



Adviser Edge

Timbercorp Mango Projects – Restructure

PREPARED BY ADVISER EDGE

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Introduction and Project update

This project update provides a detailed discussion on the restructure of the Timbercorp Mango Projects (2005 and 2006). The recently appointed replacement RE is seeking to change the fee structure of the Projects, and as a result has requested that Adviser Edge provide a review of the proposed changes and their effect on the projects.

Adviser Edge's aim in this report is to provide investors with the necessary information required to make an informed decision regarding merits of the proposed fee payment schedule.

Management changes

At the time of Timbercorp's collapse there was significant uncertainty surrounding the fate of many projects. It is therefore very satisfying to see the first restructuring completed. The restructure involves the 2005 and 2006 Mango Projects, which were previously managed by Timbercorp Securities Limited (Appendix 1).

There are a number of entities involved in the new arrangements for the mango projects, including the incumbent operational and marketing companies. The entities that have important roles to play in the future of the projects are as follows:

- Huntley Management Limited (Huntley) – The newly appointed Responsible Entity (RE), replacing Timbercorp Securities Limited
- Oolloo Farm Management (Oolloo) – The incumbent mango orchard manager and part of the larger OneHarvest Group
- Harvest Markets – The incumbent fruit marketing company, also part of the OneHarvest Group
- The OneHarvest Group – The OneHarvest Group is comprised of both Oolloo and Harvest Markets, and is a highly regarded fresh products processor and marketer (www.oneharvest.com.au)

Adviser Edge has a good working knowledge of both the OneHarvest Group and Huntley, and is confident that the revised structure for the project, with Huntley as RE, is an improvement over the previous structure. Huntley has been instrumental in a number of turnaround projects that Adviser Edge has been involved with, and is considered to be very well suited to the new role. Greater transparency and fewer management and fee layers are just two of the changes that will immediately benefit investors.

2005 Mango Project overview

The Katherine farm, which comprises approximately 38% of the 2005 Project, produced its third crop during the 2008/09 season, while the Mataranka (28%) and Dimbulah (34%) farms produced their first crop. The orchards are currently in full flower, which will set fruit for the late 2009 crop.

Operating costs for FY2009 came in at approximately 86% of budget. Yields for the 2005 Project have been below initial PDS forecasts to date. Yields of first grade mangoes for the 2008 harvest (FY2009) were approximately 60% below PDS estimates. However, it should be noted that these yields are based on the trees first and third production seasons, and are not forecast to produce mature yields until approximately age 13 (tenth year of production).

Oolloo has indicated that the below forecast yields are mainly due to initial estimates that proved to be difficult to achieve when trees are young. While yields to date have been below Timbercorp's initial forecasts, the revised mature yields are in line with initial estimates. While it is now expected that mature yields will be achieved later, forecast mango yields per tree have increased and it is expected that the mature yields may exceed initial forecasts.

Calypso mango prices have held up well, with an average wholesale price of \$3.69/kg achieved during FY2009 for first grade fruit. This compares to the initial PDS estimate of \$3.20/kg in FY2005, and represents a 3.6% p.a. increase on initial forecasts.

When Timbercorp Limited went into voluntary administration, the administrator ordered the suspension of all horticultural operations. However, Oolloo has continued to manage the farms on a care and maintenance basis without payment from the end of April to the present.

The orchards are all now in full flower, which will set fruit for this year's crop, provided the trees continue to be maintained. If this occurs, Oolloo has indicated that all orchards will produce a crop this year (subject to the usual agronomic risks), and will continue to mature towards maximum yield at a tree age of approximately 13 years.

Oolloo has provided Adviser Edge with cash flow forecasts for the remainder of the Project. In addition to this, Adviser Edge has had detailed discussions regarding the project's past performance, structural changes and outlook with the OneHarvest Group CFO Graeme Everingham, Oolloo Farms lead farm manager Tom Collins, and the OneHarvest Group trading manager Robert Gray.

