



W.A. Blue Gum Project 2011

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

4 January 2011

Scope

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

Key Principles

The underlying principles of the assessment process are to:

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

Site Assessment

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

The site assessment considers the following areas:

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

Star Rating

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

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

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

Licensed Investment Adviser

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

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

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

Privacy Policy

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

General Financial Product Advice

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

Reproduction

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

Disclosure

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

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

Report Date

4 January 2011

Project Summary	4
Structure and Fees	5
Management	8
Site Inspection	11
Marketing	13
Investment Analysis	16
Investment Risks	21
Disclaimer	22



Adviser Edge Rating



Recommended Client Risk Tolerance

Project Details

Project Name	W.A. Blue Gum Project 2011
Product	Hardwood logs for pulp and paper manufacture
Responsible Entity	W.A. Blue Gum Limited
Plantation Manager	WACAP Tree Farms Pty Ltd
Independent Forestry Operations Overview	John Tredinnick

Investment Details

Investment Term	Approximately 10 years
Investment Unit Size	1ha
Units Available	500
Application Fee	\$5,000 (excluding GST) per investment unit
Ongoing Fee Structure	Ongoing annual rent and maintenance fees
Ongoing Lease Fee	\$490/ha (ex. GST)
Ongoing Tending Fee	\$110/ha ex. GST)
Harvesting Supervision Fee	3% of harvest proceeds
Incentive Fee	15% of net harvest proceeds above stated benchmark
Minimum Investment	Three units
Close Date for FY2011	30 June 2011
Investor Finance	Available through Albany Financial Pty Ltd
ATO Product Ruling	Pending

Investor Returns

Potential Investment Returns (p.a., pre-tax)	0.60% – 10.40%
--	----------------

Key Points:

Strengths of Project

- The Project is well structured, providing investor security and decreasing the reliance on the ongoing solvency of the RE
- The operational manager, WACAP, has a good record in the establishment and management of plantations
- The Project will target high productivity sites, decreasing the agricultural risk associated with more marginal sites

Weaknesses of Project

- As land for the Project is sub-leased from third parties, there is a risk that if the RE or other growers in the Project are unwilling or unable to meet lease payments to third parties, Project interests will be terminated

Key investment risks

- Investors are directly affected by the price received for Project resources and indirectly by costs of harvesting and processing
- As with any MIS project, there is a risk that the market for the Project resources will encounter a significant downturn at the time of harvest
- Forestry is exposed to similar risks as those that are inherent in other agricultural production systems. Environmental risks relevant to the timber industry include climate-related issues such as low rainfall, excessive heat, frost and wind, and seasonal aspects such as fire, pests and diseases. These threats can be mitigated through good site selection and silvicultural management

Other Project considerations

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

Investor suitability

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

Investment Specifications

Target subscription	500ha
Location	South-west Western Australia
Investment unit size	1ha (one Unit)
Minimum application	Three units
Liquidity	Illiquid – no established secondary market
Insurance	Compulsory
Investor finance provider	Albany Finance Pty Ltd

W.A. Blue Gum Limited (W.A. Blue Gum) is offering investors the opportunity to participate in the plantation pulpwood industry through the offer of 500 Woodlots in the W.A. Blue Gum Project 2011. W.A. Blue Gum has the capacity to accept oversubscriptions, depending on the availability of suitable land. W.A. Blue Gum advises that the plantation services agreements with WACAP incorporate a minimum stocking guarantee of 90% of the original stocking rate for a period of approximately one year from planting.

The Project involves the establishment of Tasmanian blue gums for the production of hardwood chips for export and, potentially, domestic pulp markets. The units will be located in south-west Western Australia, in the forestry region between Albany and Bunbury.

The Project has an expected term of 10 years from the planting date, which must occur before 31 December 2012. W.A. Blue Gum has indicated that it aims to establish 100% of the trees in 2011. However, this will be dependent on seasonal conditions and the ability to secure land within the 2011 planting window. Historically, between 30% and 100% of trees have been planted within six months of the Project commencement date, with the remainder planted in the winter following the Project commencement. The plantations are forecast to be harvested in 2021. However, the Project agreements provide some flexibility regarding the timing of the harvest, with the timber able to be sold at any time between 2020 and 2023. Net proceeds from the harvest will be pooled and distributed to investors on a pro-rata basis.

W.A. Blue Gum will outsource the management of the plantations to WACAP Tree Farms Pty Ltd (WACAP), a subsidiary of WA Plantation Resources Pty Ltd (WAPRES). WACAP will be responsible for all management operations required, from land preparation and sourcing seedlings, right through to the management of harvesting. W.A. Blue Gum has entered into a Wood Purchase Agreement with another WAPRES subsidiary, WA Chip and Pulp Company, for the purchase of all timber grown in the Project.

Key Points

- Investors are required to pay ongoing annual lease and management fees, with a harvest supervision fee to be deducted as a percentage of harvest proceeds
- Actual harvest and processing fees are unknown at this stage
- An incentive bonus fee is activated if certain benchmarks are met, providing for some risk apportionment

W.A. Blue Gum will lease the project land from various farmers, or sub-lease land from WA Chip and Pulp Company or WACAP. In all instances, W.A. Blue Gum will register the head-lease or sub-lease with the Office of Titles, Perth. The average lease cost for the Project is not expected to be known until all the land has been secured for the Project. However, it is expected that the rental fee paid by investors should be sufficient to cover ongoing obligations throughout the life of the Project.

Given the ongoing fee structure of the Project, investors have a very limited exposure to the major counterparties, W.A. Blue Gum and WACAP, over the life of the Project. The fee structure incorporates sufficient cash flow to provide payments to a replacement Responsible Entity (RE) or third-party contractor over the life of the Project. The rental fee should be sufficient to cover the ongoing lease payments to either the WA Chip and Pulp Company, WACAP or various farmers, and to ensure investors' tenure over the land throughout the rotation, irrespective of the ongoing solvency of the RE.

The Project is structured in such a way that there is a very limited reliance on the ongoing solvency of either W.A. Blue Gum or WAPRES. While benefits are expected to accrue from the ongoing involvement of these parties, including the Wood Purchase Agreement, the Project should be able to attract an alternative manager and RE in the event that either of the management counterparties becomes insolvent.

Following harvest, W.A. Blue Gum will offer investors the opportunity to participate in a second blue gum rotation. Investors are not required to make any decision on this option until the time of the first harvest.

Please note that this report will only consider an investment in a single rotation of blue gum.

Project structure and agreements

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

and their adviser read and understand these agreements to ensure that the investment is suitable for the investor's objectives.

Fee Schedule

The fees outlined in the following tables relate to an investment made on or before 30 June 2011.

Initial Cost to the Investor

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

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

Annual Fees

Payment Type	Cost Per Unit (ex. GST)
Rental fee*	\$490
Maintenance fee*	\$110
Insurance [^]	Approximately 0.6% of insured value plus 10% administration fee

* Payable on 30 November 2011, and on 30 September in each year thereafter. Indexed to Western Australia CPI from 30 June 2011.

[^] Payable on 30 November 2011, and on 15 November in each year thereafter. From Project year 1 (FY2011), investors will be charged annual ongoing maintenance and rental fees.

Insurance against fire is compulsory for investors over the term of the investment, and investors will be invoiced the actual cost of this insurance. W.A. Blue Gum will arrange insurance on behalf of investors, and will charge a fee equivalent to 10% of the premium for the service. Annual insurance premiums are expected to be between 0.6% and 0.7% of the insured value.

Deferred Fees

Payment Type	Cost Per Unit (ex. GST)
Harvesting and transportation	Actual cost to be advised at harvest and deducted from harvest proceeds
Harvest supervision	3% of net harvest proceeds
Incentive bonus	15% of the value where net proceeds exceeds \$16,000/ha (ex. GST)*

* Indexed to Western Australia CPI from 30 June 2011.

