



*AgriWealth*

2008 Softwood Project





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# Important Information

This Information Memorandum (IM) has been prepared by AgriWealth Capital Limited (Manager) and is dated 2 April 2008. The contents of this IM are based on information available as at the date of its preparation except as otherwise indicated. The purpose of this IM is to assist prospective Growers and Unit Holders (Investors) make their own assessment of a possible investment in the AgriWealth 2008 Softwood Project (Project). It is supplied to prospective Investors on the understanding that it is not to be used for any other purpose. It does not purport to contain all information an interested party may require to assess the financial performance and operation of an investment in this Project.

This IM is not a product disclosure statement, prospectus, profile statement or other offer information statement (for the purposes of the Corporations Act) and does not contain all the information that would usually be contained in such documents.

All actions under or in connection with this IM and the offer of the Timberlot Interests and Units in the Land Trust that constitute dealing in securities or financial products are undertaken by the Manager in its role as both the Manager and Trustee. The Manager is the holder of an Australian financial services licence number 317238.

The information contained in this IM is given in good faith and has been derived from information believed to be reliable as at the date of this IM. The Manager has prepared this IM and, in doing so, has relied on information supplied by third parties.

This IM is furnished to prospective Investors on the basis that none of the Manager, nor its respective officers, shareholders, partners, affiliates, employees, representatives and advisers, nor any other member of the AgriWealth group (together, the Related Entities) make any representation or warranty (express or implied) as to the accuracy, reliability or completeness of the material contained in this IM and nothing contained in this IM is, or may be relied upon as, a promise, representation or warranty, whether as to the past or the future. The Manager hereby excludes all warranties that can be excluded by law.

No cooling-off regime applies to any investment in the Project (including acquisition of a Timberlot interest or Unit). All prospective Investors should consider seeking appropriate professional advice in reviewing the information and evaluating the financial performance of this Project. Neither the receipt of this IM nor any information contained herein or subsequently communicated to any person in connection with this IM is, or should be taken as, constituting the giving of investment advice or a recommendation to any person.

Investments in the Project are not deposits with or liabilities of the Manager or any other member of the AgriWealth group and are subject to investment risk, including possible delays in repayment and loss of income or capital invested. Neither the Manager, nor any other member of the AgriWealth group, stand behind the capital value or guarantees the performance of any investment in the Project or the assets held by the Project.



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# What is the Offer?

This Information Memorandum (IM) sets out an opportunity to invest in the AgriWealth 2008 Softwood Project (Project) by participating in either or both of:

1. Timberlots in the AgriWealth 2008 Softwood Project - Tree Project (Plantation Investment), a softwood forestry plantation; and
2. Units in the AgriWealth 2008 Softwood Project - Land Trust (Land Trust), which will own the land on which the Plantation Investment is established.

Offer Opens	2 April 2008
Offer Closes	At the Manager's discretion, no later than 30 June 2008
Initial Establishment Services Fee Payable	30 June 2008
Planting Services Fee Payable	30 June 2010
Unit Subscription Payable	31 March 2009
Allotment Date	At the Manager's discretion, no later than 30 June 2008

## Subscriptions & Allocation Policy

There is no minimum subscription for either the Plantation Investment or Land Trust.

Subject to availability of suitable land, the Manager has set a maximum subscription level of 2,000 Timberlots and 2,000 Units in the Land Trust.

If the Trustee has not acquired land or enough land which is suitable for the Plantation Investment having regard to the Land Selection Protocol by 31 March 2009 then the Project may be reduced in size. The Manager will return Application moneys to affected Investors by 30 June 2009.

Applications will be allocated on a priority basis to Investors (or their nominee(s)) who wish to invest in both the Plantation Investment and the Land Trust. The Manager can accept or reject applications in both the Plantation Investment and the Land Trust as it sees fit and in its sole discretion.

Application monies received by the Manager prior to Allotment will be held by the Manager on deposit with a bank in the name of the Manager. Any interest earned on any Application money that is returned will be retained by the Manager.

## Wholesale Investor Requirement

An investment in the Project as set out in this IM is available only to Investors who are wholesale client investors within the meaning of the Corporations Act. You should confirm your status as a wholesale client investor with your financial advisor, solicitor or accountant.

For the purposes of the investment opportunity under this IM, a wholesale client investor under section 761G of the Corporations Act includes a person who:

- Provides a certificate given by a qualified accountant (as defined under section 9 of the Corporations Act) stating that the Investor has net assets of at least \$2.5 million, or has had a gross income of at least \$250,000 in each of the last 2 financial years or
- Is a professional investor under the Corporations Act (including a holder of a financial services licence granted under the Act, certain parties regulated by APRA, an investor controlling at least \$10 million, and a listed entity) or
- Makes a minimum investment of \$500,000 (excluding amounts provided under finance from United Pacific Finance Pty Limited ACN 053 703 389 (United) or the Manager as described in this IM and superannuation-sourced money within the meaning of the regulation 7.1.26 of the Corporations Regulations 2001).





## Summary of Investment - Plantation Investment

### The Offer

Opportunity for Investors (Growers) to grow a commercial softwood plantation in New South Wales. Silvicultural services are to be provided by Forests NSW.

The minimum application is two Timberlots (Timberlot) per Grower and then in multiples of one Timberlot. Each Timberlot equates to half a Plantable Hectare of Radiata pine (*pinus radiata*).

### Application Price

The Application Price of each Timberlot is \$11,200 (inclusive of GST) and comprises:

1. Initial Establishment Services Fee of \$10,320 (being \$9,381.82 plus 10% GST of \$938.18), (tax deductible; GST recoverable for Growers who are registered for GST) payable on 30 June 2008
2. Planting Services Fee of \$880 (being \$800 plus 10% GST of \$80.00), (tax deductible; GST recoverable for Growers who are registered for GST) payable on 30 June 2010.

The minimum application for Timberlots in the Plantation Investment is \$22,400 inclusive of GST.

It is anticipated that all other costs (excluding insurance) including rent, maintenance and harvest expenses will be met from timber sales proceeds expected when the plantations reach 14, 22 and 28 years but cannot be guaranteed.

### Term

Final Harvest of the Plantation is anticipated to occur when the plantation age reaches 28 years.

### Returns

Returns are not guaranteed. Investment returns will vary with movements in the price and volume of timber harvested.

### Risks

Participation in the Plantation Investment is subject to a number of risks. Key Project risks are outlined in section 6.



## *Funding Arrangements*

The Manager and United offer finance to Approved Applicants for the amount of their Plantation Investment. Investors can also fund their investment from their own sources. Investors can fund their investment by a combination of their own funding, the Manager's funding and United's funding.

### **TERMS PAYMENT AGREEMENT**

Under this option the Manager offers individual Applicants (not corporate or trustee entities) a Terms Payment Agreement in which to pay the Initial Establishment Services Fee and Planting Services Fee. The Terms Payment Agreement is not available in relation to Unit subscriptions. Approval for a Terms Payment Agreement is subject to an Applicant meeting the Manager's normal credit assessment process.

The Terms Payment Agreement provides for repayment by 12 equal instalments. No application fee applies. Approved Applicants may make early payment of instalments under the Terms Payment without incurring any additional fees.

The 12 monthly instalments to be paid in respect of the Initial Establishment Services Fee commence on 29 July 2008 and for the Planting Services Fee commence on 29 July 2010.

### **UNITED FUNDING**

United offers a number of finance options to Approved Applicants for the amount of their Plantation Investment.

### **United Loans**

A loan application fee applies of \$250 plus 0.5% of the amount borrowed up to a maximum of \$1,250. This fee applies in relation to an Approved Applicant's participation in the Project as a whole (whether the loan is for the Initial Establishment Services Fee or Planting Services Fee or Units in the Land Trust made either by the Approved Applicant personally or with a related entity).

Approved Applicants can choose from 1 of 3 loan options offered by United. The 3 options are:

- 10 year loan facility with repayments for the first 3 years being interest only
- 12 year loan facility with repayments for the first 3 years being interest only
- 15 year loan facility with equal monthly repayments of principal and interest.





## Summary of Investment - Plantation Investment cont.

### 10 & 12 year loan facilities

*3 years interest only repayments with equal monthly instalments of principal and interest being paid thereafter.*

Under the United 10 or 12 year loan options an Approved Applicant will receive up to 100% finance for their Plantation Investment from United. Monthly repayments during the first 3 years will be for interest only charges. Interest only payments will cease on 30 June 2011. The loans are to be drawn down in two tranches:

- The Initial Establishment Services Fee will be drawn down on 30 June 2008
- The Planting Services Fee will be drawn down on 30 June 2010.

The amount borrowed in respect of the Initial Establishment Services Fee is initially repayable by way of interest only monthly instalments commencing 30 July 2008 and the amount borrowed in respect of the Planting Services Fee is initially repayable by way of interest only monthly instalments commencing 30 July 2010.

After the interest only periods ending on 30 June 2011 the amounts borrowed in respect of the Plantation Investment will be repayable over the remaining terms of the facilities by way of equal monthly instalments of principal and interest.

### 15 year loan facility

*Equal monthly instalments of principal and interest being repaid*

Under the United 15 year loan option an Applicant will receive up to 100% finance for their Plantation Investment from United. The loan is to be drawn down in two tranches:

- The Initial Establishment Services Fee will be drawn down on 30 June 2008
- The Planting Services Fee will be drawn down on 30 June 2010.

The amount borrowed in respect of the Initial Establishment Services Fee is repayable by way of equal monthly instalments of principal and interest commencing 30 July 2008 and the amount borrowed in respect of the Planting Services Fee is repayable by way of equal monthly instalments commencing 30 July 2010.

### Interest

Interest will be charged on the United loans at a fixed rate per annum payable monthly in arrears. The actual fixed rate will be determined at the time of drawdown. The fixed rate will not exceed the United published fixed rate of interest as displayed on United's website [www.upf.com.au](http://www.upf.com.au) under the heading "Products & Rates" at the time of drawdown. Approved Applicants that





borrow under the 10 year loan facility have an additional option to borrow at a variable rate of 4.75% per annum over the bid rate as displayed on page BBSY of the Reuters Screen at or about 10 am on the relevant day 90 day bank bills with a tenor of 1 year is rolled over. 10 year variable rate loans will have interest rates reset every 90 days.

### Early repayments

Approved Applicants may make early repayments of the United loans (either part or all). Under a variable rate loan, an Approved Applicant can make an early repayment at the time interest rates are reset without incurring any break cost. However, where Approved Applicants have elected to have a fixed rate loan or early repayment of a variable rate loan occurs at a time other than when interest rates are reset then certain break costs may be levied upon early repayment.

For fixed rate loans which are partially repaid early, break costs will be calculated as if the loan was fully repaid early. Early repayments cannot be redrawn. An administration fee of \$125.00 is payable in respect of a partial early repayment of a loan and an administration fee of \$275.00 is payable in respect of a total early repayment of a loan.

### Full recourse facilities

All United loans and Terms Payment Agreements will be full-recourse. This means that Approved Applicants will be required to make interest and principal payments and payment of each Terms Payment instalment from their own resources irrespective of the success or failure of the Project. Other terms and conditions (including an income and net assets test for loan approval) may apply to loans and Terms Payment Agreements. These terms and conditions are detailed in section 7.



## Summary of Investment - Land Trust

### The Offer

Opportunity for Investors (Unit Holders) to acquire Units in the Land Trust. The Land Trust will own land suitable for the Plantation Investment. The land will be leased to AgriWealth Pty Limited (AgriWealth) until completion of Final Harvest. AgriWealth in-turn will grant Timberlots over the land to the Growers participating in the Plantation Investment for a similar term.

AgriWealth will pay rent either on an annual basis at a rate of \$240.00 per Timberlot (adjusted for annual CPI movements) (excluding GST) or on an advance instalment basis payable on 1 April 2009 of \$2,850 (excluding GST) per Timberlot to the Land Trust for the term of the lease. AgriWealth has an option to extend the lease term for up to a further 5 years. If the option is exercised, rent will be payable during the option extension period on the annual rental basis mentioned above.

The trustee of the Land Trust is the Manager (Trustee). The minimum application is two Units per Unit Holder and then in multiples of one Unit thereafter. The number of Units issued should be equal to the number of Grower Timberlots.

### Application Price

The Application Price for each Unit in the Land Trust is \$3,000. There are no ongoing fees or charges. The minimum Application Price for two (2) Units in the Land Trust is \$6,000. The Application Price for Units is payable on 31 March 2009.

### Term

The term is to coincide with the completion of Final Harvest of the Plantation Investment.

### Returns

Returns are not guaranteed. In particular, investment returns will vary with land values after Final Harvest.

### Risks

Participation in the Land Trust is subject to a number of risks. Key Project risks are outlined in section 6.





## *Finance Facilities*

United offers finance to Approved Applicants for the full cost of their Units in the Land Trust. The finance is available to Approved Applicants on the same terms as the Plantation Investment finance facilities offered by United.

The Application Price payable for Units will be drawn down on 31 March 2009.



## Main Features of Investment

Topic	Explanation
<i>Benefits of participating in both investments</i>	<ul style="list-style-type: none"> <li>• Diversification of risks and returns through land ownership.</li> <li>• Greater marketability as a complete forestry investment to prospective industry players seeking forestry assets.</li> <li>• Common interest between harvest timing and sale of land.</li> </ul>
<i>Strong markets for timber products</i>	<ul style="list-style-type: none"> <li>• The Plantation will be located within commercial haulage distances to saw mills and pulp mills in the Tumut/Tumbarumba/Hume and Oberon/Bathurst regions all of which are key timber processing regions.</li> <li>• Global move toward timber supply coming from plantation forests rather than native forests.</li> <li>• Saw log demand is closely tied to construction in the housing sector.</li> <li>• Softwoods are replacing hardwoods as an industrial building product.</li> <li>• Variety of uses for end product.</li> </ul>
<i>Access to benefits of land ownership</i>	Investors in the Land Trust have the opportunity to participate in the benefits of land ownership including any growth in land value throughout the term of the investment.
<i>Quality land selected for the Project</i>	The Manager will procure land suitable for the Project. The land will be selected for its forestry growth characteristics and its proximity to key industry participants. Land acquisitions will be sourced in accordance with defined Land Selection Protocols.





Topic	Explanation
<i>Plantation Establishment and Management</i>	Forests NSW will be contracted to undertake all silvicultural activities for the term of the Project. Forests NSW is owned by the State of NSW and was incorporated in 1916 by an act of Parliament. Forests NSW is the largest manager of softwood plantation forestry in Australia.
<i>Timber marketing arrangements with Forests NSW</i>	Forests NSW will market Growers' timber at maturity through a Marketing Pool. Forests NSW will be responsible for arranging harvest of Growers' timber for sale to Forests NSW's customer base. Forests NSW is the largest timber supplier in New South Wales and has long-term contractual arrangements with key industry participants.
<i>Use of independent forester</i>	An Independent Forester may be engaged to obtain advice in relation to silvicultural issues throughout the term of the Project.
<i>Stocking guarantee</i>	The Manager will provide (at no additional cost to Growers) a stocking guarantee that on average a minimal survival rate of 850 stems per Plantable Hectare of Timberlots will occur 12 months after planting if the failed areas arise as a result of inadequate or inappropriate establishment techniques. For full details of the stocking guarantee including limitations refer section 12.3.
<i>Carbon Credits and Salinity Credits</i>	100% of any Carbon Credits and/or Salinity Credits attributable to the Project will be for the benefit of the Growers. The Manager may charge an administration fee for assisting Growers to realise value from such credits.



## *Main Features of Investment cont.*

Topic	Explanation
<i>No ongoing Management Fees until harvest</i>	<p>The Project is structured so that Investors in either the Plantation Investment and/or the Land Trust should only have to make payments on 30 June 2008 in respect of the Initial Establishment Services Fee, on 31 March 2009 in respect of Units in the Land Trust and on 30 June 2010 in respect of the Planting Services Fee, with other costs deducted from proceeds from Thinnings and Final Harvest (except for the payment of insurance premiums).</p> <p>Where available at commercially reasonable prices, the Manager will endeavour (as agent for the Growers) to arrange insurance against fire and other selected perils on an annual basis on commercial standard industry terms. The insurance premium applicable for the whole Plantation will be payable by Growers in proportion to the number of Timberlots they have been allocated relative to the total Timberlots allocated to all Growers.</p> <p>In the event that insurance is unavailable the Manager will advise Growers. If insurance is available but in the opinion of the Manager is uncommercial, the Manager will revert to Growers for a resolution in accordance with the Management Agreement.</p>
<i>Ability to pool timber at harvest</i>	<p>The Marketing Pool provides diversity amongst timber returns for individual Growers. All Growers' timber will be pooled for sale at the time of Thinnings and Final Harvest and each Grower will receive a pro-rata share of the proceeds of the timber Marketing Pool (subject to each Grower's timber not being previously partially or totally destroyed due to fire or other causes).</p>





Topic	Explanation
ATO Product Ruling	<p>The Australian Taxation Office has issued Product Ruling PR 2008/20 in respect of the Project and a Private Binding Ruling to the Trustee of the Land Trust, which confirms the tax treatment of the Investment Opportunity for Growers and Unit Holders. The ATO Rulings confirm that the:</p> <ul style="list-style-type: none"> <li>• Initial Establishment Services Fee of \$9,381.82 per Timberlot is fully tax deductible</li> <li>• GST imposed in respect of the Initial Establishment Services Fee of \$938.18 will be recoverable if a Grower is registered for GST effective at the time of application. If a Grower is not registered for GST, the amount is fully deductible</li> <li>• The Planting Services Fee of \$800.00 per Timberlot is fully tax deductible</li> <li>• GST imposed in respect of the Planting Services Fee of \$80.00 will be recoverable if a Grower is registered for GST effective at the time of payment. If a Grower is not registered for GST, the amount is fully deductible</li> <li>• Interest paid to United is tax deductible</li> <li>• Prepaid rent paid by AgriWealth to the Land Trust is assessable to the Land Trust (and therefore Unit Holders) over the 28 year term of the lease</li> </ul> <p>The Product Ruling is only a ruling on the application of taxation law and is in no way expressly or impliedly a guarantee or endorsement of the commercial viability of the Project, of the soundness or otherwise of the Project as an investment or of the reasonableness or commerciality of any fees charged in connection with the Project. The Product Ruling is only binding on the Commissioner if the Project is implemented in the specific manner provided in the product ruling.</p>

# Overview of Forestry Investment

## 2.1 Introduction

The Project offers Investors the opportunity to participate in a long-term wealth creation strategy. Over the long term softwood timber investments together with land holdings have often increased in value in real terms after allowing for the impact of inflation.

The Project features the planting of a vital upstream softwood timber resource in New South Wales. Land selected for the Project will be highly productive, featuring fertile, well-drained soils, high average rainfall and a natural suitability for softwood plantation forestry.

The selected specie for the Project is Radiata pine (*pinus radiata*) in the Tumut/Tumbarumba and Oberon/Bathurst regions of New South Wales. In addition to its proven growth rates, it is a species that has benefited from genetic improvement. Radiata pine has secured the majority of supply in the house-framing market and is used in virtually all building and furniture applications. Other uses include pulp and paper, veneers and medium density fibreboard.

New South Wales has significant existing industrial processing infrastructure and forecasts a long-term supply deficit relative to demand for Radiata pine timber. The forestry industry is based upon processing softwood logs into sawn timber for structural framing and other high value applications and into pulp for newsprint, packaging and fibreboard.

Logs harvested from the Plantation have a variety of uses and may be supplied into a number of alternate markets. Therefore Investor returns are not reliant on a single use export market like some timber products.

Investors benefit from the participation of Forests NSW through its technical expertise and knowledge gained over many years in managing softwood plantations, and its long-term sales contracts with major industrial timber processors.

## 2.2 Demand for Softwood Timber

New South Wales has over 280,000 hectares of softwood plantations and has a variety of processors that create demand for timber products.

The major softwood processing operations around the two Radiata pine regions of southern and central New South Wales include:

Tumut/Tumbarumba region
Hyne and Son sawmill at Tumbarumba
Weyerhaeuser sawmill at Tumut
Ausply veneer mill at Wagga Wagga
Carter Holt Harvey particleboard plant at Tumut
Norske Skog pulp mill at Albury
Visy pulp and paper mill at Tumut

Oberon/Bathurst region
Highland Pine sawmill at Oberon
Allied Timber Products at Bathurst
Carter Holt Harvey medium density fibreboard plant at Oberon
Carter Holt Harvey particleboard plant at Oberon
Jeld-Wen Fibre of Australia medium density fibreboard plant at Oberon

The large scale industry in the two regions provides a reliable long term market for the Plantations. These regions are well placed in terms of access to the major timber markets of Sydney and Melbourne and their rapidly growing surrounding regions.

Demand growth for softwood is expected to be driven by increasing regional industrial capacity, the increasing market share for building products, the development of new lightweight building products based on softwood and new export markets.

The long term outlook for sawlog prices is positive with future demand for sawlogs in these New South Wales regions generally expected to exceed available supply. Pulpwood prices, although not as significant in determining Grower returns, are forecast to maintain their current levels in real terms.

## 2.3 Land Ownership

The Project offers Investors who become Unit Holders the benefits of owning the land on which the Plantation will be established. After Final Harvest, it is intended that the Land Trust will sell or otherwise realise the land value for distribution to Unit Holders.

The Manager estimates that the current average unencumbered value of land in the Tumut/Tumbarumba/Hume and Bathurst/Oberon regions which meets the Manager's Land Selection Criteria is \$6,000 per Plantable Hectare. This estimate is supported by the Land Valuer's Report. The Application Price of a Unit in the Land Trust is \$3,000, being the assessed value of half a Plantable Hectare of land that is encumbered by the lease to AgriWealth.



Investors should note that the exact site of the Plantation is at the discretion of the Manager and the Plantation may consist of a number of separate parcels of land within the same or different regions. Investors should also note that not all the land anticipated for the Plantation has been acquired by the Land Trust at the time of issue of this IM.

## *2.4 Superior Quality Planting Stock*

Superior quality planting stock (known as GF19+ or superior) is to be used in the Project. Should land and climatic conditions not be suitable for GF19+, other suitable seedlings or cuttings will be utilised. Based on the climate and soil characteristics of the Plantation Land, the use of GF19+ genetic material should produce superior annual growth rates (a predicted mean annual average growth rate of approximately 18 m<sup>3</sup> per Plantable Hectare per annum).

From a forestry perspective the benefits of these features are that:

- The timber harvested should contain both more merchantable logs and a higher proportion of larger saw logs.
- The sawn timber is generally of a higher quality.

## *2.5 Carbon Credits*

A Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) was negotiated in December 1997 to establish legally binding emission targets for developed countries (Kyoto Protocol). As a result of this, it was agreed that many developed countries had to reduce their greenhouse gas emission levels. To assist countries to achieve this, the Kyoto Protocol identifies a series of mechanisms. One mechanism includes using forests planted on previously cleared land as a “sink” for carbon dioxide, the prominent greenhouse gas. The net amount of carbon absorbed (sequestered) may be recognised by the UNFCCC as creditable offsets to greenhouse gas emissions.

It is possible that an international market will be established to enable carbon credits to be traded. Subject to Federal or State laws to the contrary, any carbon credits associated with Growers’ Timberlots will be the property of the Growers.





## Age 0

Site Selection,  
growing the  
cuttings/seedlings and  
preparing the site



## Age 1

Planting the  
cuttings/seedlings



## Age 2

The cuttings/seedlings  
grow into small  
trees



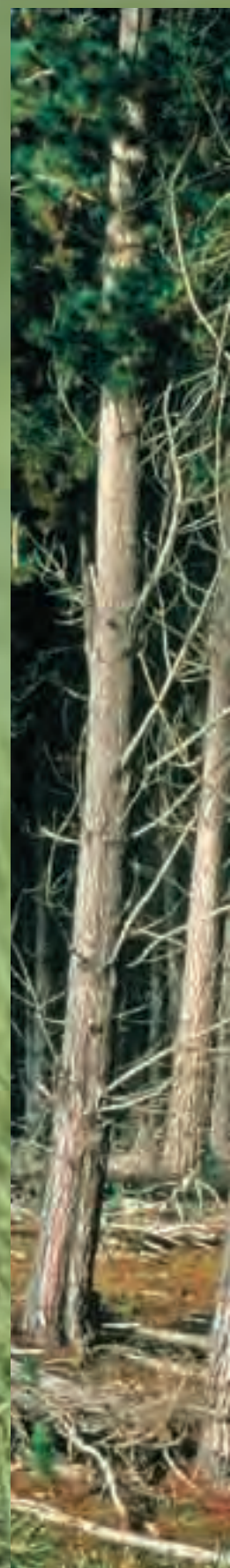
## Age 14 & 22

Thinning



## Age 28

Final Harvest







## *Softwood Life Cycle*

Site selection involves identifying a site with adequate rainfall, location, topography and soil quality suitable for forestry operations. The first step in growing the plantation is to establish cuttings/seedlings from selected trees. Forests NSW's nurseries are capable of growing over eight million seedlings and cuttings annually. For Radiata pine cutting/seedling preparation occurs during September and October, ready for planting around June the following year. The Plantation site is prepared prior to planting and this usually involves ripping (breaking up the compacted soil with a bulldozer) and mounding (creating rows of soil mounds to allow young cuttings/seedlings to establish their root systems quickly).

Planting takes place in winter when the ground is moist. One cutting/seedling is planted every 2.5 metres along the rows of mounds which are between 3 and 4 metres apart (about 1,000 plants/hectare). Fertiliser is added to give the cuttings/seedlings a growth boost.

After two years the cuttings/seedlings reach approximately 2 meters in height and begin to suppress competing vegetation. In some cases remedial fertiliser is applied to promote the growth and health of the trees.

During the life of a plantation it is necessary to remove (thin) the smaller and weaker trees. Thinning allows the remaining trees more space, light, food and water. Thinning happens when the trees are around age 14 and 22. Most thinning timber is called pulpwood and is processed into small pieces called woodchips. These woodchips are further broken down and reconstituted to make products such as newspaper, particleboard and medium density fibreboard.