The yields used in the analysis are based on Calypso yield estimates determined by Independent Expert Dr Tony Whitley,

the original breeder of the Calypso mango, during a review of the Projects conducted approximately six months ago.

Based on Dr Whiley's estimates, theoretical yields were approximately 4% above the actual yields achieved in 2008/09. Price estimates are based on the average price achieved for 2008/09. Operating cost estimates have also been based on the actual costs for the 2008/09 mango season.

In summary, Adviser Edge is confident that there is more knowledge on which to base future projections for the project, which is supported by the low actual variance between Dr Whiley's estimates and actual orchard performance.

2006 Mango Project overview

The Mataranka and Dimbulah farms, which comprise approximately 34% and 29% respectively of the 2006 Project, produced their first crop during the 2008/09 season. The Katherine farm will produce its first crop in the 2009/10 season. The orchards are currently in full flower, which will set fruit for the late 2009 crop.

Operating Costs for FY2009 came in at approximately 83% of budget. The 2006 Project produced its first commercial crop in FY2009 from the Mataranka and Dimbulah farms, with yields for first grade fruit approximately 44% below initial PDS forecasts. However, it should be noted that these yields are based on trees in only their first production season, with mature yields not forecast until approximately age 13 (tenth production year). As with the 2005 Project, the early yield estimates have been below PDS assumptions but are expected improve with tree age.

As fruit was marketed under similar arrangements to the 2005 Project, the prices received for 2006 Project mangoes were the same as for 2005 mangoes, at \$3.69/kg in FY2009. This compares to the initial PDS estimate of \$3.29/kg in FY2006, and represents a 3.9% p.a. increase on initial forecasts.

Oolloo has continued to manage the 2006 Project farms on a care and maintenance basis without payment from the end of April to the present. The orchards are all now in full flower, which will set fruit for this year's crop, provided the trees continue to be maintained. If operations are maintained, Oolloo has indicated that all orchards will produce a crop this year (subject to the usual agronomic risks), and will continue to mature towards maximum yield at a tree age of approximately 13 years.

As with the 2005 Project, Oolloo has provided Adviser Edge with cash flow forecasts for the rest of the 2006 Project.

Yield estimates are based on Dr Tony Whiley's forecasts, with price and operating costs based on 2008/09 actuals.

Market overview

The Calypso (also known as the B74) mango was introduced to Australian consumers in 1999. The Calypso is a hybrid of the Sensation and Kensington Pride (KP) varieties, and was bred to combine the favourable characteristics of these two varieties. The Calypso has a less intense flavour than KP, and has a firmer flesh for increased shelf life, extra blush for cosmetic appeal, and a higher fruit to seed ratio. The OneHarvest Group has exclusive rights to sell the Calypso mango commercially.

The majority of the mangoes produced from the 2005 and 2006 Projects are expected to be sold on the domestic market. The OneHarvest Group has the rights to market all fruit produced from the projects under a Plant Breeders Rights agreement. The proprietary marketing rights extend to all Calypso mangoes grown in Australia and overseas.

The OneHarvest Group intends to market and distribute all Calypso mangoes produced from this project throughout Australia by undertaking extensive marketing Programs. The spread of properties across the 2005 and 2006 projects, coupled with other fruit produced under licence, allows the OneHarvest Group to supply fruit to its customer base for a large proportion of the mango season. This production spread supports the ability of the OneHarvest Group to market its ability as a whole-of-season supplier, which fits with the supermarket aim of having fewer larger suppliers in most fresh categories.