W.A. Blue Gum will deduct all of the costs incurred for harvesting, transportation and supervision from the proceeds of the sale of the timber prior to making any distributions to the investor. In addition to this, a harvest supervision fee of 3% (plus GST) of net harvest proceeds will be deducted and paid to the wood purchaser, WA Chip and Pulp Co Pty Ltd. Net harvest proceeds means the proceeds from the sale of the timber, less the costs of harvesting and transportation.

An incentive fee is also charged if performance targets are reached. This fee equates to 15% of the amount by which the net proceeds from the sale of the timber exceed \$16,000/ha (ex. GST), with the benchmark to be indexed from 30 June 2011. The net proceeds of sale are the proceeds received from the sale of timber, less the costs of harvesting and processing, and the harvest supervision fee.

Fee Analysis

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

The application fee for the 2011 Project offering remains unchanged from W.A. Blue Gum's previous offering, at \$5,000 per unit (excluding GST). There has been an increase in the annual rent fee from \$460/unit to \$490/unit, which is an increase just above the expected CPI increase in lease rates. The annual management fee remains unchanged from the previous offering at \$110/unit in year one.

Of the application fee, a portion is paid to the contractor, WACAP Tree Farms, as consideration for providing the establishment services during the establishment period, in accordance with the plantation development and tending plan. The remainder is attributable to project development expenses and manager profit.

An ongoing annual management fee is also charged. Of this fee, a portion is paid to WACAP for the annual tending of the plantations, with the remainder paid to W.A. Blue Gum for the performance of its duties as RE. The annual lease fee of \$490/ha (excluding GST, indexed to CPI) represents the average lease costs expected to be incurred in the Project. While this lease fee is considered to be high, it reflects the high quality land selected for the Project.

Adviser Edge considers that the proportion of the application and ongoing fees used to remunerate the external service providers (WACAP Tree Farms, lessors and John Tredinnick) is reasonable, and that the ongoing fee structure helps to provide investor security throughout the life of the Project.

The Project incorporates an incentive bonus fee, which is set at 15% of the amount by which the net proceeds exceed the benchmark. It appears that the bonus becomes payable when pre-tax investment returns approach 10%, which would be considered an excellent outcome for investors.

Given that the Project's structure includes limited deferred fees, the incorporation of the incentive fee, and the level at which it becomes payable, is considered to be appropriate. This fee provides an incentive for W.A. Blue Gum to maximise Project returns.

In addition, the Project agreements provide that if unforeseen expenses such as additional fertiliser and/or insect issues arise, W.A. Blue Gum may convene a meeting of investors. If the majority of the investors agree to meet such expenses, then these expenses will be borne by all the investors in proportion to their Project interests. Adviser Edge is not aware of such a call having been made in relation to existing W.A. Blue Gum projects, and considers the likelihood of future calls to be low.

Risk apportionment

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

Ongoing management and rent fees are unrelated to the performance of the plantation, although the Project manager is entitled to a performance-based incentive fee if net sales proceeds exceed a certain target.

The fee structure of the Project incorporates fixed management and lease fees, and links a limited portion of the manager's remuneration to harvest proceeds. This structure results in the investor shouldering the majority of the risks associated with the Project.

However, given the size of the RE, the fee structure is considered to be appropriate, and provides ongoing security to the Project in the event of manager insolvency.

Additional Information

Taxation

W.A. Blue Gum has applied to the Australian Tax Office (ATO) for a product ruling to provide certainty in relation to the taxation consequences of investing in the Project.

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

Joint Venture Growers

Under the Project structure there is an option for investors to participate as Joint Venture Growers. Under this option, one Joint Venture Grower is responsible for all ongoing lease and management fees, including insurance. All other fees payable under the Project, such as harvest management fees, harvest costs and incentive fees, will be covered equally by each Joint Venture Grower. The net harvest proceeds will be equally split between the Joint Venture Growers.

It is advised that investors seek appropriate professional advice in relation to the financial and taxation implications associated with becoming a Joint Venture Grower.

Finance

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

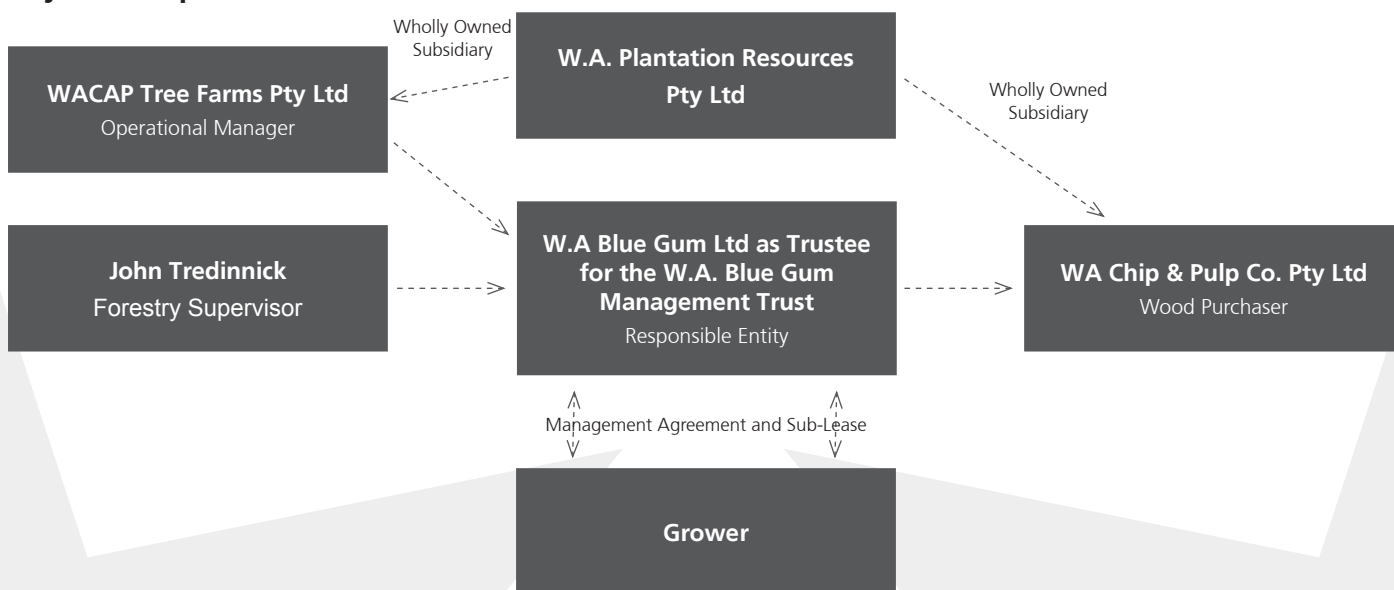
Finance Options

Financier	Term	Interest Rate	Repayment Option
Albany Financial Pty Ltd	5 years	12.95%*	Equal monthly principal and interest payments

* Indicative rate.

Source: W.A. Blue Gum.

Key Counterparties



W.A. Blue Gum Limited (Responsible Entity and Project Manager)

W.A. Blue Gum Limited (AFS Licence No. 246264) (W.A. Blue Gum), as trustee for the WA Blue Gum Limited Management Trust, is both the Responsible Entity (RE) and Project Manager for the W.A. Blue Gum Project 2011. Incorporated in 1993, W.A. Blue Gum is an unlisted public company that focuses exclusively on MIS structured investments in blue gum plantations. The company was primarily established to operate as the Responsible Entity for MIS forestry projects. W.A. Blue Gum is based in Melbourne and is managed by three directors, who together own 60% of the shares in the company.

W.A. Blue Gum has raised a total of \$28.1 million from 11 previous offerings since 2000, resulting in the establishment of over 5,842ha of hardwood plantations. The majority of these plantations are located in south-west Western Australia. W.A. Blue Gum Ltd’s Board of Directors is also involved in the management of Mediterranean Olives, which established MIS structured investments in olive groves between 2002 and 2008.