The logs from the Final Harvest at around age 28 provide mostly building timber for Australian houses. The logs are cut and then processed into lengths by a mechanical harvester. They are then taken to a sawmill where they are sawn and dried to produce timber or to a veneer mill for making plywood.

## The Team

### 3.1 The Manager

The Manager and the AgriWealth Group are responsible for the operation and technical aspects of the Project.

The Manager currently manages in excess of 7,500 Plantable Hectares of softwood plantations throughout New South Wales and Victoria. These plantations range in age from recently established to mature plantations currently being harvested. The timber being harvested is being delivered to numerous saw mills and pulp mills in New South Wales and Victoria. The AgriWealth Group has a highly motivated workforce with resources to cover specialist forestry, legal, accounting, finance and general business issues.

The Executives who are responsible for the main activities of the Manager include the following:



**Wayne C Jones**

Wayne is the Chief Executive Officer of the Manager. He is a founding member of the AgriWealth Group. Wayne has primary responsibility for the ongoing management of the AgriWealth Group in accordance with the strategy, policies and programs approved by the Board of Directors.

He manages the AgriWealth Group so as to achieve the goals agreed and endorsed by the Board. He is responsible for ensuring the Group's compliance with its corporate governance policies and to ensure that all employees act with the utmost integrity.

His leadership and effective management encourages cooperation and teamwork, innovation, an understanding that an Investor's returns need to exceed their cost of capital, builds and maintains high staff morale, and a strong sense of employee identity and allegiance to the AgriWealth Group.

He is well armed to carry out his responsibilities by holding the following qualifications – B Comm, LLB (Hons), LLM (Hons), Fellow of the Institute of Chartered Accounts in Australia, Fellow of the Taxation Institute of Australia, Member of the Law Society of New South Wales, Solicitor of the Supreme Court of New South Wales, Barrister of the Supreme Court of New South Wales. He was a Partner at KPMG for over 18 years.



**Malcolm E Gordon**

Malcolm is the General Manager of the AgriWealth Group. Malcolm is also a founding member of the Group. He is responsible for managing the general day to day operations. He provides support to the CEO by keeping the CEO fully informed of all activities of the Group.

He is responsible for developing innovative products for the Group to distribute. He has strong problem solving and numeric skills. His ability to stay ahead of trends and forecast future direction are invaluable tools to the Group.

Malcolm generally negotiates the principal contracts for the Group with its major suppliers and customers. He creates the strategic agenda for discussion by the Board of Directors.

Malcolm is well qualified with a Bachelor of Economics degree, Associate of the Institute of Chartered Accountants in Australia and a Senior Associate of the Financial Services Institute of Australia. Malcolm's prior careers have included time at KPMG, Associate Director at the investment bank - NM Rothschild & Sons where he established forestry managed investment schemes and the Commonwealth Bank of Australia where he again established the Bank's forestry business.



**Hugh Dunchue**

Hugh is the Head Forester for the AgriWealth Group. Hugh has been involved in the forestry industry for 26 years having worked with major timber industry participants and forest plantation owners. Half of his career has been spent with Forests NSW where for 13 years he assumed the

role of Investment Services Forester. The other half has been spent in private plantation management across southern Australia.

Hugh has overall responsibility for managing the Group's plantation assets. He provides advice and recommendations in respect of the Group's objectives and plans, including outsourcing of forest management services, he personally inspects and advises land purchase proposals.



He is an integral member of our team in negotiating with service providers. He advises on the scope of work requirements from independent advisors and monitors the performance of service providers.

He manages harvesting, haulage and roading matters related to harvesting activities undertaken by the Group.

He ensures the Group has appropriate processes for ensuring compliance with laws and regulations relating to safety, health and the environment so as to ensure a safe workplace for all employees.

Hugh is a qualified Forester having obtained the following qualifications Bachelor of Science (Forestry), Graduate Certificate (Farm Forestry). He is also a member of the Institute of Foresters of Australia and a member of the Australian Forest Growers Association.



**Ronald V Wilson**

Ron has been involved in the forestry sector for the whole of his professional career which included 44 years with Forests NSW. In his role as Forestry and Timber Marketing Manager he has responsibility for marketing the Group's timber resources. This is a skill in which Ron is well

versed having held the position of Marketing and Sales Manager for Forests NSW.

He also assists the Group in its relationship with Government where over many years he has provided high level advice to various New South Wales State Government Ministers.

Ron is well qualified to perform his responsibilities having obtained a Bachelor of Science (Forestry), Diploma of Forestry, Master of Forestry (Hons). He is also the Chairman of the New South Wales Division of the Institute of Foresters of Australia and a Member of the National Board of Directors of the Institute.

### *3.2 Forestry Service Provider*

The AgriWealth Group intends to engage Forests NSW to perform all plantation management and harvesting activities for the life of the Project. Forests NSW is a corporation sole established under the Forestry Act (NSW) 1916 (owned by the State of NSW) and is the largest manager of softwood forestry in Australia. Forests NSW has over ninety years experience in the forestry industry.

Forests NSW is the largest softwood producer in New South Wales. The Forests NSW softwood estate is valued at over AUD\$1.4 billion.

The services provided by Forests NSW include establishing and maintaining the Plantation, marketing Growers' timber for sale to Forests NSW's customer base, managing fire protection and other ancillary services.

### *3.3 The Trustee of the Land Trust*

The Trustee is responsible for managing the Land Trust in accordance with the Trust Deed. This includes distributing rent proceeds and any proceeds from the sale of the Plantation Land after Final Harvest.

The Trustee of the Land Trust will lease the Plantation Land to AgriWealth who will in-turn grant Timberlots to Growers over the Plantation Land pursuant to Timberlot Agreements.

## Explanation of the Plantation Investment

This section details an overview of the Plantation Investment only. Investors seeking an overview of the Land Trust Investment should refer to section 5.

### 4.1 Structure

An Investor becomes a “Grower” by entering into a Management Agreement with the Manager and agreeing to enter into a Timberlot Agreement with AgriWealth once the Land Trust has acquired the land and leased it to AgriWealth. Under the Timberlot Agreement, each Grower is allocated a specific parcel of land evidenced by Timberlots. The Timberlots entitle the Grower to the produce from that Timberlot Land. Each Timberlot equates to one-half a Plantable Hectare of softwood plantation being Radiata pine.

Growers will “pool” the produce from their Timberlots with the produce from other Growers’ Timberlots (the Marketing Pool). This process reduces a Grower’s exposure to their Timberlots underperforming by way of growth and timber quality. It also simplifies the harvesting and marketing processes and should maximise the proceeds from the Plantation at each Thinning and the Final Harvest.

### 4.2 Plantation Investment Costs

The Initial Establishment Services Fee for each Timberlot is \$10,320 inclusive of GST. The Initial Establishment Services Fee covers the cost of establishing the Plantation including preparing the land prior to planting during the period from the date the Timberlot Agreement is entered into and 30 June 2009. The Initial Establishment Services Fee is payable on 30 June 2008.

Additionally, a Planting Services Fee of \$880 inclusive of GST will be charged to Growers in respect of each Timberlot. The Planting Services Fee is for planting services to be performed on or before 30 June 2010. The Planting Services Fee is payable on 30 June 2010.

All other fees and charges (excluding insurance premiums and certain additional fees) should be deducted from the proceeds of future timber sales at the First Thinning (approximately when the trees are aged 14), Second Thinning (approximately when the trees are aged 22) and the Final Harvest (approximately when the trees are aged 28). The Management Agreement provides for Final Harvest to occur after the trees are aged 28 should growing or timber market circumstances warrant such an extension. However, any extension cannot extend beyond 5 years. These fees and charges are outlined as follows:

#### From First Thinning:

First Interim Management Fee equal to 10% of the Net Harvest Proceeds received pursuant to the First Thinning.

#### From Second Thinning:

Second Interim Management Fee equal to 10% of the Net Harvest Proceeds received pursuant to the Second Thinning.

#### From Final Harvest:

1. Final Management Fee equal to 10% of the Net Harvest Proceeds received pursuant to the Final Harvest but being a minimum fee payable of \$1,550 plus GST for each Timberlot adjusted for movements in the CPI
2. Rent of 10% of Net Harvest Proceeds received pursuant to the Final Harvest (See section 4.7 for an explanation regarding how rent is payable should a Grower’s Timberlots be partially or totally destroyed prior to Final Harvest).

Should for whatever reason the Net Harvest Proceeds from the Final Harvest not be sufficient to meet the minimum Final Management Fee payable of \$1,550 plus GST for each Timberlot adjusted for movements in the CPI, Growers will be liable to pay to the Manager from their own funds the difference between the Net Harvest Proceeds and the minimum Final Management Fee.

### 4.3 Land Selection

The Manager, AgriWealth and Forests NSW have agreed a detailed Land Selection Protocol so that the land to be acquired meets the objectives for the Project. The key assessment criteria include:

- Plantation land capable of producing on average a target Mean Annual Increment growth measure (MAI) of 18 m<sup>3</sup> per annum (key indicators include proven historic rainfall in excess of 800 mm per annum for Radiata pine, adequate soil depth, nutrient level and drainage and site microclimate conditions)
- Within economic haulage distance to key timber processing facilities and infrastructure
- Consideration of natural catastrophe risks (key indicators include historical exposure of the region to fire, snow, disease or drought and infrastructure in place to deal with fire events).



As at the date of this IM, the Manager is seeking to secure Plantation Land that meets the Land Selection Protocol for the Project and together with AgriWealth has an ongoing programme for land acquisitions.

#### *4.4 Establishment & Maintenance*

Land preparation and establishment activities will be carried out over the period following the date of the Timberlot Agreement and 30 June 2009 with planting taking place on or before 30 June 2010. The Manager is responsible for establishment and maintenance of the Plantation and will arrange for Forests NSW to be contracted to provide those services for the term of the Project. The services to be provided to Growers broadly cover:

- Initial site and genetic material selection
- Preparation of the land prior to planting
- Planting, fertilising and replacement of failed planted areas
- Monitoring plantation health, growth rates, hazard reduction and overall progress
- Thinning and harvesting the Plantation
- Marketing the timber produced
- Rehabilitation of the Plantation land after Final Harvest.

A 12-month “stocking guarantee” will be provided to Growers to minimise Plantation establishment risks. The stocking guarantee will stipulate that (other than due to certain unforeseeable events as outlined in section 12.3), a minimum average survival rate of 850 stems per Plantable Hectare will be achieved across all the Timberlots.

The Manager will also provide general administration services. This will include communicating with Growers and arranging (on a reasonable endeavours basis) insurance as agent for Growers.

#### *4.5 Insurance*

Where available at commercially reasonable prices, the Manager will endeavour (as agent for the Growers) to arrange insurance against fire and other selected perils on an annual basis on commercial standard industry terms. The insurance premium applicable for the whole Plantation will be payable by Growers in proportion to the number of Timberlots they have been allocated relative to the total Timberlots allocated to all Growers.

In the event that insurance is unavailable the Manager will advise Growers. If insurance is available but in the opinion of the Manager is uncommercial, the Manager will revert to Growers for a resolution in accordance with the Management Agreement.



## Explanation of the Plantation Investment cont.

### 4.6 Harvest Procedure

The Manager will advise Growers when, in its reasonable opinion (and where applicable based on independent expert advice), the Plantation is ready either for Thinning (an intermediate harvest of small or poorer quality trees) or Final Harvest of the mature trees. The Manager will make available to the Growers at this time the harvesting plan and details of off-take arrangements (if any).

Forests NSW will market the timber produced from the Growers' Timberlots. Forests NSW is obliged to use all reasonable endeavours to secure sales at then Current Market Prices. In achieving this outcome, Forests NSW will seek to integrate the timber with supply from other plantations for which Forests NSW has management responsibility and/or marketing rights. Note that both volumes of logs produced and prices for those products are not guaranteed and are subject to risks, including those outlined in section 6.

For the Tumut/Tumbarumba region the Manager has established an agreement with Forests NSW for the sale of pulpwood from first Thinning of the Project, whereby Forests NSW and the Manager have contracted for pulpwood from the Project to be sold to Forests NSW's major pulpwood purchasing customers, at Current Market Prices. Please refer to section 6.3 - Marketing Arrangements.

In the interests of Growers under the marketing arrangements with Forests NSW, the Manager will retain the right to bring forward or defer the time of Final Harvest, if in its opinion (and where applicable, based on independent expert advice), the market price for timber at that time is favourable or unfavourable (as the case may be).

If Forests NSW wishes to contract the sale of timber more than 12 months in advance of the then expected Final Harvest, the price and contractual terms and conditions set under such a contract must reflect the Current Market Price and be acceptable to the Manager.

Under the Management Agreement, Growers authorise the Manager to collect harvest proceeds and pay for rent, management, road construction, harvest and transportation costs. The Net Harvest Proceeds from the sale of the Growers' trees, after deducting all permitted expenses, will be distributed to Growers in the Marketing Pool pro-rata to their entitlement.

Growers who are also Unit Holders in the Land Trust should refer to section 5.5 for details of the procedure in relation to the Plantation Land after Final Harvest.

### 4.7 Rent Payable by Growers

Growers are obligated to pay a once only rent (being the deferred rental fee under each Timberlot Agreement) to AgriWealth at the time of Final Harvest equal to 10% of the Net Harvest Proceeds including GST. GST is then added to this amount and paid to AgriWealth. Should for whatever reason the Net Harvest Proceeds not be sufficient to meet the rental payable, Growers will be liable to pay the Manager from their own funds any difference.

In the event that a Grower is entitled to receive insurance proceeds from the loss or destruction (either wholly or in part) of their Plantation Investment then AgriWealth is entitled (in addition to any entitlements arising at the time of Final Harvest) to rent calculated as above except the term Net Harvest Proceeds is to be substituted by the term Insurance Proceeds.

In the event that a Grower suffers a loss or destruction of their Plantation Investment (either wholly or in part) but does not receive any Insurance Proceeds for that loss or destruction then AgriWealth is entitled (in addition to any entitlements arising at the time of Final Harvest) to rent calculated as above except the term Net Harvest Proceeds is to be substituted by the term Discounted Harvest Proceeds. Discounted Harvest Proceeds will be ascertained by having an Independent Forester estimate (at the time of the loss or destruction) the expected amount of Net Harvest Proceeds to be derived at the time of Final Harvest discounted by 15% per annum for the period from the time of loss or destruction to the expected time of Final Harvest.

### 4.8 Reporting

The Manager aims to provide an annual report to Growers within 3 months of the end of June each year. The report will include a review of operations for the period and comments on the health and progress of the trees, any damage or loss that has occurred and steps taken to address any loss.

In addition, the Manager will provide a report to Growers after each Thinning and after Final Harvest showing the quantity of the Plantation Produce, the amount of all sale proceeds, the costs of Thinning and Final Harvest of the Plantation, and the amount of any distributions to Growers.

Growers are entitled, at their own cost and upon reasonable notice to the Manager, to visit their Plantation.





#### *4.9 Liquidity*

While forestry plantations are longer term projects Commonwealth legislation now allows the sale of interests in forestry managed investment schemes provided the original investor has held their interest for a period of at least four (4) years. This legislative change should see the development of a secondary market for trading Timberlots.

Subject to any encumbrance created by a Grower in favour of the Manager or United, Timberlots may be assigned or sold to a third party at any time. To the extent permitted by law, the Manager will maintain a register of interested parties either seeking to sell or buy Timberlots.

The Manager is of the opinion that by combining the beneficial ownership of the Timberlot and the freehold land upon which it is planted, the Project as a whole represents an attractive asset for acquisition by forest industry participants.

Growers are advised to obtain their own tax advice when considering selling or assigning their Timberlots. The Manager does not guarantee the liquidity of the Timberlots under any secondary market.

## Explanation of the Land Trust Investment

This section details an overview of the Land Trust only. Investors seeking an overview of the Plantation Investment should refer to section 4.

### 5.1 Structure

An Investor becomes a "Unit Holder" by acquiring Units in the Land Trust. The Land Trust will own the land upon which the Growers establish the Plantation. The number of Units issued by the Land Trust will equal the number of Timberlots issued to Growers.

Each Unit entitles the Unit Holder to a pro-rata share of the rent paid by AgriWealth and a pro-rata share of the net realisation of land value after the Final Harvest.

Because not all land on a particular property is suitable for plantation forestry, the Land Trust may by necessity own some land that is not used for the Plantation.

### 5.2 Unit Application Price

The Application Price for Units in the Land Trust reflects the value of the land that is subject to the lease, being the lease to AgriWealth for approximately 28 years. The Application Price of each Unit in the Land Trust is \$3,000 with a minimum subscription of two (2) Units per Unit Holder. There are no ongoing fees or charges payable. The Trustee estimates that the current average unencumbered value of a Plantable Hectare meeting the Land Selection Criteria in the Tumut/Tumbarumba and Bathurst/Oberon regions is \$6,000.

### 5.3 The Project Land

As outlined in section 4.3, the Manager, AgriWealth and Forests NSW have established a detailed Land Selection Protocol. It is intended that only land meeting the Land Selection Protocol will be acquired by the Land Trust.

### 5.4 Rental Payable by AgriWealth

The Land Trust will grant a lease to AgriWealth over all of the land held by the Land Trust. AgriWealth will then grant Timberlots to each Grower.

The term of the lease and the Timberlots will be sufficient to allow for the Final Harvest of the Plantation.

Under the lease between AgriWealth and the Land Trust, AgriWealth will pay a rental. AgriWealth will pay rent either on an annual basis at a rate of \$240.00 per Timberlot (adjusted for annual CPI movements) (excluding GST) or on an advance instalment basis

payable on 1 April 2009 of \$2,850 (excluding GST) per Timberlot to the Land Trust for the term of the lease. AgriWealth has an option to extend the lease term for up to a further 5 years. If the option is exercised rent will be payable during the option period on the annual rental basis mentioned above.

In general, the terms of the lease and the Timberlots grant the Growers, the Manager, AgriWealth and the Forestry Sub-contractor, Forests NSW, full access to the land to carry out the activities described in section 4.4.

### 5.5 Land After Final Harvest

Upon Final Harvest the Growers, the Manager and Forests NSW are obliged to cut the stumps as low as practicable, and in any case no more than 200 mm above ground level (except on land greater than 16 degree slope where stumps 250 mm above ground will be deemed acceptable), and rehabilitate the land such that it is in a clean and tidy condition. After remediation and any other obligations have been performed the Timberlots come to an end.

Once the Lease and all the Growers' Timberlots have ceased the encumbrance on the land is no longer and the Trustee can realise the land value and return the net proceeds to Unit Holders. Realising value for the land may include selling the land, or other means of realising value.

In deciding on an acceptable sale price, the Trustee will benchmark the price negotiated to a market value as determined by a reputable independent valuer.

### 5.6 Reporting

Unit Holders will receive the same reports as Growers under the Plantation Investment, plus:

- A Land Trust Unit certificate, confirming the Land Trust Units that have been allocated
- A land acquisition report, confirming the acquisition of the land and other details of the land
- Annual distribution statements and reports detailing the accounting and taxable distributions.



## 5.7 Liquidity

Subject to any encumbrance created by a Unit Holder in favour of United or the Trustee, Units may be assigned or sold to a third party at any time. To the extent permitted by law the Trustee will maintain a register of interested parties either seeking to sell or buy Units.

Participation in the Land Trust is long-term. Whilst there is currently no secondary market for trading of Units it is expected that such a market should develop in the future due to the recent Commonwealth legislative changes which now allow initial investors in forestry managed investment schemes to sell their interests after holding such interests for at least four (4) years. Also, it is possible that in the future the Trustee may receive an offer to buy its land or the Trustee may establish, or participate in the establishment of, an active secondary market for Units.

Unit Holders are advised to obtain their own tax advice when considering selling or assigning their Units.



# Project Risks

An investment in the Project is subject to a number of risks that may adversely impact the returns achieved by Investors. The principal risks are outlined below.

## 1.1 General Forestry Risks

Although Forests NSW is an experienced forestry manager, an investment in the Project is subject to general risks associated with plantation forestry including fire, wind, snow and hail damage. These risks can be reduced through sound management practices, including appropriate site selection, but the detrimental effects of extreme weather conditions are largely outside the control of the Manager, AgriWealth and Forests NSW.

To reduce the impact of such risks the Manager will endeavour to obtain insurance cover as outlined in section 4.5. Investors should be aware that the proceeds from any insurance claim may not provide total compensation for any losses suffered.

These Key Project risks have been identified:

- **Fire:** This risk is reduced by frequent maintenance of firebreaks around the Plantation Land, hazard reduction burning, grazing to keep fuel levels down and a rapid response capability from well-trained fire crews.
- **Grazing:** Grazing is excluded from the Plantation by fencing until the trees are old enough to avoid damage that may be caused by grazing. Where grazing is considered appropriate by the Manager, stocking levels are monitored to ensure that the risk of damage is minimised.
- **Insects and Diseases:** There are many insects that feed on trees. By ensuring that trees are not subject to weed competition and are well fertilised, the trees' natural defences are the best control against insects. However the maintenance protocols include a surveillance regime designed to detect the existence of pests at an early stage allowing appropriate action to be taken. Immature plants are most susceptible to the threat of insects and pests. The 12-month stocking guarantee as outlined in section 4.4 reduces this risk.
- **Weather:** Drought experienced in the early establishment period of the plantation may cause the death of trees. Prolonged periods of drought can reduce overall plantation timber production over a rotation period. The areas in which the Plantation will be located may be affected by snowfall or hail however any resulting damage is likely to be limited. Wind damage is rare and

mostly occurs in stands that are thinned well after the optimum size and age. This is under direct management control. Even where wind damage does occur, it is usually in isolated pockets. Widespread damage from storms is uncommon but cannot be eliminated. Aside from maintaining the trees in a healthy growing state and Thinning on time, no specific counter measures will be taken. The risk of drought is reduced by adhering to the Land Selection Protocol that requires average historic rainfall in excess of 800 mm per annum.

## 1.2 Market and Economic Risks

Market conditions including the development of wood substitutes, fluctuation of national and international timber and log prices, and currency fluctuations may impact on the future price for wood products. In any commodity market there is a risk of over-production of the commodity leading to an over-supply. A plantation's proximity to processing and transport infrastructure is important in ensuring a ready market.

Market log prices and any growth in log prices are subject to the risk inherent in projecting prices based upon internationally traded commodities in the longer term. Domestic log prices may also be subject to currency fluctuations, inflation and costs structures in international wood markets.

In the event that the Plantation Land fails to maintain its value or there is no market for disposal of the Plantation Land, the financial returns from the Project may be adversely affected for Unit Holders.

## 1.3 Marketing Arrangements

Forests NSW is to market the timber of Growers (Growers should note that this is not a binding off-take contract for all timber produced). Forests NSW will be obliged to use reasonable endeavours to realise a sale at then Current Market Prices. Current Market Prices are the prices achieved by Forests NSW for its equivalent timber produce at the time of the relevant Thinning or Final Harvest. However, neither the Manager, AgriWealth nor Forests NSW provides any guarantee as to price or that sales will be achieved.

For the Tumut/Tumbarumba region the Manager has established an agreement with Forests NSW for the sale of pulpwood from first Thinning of the Project, whereby Forests NSW and the Manager have contracted for pulpwood from the Project to be sold to Forests NSW major pulpwood purchasing customers, at Current Market Prices.



## 1.4 Illiquid & Long Term Investment

The Project should be considered as an illiquid and long-term investment. This is because, even though an Investor's interest in the Project is transferable, subject to conditions, there is no established secondary market currently for these interests and the expected growth period for the trees is 28 years.

Recent Commonwealth legislation now allows the sale of interests in forestry managed investment schemes provided the original investor has held their interest for a period of at least four (4) years. This legislative change should see the development of a secondary market for trading Timberlots.

## 1.5 Project Commencement Risk

If any force majeure event occurs (refer section 12.3 and 12.4) and the Plantation is unable to proceed in the manner contemplated in this IM, the prepayment tax deductions may not be available and the Manager will refund unspent and uncommitted monies. In this circumstance Growers are only entitled to a deduction for expenses incurred and prepayment deductions may be adjusted.

If the Trustee has not acquired sufficient land which is suitable for the Plantation Investment having regard to the Land Selection Protocol by 31 March 2009 then the Project may be reduced in size. The Manager will return Application moneys to affected Investors by 30 June 2009.

## 1.6 Contractual Default

Investors are at risk to a contractual default. This risk is reduced by the experienced management team and financial standing of the AgriWealth group and Forests NSW.

In the event that Forests NSW is privatised at a future date the forestry services contract with Forests NSW remains with Forests NSW under its new form of ownership.

## 1.7 Additional Charges

Under the Management Agreement Growers may be obliged to make payment for additional services. Such services may include a Grower variation made in accordance with the Management Agreement or additional work which the Manager is required to do

in its reasonable opinion of an emergency or other necessary nature (which is not otherwise covered by the Management Agreement).

Furthermore following Australia's ratification of the Kyoto Protocol which will come into effect later this year, any liability that may arise as a result of deforestation will rest solely with the Growers, subject to any statutory provision to the contrary. The liability may be deducted and paid from the amounts due to the Growers.

## 1.8 Legislative Change

Changes in legislation (including Australian income tax legislation changes) may have an impact on returns from the Project. Investors are advised to form their own view on the likelihood and impact of any legislative change, both positive and negative.



## Funding Participation in the Project

Finance is available to Approved Applicants in both the Plantation Investment and the Land Trust. Finance Facilities will be provided to Approved Applicants.

Up to 100% finance for the Application Price associated with the Project will be made available to Approved Applicants. Investors can also fund their investment from their own sources. Investors can fund their investment by a combination of their own funding, United funding or by utilising the Terms Payment Agreement offered by the Manager.

Applications for finance are subject to standard credit approval processes. Applicants who apply for finance and who receive approval for a lesser amount will be taken to have applied for a lesser number of Timberlots and/or Units in the Land Trust.

### 7.1 Term and Repayment

There are several arrangements from which Applicants can choose:

#### TERMS PAYMENT AGREEMENT

Under this option the Manager offers individual Applicants (not corporate or trustee entities) a Terms Payment Agreement in which to pay the Initial Establishment Services Fee and Planting Services Fee. The Terms Payment Agreement is not available in relation to Unit subscriptions. Approval for a Terms Payment Agreement is subject to an Applicant meeting the Manager's normal credit assessment process.