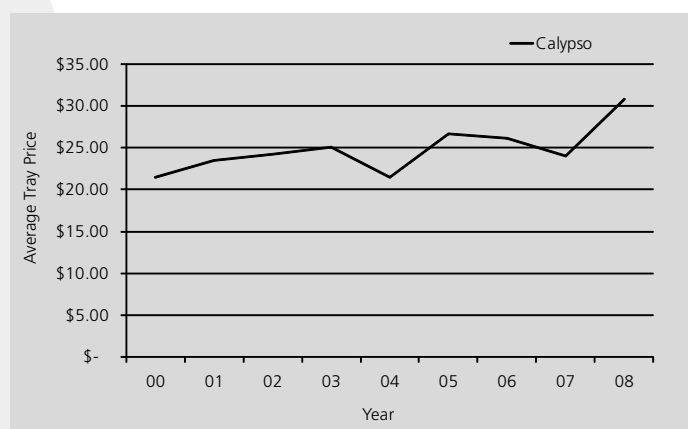
Most of the mangoes produced by the projects are currently sold to Woolworths and Coles, or through wholesale markets in the major east coast cities. The OneHarvest Group is working closely with the major retailers to ensure consistent quality mangoes will be supplied throughout the 20-week mango season. The OneHarvest Group believes that consistent supply is the key to increasing consumer demand for mangoes.

During the 2008/09 season, major retailers accounted for approximately 81% of sales, while independents accounted for the remainder of sales.

The OneHarvest Group's sales have increased substantially over the past five years, as young plantings begin to bear fruit. Calypso sales are expected to continue increasing until plantings reach maturity, in approximately 2018. Sales over the past five years have increased at an average of 60% per year, to over \$13 million in the 2008/09 season. Of this, \$6.4 million were sales of fruit from the 2005 and 2006 Projects.

In years of oversupply, the OneHarvest Group hopes to export a proportion of the Calypso product to Asia and Europe, as the variety is well suited to withstand the extended storage time involved in shipping fruit overseas. If opportunities arise to export mangoes, the OneHarvest Group will look to supply a set volume (i.e. supply program) at a predetermined price. It is likely that only a small proportion of mangoes will be exported. Further research and development is being undertaken in this area and no export sales are included in the modelling provided to Adviser Edge.

The following chart shows the average Calypso price achieved by the OneHarvest Group since 2000.



Proposed Structural Changes

On 25 June 2009 investors in the 2005 and 2006 Timbercorp Mango Projects voted to remove Timbercorp Securities Limited (Administrator Appointed) and appoint Huntley Management Limited (Huntley) as the Responsible Entity (RE) for the projects.

Huntley has reappointed Ooloo Farm Management Pty Ltd (Ooloo) as the project operational manager for both the 2005 and 2006 Projects. Ooloo is part of the OneHarvest Group of companies, and was set up specifically to focus on developing the supply of Calypso mangoes through vertical integration, and to develop a large-scale Calypso orchard in partnership with Timbercorp. The OneHarvest Group currently employs approximately 500 people, and in addition to the three family-owned farms and four managed farms, handles fruit for 110 independent growers.

Timbercorp, through wholly owned subsidiary Mango Land Pty Ltd (MLPL), remains the owner of the land on which the mango orchards are located. Adviser Edge expects that MLPL's liquidator, KordaMentha, will sell the land in order to pay down the Timbercorp Group's debt.

In a recent investor update, the OneHarvest Group informed investors that, if the land is sold, "all leases and occupancy

rights that currently exist in relation to the land will remain in place. Any new owner would have to acquire the land subject to these rights."

Adviser Edge believes that, provided all lease payments are met, investors will maintain their occupancy rights irrespective of whether the land is sold to a third party.

All management fees paid going forward will be held by Huntley. Funds will not be released until there is adequate funding to ensure the continuation of the projects. This will ensure that investors who pay their management fees do not subsidise those who default.

Changes to fee structure and payment scheduling

Timbercorp did not pay Ooloo the management fees due for March and April prior to the group's collapse. However, Ooloo has continued to manage the farms on a care and maintenance basis without payment from the end of April to the present. As a result, Huntley has changed the timing of the invoicing in order to provide funds to manage the mango orchards through until the harvest season (October to December). It should be noted that this is not an additional invoice, but that the timing of this invoice has been brought forward from October 2009, in order to provide short-term funding to maintain the trees.