Board of Directors – WA Blue Gum Limited

Board of Directors – W.A. Blue Gum Limited			
Director	Credentials	MIS	Director
Tom May – Executive Director	★	★	★
Leon Gorr – Non- Executive Director	★	★	★
Steven Smith – Non-Executive Director	★	★	★

Key Points

- W.A. Blue Gum Limited outsources its forestry operations to WACAP Tree Farms Pty Ltd
- John Tredinnick is engaged to independently oversee the forestry operations of WACAP
- W.A. Blue Gum is an experienced Responsible Entity
- The Project’s structure means that the ongoing solvency of either of the management counterparties is low

All three directors of W.A. Blue Gum Limited have a legal background, bringing extensive regulatory and compliance experience to the board, and providing the company with high quality management. Each of these directors is a partner at the law firm Herbert Geer.

Adviser Edge believes that the directors of W.A. Blue Gum Limited are suitably experienced and credentialed to provide effective leadership and management of the company in its role as RE. Although the board’s experience is legally oriented, Adviser Edge does not view this as a concern, as the operational requirements of the Project are fulfilled by externally contracted entities. With the previous assistance of URS Forestry, and the current forestry supervisor John Tredinnick, the board has successfully supervised forestry MIS projects over the last eleven years.

Corporate governance and compliance

W.A. Blue Gum’s risk management system is managed as part of a corporate compliance strategy, coordinated by the Executive Director and Compliance Officer, Tom May. Mr May’s role as compliance officer is to develop risk management strategies to effectively manage key business risks. These key risk areas are identified as agricultural, financial and regulatory.

W.A. Blue Gum Project 2011 Compliance Committee

Committee Member	Position	Details
Paul Luntz	Independent Chairman	Paul is a chartered accountant, practising in Melbourne with a firm independent to W.A. Blue Gum directors. He is also a Registered Tax Agent, and a Registered Company Auditor.
Manish Sundarjee	External Member	Practising in Melbourne, Manish is also a chartered accountant.
Tom May	Internal Member	Compliance officer

A compliance committee for the Project has been established by W.A. Blue Gum, and is responsible for monitoring the RE in relation to the Project Compliance Plan, the Project Constitution and the Corporations Act. The compliance committee is comprised of two external members, including an independent chairman, and one internal member, Compliance Officer Tom May. The committee meets at least once every quarter.

Adviser Edge believes that the compliance committee consists of members with extensive experience in accountancy and compliance, thereby maximising their effectiveness. Adviser Edge has reviewed a number of documents in relation to W.A. Blue Gum's corporate governance, and is satisfied that the risk management and compliance procedures adopted by the company are of a high standard and are suitable for the scale and size of the company's operations.

Financial performance – W.A. Blue Gum Management Trust**Key Financial Data* – As at 30 June**

Financial Profitability	2010	2009
Revenue (\$m)	2.75	5.69
Net profit (\$m)	-0.92	1.54
Profit margin (%)	-33.62%	27.12%
ROCE (%)	22.0	27.0
ROE (%)	25.8	23.1
Financial Liquidity/Solvency	2010	2009
Net working Capital (\$m)	-0.10	0.0
Current Ratio	0.72	1.00
Quick Ratio	0.57	0.77
Debt	Nil	Nil

Source: W.A. Blue Gum Management Trust 2010 Financial Report.

W.A. Blue Gum Limited acts as the trustee for the W.A. Blue Gum Management Trust, through which the majority of trading activity occurs. Generally, the financial performance of W.A. Blue Gum over the years has demonstrated its ability to successfully maintain a profit under different levels of MIS sales.

This ability is because of the manner in which W.A. Blue Gum structures its MIS project offerings; these projects are largely self-funded through ongoing management fees. Accordingly, credit risk to the RE is largely confined to the willingness and ability of other investors in other W.A. Blue Gum projects to meet ongoing lease and management fees, and the unlikely event that W.A. Blue Gum substantially departs from its previous business model. Financial year 2010 saw W.A. Blue Gum Trust record a loss of \$0.93 million. This loss is essentially an accounting loss and does not translate into poor operating cash flows. W.A. Blue Gum has indicated that sales for the period showed an increase. The decrease in revenues year-on-year has been driven by the fact that revenue on contracts is recognised proportionately as work progresses on each stage of the contracted program, and thus the decrease in revenue and profit would indicate a timing issue in relation to unearned revenues. Currently there is \$0.8 million in unearned revenue recorded on the balance sheet. Cash flows from operating activities were positive, recorded at \$0.5 million for FY2010.

As discussed in the 'Structure and Fees' section of this report, the Project's reliance on the financial strength and ongoing solvency of W.A. Blue Gum is limited, largely due to the ongoing fee structure and comparably low up-front establishment fee. It is a requirement of W.A. Blue Gum Limited's AFS Licence that it maintains a minimum capital level of \$50,000. Due to the fee structure, W.A. Blue Gum is not required to maintain significant working capital levels to ensure that the plantations are adequately managed and lease payments are met.

The Project's reliance on the ongoing solvency of the RE, W.A. Blue Gum, is low compared to other MIS projects, meaning that the financial capacity of the RE is less important. That said, even though W.A. Blue Gum Trust recorded a loss in FY 2010, the overall forecast financial position appears to be sufficient to meet the requirements of the Project.

Responsible entity financial requirements – Consultation paper 140

ASIC has released a consultation paper proposing an amendment to the financial requirements of responsible entities. If these amendments are made policy (expected to be March 2011), responsible entities will be subject to a number of additional obligations. While these changes are not designed to prevent

responsible entities from becoming insolvent, these changes are designed to limit the risk that an RE becomes insolvent as a result of assuming liability for the debts of others and to provide some level of assurance that, if the RE does fail, there is sufficient money available for the orderly transition to a new RE or to wind up the scheme.

Adviser Edge is of the view that, while these changes will improve the financial position of responsible entities, it will not necessarily prevent the failures of some forestry MIS managers in recent years. Many of these managers failed, in part, because their project structures provided a cash flow mismatch, with high up-front fees and substantial deferral of ongoing fees. Furthermore, for projects with ongoing fees, RE solvency can be affected if a significant number of investors, or a large investor, default on their obligations.

As already noted, the Project's reliance on the ongoing solvency of the RE, W.A. Blue Gum, is low compared to other MIS projects.

WACAP Tree Farms Pty Ltd (Operational Manager)

WACAP Tree Farms (WACAP) is a subsidiary of W.A. Plantation Resources Pty Ltd (WAPRES). WAPRES was formed by Marubeni Corporation (Japan) to be the holding company for the plantation and woodchip business that it bought from Wesfarmers Ltd in September 2000. WAPRES is now jointly owned by Marubeni Corporation and Nippon Paper Industries Co Ltd Japan, with shares equally distributed. The contracted wood purchaser, WA Chip and Pulp Co Pty Ltd (WA Chip and Pulp) is also a wholly owned subsidiary of WAPRES.

WACAP is a major grower and manager of blue gums in south-west Western Australia, currently managing over 30,000ha of plantations, targeting the pulp and paper industry centred on hardwood chip exports to Japan. WACAP carried out the first operational harvesting of blue gums in the region in 1994, when it exported 40,000 tonnes of hardwood chips. Since 2003, WACAP has exported approximately 850,000 tonnes of woodchips per year from the company's Bunbury facilities.

The company has extensive experience across all stages of plantation management, specialising in the production of seedlings and subsequent plantation establishment, right through to harvesting and the eventual export of woodchips. WACAP employs a team of qualified foresters and local contractors to meet its operational requirements.

WACAP has acted as the Independent Contractor for all of the MIS projects operated by W.A. Blue Gum Limited.

With extensive experience across all areas of forestry management, combined with a high level of familiarity

with MIS, Adviser Edge is confident that WACAP is suitably qualified to complete its required responsibilities under the operational contract for the Project.