Under the Terms Payment Agreement an Approved Applicant will be entitled to pay the Initial Establishment Services Fee and Planting Services Fee by way of 12 equal monthly instalments.

The 12 monthly instalments to be paid in respect of the Initial Establishment Services Fee commence on 29 July 2008 and for the Planting Services Fee commence on 29 July 2010.

Approved Applicants may make early payment of instalments under the Terms Payment Agreement without incurring any additional fee.

Alternatively, United offers a number of finance options to Approved Applicants for the amount of their Plantation Investment and Units in the Land Trust.

#### UNITED LOANS

A loan application fee of \$250 plus 0.5% of the amount borrowed up to a maximum of \$1,250. This fee applies in relation to an Approved Applicant's participation in the Project as a whole (whether the loan is for the Initial Establishment Services Fee, Planting Services Fee or Units in the Land Trust made either by the Approved Applicant personally or together with a related entity).

Approved Applicants can choose from 1 of 3 loan options offered by United. The 3 options are:

- 10 year loan facility with repayments for the first 3 years being interest only.
- 12 year loan facility with repayments for the first 3 years being interest only.
- 15 year loan facility with equal monthly repayments of principal and interest.

#### 10 AND 12 YEAR LOAN FACILITIES

*3 years interest only repayments with equal monthly instalments of principal and interest being repaid thereafter*

Under the United 10 or 12 year loan options an Approved Applicant will receive up to 100% finance for their Plantation Investment and/or Units in the Land Trust from United. Monthly repayments during the first 3 years will be for interest only charges. Interest only payments will cease on 30 June 2011. The loans will be drawn down in three tranches:

- The Initial Establishment Services Fee will be drawn down on 30 June 2008.
- The Unit subscription amount will be drawn down on 31 March 2009.
- The Planting Services Fee will be drawn down on 30 June 2010.

The amount borrowed in respect of the Initial Establishment Services Fee is initially repayable by way of interest only monthly instalments commencing 30 July 2008. The amount borrowed for the Planting Services Fee is initially repayable by way of interest only monthly instalments commencing 30 July 2010. The amount borrowed for the Unit subscription is initially repayable by way of interest only monthly instalments commencing 30 April 2009.

After the interest only periods ending on 30 June 2011 the amount borrowed in respect of the Plantation Investment and/or Units in the Land Trust will be repayable over the remaining terms of the facilities by way of equal monthly instalments of principal and interest.



## 15 YEAR LOAN FACILITIES

*Equal monthly instalments of principal and interest being repaid*

Under the United 15 year loan option an Approved Applicant will receive up to 100% finance for their Plantation Investment and/or Units in the Land Trust from United. The loan will be drawn down in three tranches:

- The Initial Establishment Services Fee will be drawn down on 30 June 2008.
- The Unit subscription amount will be drawn down on 31 March 2009.
- The Planting Services Fee will be drawn down on 30 June 2010.

The amount borrowed in respect of the Establishment Services Fee is repayable by way of equal monthly instalments of principal and interest commencing 30 July 2008. The amounts borrowed for the Unit subscription and Planting Services Fee are repayable by way of equal monthly instalments of principal and interest commencing 30 April 2009 and 30 July 2010 respectively.

In assessing whether to approve a United loan an income and net assets test may be applied. The criteria utilised is detailed in the following table:

Loan band	Taxable income	Minimum tangible net worth
\$10,000 - \$30,000	\$60,000	\$175,000
\$30,001 - \$45,000	\$75,000	\$250,000
\$45,001 - \$75,000	\$100,000	\$500,000
\$75,001 - \$125,000	\$150,000	\$1,000,000
\$125,001 - \$175,000	\$200,000	\$1,500,000
\$175,001 - \$275,000	\$250,000	\$2,000,000

## 7.2 Interest Rates and Early Repayments

Interest will be charged on the outstanding balances, calculated daily, at the relevant interest rate.

Interest will be charged on the United loans at a fixed rate per annum payable monthly in arrears. The actual fixed rate will be determined at the time of drawdown. The rate will not exceed the United published fixed rate of interest as displayed on United's website

[www.upf.com.au](http://www.upf.com.au) under the heading "Products & Rates" at the time of drawdown.

An Approved Applicant borrowing under the 10 year loan facility has an additional option to borrow at a variable rate of 4.75% per annum over the bid rate as displayed on page BBSY of the Reuters Screen at or about 10 am on the relevant day 90 day bank bills with a tenor of 1 year is rolled over. 10 year variable rate loans will have interest rates reset every 90 days.

Approved Applicants may make early repayments of the United loans (either part or all). Under a variable rate loan, an Approved Applicant can make an early repayment at the time interest rates are reset without incurring any break cost. However, where Approved Applicants have elected to have a fixed rate loan or early repayment of a variable rate loan occurs at a time other than when interest rates are reset then certain break costs may be levied upon early repayment.

For fixed rate loans which are partially repaid early, break costs will be calculated as if the loan was fully repaid early. Early repayments cannot be redrawn. An administration fee of \$125.00 is payable in respect of a partial early repayment of a loan and an administration fee of \$275.00 is payable in respect of a total early repayment of a loan.

A default margin will apply to any Approved Applicant who does not comply with the terms of the Finance Facility (refer section 12.5 for details). For further details you should review the actual finance facility documents.

## 7.3 Security

All Terms Payment Agreement arrangements and United loans are full-recourse. This means that Approved Applicants are required to make interest and principal payments or Terms Payment Agreement instalment payments from their own resources irrespective of the success or failure of the Project.

All Terms Payment Agreement arrangements and loans may obtain security by mortgages over the Growers' Timberlots and Unit Holders' Units in the Land Trust, the Management Agreements and any other contractual or other rights of the Approved Applicants in respect of the Project.

If the Approved Applicant for a United loan is a corporate entity (including a trustee), unless otherwise advised, the directors of the entity will be required to guarantee the loan.

# Independent Forester's Report


**PÖYRY FOREST INDUSTRY PTY LTD**

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**Date: 18 March, 2008**

Ref 51A09375  
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The Directors  
AgriWealth Capital Limited  
20 Young Street  
Neutral Bay NSW 2089

## INDEPENDENT FORESTER'S REPORT

Dear Sirs,

This report has been prepared for inclusion in an Information Memorandum ("IM") to be issued by AgriWealth Capital Limited (the Project Manager), in relation to the offer of interests in a managed investment scheme (MIS) for the growing of softwood in New South Wales (NSW). The project provides investors with the opportunity to invest in either or both the AgriWealth 2008 Softwood Project – Tree Project (the "Plantation Investment") or the AgriWealth 2008 Softwood Project - Land Trust (the "Land Trust").

### Independent Forester Expertise

Pöyry Forest Industry Pty Ltd (Pöyry) is part of the Pöyry Group, which provides energy, forestry, infrastructure and environmental services to clients within Australia and around the world. The group operates a global network of 7 000 employees in 45 countries.

Pöyry and its predecessor companies have over 30 years of experience in the Australian forestry sector. Pöyry provides professional services to the forest sector through a team of highly experienced consultants. The Company offers multidisciplinary services across all components of the forest product chain including advice on forest establishment, tending, monitoring, harvesting, markets and utilisation.

Pöyry's contribution to the IM has been confined to the preparation of this Independent Forester's Report and the Independent Market Report.



## 1. THE PROJECT

The Project Manager plans to establish and manage plantations of *Pinus radiata* (radiata pine). Radiata pine will be established in the regions around Tumut-Tumbarumba and Oberon in New South Wales (NSW). The forestry objective of the Plantation Investment is to establish plantations that will produce sawlogs and pulplogs within a rotation length of approximately 28 years.

## 2. CAPACITY OF THE FOREST SERVICES PROVIDER

Forests NSW is a Public Trading Enterprise owned by the State of NSW. It was incorporated in 1916 by an act of Parliament and directly employs more than 1 000 staff. The organisation is responsible for the sustainable management of 2.4 million hectares (ha) of public forests within NSW.

### Forest Services Plantation Capability

Forests NSW manages 223 000 ha of softwood plantations located mainly around Tumut-Tumbarumba and Bombala in southern NSW, the Bathurst/Oberon region in the central west and Walcha/Nundle in the north. Forests NSW produces approximately 1.9 million cubic metres (m<sup>3</sup>) of softwood sawlogs and 1 million tonnes (t) of softwood pulpwood annually, making Forests NSW Australia's largest softwood fibre producer. The organisation also manages approximately 54 000 ha of hardwood plantations.

Forests NSW will provide forestry services to the Plantation Investment under the "Forestry Management Contract AgriWealth 2008 Softwood Project" ("Management Agreement"). This agreement sets out the compliance requirements for the land selection protocol. It also details subsequent management obligations. Although management outcomes are specified in some instances (e.g. minimum stocking rates), the contract is not outcome-based with respect to achieving the projected yield. This is common practice for forest management contracts, reflecting the view that yields may be influenced by a number of factors over the rotation, and some of these factors are outside the control of the forest services provider.

Pöyry has inspected a sample of radiata pine plantations of different ages, developed by Forests NSW. At each property, the inspection addressed such matters as plantation layout, adequacy of site preparation, seedling survival, weed control, tree health, general growth rates, and firebreak maintenance and road access. From the sample of properties inspected, and the practices and processes reviewed, Pöyry is satisfied, that Forests NSW is capable of undertaking works and responsibilities required of the Forest Services Provider for the Project Manager.

Forests NSW uses information systems for recording operations, contractor management, and quality control (QC). Forests NSW employs staff dedicated to quality control sampling. QC occurs after ripping, planting, fertilising and other operations. Contractors are paid on the quantity of acceptable work. For example, planting contractors are paid only for the planting that meets planting specifications as measured by QC, and not the total amount planted.



### Marketing Agent Capability

Forests NSW has been appointed as AgriWealth's agent to secure sales for the plantation timber. Under this agreement, Forests NSW will be obliged to use all reasonable endeavours to negotiate and achieve log sales at the current prevailing market prices. Under the proposed management plan for the plantations logs will become available from intermediate harvests or "thinnings" and from final clearfell operations at the end of the rotation. The arrangements for sale of pulpwood from first thinning provide an initial return. More importantly, the thinned plantation is better placed to enhance future sawlog production.

Forests NSW is the largest softwood log supplier in NSW, and has long-term contractual arrangements with a number of key industry participants. Pöyry is satisfied that Forests NSW has the capacity to market the wood at levels matching the prices received from its own sales.

### Environmental Management

Forests NSW's forestry operations are independently audited and certified to meet the ISO 14001 Standard for environmental management. This verifies that all relevant state and federal environmental regulations and statutes with respect to plantation management are being met.

Forests NSW's forest management practices are certified to the Australian Forestry Standard (AFS). The AFS independent certification demonstrates that Forests NSW is managing forests to meet standards covering social, economic, and environmental aspects. In addition, the AFS is recognised by the Program for the Endorsement of Forest Certification Schemes (PEFC), the world's largest forest certification scheme.

## 3. PLANTATION LAND CHARACTERISTICS

The IM requires that selected sites are capable of producing softwood plantations with a mean annual increment (MAI) of 18 cubic metres per hectare per year ( $\text{m}^3/\text{ha}/\text{a}$ ) when averaged over the 28 year life of the plantation. Land will be selected subject to guidelines for the evaluation of individual properties. These guidelines are described in the "Land Selection Protocol and Due Diligence" that is included as a schedule to the Management Agreement between the Project Manager and Forests NSW.

Key attributes used in the Land Selection Protocol and Due Diligence guidelines include:

- Land clearance: Each site should be substantially cleared land. Any areas of intact native vegetation will be retained for conservation purposes.
- Climate: Each site should have an average rainfall in excess of 800 mm/a.
- Soils: Each site should have adequate soil depth, nutrient level and drainage, and have site microclimate conditions such that it is capable of meeting the required tree growth objective.
- Access to markets: This includes adequate access within the plantation area for operational vehicles and harvesting equipment, close proximity to the public road

network and the straight line distance is less than 100 km from Tumut or Oberon for radiata plantations.

Pöyry has examined Due Diligence reports used by Forests NSW in the acquisition of two properties. We found evidence that the assessment criteria had been applied correctly as required by the Management Agreement.

Pöyry has reviewed the site selection guidelines set out in the Land Selection Protocol. If these guidelines are diligently applied, the resulting sites will be capable of meeting the Plantation Investment objectives.

#### 4. PLANTATION ESTABLISHMENT AND ONGOING MAINTENANCE

The selected species for the Project is radiata pine (*Pinus radiata*). Radiata pine is a species for which there is extensive information on establishment, management and research available. Forests NSW has a long history of managing this species in the region. Forests NSW started a global tree breeding program, including Australia, and extensive tree breeding and selection work has been undertaken to genetically improve radiata pine. This has been successful by increasing growth rates, and improving wood quality and tree form.

Pöyry has reviewed the silvicultural regime proposed by Forests NSW. The process included an interview with forestry staff and a field visit to the region.

As the contracted services provider, Forests NSW will prepare a specific Plantation Establishment and Management Plan for each project site. These plans will detail the proposed management regime for the site and the operations required to implement the regime. Forests NSW advises that the operations are likely to vary depending on site specific circumstances and other factors that cannot be predicted in advance, such as weather conditions.

The basic management regime is set out below:

- On-site planning and identification of areas suitable for planting
- Clearing of residual vegetation
- Preparation of roads and fire-breaks
- Site preparation for planting by ripping, or ripping and mounding
- Control of weeds and browsing animals
- Provision of suitable genetic and nursery stock
- Planting of trees at a density of 1 100 stems/ha for radiata pine
- Application of suitable fertiliser after planting, as necessary
- Follow up control of weeds as required based on monitoring
- Monitor plantation after planting to estimate survival, followed by replanting if necessary





- Strategic foliar analysis of nutrients, followed by remedial fertilising treatments if required
- Assess plantation and undertake first thinning at approximately age 14 years, primarily for pulpwood
- Assess plantation and undertake second thinning at age 22 for pulpwood and sawlog
- Final harvest at approximately 28 years of age, primarily for sawlog production.

Forests NSW periodically monitors plantations to ensure adequate stocking of trees, to compare actual growth to predicted growth and to review health. Forest NSW produces an annual "Forest Health Inspection Report" from aerial and ground surveys of all young stands and selected older stands. The survey is conducted by forest health specialists and examines nutrient deficiency, weed competition, insects and diseases, frost damage, animal and bird damage and drought death.

Pöyry has reviewed the site preparation, establishment, maintenance and monitoring methods proposed by Forests NSW and considers them to be appropriate for meeting the Plantation Investment objectives.

## 5. POTENTIAL PRODUCTIVITY

Project sites are selected by Forests NSW to have an expected average minimum productivity of 18 m<sup>3</sup>/ha/a over a rotation of 28 years. That is, over a full rotation of 28 years, on average each productive hectare of plantation will produce a minimum of approximately 468 m<sup>3</sup>/ha of gross merchantable timber. Under the Management Agreement between Forests NSW and the Project Manager there is the option to extend the rotation up to 3 further years if required in order to achieve yields and average log sizes that meet prevailing industry requirements. Over a 31 year rotation, a well established and managed plantation, with an average productivity of 18 m<sup>3</sup>/ha/a should produce approximately 558m<sup>3</sup>/ha/a of under bark log volume.

According to Forests NSW, the plantation will be selectively thinned at approximately 14 years of age, removing 90m<sup>3</sup>/ha of pulpwood. At approximately 22 years of age, a second thinning will be undertaken, removing on average 90 m<sup>3</sup>/ha of timber, of which 36 m<sup>3</sup> is expected to be pulpwood and the remaining 54m<sup>3</sup>/ha will be small and medium sized sawlogs. At approximately 28 years of age, the final harvest will be undertaken, removing on average 324 m<sup>3</sup>/ha. This will be made up of 298 m<sup>3</sup>/ha of sawlogs and 26 t/ha of pulpwood. The proportion of pulplog, sawlog and veneer log at each harvesting operation will depend on future industry log specifications and the distance from the plantation to the processing facilities. Therefore the estimates of pulplog and sawlog fractions are only approximate. The above yields are projected for sites that only meet minimum site quality criteria. With all other factors being equal, yields will potentially be higher if site qualities of properties purchased are above the minimum.

If the site selection guidelines are diligently applied and the management regime is carefully administered, it is Pöyry's opinion that the resulting plantations will be capable of meeting the "Plantation Investment" productivity objectives.

## 6. RISKS

Softwood plantations are similar to many other agricultural enterprises in that they are subject to climatic, biological and economic risks. This report does not examine the economic risks associated with the “Plantation Investment”. Some risks can be alleviated through sound management, while others, such as natural fire events, are more difficult to predict but can often be insured against.

In Australia, fire is considered a major risk for forest plantations. Management can reduce this risk in many ways. Forests NSW undertakes to include the “Plantation Investment” within its own plantation protection program. This includes establishment and maintenance of fire breaks, fire fuel hazard reduction and maintenance of access roads.

Evidence is emerging of changing climates across south eastern Australia. Among other changes, there appears to be an increased incidence of below average rainfall seasons. This has the potential to reduce the growth rate of trees measured across the rotation.

Damage and losses may occur through biological agents such as pests (for example, Sirex wood wasp) and diseases (for example, Dothistroma needle fungus). Forests NSW conducts routine assessments within its plantations in order to detect any outbreaks of pests and disease. Forests NSW will undertake appropriate remedial actions to minimise the impacts.

Markets for forest products are evolving. The long period of the rotation (28 years) implies the likelihood of unforeseen changes in markets over this time. However, Forests NSW as the dominant supplier will be in a strong position to adapt and to manage the implications of any changes.

## 7. CONCLUSION

Pöyry has reviewed the structure of the Plantation Investment from a forestry perspective and has assessed the capability of Forests NSW to manage the forestry aspects of the Plantation Investment in accordance with the Management Agreement. As a result of this review, Pöyry believes that Forests NSW has the capacity and experience to successfully implement the Plantation Investment.

# Independent Market Report on Radiata Pine


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**Date: 18 March, 2008**

Ref. 51A093759  
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Dear Sirs,

## INDEPENDENT MARKET REPORT

This Independent Market Report has been prepared by Pöyry Forest Industry Pty Ltd (Pöyry) for AgriWealth Capital Limited (the Project Manager) for inclusion in the Information Memorandum (IM) for the AgriWealth 2008 Softwood Project (the Project). Its purpose is to assist investors in assessing the price outlook for the softwood plantation products likely to arise from the Project. Pöyry is independent of the Project Manager and has no financial interest in the Project other than a professional fee for this report.

## EXECUTIVE SUMMARY

Growers in the Project will produce radiata pine logs in the key plantation growing and timber processing regions of Tumut-Tumbarumba, and Oberon in New South Wales (NSW). Major product types are sawlogs, used primarily to produce sawn timber for construction and packaging, and pulplogs for use in the production of pulp for paper products and reconstituted wood panels. There is high demand for pulpwood in the Hume region. Export of the Project's radiata logs is unlikely, given the haulage distance to port and the strong regional demand.

The outlook for softwood<sup>1</sup> sawn timber is driven by construction activity and is assessed as steady in the medium to long term. There are large, modern sawmills in the Hume and Macquarie regions that can be expected to seek to maintain throughput to keep production costs low. Sawmills in these regions are able to cost effectively supply the large domestic markets of Sydney and Melbourne.

<sup>1</sup> The term 'softwood' here refers to wood from coniferous tree species such as pine, including *Pinus radiata* (radiata pine)



Pulp mill expansions are planned in the Hume region over the next five years, and there is scope for import substitution in some paper product sectors. Therefore, the demand in the Hume region for radiata pulp logs is expected to increase in the medium term, remaining at least steady thereafter.

The Australian forest products industry is predominantly characterised by long term log supply contracts. As a result, details of individual log sales transactions are not publicly available, making it difficult to identify market log prices. Table S-1 details the national average softwood stumpage prices reported in the Australian Pine Log Price Index (APLPI). Stumpage prices (i.e., the delivered prices less the costs of harvesting and transport to the mill or port gate) are given by log grade.

**Table S-1:**  
**Average weighted softwood sawlog stumpage prices reported by the APLPI**

Sawlog Diameter Class (small end diameter under bark)	APLPI weighted average AUD/m <sup>3</sup> (Jun - Dec 2006)
Small Sawlog < 24.0 cm	\$33.97
Intermediate Sawlog 23.9 to 32.0 cm	\$46.49
Medium sawlog 31.9 to 44.0 cm	\$66.60
Large sawlog > 43.9 cm	\$83.47
Salvage Log	\$25.19
Preservation	\$22.35
Pulp Log	\$9.87

Source: KPMG Australian Pine Log Price Index, updated to December 2006

**1****INTRODUCTION**

This Independent Market Report has been prepared by Pöyry for inclusion in the AgriWealth 2008 Softwood Project IM. Its purpose is to assist investors in assessing the price outlook for the softwood plantation products likely to arise from the Project.

Pöyry is a global consulting and engineering firm which provides energy, forestry, infrastructure and environmental services to clients within Australia and around the world. The group operates a global network of 7 000 employees in 45 countries.

Pöyry's forest industry business group is a global market leader in the sector. It provides consulting services to the forest industry sector and engineering, project implementation and maintenance engineering services for wood processing facilities. Pöyry has staff dedicated to the monitoring and reporting of the wood and wood products markets in Australasia.

Actual sale prices at the time the Project plantations are harvested may be significantly above or below the current prices given in this report. The opinions expressed are within the context of the forest industry which has similar inherent risks as other forms of land based primary production, and a long investment period. These risks may be material to the expected outcomes.

Pöyry notes that AgriWealth is responsible for sales for the plantation timber.

## 2 OVERVIEW OF THE AUSTRALIAN SOFTWOOD PLANTATION SECTOR

### 2.1 Plantation establishment

As per 2006, Australia has around 1.82 million ha of plantation forests (Bureau of Rural Sciences – BRS, 2007). Softwood plantations account for more than half the national estate (1 million ha in 2005) with hardwood plantations accounting for the remaining area. Softwood plantations are mainly *Pinus* species, of which approximately 75% is *Pinus radiata* (radiata pine).

Government investment led to the rapid expansion of the softwood plantation area from 1950 to 1980. The softwood plantation industry is now in a mature phase of development, with the area of new land being established in softwood plantations, approximately balancing the area of existing softwood plantations moving to other land uses after harvest. Almost all of the softwood plantations are managed to produce both sawlogs (used to produce sawn timber) and pulplogs (used to produce pulp which is processed further into paper products and panel products).

In contrast, most of the hardwood plantations have been established during the last 10 years, on short rotations, to produce pulpwood only. Most of the plantations are eucalyptus species, and are currently almost entirely exported as woodchips.

Plantation ownership is becoming more diverse, and includes managed investment scheme (MIS) investors, farm foresters, other private owners, superannuation funds, and timber industry companies. However, with the exception of Victoria and Tasmania, where the softwood resources have been privatised, and the Northern Territory, governments are still the major owners of softwood plantations. Superannuation funds own more than 200 000 ha of softwood plantations in NSW, Victoria and Tasmania.

Figure 2-1 shows that by state, NSW has the largest percentage of softwood plantations at approximately 28%, followed by Victoria (22%) and Queensland (19%).

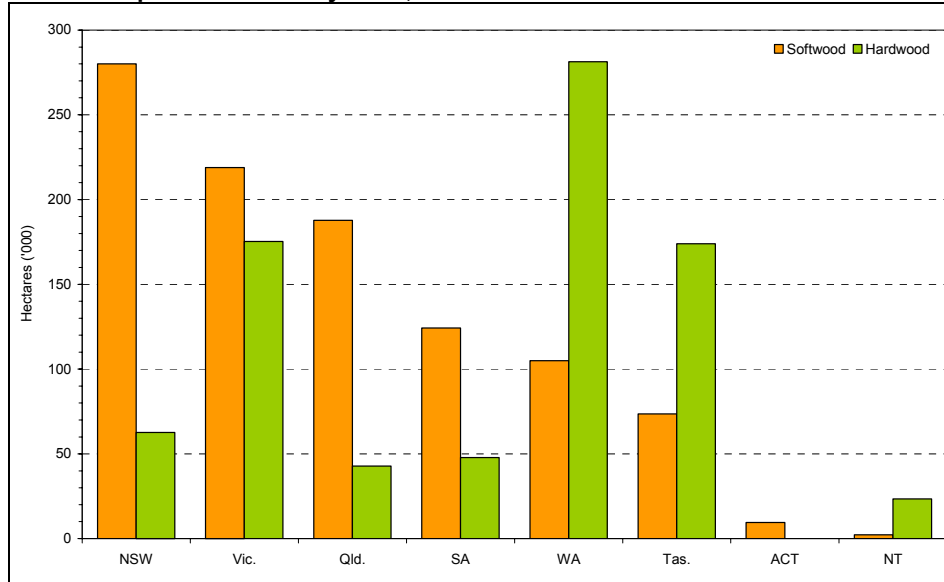
Approximately 27 million m<sup>3</sup> of logs were harvested in 2005/06, of which 53% were from softwood plantations (see Figure 2-2). The volume of softwood harvested from plantations has increased at an average of 5%/a, from approximately 8.7 million m<sup>3</sup> in 1995/96 to 14.4 million m<sup>3</sup> in 2005/06. It is expected to stabilise around current levels. Comparatively, volumes harvested from native forest between 1995/96 and 2005/06 have averaged around 10 million m<sup>3</sup>/a, of which 3.5 million m<sup>3</sup>/a were hardwood sawlogs.

The plantation softwood sawlog volume was approximately 9.4 million m<sup>3</sup> in 2005/06, and accounted for approximately 73% of the total sawlogs harvested that year. Pulpwood harvested from softwood plantations in 2005/06 was approximately 4.6 million m<sup>3</sup>. Other softwood log product types accounted for approximately 400 000 m<sup>3</sup> (Australian Bureau of Agriculture and Resource Economics – ABARE, 2006).



