10	10.0%	Monthly repayments of principal and interest
15	10.5%	Monthly repayments of principal and interest

12.2. Reports and Inspections

The GPL operations manager will inspect each plantation at least once annually and will assess and document its performance. The Operations Manager will then submit a report to the Independent Forester who will then inspect a sample of the plantations. From this inspection the Independent Forester will prepare a written report in relation to the growth of the trees and the status of the Investors' woodlots annually from Year 2, Investors will be provided with a copy of the Independent Forester's Report within 30 days of GPL receiving it.

12.3. Carbon Credits

Investors acquire carbon rights as a result of the establishment of a regime for the trading of carbon credits. Carbon credits are permits granting the holder a right to emit a specified amount of greenhouse gas. It is unclear exactly what value carbon credits will have, if any. If during the life of the Project it becomes possible to trade carbon credits then GPL will sell Investors' carbon credits as their agent, and will pay investors 50% of the net proceeds from the sale.

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: 14 April 2009

Analyst: Richard Ellis

Release Authorised by: Jim Blackburn

This report, dated 14 April 2009, expires at the earlier of:

- Project closes before 30 June 2009, or
- 30 June 2009, or
- if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to his offer.

Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

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