John Tredinnick (Forestry Supervisor)

John Tredinnick has been employed by W.A. Blue Gum to provide advice on the operational activities of the Project, and to supervise the forestry establishment and ongoing management undertaken by WACAP, for both this and earlier projects. Mr Tredinnick's supervision will include advice on marketing the timber produced. Mr Tredinnick will provide an annual independent report to W.A. Blue Gum on behalf of investors, which will report on the progress of the plantations and the quality of operations.

Mr Tredinnick has extensive experience and previously worked with URS Forestry Australia for ten years. URS is a global multidisciplinary professional services firm, with a specialist team that consults to the forestry sector. It is one of the largest and oldest forestry sector consultancies in Australia, New Zealand and Asia, providing services to a range of private enterprises, government agencies, and international development organisations.

Independent Expert

Independent Expert	
Focus	Responsible Person
Forestry consultant	Don Spriggins

W.A. Blue Gum has engaged Mr Don Spriggins as independent forester. The independent forester will provide an expert opinion on plantation forestry in Western Australia to be included in the PDS, giving consideration to the objectives of the Project. Mr Spriggins does not have an ongoing role with the Project.

Don Spriggins is a consultant forester with more than 30 years of professional forestry experience. He has extensive experience in the development and management of blue gum plantations in south-west Western Australia, having worked for the Conservation and Land Management division of the Western Australian government (CALM) between 1976 and 1994. Mr Spriggins has acted as an independent consultant since 1995.

Adviser Edge believes that Don Spriggins retains the necessary qualifications, knowledge and expertise required to provide the independent expert report. Adviser Edge recommends that potential investors read the independent forester's reports prior to considering an investment in this Project.



Adviser Edge visited W.A. Blue Gum's operations in south-west Western Australia on 16 November 2010. Accompanying Adviser Edge during the visit was W.A. Blue Gum Director Tom May, and WAPRES General Manager – Plantation Operations Richard Bredahl. During the visit, Adviser Edge inspected a range of sites, including recently established sites and sites with two, four and ten-year-old trees.

The site visit demonstrated the stringent site selection criteria employed by W.A. Blue Gum and WACAP, as well as the resources employed in relation to ongoing management. Weeds and insect damage were identified as the major issues facing plantation management in the region, and both issues appeared to have been well controlled.

The site visit once again reinforced Adviser Edge's positive view regarding the site selection and plantation management capabilities of WACAP. All sites viewed during the inspection appeared to be displaying strong growth and appeared to have been well managed. It was evident that regular fertiliser applications had contributed to plantation performance.

Planting regions

W.A. Blue Gum has indicated that the Project will be established exclusively in south-west Western Australia, between Bunbury and Albany. It should be noted that land selection for the Project has not yet been finalised.

The temperate region of south-west Western Australia is characterised by warm, dry summers and cool winters. Rainfall is winter dominant, with over 75% of rainfall occurring between May and October. Albany has a mean annual rainfall of approximately 931mm, while Bunbury and Manjimup receive an average of 744mm and 1,011mm respectively. All three of these areas will most likely record rainfall well below average for 2010.

Key Points

- WACAP will select the Project land and carry out all plantation management activities
- The site selection criteria employed by W.A. Blue Gum is detailed and appropriate to ensure good investor outcomes
- WACAP's site development and management procedures appear to have been conducted according to industry best practice standards

Viticulture, horticulture, cropping and livestock grazing account for the majority of land-use in the intended planting region, although the forestry industry has expanded considerably over the past decade, and there are now approximately 300,000ha of blue gum plantations in the region. WAPRES manages approximately 6,000ha in the region on behalf of W.A. Blue Gum, with the majority of plantations located within the Bunbury port zone. WAPRES has established over 55,000ha of new plantations in the region over the past 20 years.

Site selection

W.A. Blue Gum intends to secure land in south-west Western Australia, within 100km of either the Bunbury, Albany or Manjimup chipping facilities. Land will be selected based on a number of key criteria, with the aim of achieving a weighted average mean annual increment (MAI) of no less than 34m³/ha/year over ten years. W.A. Blue Gum will consult with Dr Chris Shedley (independent soil expert) and John Tredinnick prior to making any final decision on land lease agreements.

The following outlines the key site criteria that are evaluated by W.A. Blue Gum when selecting land for the Project.

- Land must have a mean annual rainfall of over 900mm
- Second rotation sites, or properties with strong fertilisation history, are preferred
- Soils must have sufficient water-holding capacity and acceptable depth. Impeding layers need to be either in the rip zone or deep enough to allow appropriate root development
- Deep sands, waterlogged soil and saline soils are to be avoided
- Sites should be established within 100km of the nearest mill and port facilities

Site productivity estimates will be based on site characteristics, including the major factors of rainfall, soil type and topography. Historical yields are considered when estimating site productivity

for second rotation sites, with a genetic gain assumption of up to 20% incorporated to account for increased production as a result of tree breeding.

Adviser Edge has confidence in the site selection criteria employed by W.A. Blue Gum, with recent land selection reinforcing the company's ability to secure quality land. The relative size of the Project ensures that site quality is not compromised in the search for large tracts of plantation land.

Species and seedling supply

The Project will be planted with *Eucalyptus globulus* (Tasmanian blue gum). Tasmanian blue gum is a widely used as plantation species in Australia, and has shown strong growth rates across a broad range of sites.

W.A. Blue Gum will source seedlings from the WACAP nursery, 12km west of Manjimup. The nursery has the capacity to produce between 7 million and 10 million seedlings per year, and has the appropriate capacity to meet Project requirements. The nursery is supported by extensive blue gum orchards used in a selective breeding program.

Site development and maintenance

WACAP will be responsible for site development and stand management, with local contractors likely to perform the tasks of planting and tending under the supervision of WACAP. WACAP will establish the plantations at an average of 900 to 1,000 stems per hectare (spha), with the majority of planting expected to take place in July and August following rain, to ensure that soil moisture is sufficient for successful establishment.

Site development methods will be similar at each site, although there will be some variation to account for differences in soil types, the pest and weed spectrum, and whether the site is ex-pasture or second rotation. Planting lines will be deep-ripped and mounded, and various measures will be employed to minimise weed growth prior to planting.

WACAP maintains a minimum-stocking guarantee of 90% of the original stocking rate for a period of approximately one year from planting.

Following establishment, WACAP will monitor the plantations and will implement appropriate control measures if insect damage and weed invasion adversely affect the development and growth of the plantations. Each site will be analysed for nutrient deficiencies, and suitable fertilisers will be applied when necessary. Given the quality of sites selected for past projects, with high average rainfall and deep soils, the availability of nutrients has generally been the inhibiting factor to growth. As a result, W.A. Blue Gum has conducted regular fertiliser applications, at its own cost, to ensure that the sites' full potential is achieved.

WACAP will develop permanent sample plots (PSPs) on every plantation to monitor the performance of the site, and to improve growth models for predicting yields in future projects.

Trees from these PSPs will be measured for height and diameter at four-and-a-half years and seven-and-a-half years, as well as pre-harvest.

WACAP is an experienced forestry manager, and Adviser Edge is confident in its ability to manage the Project plantations. The large estate managed by WAPRES in the region ensures that adequate resources are maintained despite the relatively small size of the W.A. Blue Gum projects.

Harvesting and processing

It is expected that the harvesting and processing operations will be outsourced to WAPRES. WAPRES has developed a chip mill at the Bunbury Port site to supplement its existing chip mill at Manjimup and the chip loading facility at Bunbury. In addition to this, there are two major export facilities in Albany (Albany Plantation Export Company and Plantation Pulpwood Terminals). There are also two contract chip mills at Greenbushes and Dardanup which can be accessed if necessary, as well as a chipping facility near the Albany port facilities. WAPRES operates one mobile chipper to process logs onsite at the plantations.

The timing and precise method of harvest are to be determined by negotiation with the purchaser, with all preparation for harvest to be undertaken by WAPRES. Given the expected time until harvest of 10 years, it is likely that current harvesting technology will change prior to harvest. The majority of blue gums in the region are currently whole-log harvested, although more efficient and economical methods will be explored if these become available.