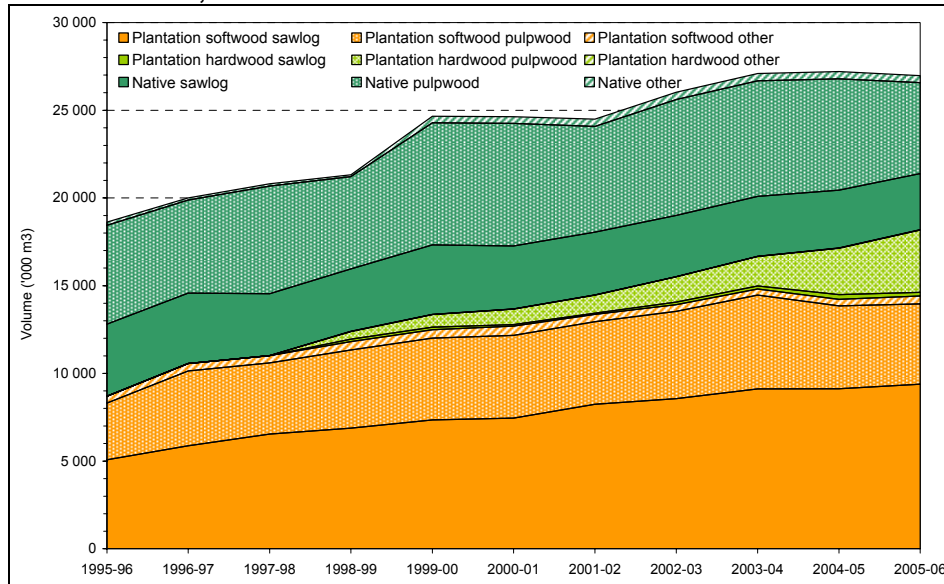


**Figure 2-1:**  
**Australia's plantation area by State, 2005**



Source: BRS Australia's Plantations 2007

**Figure 2-2:**  
**Harvest volumes, 1995-2005**



Source: ABARE, Pöyry Forest Industry

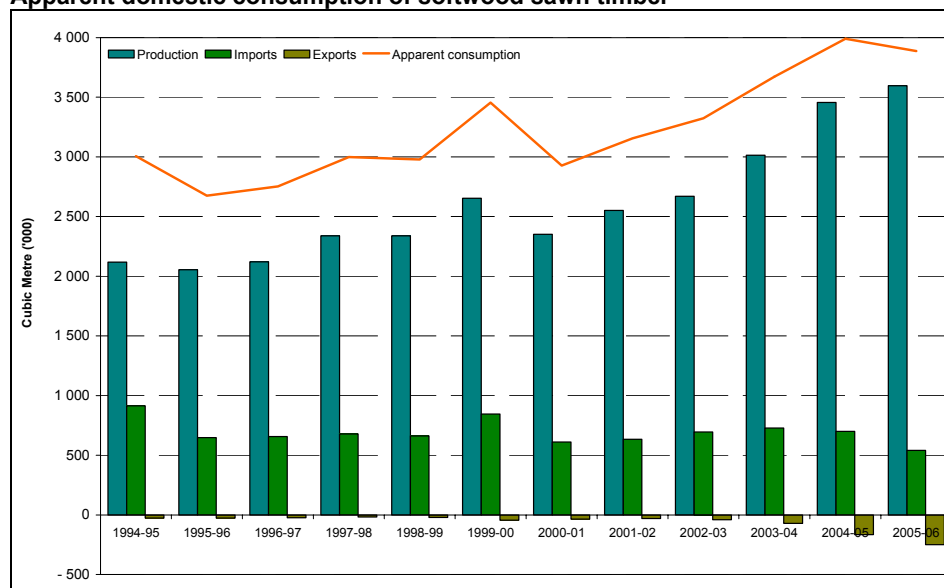
## 2.2 Domestic softwood consumption

Softwood plantation sawlogs are used to make sawn timber for building and construction. In some regions, large straight sawlogs can be peeled or sliced for veneers for plywood. Pulpwood logs are smaller and/or less straight logs that are chipped and processed into wood-based panels and pulp for a wide range of paper products. In some regions, there are preservation markets where generally small straight logs are processed into posts and other landscaping products.

### 2.2.1 Sawn timber consumption

The volume of softwood sawn timber produced in Australia has increased significantly, as has consumption (see Figure 2-3). Since 1994/95 production has grown from approximately 2.1 million m<sup>3</sup> to 3.6 million m<sup>3</sup> in 2005/06, at an average of 5.2%/a. Apparent consumption of softwood sawn timber has mirrored this trend, increasing steadily for more than a decade at an average of 2.8%/a.

**Figure 2-3:**  
**Apparent domestic consumption of softwood sawn timber**



Source: ABARE

Sawn timber imports have been fairly consistent over the last decade, at around 700 000 m<sup>3</sup>/a.

New Zealand's supply of radiata pine sawlogs will increase significantly over the next 10 years, stabilising or possibly declining slightly thereafter. The New Zealand forest industry views Australia as a potential growth market for its competitively priced softwood sawn timber. However, the characteristics of the New Zealand product are different, making it best suited for non-structural uses. Structural sawn timber produced in NSW is likely to remain competitive in the nearby Melbourne, Sydney and Brisbane markets.

Sawn timber exports have traditionally been low, as Australia has used the majority of production domestically. While exports in 2005/06 were less than 5% of production,



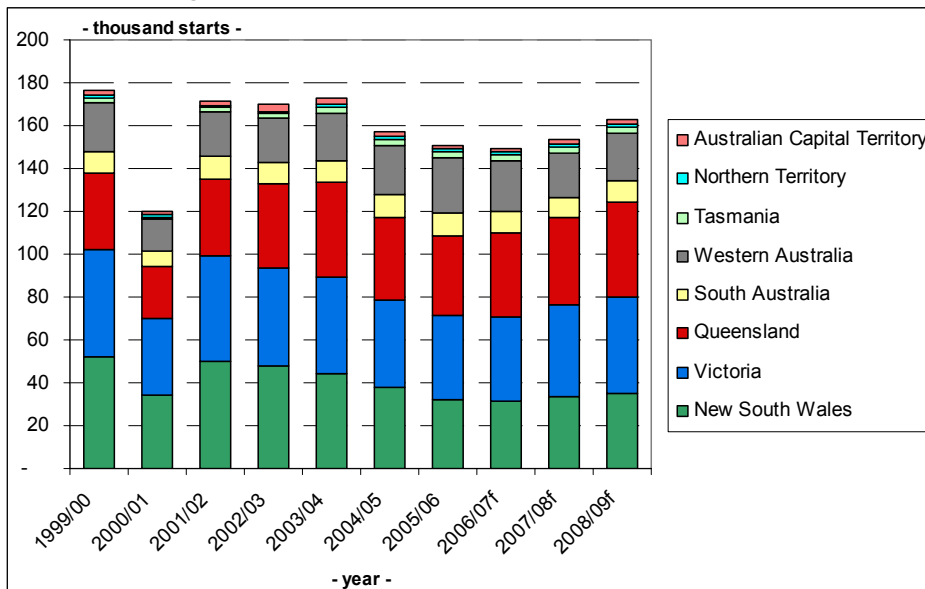
sawn timber exports have grown from 41 000 m<sup>3</sup> to 241 000 m<sup>3</sup> from 2003/04 to 2005/6. With the softwood plantations in a mature phase of development, the annual sawlog harvest is expected to stabilise at around 10 million m<sup>3</sup>, with exports remaining relatively constant.

#### Softwood sawn timber market

The major use for softwood sawn timber in Australia is in house construction, alterations and additions. Consequently, softwood sawn timber demand is closely correlated with construction activity such as dwelling commencements. The growth in domestic softwood sawn timber consumption has largely been at the expense of the hardwood sawnwood market. Major softwood timber processors with modern mills are able to produce sawnwood timber more cost efficiently in a market where supply of timber from native forests is declining, and higher value end-uses are sought for harvested native sawlogs.

Macroeconomic trends remain stable, supporting good levels of business investment and consumer confidence. Renovations, alterations and additions, non-residential building and engineering construction are, to some extent, offsetting the short-term slowdown in new house starts. Continued population growth, boosted by higher business migration, a long-term trend of declining household size, and continued government support to first home buyers all lend support to stable housing demand.

**Figure 2-4:**  
**National dwelling unit commencements (houses and units)**



Source: HIA 2006

The introduction of high tariffs on Russian round log exports has increased prices for softwood sawlogs in Asia. It is expected that the Australian softwood market will be further protected from softwood imports in the short to medium term as a result of the dramatic increase in Russian whole log exports.



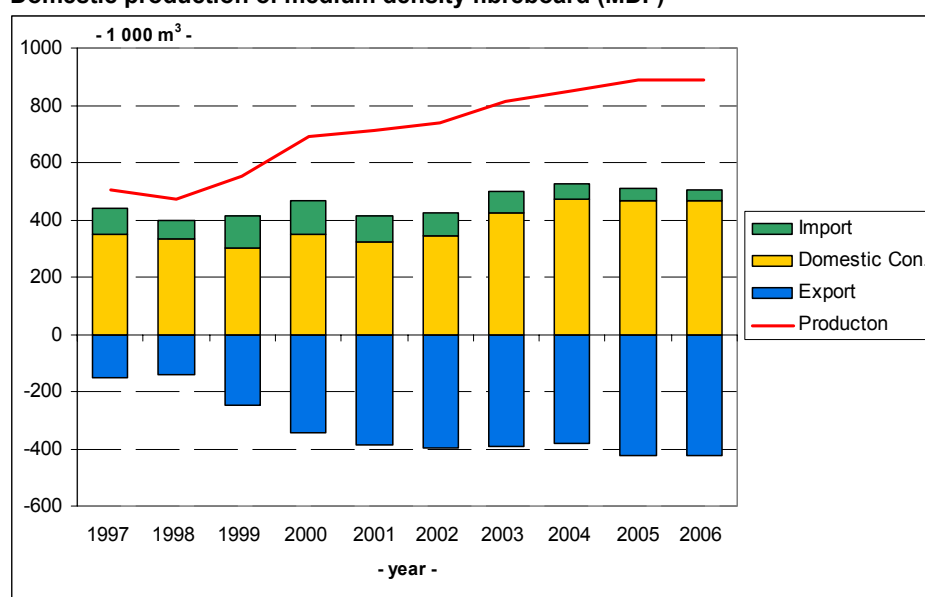
## 2.2.2 Domestic Pulpwood Consumption

Softwood pulpwood logs are primarily used in the production of wood panels (medium density fibre board (MDF) and particleboard) and in the production of pulp and paper products including newsprint, tissue and packaging.

Over the past decade, there has been an increase in processing capacity in the wood products industry, which has levelled out since 2005.

Apparent consumption of MDF has increased over the last decade to around 470 000 m<sup>3</sup> in 2006 (see Figure 2-5). Processing production has increased at an average of 6.9%/a since 1997. Much of this extra volume is exported. Capacity has only increased slightly in the last three years.

**Figure 2-5:**  
Domestic production of medium density fibreboard (MDF)

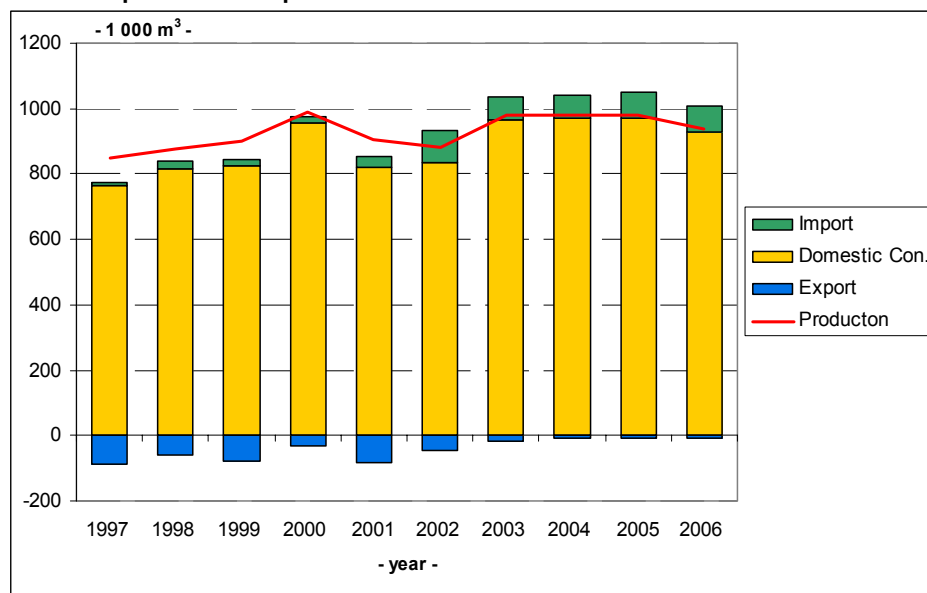


Source: Pöyry database, ABARE

Annual production of particleboard has also grown over the last decade, to around 1 million m<sup>3</sup> (see Figure 2-6). Apparent consumption has increased at an average of 2.6%/a, with demand surpassing production from 2002.



**Figure 2-6:**  
**Domestic production of particleboard**



Source: Pöyry database, ABARE

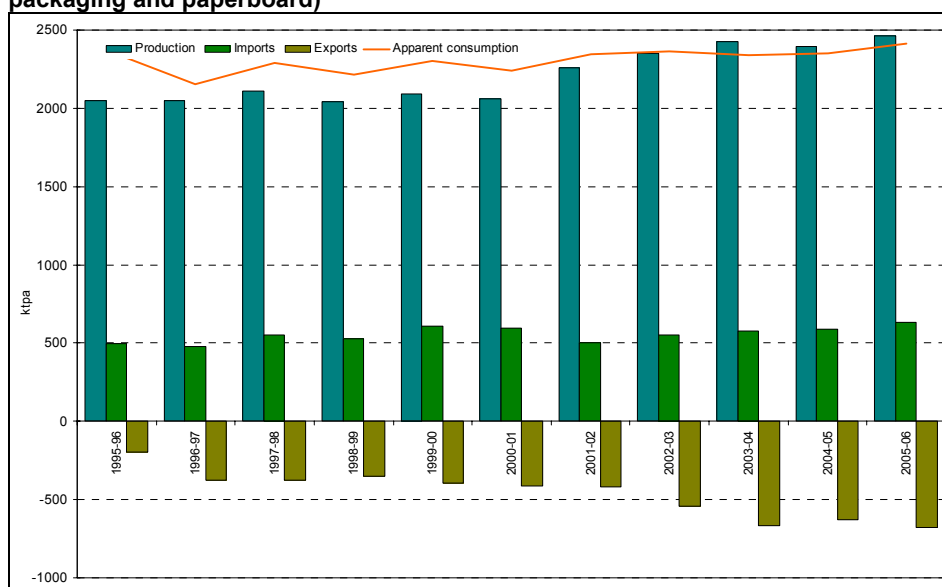
There has been an increase in the production and consumption of paper products utilising softwood pulpwood in Australia. Of these paper products, paper packaging and paperboard contributed to 75% of total production<sup>2</sup> and made up two thirds of apparent consumption in 2005/06. Newsprint production and consumption accounted for 17% and 30% respectively, and tissue production and consumption 9% and 10% respectively. Figure 2-7 shows the production and consumption of paper products that use significant proportions of softwood fibre.

Demand for softwood pulpwood has grown over the past decade, with expansion in production capacity of packaging and paperboard at Visy's Tumut mill in 2001. Demand for packaging and paperboard products is growing slowly, and it is the only pulp and paper sector where local production exceeds apparent consumption, resulting in a significant proportion being exported. Visy's planned further expansion in Tumut will effectively double existing fibre requirements, adding significantly to pulpwood demand in the Tumut-Tumbarumba region.

Newsprint demand is closely associated with local production, which is predominantly for import replacement, and mainly manufactured by Norske Skog at Boyer and Albury. Demand for newsprint has almost recovered to the levels of a decade ago, while pulpwood demand from tissue producers has remained relatively stable.

<sup>2</sup> Pulp and paper sectors included are tissue, newsprint and paper packaging and paperboard.

**Figure 2-7:**  
**Apparent domestic consumption of selected paper products (newsprint, tissue and packaging and paperboard)**



Source: Industry Edge 2006

### 2.2.3 Softwood pulpwood export

Australia is one of the world's largest woodchip exporters, and Japan, which dominates the world trade in woodchips, is Australia's largest market, accepting more than 90% of Australia's exports.

Japan's total import of softwood woodchips has declined over the past decade from approximately 3.5 million Bone Dry Metric tonnes (BDMt) in 1995 to approximately 2.6 million BDMt in 2005. Reasons for this include a significant increase in recovered paper consumption, low growth in demand for fibre for the production of newsprint and packaging, and domestic softwood woodchip prices falling below import prices. However, Australia's share of the Japanese import market has increased from approximately 25% to more than 40% during this time, largely at the expense of North America.





### 3 REGIONAL FOREST RESOURCE

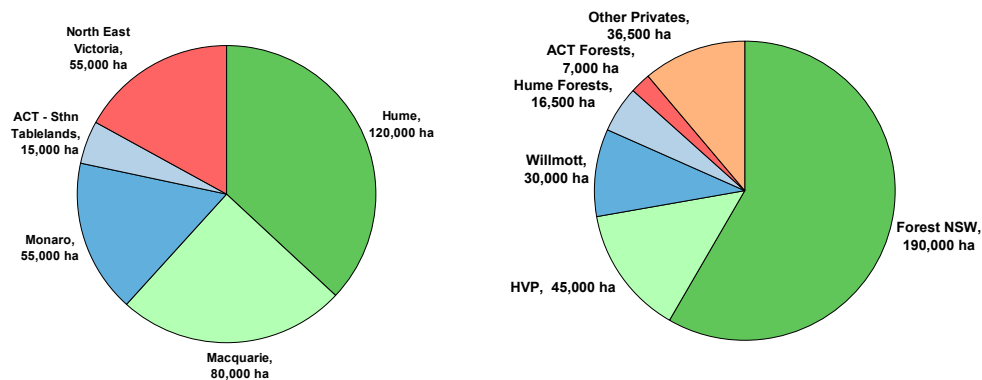
#### 3.1 Softwood resources

The Project Manager proposes that the plantations to be established will be located within commercial haulage distances to saw mills and pulp mills in the regions surrounding Tumut and Bathurst.

##### 3.1.1 Hume Region

Southern NSW and north east Victoria together have Australia's largest concentration of softwood plantations and associated processing industries. Softwood plantations were first established in the 1920s, and were of significant scale from the 1950s onwards. The region has a total softwood resource of some 325 000 ha. The majority of softwood resources in the region are owned by Forests NSW, followed by Hancock Victoria Plantations (HVP), Willmott Forests, Hume Forests and Murray River Forest Holdings, as shown in Figure 3-1.

**Figure 3-1:**  
**Softwood plantation areas by region (left) and ownership (right)**



The radiata plantations have been established in six main geographical zones; Hume, Macquarie, Australian Capital Territory (ACT), Southern Tablelands, Monaro and north east Victoria. The Hume region is located in the southwestern slopes of NSW and is centred around the towns of Tumut and Tumbarumba.

The Hume Region has around 120 000 ha of softwood plantations (some 12% of the national softwood plantation estate). Forests NSW owns around 75%, with the remaining area being privately owned.

##### 3.1.2 Macquarie Region

The Macquarie region includes the areas surrounding Bathurst and Oberon. Forest NSW manages 70 000 ha in Macquarie. The area of privately owned plantation is approximately 13 000 ha.

### 3.2 Regional processing facilities

North-east Victoria and the southwestern slopes of NSW make up the largest radiata pine growing and processing region in Australia.

The major softwood processing operations within reasonable haulage distance of the proposed Project plantations are shown in

Table 3-1. Wood from the Hume region also flows across the border into Victoria, where major processing facilities are located at Myrtleford, Wangaratta and Benalla.

In NSW, at full operating capacity, these processing facilities have the combined potential to process approximately 3.8 million m<sup>3</sup> of softwood. The facilities located in north-east Victoria gives approximately 900 000 m<sup>3</sup> of additional capacity.

Approximately 45% of the softwood processing capacity around the Tumut-Tumbarumba region of NSW is for pulpwood. Softwood from the Hume region is currently the main source of supply for the Visy pulp mill. Visy is planning a significant expansion of the Tumut integrated pulp and kraftliner mill, effectively doubling the mill's existing resource requirements. In addition, Norske Skog, Albury has plans to increase capacity of its newsprint mill by 25%.

**Table 3-1:**  
**Key softwood processing operations**

Processing Owner	Mill Type	Mill Location	Softwood Intake (m <sup>3</sup> )
<b>Hume Region</b>			
Weyerhaeuser	Sawmill	Tumut	560 000 - 650 000
Hyne & Son	Sawmill	Tumbarumba	750 000 – 850 000
Carter Holt Harvey	Particleboard	Tumut	sawmill residues
Ausply	Veneer/plywood	Wagga Wagga	35 000 – 40 000
Visy	Pulp and Paper	Tumut	540 000, expanding to > 1 000 000
Norske Skog	Pulp and Paper	Albury	305 000
Carter Holt Harvey	Sawmill	Myrtleford	255 000
D.R. Hendersons	Sawmill	Benella	200 000
<b>Macquarie Region</b>			
Carter Holt Harvey	MDF	Oberon	350 000 from in-field chippers
Carter Holt Harvey	Particleboard	Oberon	
Highland Pine	Sawmill	Oberon	750 000
Jeld-Wen Fibre of Australia	MDF	Oberon	80 000
Allied Timber Products	Sawmill	Bathurst	90 000

The demand for pulpwood is high in the Hume region, and with the planned expansion of Visy's Tumut mill, future supply of softwood fibre is tight, even when increased residues from sawmill capacity expansion are considered.

Therefore, the Project plantations are well placed to take advantage of the strong market demand that would result if the proposed pulp mill expansions proceed.

## Independent Market Report on Radiata Pine cont.



The region is also well placed in terms of access to the major timber markets of Sydney and Melbourne and their rapidly growing surrounding regions. The demand for sawlogs is dependent upon sawmill production, market demands and resource availability. Recent experience in the currently depressed house construction market indicates that the major sawmillers (Hyne & Son and Weyerhaeuser) intend to maintain production at high throughput levels in order to achieve low production costs.

Weyerhaeuser has recently lodged a development application to expand log intake to 650 000 m<sup>3</sup>/a, and this is likely to occur before 2015. Hyne & Son owns a sawmill at Tumbarumba that underwent a significant upgrade and capacity expansion in 2004/05. Sawlog intake at Tumbarumba for 2006/07 is estimated at 785 000 m<sup>3</sup>/a and is forecast to increase to around 850 000 m<sup>3</sup>/a in 2009/10, and up to a potential 900 000 m<sup>3</sup>/a by 2014/15. The Hyne & Son mill at Holbrook was closed in 2006.

The new Allied Timber Products (ATP) sawmill at Bathurst specialises in sawing small sawlogs (12 to 25 cm) for the production of timbers for a range of products including fencing, landscaping, pallets, packaging and framing. The ATP sawmill is a valuable market for small sized softwood in the Macquarie region. Small logs were previously transported to pulp and veneer mills in the Hume region.

Export of the Project's radiata logs is unlikely to be feasible given the haulage distance to port and the strong regional demand.



## 4 LOG PRICES

The Australian forest products industry is characterised by long-term log supply contracts. As a result, details of individual log sales transactions are not publicly available, making it difficult to identify market log prices. However, the Australian Pine Log Price Index (APLPI)<sup>3</sup> publication provides average stumpage prices and indices for various grades of sawlogs as sold by the key log sellers throughout Australia.

### 4.1 Domestic Sawlog Prices

The government softwood growers are major sellers, and log sales between various other parties tend to be close to the relevant government's prices.

The Project Manager has indicated in the IM that radiata pine investments will be made in NSW. The average weighted softwood sawlog stumpage prices reported by APLPI are detailed below in Table 4-1. Stumpages are the delivered log prices less the costs of harvesting and transport to the mill or wharf gate. Comparison of the APLPI to other sources indicates that the APLPI prices provide a good estimate of current stumpage expected for radiata pine in NSW.

**Table 4-1:**  
**Average weighted softwood sawlog stumpage prices reported by the APLPI**

Sawlog Diameter Class (small end diameter under bark)	APLPI weighted average AUD/m <sup>3</sup> (Jun 2006-Jan 2007)
Small Sawlog < 24.0 cm	\$33.97
Intermediate Sawlog 23.9 to 32.0 cm	\$46.49
Medium sawlog 31.9 to 44.0 cm	\$66.60
Large sawlog > 43.9 cm	\$83.47
Salvage Log	\$25.19
Preservation	\$22.35
Pulp Log	\$9.87

Source: KPMG 2007

<sup>3</sup> APLPI is compiled and published by KPMG using data provided by the main Australian softwood growers; Queensland DPI Forestry, State Forests NSW, ACT Forests, Hancock Victorian Plantations and Forestry SA. The index is calculated on weighted average prices using Jan – Jun 1998 as a base year and has been collected since January 1995.