Market Overview

Product type	Eucalypt hardwood timber
Primary use	Pulpwood
Key target market	Japanese pulp and paper manufacturers
Major competitors	Other major producers of hardwood woodchips are Brazil, Chile and South Africa
Product Sales Agreements	Off-take agreement with WA Chip and Pulp Company

Key Points

- W.A. Blue Gum has entered into a Wood Purchase Agreement with W.A. Chip and Pulp Company
- The establishment of short rotation hardwood plantations in Australia has been significant over the past decade
- Due to the relatively small domestic pulpwood market, the majority of Australian hardwood chips are exported
- Japan is the major export market, accounting for approximately 80% of all Australian hardwood chip exports

Marketing strategy

W.A. Blue Gum has entered into a Wood Purchase Agreement with WA Chip and Pulp Company for the purchase of all timber grown in the Project.

Under the Wood Purchase Agreement, WA Chip and Pulp Company will offer W.A. Blue Gum a purchase price for the timber delivered to the relevant chip mill or port facility, dependent on the harvesting method used. In addition to this, WA Chip and Pulp Company will provide a fixed quote for the harvesting and delivery of the timber, including the costs of roading and other activities. WA Chip and Pulp Company will also provide W.A. Blue Gum with a harvesting plan, which will outline the timing of harvest and the harvesting method.

The Wood Purchase Agreement does not specify a particular pricing structure for the wood. Instead, the price negotiated between the two parties will take into account a range of factors, including the price paid by the purchaser and other wood processors in Western Australia for timber of the same species, quantity, grade and quality. The proposed purchase price must be an amount which provides a net price at least equal to the highest net price paid for wood delivered at the same time to any other facility operated by the Marubeni Group. Furthermore, if a third party offers a higher price, W.A. Blue Gum can sell to that third party only after first allowing WA Chip and Pulp Co Pty Ltd the option of matching the price offered by the other interested party.

W.A. Blue Gum can elect to accept the price offered by WA Chip and Pulp Co Pty Ltd, or can negotiate a higher price if it does not accept the initial offer. In the event that the two parties disagree on the price offer, W.A. Blue Gum can sell the timber to a third party.

The Wood Purchase Agreement appears to provide a level of market security for the timber to be produced from the Project, given the relatively small resource size.

WA Chip and Pulp Company Pty Ltd

As with the operational manager, WACAP, the WA Chip and Pulp Company is a subsidiary of WAPRES. The WA Chip and Pulp

Company was formed in 1969, and was originally a part of the Bunnings Group before being acquired by WAPRES in 2000. The company has expanded to play a major role in processing timber from a number of blue gum plantations across Western Australia. WA Chip and Pulp Company Ltd procures, harvests and exports around 850,000 tonnes of woodchips per annum, of which approximately 80% is derived from blue gums.

The company has two permanent milling facilities, the Bunbury Chip Mill and the Diamond Mill, located near Manjimup, as well as a chip export facility in Bunbury. The company also operates a mobile chipper to process logs onsite at the plantations.

Alternative processing and chipping facilities are available at a number of other locations in the region if necessary. It is expected that the woodchips will be sold to Japanese and Chinese companies that produce pulp and paper products.

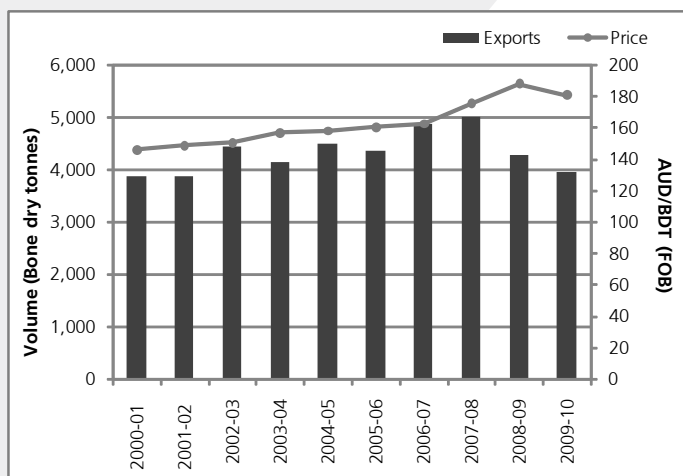
Market overview

While the area of plantations continues to increase, the Australian forestry industry continues to rely on native resources, with native forests accounting for around 99% of Australia's 149.4 million hectares of forests. (ABARE, 2010) The total plantation estate has increased by around 50% over the past ten years, covering a total area of approximately 2.02 million hectares in 2009. (DAFF, 2010) Hardwood plantations account for around 49% of this total area, which is in stark contrast to 1994, when hardwood plantations accounted for only 15% of all plantations. The majority of this growth in hardwood plantings can be attributed to the presence of MIS in the sector over the last decade, with approximately 68,700ha of hardwood plantations established on average each year between 2005 and 2008. However, after peaking in 2008, annual hardwood plantings have declined significantly in the past two years, largely as a result of the recent decline of investment within the MIS sector. Because of this high establishment rate of hardwood plantations since 2000, it is expected that hardwood supply will progressively increase in the future. (ABARE, 2010)

The majority of Australian hardwood is utilised as pulpwood, accounting for around three quarters of the annual hardwood harvest, with saw and veneer logs accounting for the remaining

25%. While there is a reasonable level of domestic demand for hardwood saw and veneer logs from the construction and furniture sectors, the local market for hardwood pulpwood is relatively constrained. As a result, the industry has become increasingly reliant on export markets for woodchips. Exports of hardwood chips exceeded native forest chip exports for the first time in FY2008-09, with hardwood chips sourced from native resources declining by 17.3% in the same year. (ABARES, 2010)

Hardwood chip exports grew by over 40% in volume over the ten-year period to FY2007-08, with hardwood chips accounting for over 80% of total woodchip exports by value in these later years. However, as a result of the economic slowdown in major export markets, especially Japan, Australia's woodchip exports declined by nearly 9% in FY2008-09, and fell by a further 11% in FY2009-10. (ABARES, 2010) Although the volume of exports has decline considerably over the past two years, the export price for woodchips has remained relatively stable. (ABARES, 2010)



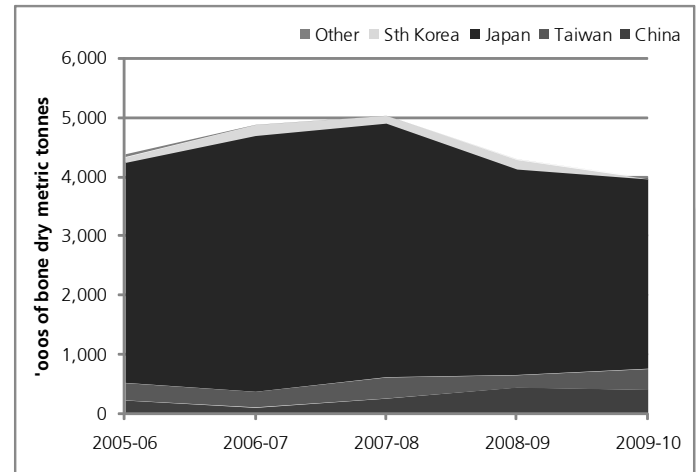
Source: ABARES, 2010.

Although Europe and North America account for the bulk of global hardwood demand, the most important export market for Australian-grown hardwood chips is the Asia-Pacific region. The major markets for Australian hardwood chips are pulp and paper producers in Japan, South Korea, China, and Taiwan.

Japan has traditionally dominated the Asia-Pacific woodchip trade, consuming nearly 90% of the pulpwood traded throughout the region. South Korea and Taiwan are the other major pulpwood importers, with China set to become increasingly prevalent in the pulpwood market over the next decade. The current market dominance of Japan is reflected by the fact that it is the main market for Australian hardwood chips, with approximately 81% of Australian hardwood chip exports shipped to Japan in FY2009-10 for the second year running. (ABARES, 2010)

The Japanese pulpwood market is structured in a way that requires pulpwood buyers to source one third of their requirements from natural forests and two thirds from plantation forests. Of the two thirds to be sourced from plantations, one third, or around 22% of the total pulpwood requirement, is to

come from Japanese-owned plantations that are located overseas. The remainder, 44% of the market, is available to foreign owned plantation supply, such as Australia.



Source: ABARES, 2010.

In 1998, Australian hardwood chip shipments accounted for 27.1% of the Japanese market. Over ten years to 2008, this market share has increased to 36.4%, shipping a total volume of 4.5 million bone dry tonnes in 2008. (Japan Imports, 2009) During this time, Australia effectively appropriated all of the growth in the Japanese market. (Industry Edge, 2009)

Australia's main competitors in regards to the Japanese market are Chile and South Africa, accounting for 18.7% and 17.8% of the market volume respectively. (Japan Imports, 2009) The United States' share of the Japanese market has fallen from 2.4% to 0.01% over the period 1998 to 2008, while total import volumes for Japan have increased. Due to limited plantation development and increased onshore demand, South African exports are likely to slow into the future. FAO estimates that exports from Chile are likely to stabilise in the near future due to limited new plantings, declining native harvests, and rising domestic consumption.

The amount of Australian hardwood pulpwood being sold to countries other than Japan is increasing. Demand for hardwood chips is expected to increase in Taiwan and China especially, providing continued growth opportunities for Australian exporters, while demand from South Korea appears to be declining.

Market outlook

As an increasing area of hardwood plantations approaches maturity into the medium-term, Industry Edge forecasts the local plantation hardwood supply to increase dramatically from just 4.4 million cubic metres in 2007-08 to around 13.5 million cubic metres by 2019-20. This substantial increase may be partially offset by a continued decline in native hardwood production. With a relatively tight domestic pulpwood market, this increased supply and the resulting surplus will require a larger export market with greater opportunities.

While Japan remains the major export market for Australian hardwood chips, this market is unlikely to meet the required increase in exports. Because of the framework of the Japanese pulpwood market, for Australian pulpwood producers to further increase their share of the market they would have to take market share from other suppliers. Further restricting the potential of increasing market share in Japan is the fact that Japanese-owned plantations located overseas are beginning to approach maturity, with the wood progressively being shipped back to Japan (Industry Edge, 2009). As a result of the restrictive Japanese market, Australian pulpwood producers will need to increase exports into other Asian-Pacific markets, develop new export markets, and expand the current markets in the Asia-Pacific region.

The global financial crisis has caused a major consolidation of the global pulp industry, with a number of mills closing in North America and Europe, while production has increased in recently commissioned mills in China and South America (ABARES, 2010). China is expected to be of particular importance to the Australian industry, and is considered to be the major emerging market in the hardwood chip sector, with solid demand growth in paper, board and panels. Although China's plantation output is expected to grow considerably, China's imports of hardwood chips are also anticipated to increase significantly in the next five to ten years. Australian exporters of hardwood chips possess significant comparative advantages over their competitors, and as such are well positioned to take advantage of the growing market, provided that production efficiencies are maintained.

Hardwood chip prices are an important consideration for exporters and growers. However, due to escalating domestic and global production coupled with uncertainty surrounding several export markets, a prudent and conservative price outlook should be maintained.

Compliance

While the woodchip export industry has historically relied on native forest timber, these woodchip markets are beginning to show a preference for ethically and environmentally accredited plantation woodchip resources. Two recognised forestry accreditation systems currently exist in Australia: the Forest Stewardship Council (FSC) and the Australian Forestry Standard (AFS). At present, there is little evidence to suggest that a price premium can be obtained from forestry accreditation. However, many export customers are indicating a preference for certified products, and it is possible that in the future a premium could be obtainable.

To further substantiate the sustainability credentials of plantation timber, chain of custody certification can be obtained to the Australian standard (AS4707-2006). This certification provides users with certainty regarding the origin of the product as it moves through the value chain.

WAPRES has an Environmental Management System in place which is accredited to ISO 14001 and the Australian Forestry Standard.

The following section provides an analysis of the potential investment returns for the Project. Please note that this analysis is based on Adviser Edge estimated performance assumptions, after taking into account assumptions provided by W.A. Blue Gum, which may change during the Project term. Investors need to be aware of the way in which these assumptions may influence investment returns, and should seek additional professional advice to determine whether or not this investment is suitable for their own risk and return objectives.

Adviser Edge Returns Modelling

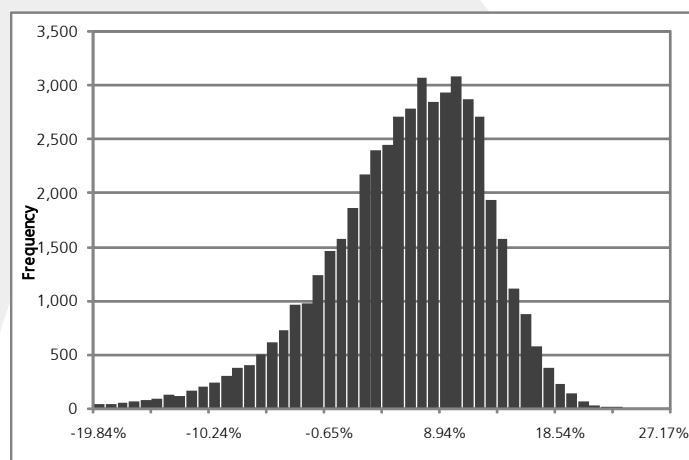
	Pre-Tax	Post-Tax ³
Adviser Edge Base Case ¹	7.00%	7.00%
IRR Range ²	0.60% – 10.40%	0.60% – 10.40%
Median Return	6.05%	6.05%
Percentage of results that are break even or better	82.25%	82.25%
Percentage of results with an IRR of 10% or better	22.76%	22.76%

¹ The Adviser Edge Base Case return reflects the base return using static investment modelling, based on the key Adviser Edge performance assumptions outlined in this section.

² The IRR range represents the range of results that occur within the 20th and 80th percentile in the simulated model. The range is based on Adviser Edge's modelling of potential outcomes for the Project using Monte Carlo simulations. These are subject to a number of limitations, which are discussed further below. Accordingly, the range is provided as a guide only. Investors should seek additional professional advice regarding the impact of changes in key variables on Project returns given their individual financial circumstances. The analysis does not consider investor finance arrangements.

³ The analysis assumes a 46.5% marginal tax rate, that investors are registered for GST, and that all GST is rebated in the year paid.

Pre-tax investor returns



Key Performance Assumptions

The estimated Project returns provided by Adviser Edge have been calculated using various performance assumptions. The key assumptions adopted by Adviser Edge are presented in the following table and a comparison is made to the assumptions

Key Points

- Yield and price estimates for the hardwood resource grown in the intended planting region are reasonably well supported by empirical data
- As supported by the 2010 harvest, yield will be largely dependent on site selection, management and climatic conditions
- Woodchip prices and harvesting and processing costs will have the largest influence on Project returns

used by W.A. Blue Gum. These assumptions have been determined from information provided in the PDS, directly by W.A. Blue Gum and WAPRES, from the independent forester's report, and from independent research performed by Adviser Edge. The following table includes the performance assumptions adopted by W.A. Blue Gum, in terms of expected performance parameters. A detailed summary of the assumption used by both Adviser Edge and W.A. Blue Gum follows this table.

Performance Assumptions	Adviser Edge	W.A. Blue Gum
Age of trees at harvest	10	10
Year planted:		
- 2011	50%	100%
- 2012	50%	
Woodchip yield	315m ³ /ha	340m ³ /ha
Average Mean Annual Increment (MAI)	31.5m ³ /ha/year	34m ³ /ha/year
Average implied hardwood stumpage price (\$/GMT)	\$49.00	\$49.00
Stumpage Price Inflation	2.9%	3.0%
Cost Inflation	2.9%	3.0%

Yield assumptions

W.A. Blue Gum will target sites that have the potential to produce an average weighted yield of 340m³/ha over a ten-year rotation. These sites will be selected based on a number of key features, with assistance from independent soil expert Dr Chris Shedley, from forestry supervisor John Tredinnick.