# Independent Market Report on Radiata Pine cont.

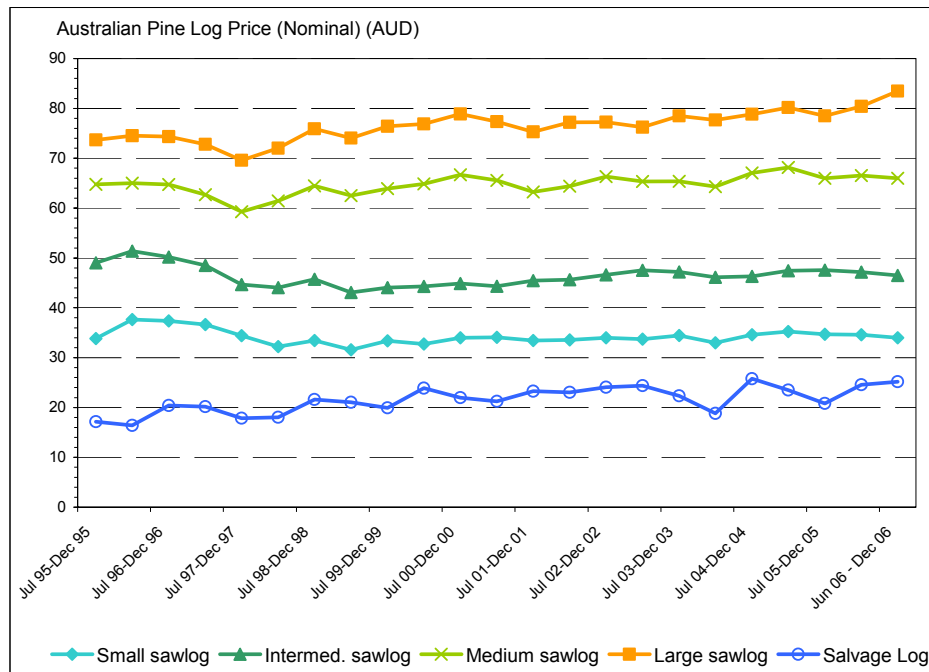


Historically, private plantation owners have struggled to achieve APLPI stumpage prices. Stumpages may be low for private growers due to lack of thinning, distance to market, roading infrastructure not permitting B double trailers and low price negotiated due to small volumes. However, increase in demand for small logs from the expansion of Visy pulp and paper mill at Tumut and the start up of the ATP hew saw mill at Bathurst are expected to increase demand for small logs. This increase in demand is expected to improve access to thinning operations for private radiata growers.

Nominal price movements for sawlog and salvage log stumpages since 1995 are shown in Figure 4-1. From 1998, prices have been maintained or have increased slightly in nominal terms.

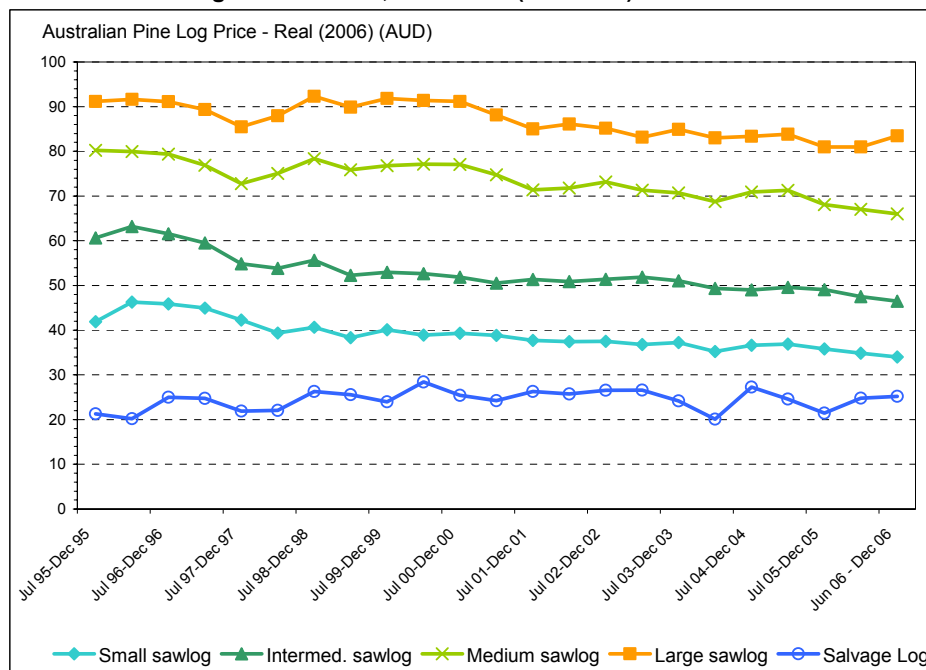
Sawlog stumpage prices in real terms (i.e. adjusted for inflation), shown in Figure 4-2, decreased over the last 10 years.

**Figure 4-1:**  
**Australian Pine Sawlog Prices Series, 1995-2006 (nominal)**



Source: KPMG 2007

**Figure 4-2:**  
**Australian Pine Log Prices Series, 1995-2006 (real 2006)**



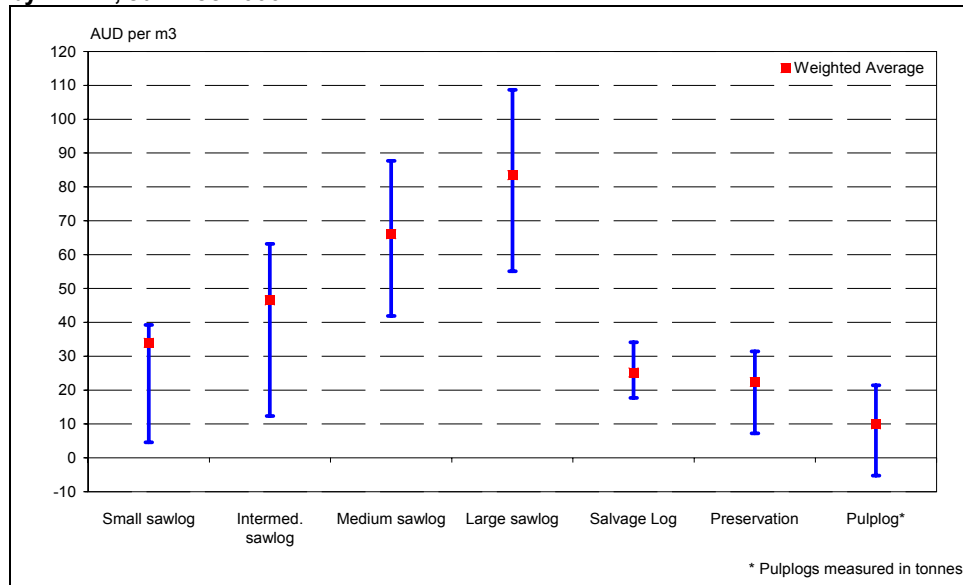
Source: KPMG 2007

Long term contracts are the most common arrangements for log sales in Australia, and there are significant internal transfer systems amongst vertically integrated companies. Prices therefore, do not change significantly from year to year. Furthermore, Australia's logs sales are primarily into the domestic market, and thus do not face exchange rate fluctuations or the significant changes in demand that are encountered by some countries, such as New Zealand, that export high volumes of logs.

The average range in stumpage prices for domestic logs per size class is considerable (see Figure 4-3) and particularly evident in the large sawlog diameter class (>44 cm small end diameter under bark).



**Figure 4-3:**  
Weighted average domestic sawlog stumpage values and current price range reported by APLPI, Jun-Dec 2006



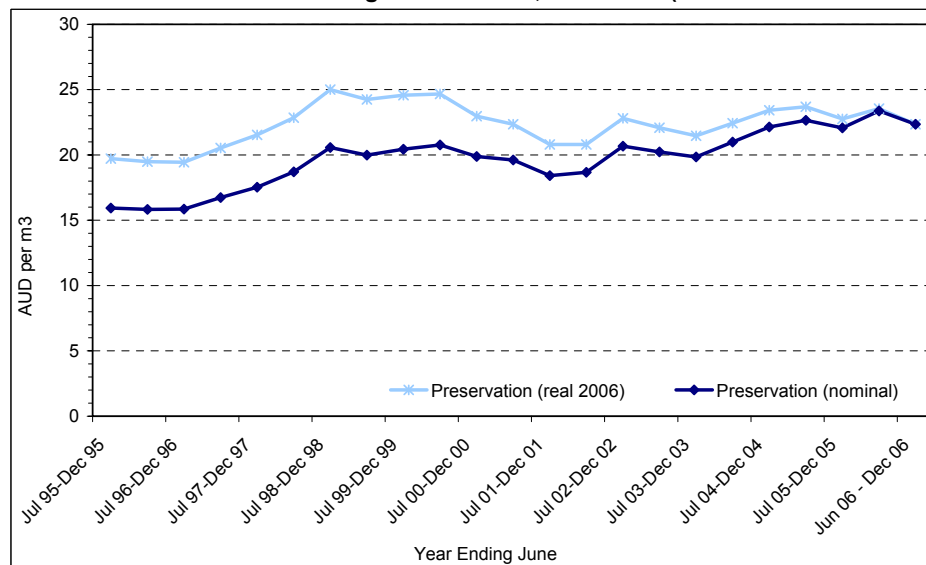
Source: KPMG 2007

## 4.2

### Preservation Prices

Domestic treatment plants use preservation logs for products, including poles, rails and posts. These logs are generally smaller, and necessarily straighter. The APLPI price series for preservation logs indicate an upward price trend in both nominal and real terms over the past 10 years, with the strong growth from 1995 to 1999 partly driven by viticulture demand.

**Figure 4-4:**  
Australian Pine Preservation Log Prices Series, 1995-2006 (nominal and real 2006)



Source: KPMG 2006

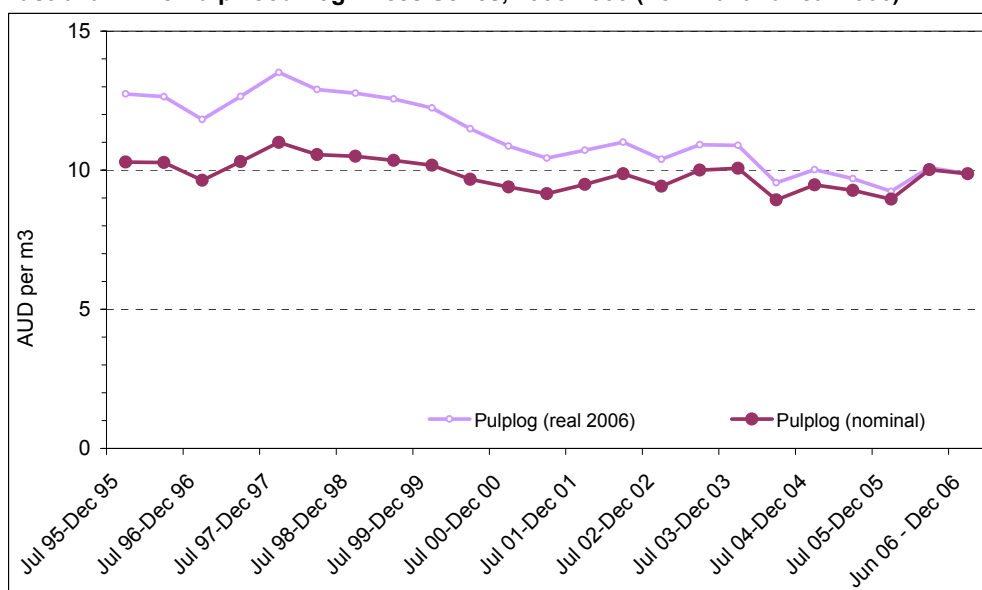


### 4.3

#### Pulpwood Prices

The domestic pulpwood price trend has pointed downward in the decade since 1995, although there was a small price recovery in 1996/97, as shown in Figure 4-5. December 2006 average pulpwood prices were reported at \$9.87/t, approximately 11% higher than the APLPI reported for December 2005.

**Figure 4-5:**  
**Australian Pine Pulpwood Log Prices Series, 1995-2006 (nominal and real 2006)**



Source: KPMG 2007

Prices for pulpwood in the Hume and Macquarie regions have been negotiated in long term supply agreements between domestic processors and Forests NSW. Plantations in these areas are not accessible to the export market and operate independently of export prices. We predict that supply for pulpwood in these regions will tighten considerably with the new Allied Timber Products new sawmill, which will process pulplog sized material, and the current expansion of the Visy mill at Tumut, which will double wood intake. With this increasing demand we would anticipate an opportunity for suppliers such as AgriWealth to achieve prices above long term supply agreement prices that are largely intended to encourage industrial development in the region.

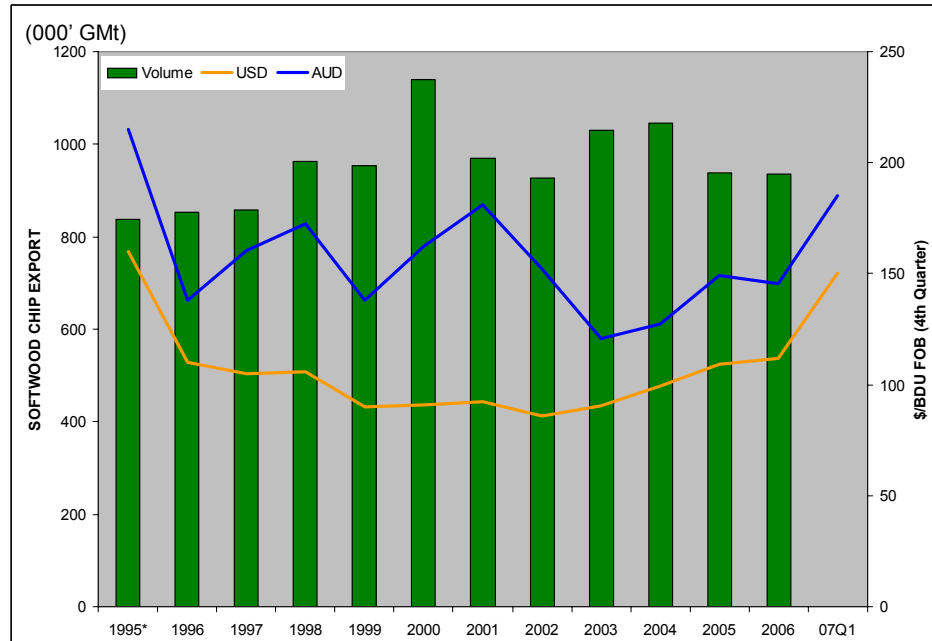
The export softwood contracts are in US dollars/BDU, as shown in Figure 4-6. Prices for export pulpwood peaked in 1995 at USD160/Bone Dry Unit (BDU). However, with the exception of 2001, when a small price gain was achieved, prices declined until 2002. Prices jumped in the first quarter of 2007 from USD112/BDU to USD150/BDU. The 2007 price jump relates to a downward trend in the US housing starts, which is not expected to be reversed in the short term.

9.0

# Independent Market Report on Radiata Pine cont.



**Figure 4-6:**  
**Australian softwood woodchip export market**



Source: Dana 2006, ABARE 2006, Pöyry Forest Industry

**DISCLAIMER**

Pöyry Forest Industry Pty Ltd (Pöyry) has prepared this report for AgriWealth Capital Limited (the Project Manager) in accordance with the scope of work outlined in its Management Consulting Agreement with the Project Manager. The Project Manager requested this report to be prepared for inclusion in an Information Memorandum (IM).

In preparing this report, Pöyry has relied on information made available by the Project Manager together with other information which is outlined in this report. Whilst this information has been checked for reasonableness and accuracy, there is a range of factors that can impact on the results achieved. Neither Pöyry nor its employees responsible for the production of this report take responsibility for omissions or errors in any other matters in the IM that are not referred to in this report.

Nothing in the report is, or should be relied upon as a promise by Pöyry as to the future volumes and prices that will eventuate in the Australian softwood market. Actual sales prices at the time the Project plantations are harvested may be significantly above or below the current prices given in this report. The forest industry has similar inherent risks as other forms of land based primary production, and a long investment period. These risks may be material to the expected outcomes. Pöyry does not accept responsibility for updating the information contained in the report after the date of production.

This report should be read in full. No responsibility is accepted for use of part of this report in any other context or for any other purposes, or for use by third parties.

In accordance with regulation 7.6.01(u) of the *Corporations Regulations 2001*, Pöyry Forest Industry Pty Ltd makes the following disclosures:

1. Pöyry has been retained by the Project Manager to provide an Independent Forester's Report and an Independent Market Report for inclusion in the IM.
2. Pöyry anticipates that further engagements in relation to the provision of forestry consulting advice may be entered into with the Project Manager on an as-required basis.
3. Pöyry does not have any direct investment in AgriWealth Capital Ltd or their business interests, and has no commercial interests in the financial products being offered other than as a service provider to the Project Manager.
4. Pöyry does not hold an Australian Financial Services Licence and is not operating under such a licence in providing this report.

Yours sincerely



Andrew Dickinson

CONSULTANT

# Land Valuer's Report

## VALUATION SERVICES PTY LTD

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18 March 2008

The Directors  
AgriWealth Capital Limited  
Level 1, 20 Young Street  
NEUTRAL BAY NSW 2089

Dear Sirs

Re:  
Request for a broad Softwood land report.

### INSTRUCTIONS

The purpose of this report is to give a general overview of the rural property market for high quality grazing land that is suitable for plantation forestry in the Hume Region and Oberon Regions of New South Wales. The areas targeted within those Shires are those dominated by high quality grazing and rainfall in excess of 800mm per annum.

### QUALIFICATIONS AND EXPERIENCE

Nicholas Lucas Valuation Services Pty Ltd is a former Senior Valuer for the State Valuation Office. He is a Certified Practising Valuer, Registered Valuer (NSW and QLD) and an Associate of the Australian Property Institute, serving as a Divisional Councillor (NSW) from 1992-2003. He has been valuing property in the Hume and Oberon Regions for the past 38 years.



## BRIEF HISTORY OF THE REGIONS

The planting of pines in the Regions was greatly accelerated after the end of World War II, following a review of established planting between 1920 and 1935. This review showed that the cool, moist areas of the Hume and Oberon Regions offered very good growth prospects.

In an effort to reduce dependence on imported supplies, pine plantations began on a large scale. Initially the plantations were on land cleared of relatively unproductive native forests (acquired from private interests specifically for this purpose). Since the introduction of clearing restrictions, land purchases and plantings have been on cleared pastoral country. Today, the pine plantations must compete in the open market for the best- cleared agricultural land.

The plantations increased to such a scale that by the 1980s timber in the Hume Region is supplied to two large sawmills and ply mill complexes, a particle board factory at Tumut, two smaller sawmills near Tumbarumba and a larger newsprint mill at Albury.

Today, the Hume Region area is the largest softwood producing area in Australia with all produce value added locally. The fully integrated industry now has in the immediate area 10 sawmills, 2 paper pulp mills, 2 ply manufacturers and 2 wood panel plants which enables every part of the harvested trees to be productively utilised. A total of approximately 90,000 hectares are planted with pine under the control of Forests NSW plus 52,000 hectares under private plantation management.

Planting of commercial pine plantations in the Central Tablelands started in 1923 on Jenolan State Forest. Now there is around 80,000 hectares of plantation in the region covering from Oberon in the East to Orange in the West. These plantations and associated industry directly employ 900 people. In Oberon one in four people is directly employed in the industry. An estimate of the Annual Value of production derived from timber in the Central Tablelands is \$242 Million.

The softwood processing industry in the Central Tablelands is strong and expanding, it covers the full range of products from the large Highland Pine Sawmill and Carter Holt Harvey Medium Density Fibreboard factories in Oberon, through to supplying smaller volumes of logs to the Ausply veneer mill at Wagga Wagga, the Blayney treated timber plant, Penrose Pine near Moss Vale and Austwest Timber Products which will take small sawlogs. The Central Tablelands is a mature forestry region, with opportunities for plantation expansion.

The pine industry has a strong hold in the Regions and a well-developed infrastructure of access roads for heavy haulage, fire prevention strategies and availability to the necessary mill operations.

The increase in private plantings within the Hume and Oberon Regions is some 17,000 hectares since 2005.

## Land Valuer's Report cont.

### VALUATION OBSERVATIONS

The diversity of the country within the Regions is such that any comparison of improved land value between each property is difficult. Typical land in the Regions comprises natural timbered lands, part timbered, improved and partly improved grazing lands to sown pastures and lands with and without structural improvements. The properties within these areas have been typically sold on a livestock capacity basis and each property is assessed on its own merits. Today with the demand from Forestry interests the two markets must compete in the open market with the Forestry demand valuing the land on a plantable hectare basis.

The land values in the Regions show a steady value growth from 1980 to 1990, a value decline in the early 1990s to coincide with the wool industry price fall and fluctuating cattle export markets, a plateau level and then the price rises in line with high rural commodities prices and low interest rates to today's date. The sales data used to compile this information is taken from past Valuer-General and respective Shire Office records. In forming our view we have excluded the extreme highs in historical sales data as such highs are not in our opinion reflective of typical values in the area.

The demand for good well-presented properties in the Regions is unprecedented at the present time, with fewer listing and increased enquiry. The past four years of drought conditions has had little effect on the property market. Such properties attract a premium, with competition from well-established local grazing families, new investors, lifestyle interests, private forests and Forests NSW. This places a solid floor price for good properties within all the Regions.

Based on research and knowledge of land in the areas, it is my opinion that a current average unencumbered land value of \$6,000 per plantable hectare is fair and reasonable.

### DISCLAIMERS

This report has been prepared based upon information made available to us in relation to the Project as at the date of the valuation. We believe that this information is accurate and complete but we have not independently verified all such information.

This report has been prepared for inclusion in an Information Memorandum ("IM") to be issued by AgriWealth Capital Limited as at 18 March 2008. Nicholas Lucas Valuation Services Pty. Ltd has not been involved in the preparation of any part of an IM and has not been required to approve or express any opinion about any part of an IM other than this letter of summary and any extracts appearing elsewhere in any IM.

Nicholas Lucas Valuation Services Pty. Ltd therefore cannot, and does not, make any warranty or representation as to the accuracy or completeness of any information or statement contained in any part an IM other than those expressly made or given in this report or extracts appearing elsewhere in any IM. Nicholas Lucas Valuation Services Pty. Ltd specifically disclaims liability to any person in the event of any alleged false

or misleading statement in, or material omission from, any part of an IM other than in respect to the material prepared in this report.

Nicholas Lucas Valuation Services Pty. Ltd does not hold a dealers licence or Australian Financial Services licence as at the date of this report.

Nicholas Lucas Valuation Services Pty. Ltd is entitled to receive normal professional fees for services provided in connection with the Project.

Nicholas Lucas Valuation Services Pty. Ltd does not have any other interests (whether pecuniary or not and whether direct or indirect) or any associations or relationships with AgriWealth Capital Limited that might reasonably be expected to be or have been capable of influencing Nicholas Lucas Valuation Services Pty. Ltd in providing this report.

Yours faithfully, 

Nicholas D Lucas AAPI  
Certified Practising Valuer  
Registered Valuer NSW No: 1300

VALUATION SERVICES PTY. LTD.

# Taxation Aspects to Project



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## Private and confidential

Our ref 1305331\_1

The Directors  
AgriWealth Capital Limited  
Level 1  
20 Young Street  
NEUTRAL BAY NSW 2089

31 March 2008

Dear Sirs

## Taxation Report AgriWealth 2008 Softwood Project

We have been requested to provide an opinion to be included in this Information Memorandum ("IM") for the AgriWealth 2008 Softwood Project, comprising the AgriWealth 2008 Softwood Project – Tree Project ("Tree Project") and the AgriWealth 2008 Softwood Project - Land Trust ("Land Trust").

This IM outlines an investment whereby investors ("Growers") may participate in a tree-farming business to produce a crop of radiata pine for harvesting and investors ("Unit Holders") may subscribe for units in a Land Trust that will own the land on which the plantations are to be grown and that will derive rental income from leasing the land to AgriWealth for the purposes of the Tree Project.

Our opinion provides a general overview of the income tax, and goods and services tax ("GST") issues for Growers participating in the Tree Project and Unit Holders in the Land Trust based on legislation and established interpretation of legislation as at the date of this letter.

## Disclaimers

This opinion has been prepared for inclusion in this IM to investors and should be read in conjunction with the remainder of this IM. In providing our views, we have relied upon facts as set out in this IM that have not been independently verified by KPMG.

This opinion only provides a general overview of the income tax and GST consequences for Growers in the Tree Project and Unit Holders in the Land Trust who are Australian residents for taxation purposes and does not consider the eligibility nor implications of Growers who qualify as a "small business entity" or a superannuation fund. All Growers and Unit Holders should consult their own taxation adviser about their own specific taxation circumstances.





Our income tax and GST advice is based on current taxation law as at the date of this letter and is subject to any changes in Australian tax law. As KPMG does not undertake to update this advice for any changes in Australian tax law after the date of this letter, it is the responsibility of investors to take further advice, if they are to rely on our advice at a later date.

KPMG is not licensed to provide financial product advice under the Corporations Act and taxation is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from an Australian Financial Services Licence holder before making any decision on a financial product.

## 2

### Summary

The Australian Taxation Office (“the ATO”) has issued Product Ruling 2008/20 Income tax: AgriWealth 2008 Softwood Project which details the income tax treatment for Growers of expenses incurred in respect of the Tree Project and certain matters should such Growers also be Unit Holders in the Land Trust. The Land Trust has received a Private Binding Ruling dated 3 March 2008 (“PBR”) which KPMG has reviewed and is also discussed within this Taxation Report.

The following comments should be read in conjunction with the attached Appendix.

#### *Taxation Implications for Growers*

On the basis that Growers enter arrangements in accordance with this IM and intend to remain in the Tree Project until the final clear fell of their trees, the Product Ruling confirms:

- Growers will carry on a business of afforestation.
- Expenses incurred during the first three years of the Tree Project are treated as follows:
  - The Plantation Establishment Fee and Planting Fee are deductible in the year ending 30 June 2008 and 30 June 2010 respectively;
  - Interest on the United Pacific Finance Pty Limited (“United”) finance facilities (“Loan”) is deductible when incurred/paid; and
  - The loan application fee payable to United is a borrowing expense and is deductible over the period of the Loan or 5 years, whichever is the shorter.
- For Growers registered for GST, the amount of deductions would need to be adjusted as relevant for GST (e.g. for input tax credits claimed on acquisitions).
- The deferral of losses from non-commercial business activities should not apply for the duration of the Project.

## Taxation Aspects to Project cont.



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- Anti-avoidance rules in Section 82KL, Sections 82KZME and 82KZMF and Part IVA of the *Income Tax Assessment Act 1936* ("the 1936 Act") should not apply.

If the project arrangements do not fall within the terms of the Product Ruling, or if the conditions set out in the Product Ruling are not met, then the deductibility of expenses may be deferred or denied. The Product Ruling does not apply to Growers outlined in paragraph 5 of the Product.

In addition, we note for other related expenses that are incurred/paid after the first three years of the Project:

- Tree Insurance paid annually in advance for less than \$1,000 is immediately deductible when incurred/paid, or it is otherwise deductible over the period to which the Tree Insurance relates;
- Interest on the United Loan should be deductible when incurred/paid;
- The Deferred Management Fees, Deferred Rental Fee and harvesting fees (costs of felling, harvesting, sale and land rehabilitation) should be deductible when incurred/paid when the timber is sold or destroyed; and
- Other expenses incurred in relation to the Tree Project not provided for in this IM may be deductible, for example interest expenses on non-United Loans. Growers should seek confirmation from their tax adviser as to the eligibility and timing for such deductions as they are not covered by the Product Ruling and will depend on Grower's individual circumstances.

The issuance of the Product Ruling by the ATO gives certainty as to the tax consequences of investing in the Tree Project as the ATO is bound by its rulings provided the arrangement is carried out in the manner described in the Product Ruling. However, the Product Ruling only addresses the income tax implications of investing in the Tree Project. Investors should seek independent advice from their tax advisers on the GST and Stamp Duty implications of investing in the Tree Project and on the reinvestment of any tax deduction or cash flow generated, including reinvestment by the reduction of non-deductible debt such as a credit card, car loan or home loan debt.



### *Taxation Implications for Unit Holders*

The Product Ruling confirms that Growers may also acquire Units in the Land Trust and that the amounts payable for the Units pursuant to subscription will represent the first element of the cost base of the Units for capital gains tax ("CGT") purposes. Amounts paid to the Unit Holders by the Trustee may be:

- income distributions that are included in the assessable income of the Unit Holder in accordance with Division 6 of Part III of the Income Tax assessment Act 1936;
- non-assessable amounts that give rise to CGT Event E4 in respect of the Land Trust Units; or
- non-assessable amounts that do not give rise to CGT Event E4 in respect of the Land Trust Units (e.g. a loan).

In this regard, should AgriWealth elect to pay rent by electing the Option A prepaid rental option detailed in the IM, the PBR confirms that the following amounts will be included in the Land Trust's Tax Net Income:

- \$25.37 (GST exclusive) per Timberlot for the 2008-09 income year;
- \$101.79 (GST exclusive) per Timberlot per year for the 2009-10 to 2035-36 income years; and
- \$76.30 (GST exclusive) per Timberlot for the 2036-37 income year.

We understand that the remaining cash balance of the Option A prepaid rent, after taking into account the income derived during the 2007/08 income year (the balance being \$2,824.63 per Timberlot) is to be paid in accordance with clause 13 of the Land Trust's Constitution during the financial year ending 30 June 2009 by lending the amount to Unit Holders. Where the amount of \$2,824.63 is lent to a Unit Holder, this amount will be a non-assessable amount that does not give rise to a CGT Event E4 in respect of the Land Trust Units. Accordingly, the non-assessable amount paid will not reduce the cost base of the Land Trust Units for Unit Holders.

Interest incurred on loans taken out to finance a Unit Holder's acquisition of Land Trust Units should be deductible. However, Unit Holders should seek confirmation from their tax adviser as to the eligibility and timing for such deductions as they are not covered by the Product Ruling and will depend on Unit Holder's individual circumstances.

## Taxation Aspects to Project cont.



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Units in the Land Trust and land owned by the Land Trust are both assets to which the CGT provisions apply. Should a Unit Holder dispose of Land Trust Units or the Land Trust dispose of land and derive a capital profit, a capital gain may be derived for CGT purposes. Where the Unit Holder is an individual or trust, and the Unit Holder has held the Unit on capital account for at least 12 months prior to disposal, cancellation or redemption of the unit, the Unit Holder will only be required to include 50 per cent of any gain in their assessable income pursuant to the discount capital gains provisions contained in the *Income Tax Assessment Act 1997* ("the 1997 Act"). Similarly, where the Land Trust has held the land for at least 12 months then the Land Trust will only be required to include half of any capital gain on the sale of the land in its assessable income.

Please refer to the Appendix for further taxation commentary in relation to the Tree Project and Land Trust.

Yours faithfully

Neil Billyard  
 Partner



## **Appendix – The Tree Project**

### **1.1 Analysis of the taxation implications**

#### **1.1.1 Tree Project proceeds and expenditures**

##### *Carrying on business for the purposes of producing assessable income*

A Grower will be carrying on a business of afforestation for the purposes of producing assessable income.

The Agreements, IM and the characteristics of the Tree Project are in line with those outlined by the Commissioner in Taxation Ruling TR 2000/8 **Income Tax: investment schemes**, which considers the business of afforestation and the factors that should be considered when determining whether a business of afforestation is being carried on.

In addition, positive findings can be found for all the indicators described in Taxation Ruling TR97/11 **Income Tax: Am I carrying on a business of primary production?**

##### *Proceeds from the sale of timber*

The sale of a Grower's timber will result in ordinary business income and will be included in a Grower's assessable income in the year in which the timber is sold in accordance with Section 6-5 of the *Income Tax Assessment Act 1997* ("the 1997 Act"). The impact of GST is discussed in Section 1.5.4 below.

#### **1.1.2 Deductibility of expenditure**

The expenditure incurred by Growers in relation to the Tree Project should generally be deductible under Section 8-1 of the 1997 Act. The following expenditure should be deductible: Plantation Establishment Fee, Planting Fee, Tree Insurance, Interest on the United Loan or other finance facilities taken out to fund a Grower's investment in the Project, Deferred Management Fees, Deferred Rental Fee and harvesting fees (costs of felling, harvesting, sale and land rehabilitation).

Whilst the United Loan complies with the ATO policy requirements in respect of issuing the Product Ruling, we understand that Growers may enter loan agreements to invest in the Tree Project that are more suited to their individual requirements and available loan security. We note for completeness if Growers wish to arrange their own finance, they should consider entering a new loan agreement solely for the purposes of investing in the Tree Project. In this regard, the ATO has issued Taxation Rulings TR98/22 and TR2000/2 regarding the deductibility of interest on certain linked or split loan facilities and line of credit and redraw facilities.

# Taxation Aspects to Project cont.



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Prepayment rules may apply to deny or defer the deductibility of expenditure, including the Tree Insurance (as discussed in Section 1.2 below).

The impact of GST is discussed in Section 1.5.4 below.

Where the Product Ruling applies, the deductions should not be deferred or denied under the non-commercial loss rules, as the Commissioner has exercised his discretion where relevant (see Section 1.3 below).

## 1.2 **Limits on deductibility of prepaid expenditure**

Section 82KL of the *Income Tax Assessment Act 1936* (the “1936 Act”) denies immediate deductions for certain expenditure incurred in the context of a tax avoidance agreement, where a substantial portion of the expenditure is effectively recouped by a taxpayer obtaining an “additional benefit” as a result of the expenditure. A deduction is denied where the value of the additional benefit, when added to the tax savings resulting from the deduction, is equal to or greater than the amount of the expenditure. Due to the commercial nature of the Tree Project and the Agreements we consider no relevant additional benefit should be obtained by Growers and therefore Section 82KL should not apply. The Product Ruling confirms Section 82KL does not apply to deny the Project deductions.

### 1.2.1 *Prepaid expenditure*

Sections 82KZM to 82KZMF of the 1936 Act seek to defer the deductibility of prepaid expenditure over the period to which the payment relates. However, where the prepayment is less than \$1,000, the expenditure may nevertheless be deductible immediately. Growers should seek confirmation from their tax adviser as to the eligibility and timing for such deductions as this will depend on Grower’s individual circumstances.

Notwithstanding the above, certain prepaid expenditure invested by way of a plantation forestry managed agreement is excluded under Section 82KZMG of the 1936 Act from the general rules. A prepayment is excluded from the operation of the general rules where:

- The expenditure is for seasonally dependent agronomic activities carried on during the plantation’s establishment period;
- The period during which the activities are carried out must not exceed 12 months; and
- The activities are completed by the end of the income year following the income year in which the expenditure was incurred.

We consider the Plantation Establishment Fee and the Planting Fee should satisfy Section 82KZMG. The Product Ruling confirms this treatment.

### 1.2.2 *General anti-avoidance provisions (Part IVA of the 1936 Act)*

Part IVA of the 1936 Act operates to disallow deductions otherwise allowable under Section 8-1 of the 1997 Act where a scheme is entered into or carried out with the sole or dominant purpose of obtaining a tax benefit.



The interpretation of Part IVA is extremely complex. However, in broad terms, on the basis that a Grower enters into the Tree Project for the dominant commercial purpose of deriving a profit and the silvicultural activities are carried out to their conclusion in accordance with the IM, we believe that Part IVA should not be applied to the Tree Project. The Product Ruling confirms that, on the information available, Part IVA should not be applied to the Project.

### **1.3 Non-commercial loss provisions**

The non-commercial loss rules contained in Division 35 of the 1997 Act apply from the 2000/2001 income year, to defer deductibility of losses incurred by individuals from certain business activities. Where the Growers in the Tree Project are not individuals (i.e. companies or trusts), these rules will not apply.

There are four objective tests, of which one must be satisfied to allow any losses incurred in relation to the business activity to be offset against an individual's assessable income from sources other than the particular business. These tests are as follows:

- the amount of assessable income derived during the year from the activity is at least \$20,000;
- a profit has been made from the activity for at least three out of the last five years;
- the value of an individual's interest in real property used in carrying on the activity is at least \$500,000; or
- the other assets (as defined) utilised in the activity are at least \$100,000 in value (excluding motor vehicles).

If none of these tests are passed, the provision will apply to carry tax losses generated by the activities forward until one of the four tests can be passed. Alternatively, the Commissioner may exercise his discretion to allow the losses. The Product Ruling confirms the Commissioner has exercised this discretion in favour of Growers for the income years 30 June 2008 to 30 June 2036. This discretion will only apply to Growers covered by the Product Ruling.

In the case of the Project, the exercise of the Commissioner's discretion means that a Grower will be allowed to offset deductions for expenditure arising from their participation in the Project against the Grower's other assessable income from non-Project sources derived in the year in which a Project deduction arises.

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## 1.4 'CGT event' for Growers who are initial participants

An initial participant is a person who acquires their Timberlot interests under the Tree Project from AgriWealth Capital Limited pursuant to an application made under the IM.

### 1.4.1 'CGT event' within first 4 years of the Tree Project

A Grower who is an initial participant in the Tree Project will be denied a tax deduction for the Initial Establishment Services Fee amount for a Timberlot if a "CGT event" happens in relation to the Grower's Timberlot interests within 4 years of 30 June 2008. Where a CGT event happens within the 4 year period the Commissioner may amend the Grower's assessment within 2 years after the end of the income year in which the CGT event happens.

A Grower whose deduction for the Initial Establishment Services Fee is disallowed is also required to include in their assessable income either the market value of the interest at the time of the CGT event, or the decrease in the market value of the interest as a result of the CGT event.

### 1.4.2 Assessable income resulting from a 'CGT event' for a Grower who is an initial participant

Section 6-10 of the 1997 Act includes in assessable income amounts that do not constitute ordinary income. These amounts, called statutory income, include amounts that are included in the assessable income of a Grower by section 82KZMGB of the ITAA 1936.

#### *Section 82KZMGB*

Where a CGT event (other than for a CGT event in respect of a thinning) happens to an interest held by a Grower who is an initial participant in the Tree Project, section 82KZMGB includes an amount in the assessable income of the Grower if:

- the Grower can deduct or has deducted the fees for the Initial Establishment Services; and
- Section 82KZMG applies to the timing of the deduction of the Initial Establishment Services Fee (or would apply if section 82KZMGA were disregarded - see 1.4.1 above).

#### *Market value rule applies to CGT events*

If, as a result of the CGT event the Grower either:

- no longer holds the Timberlot interest; or
- the Grower continues to hold the Timberlot interest but there is a decrease in the market value of the Timberlot interest;

then the market value of the Timberlot interest at the time of the event, or the decrease in market value of the Timberlot interest as a result of the event, is included in the assessable income of the Grower.



A market value rule applies rather than the amount of money actually received from the CGT event. The market value amount included in the assessable income of a Grower is the value of the Timberlot interest just before the 'CGT event', or where the Grower continues to hold their Timberlot interest after the 'CGT event', the amount by which the market value of the Timberlot interest is reduced by the 'CGT event'. The market value and the actual amount of money received may be the same.

This assessment rule will apply where the Timberlot interest is sold, is extinguished, or ceases, and will include 'CGT events' such as a full or partial sale of the Timberlot interest or from a full or partial clear-fell harvest of the trees grown under the Project.

#### *Anti-overlap provisions*

Generally, where as a result of a 'CGT event' a capital gain would otherwise be included in a taxpayer's assessable income, section 118-20 will apply to reduce the capital gain if, because of the event, a provision of the income tax law other than the CGT provisions includes an amount in the taxpayer's assessable income.

In the case of Timberlot interests held by Growers who are initial participants in the Tree Project the market value, or the reduction in the market value of the Timberlot interest from a CGT event is included in assessable income by section 6-10 of the 1997 Act and section 82KZMGB of the 1936 Act. Therefore, any capital gain that would otherwise be assessable under the CGT provisions will be reduced to nil.

#### *1.4.3 Amounts received by initial participants where the Tree Project trees are thinned*

Thinning amounts received by a Grower who is an initial participant in the Tree Project do not arise as a result of a 'CGT event'. The receipt of an amount arising from a thinning of the Tree Project trees is a distribution that arises as an incident of the Grower holding an interest in the Tree Project. It is an item of ordinary income and is assessable in the year in which it is derived.

### **1.5 Goods and services tax ("GST")**

#### *Growers*

#### *1.5.1 GST registration*

The Commissioner has ruled a Grower will be carrying on a business of afforestation in Product Ruling TR 2008/20. The Commissioner has been of the view that if a Grower is carrying on such a business, the Grower will also be carrying on an enterprise for the purposes of the *A New Tax System (Goods and Services Tax) Act 1999* ("the GST Act") (see Goods and Services Tax Advice GSTA TPP 001; ATOID 2005/3).<sup>1</sup> The discussion below reflects the current practice of the Commissioner.

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<sup>1</sup> The Commissioner is reconsidering its views on the nature of the agricultural managed investment schemes for GST purposes. However, there will be no change to its current practices unless there is a favourable resolution of a test case and after a consultation process.

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Where a Grower is carrying on an enterprise and its annual turnover meets the registration turnover threshold (currently \$75,000 per annum) the Grower is required to be registered for GST.

To determine annual turnover it is necessary to look at the current annual turnover (briefly, the value of all taxable and GST-free supplies made or likely to be made for consideration in connection with the enterprise for the 12 months ending at the end of the month the calculation is made) and the projected annual turnover (the value of such supplies made during the current month and likely to be made over the next 11 months).

It is anticipated that Growers will not initially be required to register for GST until harvesting commences. Nevertheless, Growers may voluntarily register (as they carry on an enterprise) and should do so as early as possible if they wish to claim input tax credits for the costs and expenses incurred by them or on their behalf in relation to the Tree Project.

As an alternative to accounting on an accruals basis, a Grower may choose to account on a cash basis if, amongst other things, the Grower's annual turnover does not exceed \$2 million (or such higher amount as the regulations specify) or the Commissioner permits the Grower to account on a cash basis.

### 1.5.2 *Liability to GST*

On the basis that a Grower is registered or required to be registered, the sale of timber by the Grower will be a taxable supply unless it is a GST-free supply. The supply may be a GST-free supply if the Grower exports the timber from Australia, provided the supply meets certain conditions.

If the supply is a taxable supply, the Grower will be required to pay GST in respect of such sales calculated at the prevailing rate of GST of the value of the supply. At the current rate of GST, that is either 1/11<sup>th</sup> of the GST inclusive consideration or 10% of the GST exclusive consideration.

Funds borrowed by the Grower in relation to this arrangement will be an input taxed financial supply, and thus, no GST will be payable.

### 1.5.3 *Entitlement to input tax credits*

A Grower should be entitled to input tax credits for the acquisitions made by the Grower in carrying on an enterprise of silviculture and tree growing provided the Grower is registered for GST (or required to be registered but note that the requirement to register may only occur towards the end of the Tree Project whereas some expenses will be incurred early). These expenses may include the Plantation Establishment Fee, the Planting Fee, Tree Insurance, Deferred Management Fee, Deferred Rental Fee and harvesting fees (costs of felling, harvesting, sale and land rehabilitation).

The Grower must hold a tax invoice in respect of an acquisition at the time it lodges its Business Activity Statement (“BAS”) which includes the claim for an input tax credit in relation to that acquisition. The requirements for a tax invoice are set out in the GST Act and regulations. Where the Grower has no liability to GST (that is, prior to harvesting) and the BAS of the Grower states only input tax credit entitlements (that is, the net amount is a negative figure) the Grower will be entitled to a credit on their Running Balance Account which may lead to a cash refund from the ATO.

In relation to the funds borrowed by the Grower, the Grower should be entitled to full input tax credits for the GST component of its expenses incurred in relation to the borrowing as the borrowing relates to the Grower making taxable supplies (Section 11-15(5) the GST Act). Again, the Grower must hold a tax invoice for the acquisition at the time they lodge their BAS claiming an input tax credit in relation to the acquisition. Input tax credits cannot be claimed in relation to payments of interest and repayments of principal as no GST applies to such payments.

#### *1.5.4 Income tax treatment*

For Growers registered for GST, broadly:

- GST payable by the Grower is excluded when determining assessable income under Division 17 of the 1997 Act; and
- Input tax credits are excluded when determining allowable deductions under Division 27 of the 1997 Act.

No adjustment is required for Growers who are not registered (nor required to be registered) for GST.

#### *1.6 Product Ruling*

The ATO has issued the Product Ruling confirming the tax benefits set out in this IM and described in this letter are available to Growers, provided the arrangement is carried out in the manner described.

A Product Ruling applies to all persons within the specified class who enter into the specified arrangement (i.e. the Tree Project) during the term of the Ruling. Thus, a Product Ruling continues to apply to those persons, even following its withdrawal, for arrangements entered into prior to withdrawal of the Ruling. This is subject to there being no change in the arrangement or in the person’s involvement in the arrangement.

A Product Ruling provides certainty to potential investors by confirming that the tax benefits set out in the Ruling part of the Product Ruling are available, provided that the arrangements are carried out in accordance with the information provided by the applicant and described in the Arrangement part of the Product Ruling. If the arrangement described in the Product Ruling is materially different from the arrangement that is actually carried out, investors lose the protection of the Product Ruling.

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## The Land Trust

### 2.1 Analysis of the taxation implications

#### 2.1.1 Tax status of the Land Trust

Broadly, the issue is whether the Land Trust will be treated as:

- A flow-through trust, whereby no tax is paid by the Trustee provided all income of the trust is distributed to beneficiaries; or
- A Public Trading Trust for the purposes of Division 6C of the Act, whereby the trust is effectively taxed as if it were a company for tax purposes.

Division 6C broadly provides that a Public Trading Trust will be taxed as if it were a company; in other words, the Trustee pays 30% tax on assessable income derived by the Trust and distributions are deemed to be dividends. Thus, the trust would not be a flow through entity that does not pay tax.

Broadly, a trust is a “public trading trust” in relation to a tax year if it is a:

- “unit trust” (which the Land Trust is)
- “public unit trust” in relation to that tax year,
- “trading trust” in relation to that tax year, and
- “resident unit trust” in relation to that tax year (which will be the case).

The Land Trust will satisfy the “public unit trust” test if it fails one of a number of specific statutory tests. These tests capture trusts that are viewed as “widely held”.

A unit trust may be regarded as a “trading trust” if at any time during a year of income it carries on a trading business or controls, or is able to control, directly or indirectly, a trading business carried on by another person. A trading business is defined as a business that does not consist wholly of “eligible investment business”. “Eligible investment business” is defined to include *investing in land for the purpose, or primarily for the purpose of deriving rent*.

Though “rent” is not defined for the purposes of Division 6C, it seems that the only income proposed to be derived by the Land Trust is rent from leasing the relevant land, i.e. eligible investment business income. Consequently, while it is possible that the Land Trust could be a “public unit trust”, it should not be a “trading trust” and hence should not be a “public trading trust”.



Very importantly, the issue of whether the Land Trust is a “public trading trust” is one to be determined each year. For example, a public unit trust that is not a “trading trust” at any time during a tax year will not be a “public trading trust”. Interestingly, a public unit trust that carries on a “trading business” for part of a year may be regarded as a “public trading trust” for the whole of that year. As outlined above, this means that there may be different tax consequences in different tax years simply depending upon the tax status of the Land Trust from year to year.

Accordingly, the trustee of the Land Trust should not be liable to pay income tax on income earned by the Land Trust provided all income is distributed each year to Unit Holders.

#### *2.1.2 Tax treatment of Rental Income for the Land Trust*

Section 6-5 of the 1997 Act provides that if you are an Australian resident, your assessable income includes the ordinary income you derive directly or indirectly from all sources whether in or out of Australia, during an income year.

Sub-section 95(1) of the 1936 Act provides that the net income of a trust is calculated as if the trustee were a taxpayer in respect of that income and were a resident, less all allowable deductions, except deductions under Schedule 2G of the ITAA 1936 and except also, in respect of any beneficiary who has no beneficial interest in corpus of the trust estate, or in respect of any tenant, deductions allowable under Division 36 of the ITAA 1997 in respect of such of the tax losses of previous years as are required to be met out of corpus.

##### *2.1.2.1 Option A Prepaid Rental*

Under the Option A rental payment method for the lease, AgriWealth will pay to the Land Trust an amount of \$2,850 (GST exclusive) being an advance payment of the rent for the period of the lease.

The PBR states that should the Option A prepaid rental option be adopted by AgriWealth, the receipt of rent in advance will be taxed in accordance with the *Arthur Murray* principle. Accordingly the following amounts will be included in the tax net income of the Land Trust as follows:

- \$25.37 (GST exclusive) per Timberlot for the 2008-09 income year;
- \$101.79 (GST exclusive) per Timberlot per year for the 2009-10 to 2035-36 income years; and
- \$76.30 (GST exclusive) per Timberlot for the 2036-37 income year.

We understand that AgriWealth proposes to adopt the Option A prepaid rental payment method.

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As we also understand that the Trustee proposes to fully distribute to Unit Holders the tax net income of the Land Trust, the rental income will be assessable to Unit Holders in the year of income in which it is derived by the Land Trust (as indicated above) and where the Unit Holders are presently entitled to that income.

If the Trustee does not fully distribute the tax net income of the Land Trust for each year, and Unit Holders are not otherwise presently entitled to that income, then the Trustee will be assessed on that income at the maximum marginal tax rate.

## 2.1.1.2 *Option B Rental*

Under the Option B rental payment method for the lease AgriWealth will pay to the Land Trust periodic rentals in arrears of the period to which the rent applies.

The initial rental payment will be \$60.00 (GST exclusive) per Timberlot payable in arrears on 30 June 2009 for the rental period from commencement to 30 June 2009 and then \$240 (GST exclusive) per Timberlot annually in arrears with the first payment to be made on 30 June 2009, adjusted annually by CPI with the first review on 30 June 2010.

Should the Option B rental payment method be elected by AgriWealth, the Land Trust's tax net income for any particular tax year will include the rental amount payable pursuant to the above formula for that tax year. As we understand that the Trustee proposes to fully distribute to Unit Holders the tax net income of the Land Trust, the rental income would be assessable to Unit Holders in the year of income in which it is derived by the Land Trust and where the Unit Holders are presently entitled to that income.

If the Trustee does not fully distribute the tax net income of the Land Trust for each year, and Unit Holders are not otherwise presently entitled to that income, then the Trustee will be assessed on that income at the maximum marginal tax rate.

## 2.2 *Capital Gains Tax*

### 2.2.1 *Units in the Land Trust*

#### *CGT cost base*

The Units acquired by Unit Holders will be CGT assets for Australian CGT purposes with the acquisition cost of each Unit of \$3,000 forming the first element of the cost base of the Unit for CGT purposes.

#### *Trust distribution in excess of tax net income*

Should the Option A prepaid rental payment be adopted by AgriWealth, the Land Trust in accordance with clause 13 of the Land Trust Constitution may make a payment to Unit Holders greater than its net tax income (being the cash balance of the Option A prepaid rent after deducting the Land Trust's net tax income of \$25.37 per Timberlot derived for the 2009-10 income year). This cash balance amount is equal to \$2,824.63 per Timberlot.



### *Loan from the Land Trust*

It is important that the “loan” be characterised as such for income tax purposes, rather than as a trust distribution.

Paragraphs 135 to 143 of Taxation Ruling TR 2002/14 outline the criteria as to what the Commissioner accepts as being a “loan” for tax purposes, albeit in the context of retirement village arrangements.

To summarise, the Commissioner wants to see two things in particular before accepting that a loan is a “loan” for tax purposes, namely:

- There is an obligation to repay the loan principal sum, e.g. where the loan repayment amount can be greater or less than the original loan principal, this requirement is not satisfied (see paragraphs 140 to 143); and
- The loan repayment time is “a fixed or determinable future time, or conditionally upon an event which is bound to happen, with or without interest” (refer paragraph 141 in particular).

Where these requirements are not satisfied, the Commissioner has (in certain circumstances) sought to assess the receipt of loan principal.

As the loan agreement meets these requirements, the receipt of loan principal is capital in nature and prima facie is not assessable in the hands of the Unit Holder.

However, Sub-section 99B(1) of the 1936 Act includes into the assessable income of a unitholder “an amount, being property of a trust estate, ... paid to ... a beneficiary of the trust estate who was a resident at any time during the year of income”. Prima facie, the receipt of loan principal of \$2,824.63 per Timberlot satisfies this description.

However, paragraph 99B(2)(b) operates to reduce an amount that is assessable pursuant to Sub-section 99B(1) by so much of that amount that represents an amount that would not have been included in the assessable income of that taxpayer had the taxpayer derived the amount directly.

Because the \$2,824.63 represents unearned rental income (relying on the Arthur Murray principal), paragraph 99B(2)(b) should operate to reduce to nil the amount that is prima facie assessable under Sub-section 99B(1).

CGT Event E4 happens if:

- The trustee of the Land Trust makes a payment to the unitholder in respect of your unit or your interest in the trust, and
- Some or all of the payment is not included in your assessable income.