The final average yield achieved by the blue gum plantations grown under the Project will ultimately depend on the quality of the land selected, and the ability of WACAP, the blue gum operations manager, to effectively manage the plantations. Climatic conditions will also be a major factor in the performance of the plantations over the investment term.

As the Project land has yet to be sourced, it is difficult to accurately forecast the potential yield performance of the Project.

However, the past performance of the operations manager, and the historical yields achieved in the intended planting region, are likely to improve the ability to achieve the estimated yield.

W.A. Blue Gum and WACAP have generally shown that they employ comprehensive site selection protocols resulting in the achievement of high yields. Even though the blue gum yield estimates adopted by W.A. Blue Gum are significantly higher than other previous MIS pulpwood projects, Adviser Edge considers the estimates to be realistic, given that the blue gum plantations are to be located on good quality land in higher rainfall zones. W.A. Blue Gum is able to source these high quality sites due to the small areas which are planted each year, and the allowance for annual lease fees in the Project structure.

In addition to this, the plantation management abilities of WACAP are highly regarded by Adviser Edge and the wider industry, maximising the performance and final yields achieved by the blue gum plantations under the Project.

For investment modelling purposes, Adviser Edge has assumed a ten-year rotation, and that 50% of the trees will be planted in calendar year 2011 and 50% in 2012. While W.A. Blue Gum will aim to establish 100% of the plantations in 2011, historically this has not been possible due to both the availability of suitable land and prevailing soil moisture.

Adviser Edge has adopted a more conservative yield estimate of 315m³/ha over the ten-year rotation. This estimate is based on the inventory data for past W.A. Blue Gum MIS projects. The yield forecast of 315m³/ha will require the plantations to achieve an average mean annual increment of 31.5m³/ha/year at age ten. While this figure is below the targeted site productivity of 34m³/ha/year, it is above past peer projects, reflecting the stringent site selection criteria, the experience of the contract forester, and the commitment displayed by W.A. Blue Gum to the plantation fertiliser regime.

Past performance (yield)

W.A. Blue Gum has supplied Adviser Edge with inventory data on three of its earlier projects, established between 2002 and 2004. This inventory data is based on measurements taken at age 5.5 for the 2002 project, and at age 4.5 for the 2003 and 2004 projects. Adviser Edge has analysed the current inventory volume estimates using the WAPRES growth curve model, and forecast the 2002, 2003 and 2004 plantings to achieve an average MAI of approximately 29m³/ha/year, 33m³/ha/year and 29m³/ha/year at age ten respectively.

These current yield estimates compare to initial PDS productivity estimates of 34m³/ha/year. However, it should be noted that the accuracy of inventory data taken at four to five years of age is generally less reliable than late-rotation and pre-harvest inventory data.

W.A. Blue Gum has indicated that the major factor contributing to the minor under-performance of the 2002 to 2004 plantations is the drought experienced in the region. 2002, 2004 and 2006 were all dry years in south-west Western Australia, with rainfall between 65% and 85% of the annual average, while the 2003 establishment year saw average rainfall levels achieved in the region. It should be noted that 2010 has also been an extremely dry year in the region, with the region expected to record rainfall almost 50% below average across some parts of south-west Western Australia.

During 2010 W.A. Blue Gum harvested approximately 200ha of tree of varying ages. The Vos plantation's 10.5-year-old trees achieved an average MAI of 33m³/ha/year, with 22.5ha harvested. The Garofano plantation (11.3 years old) achieved an average MAI of 26m³/ha/year, with 63.9ha harvested, and the Perup plantation (10.3 years old) achieved an average MAI of 17m³/ha/year, with 124.3ha harvested. WAPRES has indicated that the below average yield achieved across the Perup plantation was driven by the site selection, with the property located in a low to medium rainfall zone of 700mm p.a. All three plantations were planted with unimproved seed, whereas current plantations are planted with genetically improved seed from seed orchards, which will likely drive a greater yield across the later projects. WAPRES has indicated that benefit is likely to be somewhere between 10% to 20% in terms of expected yields.

The plantations established since 2005 and inspected by Adviser Edge appear to be performing well, with strong survival and growth rates evident during the site inspection. While only a small portion of the 2010 Project (35ha out of 174ha) has thus far been planted it must be noted that conditions in 2010 have been very dry with rainfall expected to be approximately 50% of the long-term average across some areas. Adviser Edge has inspected these early plantings and has noted a strong survival rate. WAPRES has noted that at this stage the below average rainfall has not materially affected growth rates, although it remains to be seen what affect a dry summer will have on these early plantings, as a dry year of this magnitude has not been witnessed across any of the W.A. Blue Gum plantations to date.

W.A. Blue Gum projects have performed well to date, despite some below average rainfall conditions experienced in the planting regions. While the trees harvested in 2010 were below the initial yield estimates on average, later projects are expected to benefit from improved seed from seed orchards, with WAPRES indicating that the benefit is likely to be somewhere between 10% to 20% in terms of expected yields. The expected stronger performance going forward is a result of continued prudent and improved site selection and well funded maintenance operations, which have ensured that any remedial action required has been carried out in a timely manner.

Price assumptions

Under the off-take agreement with WA Chip and Pulp Company, investors will be offered a mill-door price for the harvested timber. A mill-door price represents the price that investors receive for logs delivered to one of WA Chip and Pulp Company's processing facilities, with growers incurring the cost of harvesting and transporting the logs to the mill. W.A. Blue Gum has adopted a price estimate of \$81 per green metric tonne (GMT) as an indicative mill-door price for chip logs delivered to a WA Chip and Pulp Company chip mill at either the Port of Bunbury or the Diamond facility near Manjimup.

The stumpage price represents the log price that is received by growers once all costs incurred to the point of sale are factored in. It is determined by subtracting these costs from the mill door price, and accounting for relevant conversion factors. W.A. Blue Gum has estimated these costs (harvesting, transport and the harvest management fee) at a total of \$32.00/GMT. Subtracting this from the adopted mill-door price of \$81/GMT provides investors with an approximate stumpage price of \$49.00/GMT.

The harvesting and transport costs will ultimately be dependent on micro factors, including yields, distance to port, topography and existing road standards, as well as macro factors, such as oil prices, inflation rates, and advances in harvesting technology. An inverse relationship exists between the harvesting costs and the plantation yield, due to the lower cost associated with harvesting larger piece sizes. Additionally, the further a plantation site is located from the port or chip mill, the higher the cost of transport of the logs to the mill.

Adviser Edge has adopted W.A. Blue Gum's price estimate of \$49.00/GMT, which includes the 3.0% harvest supervision fee. While W.A. Blue Gum intends to sell the timber produced from the Project at the mill door, for comparative purposes Adviser Edge has calculated an implied stumpage price, which once again verifies the pricing assumption used by W.A. Blue Gum. This is based on the current FOB price of \$207.40/BDMT for plantation-grown woodchips, and worked back to an implied stumpage price based on the costs of harvesting, processing and transport, as well as the relevant conversion factors.

To determine the implied stumpage price, Adviser Edge has assumed an average distance of 100km to the nearest processing facility. Given that W.A. Blue Gum's selection criteria require sites to be within 100km of the nearest processing facility, it is possible that improved returns could be achieved based on lower haulage distances.

Adviser Edge has incorporated variations in woodchip prices, as well as harvest, processing, and transport costs, into its investment modelling process in order to determine the potential returns range.

Due to the time until harvest, Adviser Edge has assumed that woodchip prices will increase in line with its inflation forecast of 2.9%. This reflects long-term price trends, which show no real price increases.