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As the loan contract does not express the loan to be in respect of the Unit Holder's unit, the requirements of CGT Event E4 should not be satisfied. However, even if they were, paragraph 104-71(e) should operate to reduce any deemed capital gain to nil given the obligation to repay the loan.

## *Disposal of Units*

A Unit Holder should derive a capital gain to the extent capital proceeds received on the disposal, cancellation or redemption of a Unit exceeds the Unit holder's CGT cost base/reduced cost base for the Unit. Where the Unit Holder is an individual or trust, and the Unit Holder has held the Unit on capital account for greater than 12 months prior to the disposal, cancellation or redemption of the Unit, the Unit Holder should only be required to include 50 per cent of any gain in its assessable income pursuant to the discount capital gains provisions contained in the 1997 Act.

### *2.2.2 Sale of land by the Land Trust*

Any proceeds received by the Land Trust from a sale of the land should represent a capital receipt for CGT purposes. Any capital gain derived upon sale of the land will be included in the tax net income of the Land Trust. Where the Land Trust has held the land for at least 12 months then the Land Trust will only be required to include half of any gain in its assessable income pursuant to the discount capital gain provisions.

Upon distribution of the tax net income to Unit Holders, that part of the distribution represented by the capital gain will retain its character as a capital gain in the hands of the Unit Holder.

Where the capital gain in the Land Trust is a discount capital gain, a Unit Holder will be treated as deriving a capital gain equal to the grossed-up amount of the capital gain (that is, before any discount was applied). The grossed up capital gain will then, after offsetting any carried forward or current year capital losses of the Unit Holder, be reduced by the applicable discount percentage if the Unit Holder is a taxpayer entitled to a CGT discount.

### *2.3 Interest Expense*

Interest expenses incurred by a Unit Holder in obtaining finance to fund an investment in the Land Trust Units should be deductible to the Unit Holder in the period in which it is incurred (assuming there is no element of prepayment, see Section 1.2.1 above) on the basis the Unit Holder has acquired the Units with the intention to generate revenue from the investment.

### *2.4 Goods and services tax ("GST")*

#### *Unit Holders*

The following comments only apply to Unit Holders that are registered for GST and where the acquisition and sale of units is part of the enterprise in relation to which they are registered for GST. The impact of GST is discussed in Section 1.5 above.





The acquisition or disposal of Units in the Land Trust by a Unit Holder will be input taxed financial supply (unless the supply is GST-free) by the Unit Holder upon which no GST will be payable. If the Unit Holder exceeds the financial acquisitions threshold, it will not be entitled to input tax credits for the costs and expenses in relation to the acquisition or disposal of the units.

If the sale of the Units is made to a non-resident who is not in Australia in relation to the supply when the thing supplied is done, the sale may be GST-free in which case no GST is payable on the supply but the Unit Holder may be entitled to full input tax credits for acquisitions made in relation to the sale.

Funds borrowed by a Unit Holder that are used for the acquisition of Units in the Land Trust relate to input taxed supplies. Subject to the financial acquisitions threshold, the Unit Holder will not be entitled to input tax credits for costs and expenses in relation to such borrowing.

# Summary of Material Agreements

This section contains summaries of the material contracts for the Project. The summaries refer only to the principal terms in each contract. Investors may wish to review the contracts in detail. Investors may inspect a full copy of all the contracts at the Manager's registered office during normal business hours. The material contracts for the Project are:

1. Plantation Investment Constitution
2. Trust Deed/Constitution for the Land Trust
3. Management Agreement
4. Timberlot Agreement
5. Loan and Terms Payment Agreements.

Terms or expressions used in this section that are capitalised and not defined elsewhere in this IM have the meaning given to that term in the relevant contract.

## 12.1 Plantation Investment Constitution

The Plantation Investment Constitution provides for the interest of each Grower in the Plantation Investment. The principal aspects of this interest are the Grower's rights, title and interest under the Grower's Timberlot Agreement, including their Timberlots and their right, title and interest under their Management Agreement. The Plantation Investment is an unregistered managed investment scheme and as such is not regulated by the Corporations Act requirements that apply to registered schemes.

### Grower's Interests

The Plantation Investment Constitution provides for the interest of each Grower in the Plantation Investment. The principal aspects of this interest are the Grower's rights, title and interest under the Grower's Timberlot Agreement, including their Timberlots and their right, title and interest under their Management Agreement.

### Plantation Investment Assets

The assets of the Plantation Investment retained by the Manager are all cash, investments and other property for the time being held in the name of the Manager in relation to the bank account maintained in respect of the Plantation Investment, the proceeds of sale of any investments, moneys in the account and other income of the account.

### Applications

All Application Moneys received by the Manager with Applications for Timberlots will be paid into the Plantation Investment Applications Account held in the name of the Manager for each Applicant on the day it is received or the next business day.

Upon acceptance of an Application, the Manager will prepare a Timberlot Agreement and Management Agreement in relation to the Applicant and execute, and will procure each other party to execute, the Management Agreement. The Manager will also execute and procure each other party to execute the Timberlot Agreement by no later than 31 March 2009.

### Release of Application Moneys

In relation to each Application for Timberlots the Manager will cause the Application Moneys to be paid as required under or contemplated by each Grower's Timberlot Agreement and Management Agreement promptly upon being satisfied of matters including the Management Agreement being properly entered into.

Subject to these matters, the Manager is entitled to use the Application Moneys as required under or contemplated by each Grower's Timberlot Agreement and Management Agreement.

### Payment Obligation of Growers

The Manager will monitor and supervise the payment of all amounts owing by the Grower under the Timberlot Agreement and Management Agreement during the term of the Plantation Investment.

### Plantation Investment Account

All payments received by the Manager under the Plantation Investment Constitution which are the entitlement of Growers will be deposited into the Plantation Investment Account.

Upon completion of any Harvest and sale of any Plantation Produce, the Manager will hold those Net Harvest Proceeds to which each Grower is entitled under the Management Agreement on behalf of the Grower and will deposit such Net Harvest Proceeds into the Plantation Investment Account prior to distribution in accordance with the Management Agreement and Timberlot Agreement.

### Manager's Powers

The Manager has broad powers in respect of the Plantation Investment and the Plantation Investment Assets.

The Plantation Investment Assets are held by the Manager on behalf of the Grower to the extent

contemplated by the Plantation Investment Constitution. It is not contemplated that there will be any Plantation Investment Assets of an investable nature for any substantial period of time. However, if at any time any investable assets are held as Plantation Investment Assets, they may be invested by the Manager in various forms of investments authorised by law and which are consistent with the terms of its Australian financial services licence.

### **Duties of Manager**

The Manager shall supervise all Investments forming part of the Plantation Investment Account, carry out and perform the duties on its part which are contained in the relevant Timberlot Agreement and Management Agreement and the Plantation Investment Constitution.

### **Attorneys and Agents**

The Manager may for the purpose of carrying out and performing its duties and obligations under the Plantation Investment Constitution appoint attorneys and delegate its functions or responsibilities. However, the Manager is liable for the acts and omissions of any custodian, attorney or delegate.

### **No repurchase of Timberlot Agreement and Management Agreement**

The Manager is under no obligation to purchase or repurchase a Grower's rights or interests under a Timberlot Agreement and Management Agreement or their interest in the Plantation Investment and Growers have no right to redemption of their interests.

### **Fees**

The Manager is not entitled under the Plantation Investment Constitution to any fees out of the Plantation Investment. Any such entitlement arises under the Management Agreement.

### **Expenses**

All expenses reasonably and properly incurred by the Manager as a result of a mandatory legal requirement in connection with the Plantation Investment Assets or a Grower are payable or can be reimbursed out of the Plantation Investment Account.

The Manager may reach a separate agreement from time to time with any Grower for the incurring of an expense for that Grower, on terms agreed with that Grower.

The Manager is able to recover any expense out of any interest earned on the Plantation Investment Account prior to the payment of those monies to the Manager for the purposes of establishing the Plantation.

The Manager is not otherwise entitled to reimbursement of any other expenses out of the Plantation Investment, unless the Growers in general meeting have given their prior approval of the expense being incurred by the Manager.

### **Terms of Engagement with Forestry Services Provider**

For the purpose of carrying out and performing its duties and obligations under the Plantation Investment Constitution, the Manager is authorised to enter into an agreement with a forestry services provider relating to the role and functions of each of the Manager and the forestry services provider.

### **Limitation on Liability**

Subject to applicable law, the Manager is not liable for any loss or damage to any person (including any Grower) arising out of any matter unless, in respect of that matter, the Manager acted both:

- Otherwise than in accordance with the Plantation Investment Constitution and its duties
- Without a belief held in good faith that it was acting in accordance with the Plantation Investment Constitution or its duties.

In any case, to the extent permitted by law, the liability of the Manager in relation to a Grower or the Plantation Investment is limited to the Plantation Investment Assets in respect of which the Manager is entitled to be, and is in fact, indemnified.

### **Indemnity**

In addition to any indemnity under any applicable law, the Manager has a right of indemnity from a Grower (including from out of the Plantation Investment Account) on a full indemnity basis, in respect of a matter unless, in respect of that matter, the Manager has acted negligently, fraudulently or in breach of any duty or the Plantation Investment Constitution or applicable law or the indemnity is not otherwise available under law.

The Manager may pay out of the Plantation Investment Assets any amount for which the Manager would be entitled to be indemnified under the Plantation Investment Constitution, the Management Agreement or the Timberlot Agreement.

### **Retirement**

The Manager may retire as Manager by giving of not less than 24 months notice to Growers. The Manager must retire when required to do so by a Special Resolution of Growers.

## Summary of Material Agreements cont.

### Auditors

The Manager may appoint a registered company auditor to regularly audit the accounts of the Plantation Investment in relation to the Plantation Investment and perform the other duties required of the Plantation Investment's auditors under the Plantation Investment Constitution and the Corporations Act. The Manager may also appoint a compliance plan auditor. The remuneration of the auditor of the Plantation Investment and the auditor of the compliance plan (if any) would each be fixed by the Manager.

### Manager to Keep Register

The Manager will keep an up-to-date register of Growers containing details of the Grower and its investment and any other details considered necessary by the Manager.

### Grower Meetings

Meetings of Growers must be conducted in accordance with the provisions of the Management Agreement (as applicable).

### Valuation of Plantation Investment Assets

The Manager may cause a Plantation Investment Asset to be valued at any time and must cause a Plantation Investment Asset to be valued if required by ASIC or under the Corporations Act. Valuations must be undertaken in accordance with those requirements and, to the extent consistent, the Plantation Investment Constitution. The value of a Plantation Investment Asset is to be determined by an independent qualified valuer based on the price at which the Plantation Investment Asset might reasonably be expected to be sold at the date of valuation.

### Plantation Investment End Date

The Plantation Investment will end on the earlier of:

1. The 80th anniversary of the date of the Plantation Investment Constitution less one day
2. A date specified by the Manager as the date the Plantation Investment will terminate in a notice given to Growers
3. The date on which the Plantation Investment is terminated in accordance with another provision of the Plantation Investment Constitution or by operation of law.

### Preliminary payments due under the Timberlot Agreement and Management Agreement

The Manager may make any preliminary payment due under the Timberlot Agreement or the Management

Agreement on behalf of Growers from their entitlement to any Net Harvest Proceeds.

### Provisions relating to the end of the Plantation Investment

Within a reasonable time before, or as soon as practicable after, the Plantation Investment is ended, the Manager shall give to each Grower notice of the termination and of its intention to pay out from the Plantation Investment Account. In summary, the Manager will as agent for and on behalf of the Growers receive the proceeds of the Growers' investments into the Plantation Investment Account and will then remit to the Growers the amounts owing to each of them.

### Amendments to the Plantation Investment Constitution

The Plantation Investment Constitution may be amended by a deed executed by the Manager if the Manager reasonably considers the amendment will not adversely affect the rights of the Growers, or by a Special Resolution of Growers.

## 12.2 Land Trust Deed

### Parties

The initial parties to the Land Trust Deed are the Trustee and AgriWealth (as the original Unit Holder).

### Purpose

The Trust Deed establishes the Land Trust that is intended to be the owner of the Plantation Land after the Trustee acquires the Land. The Land Trust is an unregistered managed investment scheme and as such is not regulated by the Corporations Act requirements that apply to registered schemes.

### Units

The beneficial interest in the Land Trust is divided into Units. Unless the terms of issue of a Unit or a class of Units otherwise provide, all Units will carry all rights, and be subject to all the obligations, of Unit Holders under the Trust Deed. It is not intended that different classes of Units be issued.

### Issue Prices

Units issued will have an initial issue price of \$3,000 as specified in this IM. The subsequent issue price for any Unit will be equal to:

$$\frac{\text{Net Trust Value} + \text{Transaction Costs}}{\text{Number of Units on Issue}}$$

Calculated as at the last time of valuing the Trust before the Trustee received the application for Units. However, the Trustee may determine a different issue price in relation to some Units, a class or all Units. The Trustee does not currently intend to issue any further Units after this IM.

## Redemption of Units

Subject to the Corporations Act (if applicable) and the Trust Deed, the Trustee is entitled, but not obliged, to redeem Units upon the request in writing of the Unit Holder concerned or as part of any redemption offer made by the Trustee. The Unit Holders have no guaranteed right to have their Units redeemed from the Trust under the Trust Deed.

If a Unit Holder gives the Trustee or the Trustee gives a Unit Holder a redemption request in respect of some or all of its Units then the Trustee may, but is not obliged to, redeem those Units. The price at which Units in the Trust may be redeemed will be equal to:

$$\frac{\text{Net Trust Value} - \text{Redemption Costs}}{\text{Number of Units on Issue}}$$

Calculated as at the last time of valuing the Trust before the Trustee received the redemption application for Units or at the time the Trustee specifies in the redemption offer.

To fund a redemption of Units, the Trustee may apply or realise part of the Trust's assets, including cash, obtain any form of financial accommodation or determine that the amount payable in respect of the redemption will be satisfied wholly or in part by the transfer of assets. Expenses incurred in respect of the transfer must be paid by the Unit Holder.

## Transfer of Units

The consent of the Trustee is required for any transfer of Units or for the grant of a security interest over Units. The consent of the Trustee may be withheld wherever permitted by law.

## Transmission of Units

If a Unit Holder dies, the only persons recognised by the Trustee as having any title to the Unit Holder's interest in the Units will be the survivor or survivors, where the holder was a joint holder and the legal personal representatives of the deceased, where the holder was a sole holder.

## Income

The Distributable Income of the Trust for each Financial Year is the Net Accounting Income for that Financial Year adjusted to recognise any previous distributions that related to prepaid items of income or expense. The

Trustee may determine that the Distributable Income for a Financial Year will be the Net Taxable Income for that Financial Year, or some other amount.

Unless otherwise agreed by the Trustee and subject to the rights, restrictions and obligations attaching to any particular Unit or Class, the Unit Holders on the register on the last day of the Financial Year will be presently entitled to the Distributable Income of the Trust (less any part of the Distributable Income which has previously been distributed in that Financial Year) in the proportion according to which they hold Units.

## Capital Distributions

The Trustee may distribute capital of the Trust to the Unit Holders. Subject to the rights, obligations and restrictions attaching to any particular Unit or Class, a Unit Holder is entitled to that proportion of the capital to be distributed as is equal to the number of Units held by that Unit Holder on a date determined by the Trustee divided by the number of Units on the register on that date. A distribution may be in Cash or of Assets.

## Powers of Trustee

The Trustee has all the powers in respect of the Trust fund that it is possible under the law to confer on a trustee as though it were the absolute owner of the assets of the Trust and acting in its personal capacity and this includes anything necessary for fulfilling its obligations under the Trust Deed.

## Power of Attorney

Each Unit Holder irrevocably and unconditionally appoints the Trustee to be the Unit Holder's attorney to do all acts, matters and things reasonably necessary in the opinion of the Trustee for the purposes of the Project including the execution of documents in connection with the Project on behalf of the Unit Holder.

## Custodian

The Trustee may appoint a custodian to hold the Assets of the Trust and any expenses incurred in connection with this appointment will be an expense of the Trust.

## Liability of the Trustee

Subject to the law, the Trustee is not liable for any loss or damage to any person (including any Unit Holder) arising out of any matter unless it acted both otherwise than in accordance with the Trust Deed and its duties and without a belief held in good faith that it was acting in accordance with the Trust Deed or its duties.

In any case, to the extent permitted by law, the liability of the Trustee in relation to the Trust is limited to the assets of the Trust from which the Trustee is entitled to be, and is in fact, indemnified. In addition to any



## Summary of Material Agreements cont.

indemnity under any law, the Trustee has a right of full indemnity out of the Trust Fund in respect of a matter unless, in respect of that matter, the Trustee has acted negligently, fraudulently or in breach of trust or the indemnity is not available under law.

### Unit Holder's liability

Each person who becomes registered as a Unit Holder is taken to have agreed to be bound by the Trust Deed.

Subject to the Trust Deed and to the extent permitted by law, no Unit Holder will be personally liable for any obligation of, or liability incurred by, the Trustee. The effectiveness of such a provision has never been fully tested at law.

### Change of Trustee

The Trustee may retire by giving not less than 6 months notice to Unit Holders. The Trustee must retire when required to do so by a Special Resolution of Unit Holders.

### Accounts and Reports

The accounts of the Trust must be kept and prepared by the Trustee in accordance with applicable Australian Accounting Standards and the Corporations Act (if applicable) or otherwise as approved by the Trustee.

### Audit

The Trustee will cause the Trust auditor, if appointed, to audit and report on the accounts in the manner required by the Corporations Act (if applicable) or otherwise as determined by the Trustee.

### Unit Holder Meetings

The Trust Deed contains provisions to facilitate the meetings of Unit Holders.

The Trustee may at any time convene a meeting of Unit Holders. The Trustee must, at any time, on the requisition in writing of Unit Holders who at the date of the deposit of the requisition are the registered holders of not less than 25% of the Units in the Trust, convene a meeting of Unit Holders.

The requisition must state the objects of the meeting and the terms of any resolution proposed to be submitted to the meeting. The requisition must be signed by those requisitioning the meeting and be deposited at the registered office of the Trustee.

A Special Resolution passed at a meeting of the Unit Holders may effect amendments to the Trust Deed and will be binding on the Trustee except to the extent that any such resolution adversely affects the Trustee, unless the Trustee consents in writing.

### Amendment to the Trust Deed

The Trust Deed may be amended by a deed executed by the Trustee if the Trustee reasonably considers that the amendment will not adversely affect the rights of the Unit Holders or by a Special Resolution of Unit Holders.

### Termination of Trust

The Trust will terminate on the earlier of the following:

1. The 80th anniversary of the date of the Trust Deed less one day
2. A date specified by the Trustee as the date the Trust will terminate in a notice given to Unit Holders
3. The date on which the Trust is terminated in accordance with another provision of the Trust Deed or by operation of law.

### Fees and Expenses

All expenses reasonably and properly incurred by the Trustee in connection with the Trust or in performing its obligations under the Trust Deed are payable or can be reimbursed out of the Trust Fund.

## 12.3 Management Agreement

### Parties

The parties to the Management Agreement are the Manager and the relevant Grower.

### Purpose

Under the Management Agreement each Grower appoints the Manager as its agent to manage their Timberlots, and the Plantation generally. The Manager is also appointed to market and deal with the timber produce at each Thinning and Final Harvest. The Manager is granted wide powers to act on behalf of, and as the attorney of, the Grower.

The Manager must provide various forestry services in connection with the Timberlots of each Grower. These services are provided initially to establish the Plantation, plant the seedlings or cuttings and subsequently on an ongoing basis to monitor the Plantation. The Manager intends to engage AgriWealth to provide forestry services in connection with the Timberlot of each Grower. AgriWealth in turn intends to engage Forests NSW to provide the forestry services.

Forestry establishment services, administration, planning and seasonally dependent agronomic activities to be conducted from the date the Timberlot Agreement is entered into and 30 June 2009:

1. Plantation planning
2. Site preparation including ripping, mounding and control of competing vegetation, noxious weeds and animals
3. Provision of cuttings or seedlings equivalent to GF19+ or better
4. Quality control and internal audit of operations
5. Corporate services, administration, investment relations
6. Application of fertiliser if necessary.

Planting services to be conducted on or before 30 June 2010 include planting cuttings or seedlings in accordance with the Plantation Establishment and Management Plan.

Replanting failed areas to meet the “minimum stocking” rate of an average 850 stems per Plantable Hectare across all Timberlots. This obligation only arises if the overall Plantation “stocking level” is below an average 850 stems per Plantable Hectare across all Timberlots as a result of inadequate or inappropriate establishment techniques. This guarantee applies for a 12-month period following planting of the Plantation.

Ongoing forestry services to be performed at all times prior to Final Harvest:

1. Managing and maintaining the Plantation
2. Follow up notifiable pest, weed and animal control
3. Hazard reduction activities
4. Quality control and internal audit of operations
5. Assessments and reports on growth and performance as necessary
6. Inventory assessments targeted at ages 1 or 2, age 5 where necessary, age 10 and harvest
7. Maintenance and repair of roads, firebreaks, gates and related infrastructure, and fences as necessary for Plantation management
8. Identification of fire prevention and risk reduction parameters
9. Rehabilitation of the Plantation Land after Final Harvest.

Any extra services required in addition to the above may be charged to the Grower.

### Marketing of Timber Produce

Harvesting preparation, supervision and all ancillary activities necessary for Harvest will be performed to ensure that these operations extract timber and Plantation Produce efficiently and effectively, with minimal damage to the residual stand and create effective silvicultural benefit arising from any Thinning or the Final Harvest.

Forests NSW will be appointed to assist the Manager in selling timber from the Plantation as follows:

1. Forests NSW market timber from the Plantation
2. Forests NSW incorporate timber supply from the Plantation into its own supply contracts with customers, provided always that price reflects then Current Market Prices for timber of that size, specification and location and that the Manager approves the proposed sale
3. Forests NSW and the Manager determine the particular year and time of year of Harvest
4. Forests NSW is not obliged to purchase timber from the Plantation if it is unable to secure timber sales acceptable to the Manager.

### The Manager's Resources

The Manager will use reasonable endeavours to ensure that it has access to and will maintain access to, such contractors, personnel, consultants, other specialist services, plant and equipment as may be reasonably necessary for it to perform its obligations under the Management Agreement.

### Term

The Management Agreement ends after the Final Harvest of the entirety of the then Plantation together with the completion to the satisfaction of the Manager of all rehabilitation of the Plantation Land and the marketing and sale of all Plantation Produce. However, the expiry date must not be later than the date 33 years after the date of the Management Agreement.

### Establishment and Management Fees

Each Grower agrees to pay to the Manager the following establishment and management fees:

1. An Initial Establishment Services Fee for initial establishment services of \$10,320 (GST inclusive) per Timberlot (or part thereof) is payable on 30 June 2008 (subject to entering into a Terms Payment Agreement)

## Summary of Material Agreements cont.

2. Planting Services Fee for planting services is \$880.00 (GST inclusive) per Timberlot is payable on or before 30 June 2010 (subject to entering into a Terms Payment Agreement)
3. First Interim Management Fee equal to 10% of the Net Harvest Proceeds received under the First Thinning
4. Second Interim Management Fee equal to 10% of the Net Harvest Proceeds received under the Second Thinning
5. Final Management Fee equal to 10% of the Net Harvest Proceeds received under the Final Harvest but being a minimum fee payable of \$1,550 plus GST adjusted for movements in the CPI.

The Manager may charge the Grower fees and costs in addition to the management fees, as summarised below, if required due to the circumstances of the Plantation.

### Authorised deductions

The Grower authorises the Manager to deduct any amount owing by the Grower in respect of the Management Fees from the proceeds of sale of Plantation Produce as a result of a Thinning or the Final Harvest.

The Grower authorises and directs the Manager to set off the amount of any payment to be made by the Grower to the Manager against any amounts payable and not paid by it to the Manager under the Management Agreement.

The Manager has a lien on the trees and timber of the Grower in respect of all amounts payable to the Manager by the Grower which are due and unpaid. The Manager may sell any property on which it has a lien.

### Additional Emergency Work by Manager

If at any time the Manager is required to do any work of an emergency or other necessary nature not otherwise covered by the Management Agreement in respect of a Grower's Timberlot, then a fee may be charged for those services to the Grower. This fee may relate to matters including the need to conduct significant work on the relevant land, something required as a result of an act of God or any other thing required by good silvicultural practices.

Those fees will be calculated by reference to the size of the Grower's Timberlots compared with the overall number of Timberlots of all Growers, and not by reference to the actual costs referable to that Grower's Timberlots.

### Additional work requested by Grower

The parties may agree from time to time on services additional to the forestry services to be provided by the Manager at the sole cost of the Grower.

If the services are requested in accordance with a Resolution of the Growers, then the fee for those services will be calculated by reference to the size of the Grower's Forestry Right Land compared with the overall size of the Plantation Land of all Growers, and not by reference to the actual costs referable to that Grower's Forestry Right Land. The fee for those services charged to the Grower will be payable by the Grower regardless of whether or not the Grower votes in favour of the Resolution.

### Harvests

The Grower is entitled to all proceeds from the sale of Plantation Produce net of all costs of Harvesting and transportation associated with the Plantation Produce.

Each Grower appoints the Manager as their agent to market the Plantation Produce and acknowledges the Manager can appoint agents to assist with marketing the Plantation Produce.

This means that each Grower has authorised the Manager at the time of each Thinning and again at Final Harvest (as applicable) to consolidate and mix the Plantation Produce from their Timberlots with Plantation Produce from the Plantation as a whole for the purposes of marketing that Plantation Produce.

Each Grower authorises the Manager to collect and pay to the Grower, the net proceeds from sale of the Plantation Produce to which the Grower is entitled.

The proceeds of Plantation Produce to which the Grower is entitled will be that pro rata sum referable to the size of the Grower's Timberlots compared with the overall number of Timberlots of all Growers. This is determined after deducting the various fees and costs to which the Manager or Landowner are entitled.