Adviser Edge is of the view that the net price estimate of \$49.00/GMT adopted by W.A. Blue Gum is appropriate and reflects current market conditions and expected site productivity. This net price compares to the average stumpage price achieved by W.A. Blue Gums across the plantations harvested in 2010 of close to \$48.00/GMT. This estimate excludes the lower yielding Perup plantation, which would not meet the 2011 land selection criteria based on rainfall.

Other assumptions

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

In assessing the likelihood of an insolvency event, Adviser Edge has taken into account W.A. Blue Gum's balance sheet, its access to capital, and its ability to generate future cash flow. Adviser Edge has applied a relatively low default rate in its investment modelling, as the nature of the company's business means that all projects managed by W.A. Blue Gum are largely self-funded.

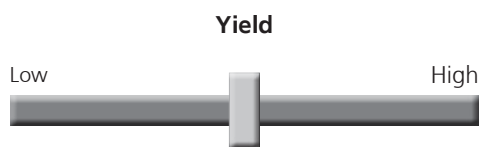
The Project is structured in such a way that, in the event of the RE's insolvency, it is likely that a replacement RE will be appointed. This is due to the incorporation of ongoing rent and management fees. As a result, Adviser Edge has assumed that an insolvency event will result in the replacement of the RE at a small additional cost to the investor in that particular year.

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

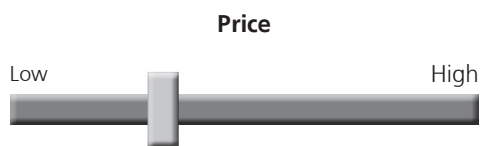
It is difficult to estimate the probability and impact of these assumptions regarding investment returns due to the limited information available to verify the underlying assumptions. However, Adviser Edge believes that by including its judgment on the potential impact of these events, investment returns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

Sensitivities

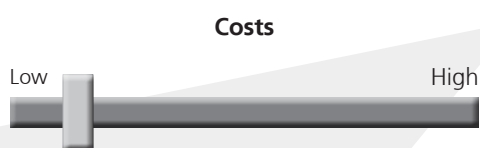
The Project's ability to achieve key assumptions is a function of both the inherent volatility of the underlying activity as well as the assumption risk, which is the accuracy of the initial estimate.



Yield risk is considered to be moderate, given W.A. Blue Gum’s land identification and plantation management track record, and the high quality of sites which are targeted. There is a degree of risk associated with forecasting yields due to the normal volatility associated with variations in rainfall, frost and other seasonal conditions, as well as the impact of pest and diseases.

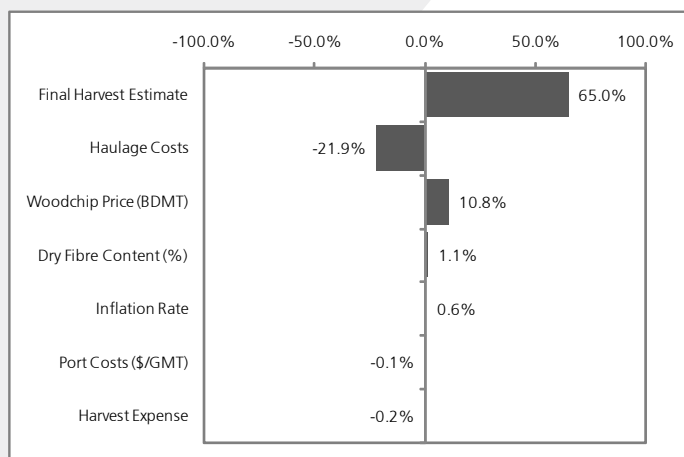


Price risk is affected by changes in the global price of woodchips and the relative demand/supply dynamics in the paper production industry. Historically, the FOB woodchip price has demonstrated limited volatility, although stumpage price is expected to demonstrate slightly higher volatility due to the impact of variations in harvesting costs over time and across different regions and plantation yields.



Ongoing management and rent costs are fixed to CPI, and as such the risk of achieving the cost outcomes budgeted is substantially mitigated. However, the cost of harvesting, processing and transport will be deducted from the proceeds of sale of the timber, and will therefore affect returns.

IRR sensitivity



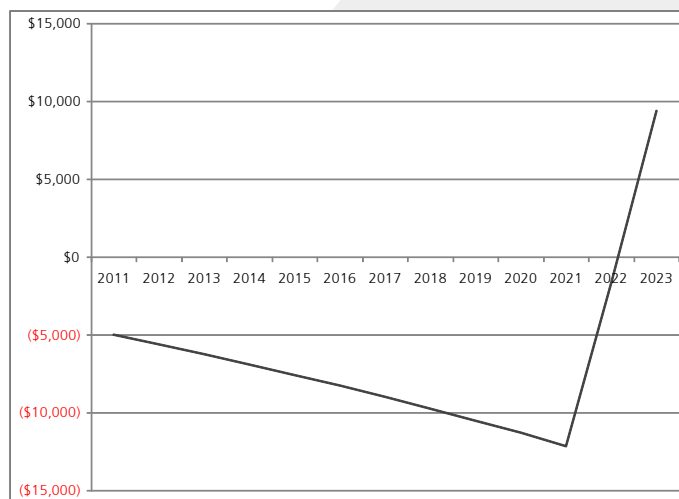
Accordingly, the volatility used in Adviser Edge’s modelling depends on the quality of the data supporting the assumptions, and an assessment of the expected volatility of the underlying activity during the course of the Project.

The table above is the resulting sensitivity of investment returns to the various assumptions used in Adviser Edge’s financial model. This table indicates that variations in harvest yields, woodchip prices and haulage costs account for the majority of the variance in modelled returns. The sensitivity to transport costs is a reflection of the importance of haulage costs in determining the net return to growers, as well as the potential variation due to haulage distances. The Project displays a relatively high level of sensitivity due to the high proportion of fixed fees.

Pre-tax Cash Flow per Woodlot

The W.A. Blue Gum Project 2011 aims to harvest the plantations at age ten. W.A. Blue Gum will aim to establish 100% of the plantations in 2011, dependent on land availability and seasonal conditions. Adviser Edge has assumed that 50% of the plantations will be established in 2011 and 50% in 2012, providing returns to investors in Project years 10 and 11.

Cumulative pre-tax cash flow per unit



An indicative cumulative pre-tax cash flow is presented in the following chart. This cash flow has been calculated using the performance assumptions adopted by Adviser Edge.

Post-Tax Potential

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

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

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

Investors in the W.A. Blue Gum Project 2011 will be subject to the risks associated with short to medium-term forestry investments. All potential investors should carefully consider the risks outlined in the project PDS, and the specific risks outlined in the Adviser Edge research report.

Management, structure, and fees risks

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

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

The fixed ongoing fee structure of the Project means that investors are protected from unexpected increases in plantation management costs over the Project term.

The continued solvency of W.A. Blue Gum is required to ensure that any land repayments are made to provide security over investors' sub-leases. However, it is likely that, in the event of an insolvency of the RE, a replacement RE would be appointed, and the ongoing rent fee would be sufficient to cover the head-lease payments. Should the RE fail to meet any rental payments under any head lease, there is a risk that investors' interests in the Project will be terminated. Should this occur, this may result in individual investors not being able to participate in the Project pool.

Site and silvicultural risks

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

Site selection

There is a risk that the selected land may not be suitable for the Tasmanian blue gum or the targeted growth rates. Even where strict controls are placed on land selection, there is a risk that the land may not perform to expectation.

Pests and weeds

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

Environment

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

Performance risks

Information risk

In addition to the site and silvicultural risks discussed, investors' returns can be adversely affected if the assumptions used to estimate returns and determine sites are incorrect due to incomplete information and/or lack of knowledge. As blue gum is a well-recognised plantation species, and south-west Western Australia is an established hardwood region, this risk is largely mitigated.

Price and costs

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

Marketing

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

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

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

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

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

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

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

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



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