### Plantation rehabilitation

The Manager will rehabilitate the Plantation Land after Final Harvest by cutting all stumps at no more than 20cm above ground level (except on land greater than 16 degree slope where stumps 250 mm above ground will be deemed acceptable) and collecting all tree debris into windrows for subsequent burning. If additional rehabilitation costs need to be incurred after Final Harvest or if rehabilitation is required before Final Harvest, then the Grower must itself meet all such costs associated with the rehabilitation of their Timberlots, any destruction of the Plantation or other abandonment.

A Grower's obligation to meet these rehabilitation costs will be calculated by reference to the overall costs of the Plantation Land of all Growers, pro rata to the size of the Grower's Timberlots compared with the overall number of Timberlots of all Growers. The Manager will deduct any cost of rehabilitation from the entitlement of Growers to the proceeds of Final Harvest.

### **Destruction of Plantation Produce on a Timberlot**

The destruction of Plantation Produce on a Timberlot of a Grower will be pro rata according to the impact of the destruction event on the Timberlots of all Growers.

If all of a Grower's Plantation Produce on their Timberlots is destroyed, the Grower will be entitled to receive any insurance proceeds payable in respect of the destruction. If a Grower's Plantation Produce is wholly destroyed then the Grower will not be entitled to share in any proceeds from the sale of the Plantation Produce from the rest of the Plantation. However, if the Grower's Plantation Produce is partially destroyed then the Grower will be entitled to a pro rata portion of any proceeds from the sale of the Plantation Produce from the rest of the Plantation which is equal to the percentage that the area of the remaining Timberlots bears to the area of the Timberlots of all Growers.

Regardless of whether any or all of the Plantation Produce on Growers' Timberlots is destroyed, the Growers will however remain liable to pay the Manager their contribution to any costs and indemnities for which the Manager may be reimbursed under the Management Agreement.

### **Insurance**

The Manager will arrange as agent for the Grower, fire and other selected perils insurance and public liability insurance to the best of its ability having regard to reasonable costs with respect to the Timberlots of that Grower on its behalf.

If the Manager is unable to obtain insurance or insurance is available but at a cost that is unreasonable in the opinion of the Manager, then the Manager will advise Growers of this fact and convene a meeting of Growers to decide the best course of action in relation to such insurance.

### **Retirement of the Manager**

The Manager is entitled to retire on not less than 24 months notice in writing or such shorter period of notice as the Manager and the Growers agree. The Manager must find a reasonable substitute provider of forestry services.

### **Termination**

If either party materially breaches any of its obligations under the Management Agreement for any reason the other party may terminate the Management Agreement unless the breach has, in certain circumstances, been rectified.

Either party may terminate the Management Agreement if the other party undergoes a specified insolvency event.

The Manager may terminate the Management Agreement if the Landowner has terminated the Timberlot Agreement in accordance with the terms of that document.

The Manager may terminate the Management Agreement with immediate effect if in the Manager's reasonable opinion all or substantially all of the Plantation Produce on the Plantation is destroyed.

### **Force Majeure**

Obligations of the Manager (other than an obligation to pay moneys) can be suspended during the period in which the Manager's obligations are affected by a force majeure event, which include Acts of God, etc.

### **Grower Meetings**

The Management Agreement contains provisions to facilitate the meetings of Growers.

The Manager may at any time convene a meeting of Growers. The Manager must at any time on the requisition in writing of 100 Growers or Growers who at the date of the deposit of the requisition are the registered holders of not less than 25% of the Timberlots in the Plantation convene a meeting of Growers.

The requisition must state the objects of the meeting and the terms of any resolution proposed to be submitted to the meeting. The requisition must be signed by those requisitioning the meeting and be deposited at the registered office of the Manager.

A Special Resolution passed at a meeting of the Growers may effect amendments to this document and will be binding on the Manager except to the extent that any such resolution adversely affects the Manager, unless the Manager consents in writing.

Any resolution passed at a meeting of Growers will be binding on the Grower whether present or not present at such meeting and whether or not the Grower voted in favour of the resolution.

## Summary of Material Agreements cont.

### Assignment

The Grower may assign its interest under the Management Agreement after prior notice in writing to the Manager. The assignee must be a party which is capable to the reasonable satisfaction of the Manager of performing the obligations of the Grower under the Management Agreement.

The Manager may assign its rights to and have its obligations under the Management Agreement assumed by any other person that the Manager reasonably considers can perform its obligations or procure the performance of its obligations under the Management Agreement. The Manager may sub-contract any of its obligations to any person.

### Indemnity

The Grower indemnifies the Manager against all losses, damages, costs and expenses (including reasonable legal fees) incurred by the Manager to the extent that such losses, damages, costs and expenses are caused by any act or omission of the Grower (or its employees, agents or contractors) in carrying out any activities or operations under the Management Agreement in relation to any Timberlot.

### Default interest

If any sum due for payment is not paid on the due date the party that is liable to pay that sum must pay interest from the due date until the date of actual payment at the then bank bill rate plus 4%.

## 12.4 Timberlot Agreement

### Parties

The parties to each Timberlot Agreement are AgriWealth as the "Grantor" and the relevant Grower.

### Purpose

The Timberlot Agreement creates an interest in favour of the Grower in the Timberlot Land of that Grower. The Timberlot Agreement grants the Grower rights including the following:

1. The right to establish, maintain and harvest a crop of trees on the Timberlot Land
2. The right to construct and use facilities necessary to establish, maintain and harvest a crop of trees on the Timberlot Land
3. The right to any Carbon Credits and Salinity Credits that may attach to the Timberlot Land.

### Term

The term of the Timberlot Agreement is 28 years with an option to extend for a further term of up to 5 years. The agreement will end once Final Harvest and relevant land rehabilitation has occurred.

### Foreign Investment Review Board approval

If the Grower is required under the Foreign Acquisitions and Takeovers Act 1975 to apply to the Federal Treasurer for approval of the Timberlot Agreement, both the Grower and the Manager must use their reasonable endeavours to obtain that approval.

AgriWealth may terminate the Timberlot Agreement if this approval is not obtained on conditions reasonably acceptable to both parties within 90 days of the application.

### Rental Fee

The Grower must pay a one off Rental Fee equal to 10% (plus GST) of the Net Harvest Proceeds (inclusive of GST) received by the Grower for the trees on its Timberlot Land upon the Final Harvest. Net Harvest Proceeds are the net amount paid to the Grower for the trees upon Final Harvest.

The Rental Fee (plus GST) is payable within 7 days after completion of Final Harvest and the completion of the sale of the relevant Plantation Produce. The Manager can deduct the Rental Fee from the sale proceeds of the relevant Plantation Produce and pay the amount to AgriWealth.

The Manager is authorised to calculate the Grower's Rental Fee on a pooled basis by reference to the Net Harvest Proceeds of the Plantation Produce of all Growers.

### Actions by the Grower

The Grower may take various actions in respect of its Timberlot Land in connection with the growing of trees. Many such actions require the prior approval of AgriWealth or the Manager.

### Improvements to be Owned by the Grower

Any improvements on the Timberlot Land (other than any roads, bridges, culverts, water supplies and fences) constructed by or for the Grower remain the property of the Grower.

In the process of rehabilitation, these improvements must be removed or sold on the basis that they are removed. If after land rehabilitation is completed the improvements are not removed, AgriWealth may remove and/or sell them at the cost of the Grower and may retain the proceeds of sale.



## Compliance with Legislation

The Grower must use all reasonable endeavours to comply with all legislation, regulations, licences and codes of forestry or logging practice relevant to the Plantation.

## Interference with AgriWealth

In carrying out any activities or operations in relation to the Plantation, the Grower must use its best endeavours to minimise any interference with AgriWealth or the Manager's operations and activities.

## Repair of Damage

The Grower must promptly repair and where necessary replace any damage caused directly by it to any roads, tracks or fences on the Timberlot Land.

## Storage of Dangerous Materials

The Grower must only use and store any inflammable, noxious or dangerous chemical or substance on the Timberlot Land in accordance with applicable legislative requirements and/or codes of practice and after consulting with AgriWealth.

## Rehabilitation Following the Final Harvest

The Grower must rehabilitate the Plantation Land after Final Harvest by cutting all stumps to a ground height as determined by AgriWealth and sweep all debris into windrows within the outside stumps and ensure that the Plantation Land has been rehabilitated in accordance with relevant sound land management practice.

## Harvesting Costs

The Grower must bear the costs associated with any Harvest. The Manager will arrange for Harvesting and will deduct the Harvesting Costs from the proceeds due to the Grower.

## Termination

If either party materially breaches any of its obligations under the Timberlot Agreement for any reason the other party may terminate the Timberlot Agreement unless the breach has, in certain circumstances, been rectified.

Either party may terminate the Timberlot Agreement if the other party undergoes a specified insolvency event.

AgriWealth may terminate the Timberlot Agreement if the Manager has terminated the Management Agreement in accordance with the terms of that document.

If AgriWealth terminates it may:

1. Salvage log the Plantation and clear and heap and burn all Plantation debris on any part of the Timberlot Land except any roads or access tracks
2. Burn Timberlot Land debris if there is no threat of fire damage to any land adjoining or adjacent to the Plantation
3. Clear the land, at the cost of the Grower, so far as is practicable without burning debris
4. Return the Timberlot Land to pasture
5. Remove all fences and other improvements at the cost of the Grower.

## Force majeure

Obligations of AgriWealth (other than an obligation to pay moneys) can be suspended during the period in which AgriWealth or the Manager's obligations are affected by a force majeure event, which include acts of God, etc.

## Manager Acting as Agent or Attorney For Growers

The Manager is authorised under the Management Agreement to make decisions on behalf of the Grower under the Timberlot Agreement. Any decision made by or document agreed by the Manager as agent or attorney for the Grower under the Management Agreement will bind the Grower.

## Indemnities

The Grower indemnifies AgriWealth and the Manager against various matters where the relevant liability is caused by an act or omission of the Grower (or its employees, agents or contractors) in carrying out its rights for entry to the Timberlot Land or any activities or operations in relation to the Plantation.

AgriWealth indemnifies the Grower against any breach by AgriWealth of the Timberlot Agreement.

## Assignment

The Grower cannot assign or mortgage its interest under the Timberlot Agreement unless it has obtained the prior written consent of AgriWealth.

AgriWealth may assign novate or deal with its rights and obligations under the Timberlot Agreement or the Plantation Land at any time.

## Default interest

If any sum due for payment is not paid on the due date the party that is liable to pay that sum must pay interest

## Summary of Material Agreements cont.

from the due date until the date of actual payment at the then bank bill rate plus 4%.

### 12.5 Loan and Terms Payment Agreement

#### Parties

The parties to a Loan Agreement will be a Grower and/or Unit Holder and United. If the Grower or Unit Holder is a corporation, an individual guarantor of the obligations of the Grower or Unit Holder will usually be required. The parties to a Terms Payment Agreement will be a Grower (other than corporate or trustee entities) and the Manager.

#### Applicants for Loans or Terms Payment Agreements

A Grower or Unit Holder may apply for a loan from United. A Grower (other than corporate or trustee entity) may apply for a Terms Payment Agreement arrangement from the Manager. The loans or Terms Payment Agreements are only available to those applicants approved by United or the Manager.

#### Reference

This section contains a summary of the terms of the loans and Terms Payment Agreements. Interested applicants should contact the Manager or United direct for further details if required.

#### Nature of the Loan and Terms Payment Agreements

The relevant documents are comprised of a Terms Payment Agreement or loan agreement and a mortgage over (as applicable) Timberlots and its proceeds, the Management Agreement, Units in the Land Trust and/or any other contractual or other rights of the Grower/Unit Holder in respect of the Project.

The Terms Payment Agreement provides that the Manager will have a full right of recourse to the Grower (and Guarantor if applicable) for the payment of all monies due by the Grower under the Terms Payment Agreement. The Loan Agreement provides that United will have a full right of recourse to the Grower/Unit Holder (and Guarantor if applicable) for the payment of all monies due by the Grower/Unit Holder under the Loan Agreement.

#### Choose From a Number of Funding Options

There are several funding alternatives from which Applicants can choose:

#### Terms Payment Agreement

Under this option the Manager offers individual Applicants (not corporate or trustee entities) a Terms Payment Agreement in which to pay the Initial Establishment Services Fee and Planting Services Fee. The Terms Payment Agreement is not available in relation to Unit subscriptions. Approval for a Terms Payment Agreement is subject to an Applicant meeting the Manager's normal credit assessment process.

Under the Terms Payment Agreement an Approved Applicant will be entitled to pay the Initial Establishment Services Fee and Planting Services Fee by way of 12 equal monthly instalments. No application fee applies.

The 12 monthly instalments to be paid in respect of the Initial Establishment Services Fee commence on 29 July 2008 and for the Planting Services Fee commence on 29 July 2010.

Approved Applicants may make early repayment of instalments under the Terms Payment Agreement without incurring any additional fee.

Alternatively, United offers a number of finance options to Approved Applicants for the amount of their Plantation Investment and Units in the Land Trust.

#### United Loans

A loan application fee of \$250 plus 0.5% of the amount borrowed up to a maximum of \$1,250. This fee applies in relation to an Approved Applicant's participation in the Project as a whole (whether the loan is for the Initial Establishment Services Fee, Planting Services Fee or Units in the Land Trust made either by the Approved Applicant personally or together with a related entity).

Approved Applicants can choose from 1 of 3 loan options offered by United. The 3 options are:

- 10 year loan facility with repayments for the first 3 years being interest only
- 12 year loan facility with repayments for the first 3 years being interest only
- 15 year loan facility with equal monthly repayments of principal and interest.

## 10 and 12 year loan facilities

*3 years interest only repayments with equal monthly instalments of principal and interest being repaid thereafter*

Under the United 10 or 12 year loan options an Approved Applicant will receive up to 100% finance for their Plantation Investment and Units in the Land Trust from United. Monthly repayments during the first 3 years will be for interest only charges. The interest only payments will cease on 30 June 2011. The loans are to be drawn down in three tranches:

- The Initial Establishment Services Fee will be drawn down on 30 June 2008.
- The Unit subscription amount will be drawn down on 31 March 2009.
- The Planting Services Fee will be drawn down on 30 June 2010.

The amount borrowed in respect of the Initial Establishment Services Fee is initially repayable by way of interest only monthly instalments commencing 30 July 2008. The amount borrowed for the Planting Services Fee is initially repayable by way of interest only monthly instalments commencing 30 July 2010. The amount borrowed for the Unit subscription is initially repayable by way of interest only monthly instalments commencing 30 April 2009.

After the interest only periods ending on 30 June 2011 the amount borrowed in respect of the Plantation Investment and Units in the Land Trust will be repayable over the remaining terms of the facilities by way of equal monthly instalments of principal and interest.

## 15 year loan facilities

*Equal monthly instalments of principal and interest being repaid*

Under the United 15 year loan options an Approved Applicant will receive up to 100% finance for their Plantation Investment and Units in the Land Trust from United. The loans are to be drawn down in three tranches:

- The Initial Establishment Services Fee will be drawn down on 30 June 2008.
- The Unit subscription amount will be drawn down on 31 March 2009.
- The Planting Services Fee will be drawn down on 30 June 2010.

The amount borrowed in respect of the Initial Establishment Services Fee is repayable by way of equal monthly instalments of principal and interest

commencing 30 July 2008. The amount borrowed for the Unit subscription and Planting Services Fee is repayable by way of equal monthly instalments of principal and interest commencing 30 April 2009 and 30 July 2010 respectively.

In assessing whether to approve a United loan an income and net assets test may be applied. The criteria utilised is detailed in the following table:

Loan band	Taxable income	Minimum tangible net worth
\$10,000 - \$30,000	\$60,000	\$175,000
\$30,001 - \$45,000	\$75,000	\$250,000
\$45,001 - \$75,000	\$100,000	\$500,000
\$75,001 - \$125,000	\$150,000	\$1,000,000
\$125,001 - \$175,000	\$200,000	\$1,500,000
\$175,001 - \$275,000	\$250,000	\$2,000,000

## Interest rates and early repayments

Interest will be charged on the outstanding balances, calculated daily, at the relevant interest rate.

Interest will be charged on the United loans at a fixed rate per annum payable monthly in arrears. The actual fixed rate will be determined at the time of drawdown. The rate will not exceed the United published fixed rate of interest as displayed on United's website [www.upf.com.au](http://www.upf.com.au) under the heading "Products & Rates" at the time of drawdown.

An Approved Applicant borrowing under the 10 year loan facility has an additional option to borrow at a variable rate of 4.75% per annum over the bid rate as displayed on page BBSY of the Reuters Screen at or about 10 am on the relevant day 90 day bank bills with a tenor of 1 year is rolled over. 10 year variable rate loans will have interest rates reset every 90 days.

Approved Applicants may make early repayments of the United loans (either part or all). Where under a variable rate loan an Approved Applicant makes an early repayment at the time interest rates are reset then early repayments may occur without any break cost. However, where Approved Applicants have elected to have a fixed rate loan or early repayment of a variable rate loan occurs at a time other than when interest rates are reset then certain break costs may be levied upon early repayment. For fixed rate loans which are partially repaid early, break costs will be calculated as if the loan was fully repaid early. Early repayments cannot be redrawn. An administration fee of \$125.00 is payable

## Summary of Material Agreements cont.

in respect of a partial early repayment of a loan and an administration fee of \$275.00 is payable in respect of a total early repayment of a loan. A default margin will apply to any Approved Applicant who does not comply with the terms of the Finance Facilities.

### Security

All Terms Payment Agreement arrangements and United loans will be full-recourse. This means that Approved Applicants will be required to make interest and principal payments and Terms Payment Agreement instalment payments from their own resources irrespective of the success or failure of the Project.

The Manager will obtain security under the Terms Payment Agreement by mortgages over the Grower's Timberlots, the Management Agreement and any other contractual or other rights of the Approved Applicant in respect of the Project. United will obtain security under the Loan Agreements by mortgages over the Grower's Timberlots and Unit Holder's Units in the Land Trust, the Management Agreement and any other contractual or other rights of the Approved Applicant in respect of the Project.

If the Approved Applicant for a Loan is a corporate entity (including trustees), unless otherwise advised by United, the directors of the entity will be required to guarantee the Loan Agreement.

### Insurance

It will be a condition of the Terms Payment Agreement or Loan Agreement that the Grower take out insurance against fire.

### Guarantee

The Guarantor (if applicable) who is a party to the Terms Payment Agreement or Loan Agreement provides a full recourse guarantee of the obligations of the Approved Applicant. The Manager or United may proceed personally against the Guarantor to recover any monies owing under the Terms Payment Agreement or Loan Agreement without proceeding against the Approved Applicant first, or at all.

### Default

Events of default under the Terms Payment Agreement or Loan Agreement include:

1. Non payment of monies when due
2. Any breach by the Approved Applicant of any document relating to the Project
3. Any unauthorised dealing in Timberlots.

If any event of default occurs under a Terms Payment Agreement, the Manager is entitled to take possession of, sell or otherwise deal in an Approved Applicant's Timberlots and/or to become a party to, sell or deal with the Approved Applicant's rights under the Management Agreement and any other contractual or other rights of the Approved Applicant. If any event of default occurs under a Loan Agreement, United is entitled to take possession of, sell or otherwise deal in an Approved Applicant's Timberlots and/or Units in the Land Trust and/or to become a party to, sell or deal with the Approved Applicant's rights under the Management Agreement and any other contractual or other rights of the Approved Applicant.

### Trustee Borrowers

If the Approved Applicant enters into the Loan Agreement as trustee of a trust it will provide certain additional warranties to United, including that it has full authorisation to enter into the relevant Agreements and that it has full rights of indemnity out of the assets of the trust.

# Glossary

<i>AgriWealth</i>	AgriWealth Pty Limited ABN 93 120 299 363
<i>AgriWealth Capital</i>	AgriWealth Capital Limited ABN 14 126 768 090
<i>Allotment Date</i>	At the Manager's discretion but not later than 30 June 2008
<i>Applicant</i>	A person who correctly completes the Application Form for this IM
<i>Application Form</i>	The application form for Timberlots and Units for this IM
<i>Application Price</i>	The amount payable on application for a Timberlot is \$10,320 (including GST) as an Initial Establishment Services Fee and \$880 (including GST) as a Planting Services Fee in respect of each Timberlot. The amount payable on application for a Unit in the Land Trust is \$3,000 for each Unit in the Land Trust
<i>Approved Applicants</i>	An applicant who satisfies either of the Lenders' credit approval process and the Loan or Terms Payment Agreement amounts are approved by the relevant Lender to the extent of the Loan Approval or lesser approved amounts
<i>Carbon Credits</i>	The realisation via trading in an omissions trading regime of any benefit of carbon sequestration arising from a tree or forest on the Timberlots of a Grower or Growers
<i>Corporations Act</i>	The Corporations Act 2001
<i>CPI</i>	The Consumer Price Index (All Groups Weighted Average Eight Capital Cities) published by the Commonwealth Statistician, or any similar index that replaces it
<i>CPI Adjustment</i>	The proportionate increase in the CPI between the June 2008 quarter and the most recent quarterly CPI published prior to the relevant adjustment date
<i>Current Market Prices</i>	The prices achieved by Forests NSW for its equivalent timber produce at the time of the relevant Thinning or Final Harvest
<i>Drawdown Dates</i>	30 June 2008 for the Initial Establishment Services Fee. 31 March 2009 for Unit subscriptions and 30 June 2010 for the Planting Services Fee
<i>Final Harvest</i>	The clearfall of all trees and completion of site rehabilitation on a Timberlot
<i>Finance Facilities</i>	The loans provided by United and/or Terms Payment Agreements offered by the Manager to assist an Investor in financing their acquisition of Timberlots and/or Units
<i>Forests NSW</i>	Forestry Commission of New South Wales a corporation sole constituted under section 7(1) of the Forestry Act 1916 (New South Wales), trading as Forests NSW
<i>Grower</i>	An Investor who applies for and is allotted Timberlots



## Glossary cont.

<i>Growers</i>	All Investors in the AgriWealth 2008 Softwood Project - Tree Project who applied for and are allotted Timberlots
<i>GST</i>	Goods and services tax imposed by any Federal or State government or authority
<i>IM</i>	This Information Memorandum
<i>Independent Forester</i>	Any forester independent of the Manager and appointed by the Manager to review the Plantation
<i>Initial Loan Amount</i>	The amount of finance provided on the Drawdown Date of the relevant Loan or Terms Payment Agreement
<i>Investor</i>	Is a person who is allocated Timberlots or Units under this IM
<i>Investment Opportunity</i>	The investment opportunity offered under this IM
<i>Landowner</i>	The trustee for the time being of the Land Trust
<i>Land Selection Protocol</i>	The protocol developed and to be followed for the purposes of determining the type of land to be acquired for the AgriWealth 2008 Softwood Project
<i>Land Trust</i>	The AgriWealth 2008 Softwood Project - Land Trust
<i>Loan Interest Rate</i>	The rate advised by United on the Drawdown Date in relation to the United loan
<i>Lender</i>	United and/or the Manager being the lender offering the Finance Facilities
<i>Management Agreement</i>	The agreement between a Grower and the Manager whereby the Manager agrees to establish and manage Timberlots on behalf of a Grower and the Grower agrees that the Plantation Produce produced by the Timberlot Land is pooled on a pro rata basis with other Growers under pooling arrangements
<i>Manager</i>	The manager for the time being of the scheme under which the Timberlots are issued, initially AgriWealth Capital
<i>Marketing Pool</i>	The Plantation Produce from a Grower's Timberlots combined with the produce from other Growers' Timberlots for the purposes of the sale of that Plantation Produce
<i>Mean Annual Increment (MAI)</i>	The average annual incremental growth in merchantable timber across the Plantation measured in cubic metres per Plantable Hectare per annum
<i>Net Harvest Proceeds</i>	Each Grower's proportional interest in the proceeds from the sale of all timber produce from the Plantation Investment (including GST) less the cost of harvest, handling, loading, transport and delivery costs and other associated costs (including GST), where applicable

<i>Plantable Hectare</i>	An area of land that is sufficient for planting one hectare of Radiata Pine ( <i>pinus radiata</i> ). The area in aggregate may be greater than one hectare
<i>Plantation</i>	The plantation on which the Grower's Timberlots will be situated but could include land at more than one property
<i>Plantation Investment</i>	Timberlot interests in the AgriWealth 2008 Softwood Project – Tree Project
<i>Plantation Land</i>	The Timberlot Land of all Growers in the Plantation, all adjacent land and all other land involved in the Plantation
<i>Plantation Produce</i>	The timber extracted from harvest of the Plantation
<i>Project</i>	The AgriWealth 2008 Softwood Project described within this IM comprising the AgriWealth 2008 Softwood Project – Tree Project and the AgriWealth 2008 Softwood Project - Land Trust
<i>Salinity Credits</i>	Any benefit that may be traded or otherwise dealt with arising from the Timberlot Land arising from a Government program for salinity amelioration
<i>Terms Payment Agreement</i>	The Terms Payment Agreement with the Manager under which a Grower can pay the Initial Establishment Services Fee and Planting Services Fee by way of 12 equal monthly instalments
<i>Thinning</i>	An intermediate harvest of small or poorer quality trees
<i>Timberlot</i>	The right to enter, establish, maintain, and harvest a crop of trees on an identifiable one-half hectare of Plantation Land and the right to any Salinity Credits and Carbon Credits and any benefit to be derived from such Salinity Credits and Carbon Credits that may attach to the Plantation
<i>Timberlot Agreement</i>	The agreement with AgriWealth under which the Grower is granted Timberlots
<i>Timberlot Land</i>	The land under the Timberlot Agreement to which the Grower is entitled under that agreement
<i>Trust Deed</i>	The trust deed/constitution for the Land Trust
<i>Trustee</i>	The trustee and for the time being of the Land Trust, initially the Manager. If a custodian is appointed to hold the assets of the Land Trust then the term Trustee also includes the custodian
<i>Unit(s)</i>	Unit in the Land Trust
<i>Unit Holder</i>	A holder of Units in the Land Trust
<i>United</i>	United Pacific Finance Pty Limited ACN 053 703 389



[www.agriwealth.com.au](http://www.agriwealth.com.au)

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