Management fees have always been charged for the period 1 July to 30 June. Timbercorp previously invoiced these fees in October, for eight months in advance and four months in arrears. However, Huntley is invoicing these fees early to assist in securing the future of this season's crop and the farms. The revised invoice timing is now more closely aligned with when the funds are required to be spent on orchard management.

Since its appointment as RE, Huntley, in conjunction with Ooloo, has undertaken a review of the Projects and determined that both projects are viable and should continue. However, due to the collapse of Timbercorp and the subsequent short-term funding requirements, Huntley has changed the timing of the invoicing of fees, in order to provide sufficient funds to manage the orchards through until harvest.

Huntley has also changed the fee structure of both the 2005 and 2006 Projects. Under the changes, Huntley as RE has removed its right to claim an administration fee of \$50 p.a. per grower (previously included as part of operating costs). Huntley has also removed the deferred management fee (2005 – 2.5% of Gross Proceeds – 2006: 4% of Gross Proceeds, excluding GST), marketing fee (1.5% of sales proceeds) and incentive fee. These fees have been replaced with a fixed RE fee of \$120,000 p.a. per project, indexed to CPI from FY2011 onwards. As there are 1,448 and 1,234

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units in the 2005 and 2006 Projects respectively, this equates to an annual RE fee of \$82.87 for the 2005 Project in FY2010, and \$97.24 for the 2006 Project for the same period. This fee will be indexed to CPI for the life of the Projects.

The fees paid to Timbercorp previously incorporated a fixed component – the administration fee payable as part of the operations fee. This was capped at \$50 indexed from 30 June 2005 and 30 June 2006 for the 2005 and 2006 Projects respectively. The fee also incorporated a variable component, which was based on sales proceeds.

As a result of the change to the fee structure, the fixed component of the fee will be increased from approximately \$57 in FY2010, to \$83 for the 2005 Project, and \$97 for the 2006 Project. This represents an increase in the fixed RE fee of 44% and 73% respectively.

However, while the fixed fee has increased, the variable deferred management, marketing and incentive fees have been removed. This is expected to significantly reduce the overall fees payable under the Project. In its letter to investors dated 20 July 2009, Huntley indicated that the change to the fee structure would result in savings of approximately \$15 million (2005) and \$10 million (2006) over the life of the Projects. Adviser Edge can confirm that these savings will be realised, based on Timbercorp's initial yield and price assumptions holding true over the life of the Projects.

Adviser Edge has analysed the proposed fee changes, and believes that the changes will be in the best interest of investors over the long term. The following tables detail the expected savings and (losses) as a result of the fee change. These figures are based on revised price, yield and cost estimates for the remainder of the project term. The fixed costs represent those fees which are fixed (the new RE fee or the old 'administration fee'), while the variable fees are those reliant on sales revenue.

Financial impact of change in project fee structure

Adviser Edge has conducted a detailed analysis on the proposed fee changes, as well as the revised forecast performance of the orchards. This includes updated yield, price and cost estimates. Based on this analysis, it is expected that the 2005 Project will achieve positive cashflow in FY2012, while the 2006 Project is forecast to achieve positive cash flow in FY2015.

Adviser Edge believes that, with the capable management of Ooloo Farms, the marketing of the OneHarvest Group and the oversight of Huntley's, that the restructured projects will perform strongly over the remainder of the project term.

2005 Project (\$)				
FY	2010	2011	2012	2013
Fixed	(25.19)	(25.92)	(26.67)	(27.45)
Variable	102.12	140.11	175.12	214.48
Total	76.93	114.19	148.45	187.03

FY	2014	2015	2016	2017
Fixed	(28.24)	(29.06)	(29.90)	(30.77)
Variable	251.54	291.75	331.51	372.17
Total	223.30	262.69	301.61	341.40

FY	2018	2019	2020	2021
Fixed	(31.66)	(32.58)	(33.53)	(34.50)
Variable	414.74	456.75	495.34	537.88
Total	383.08	424.17	461.81	503.38

FY	2022	2023	2024	2025
Fixed	(35.50)	(36.53)	(37.59)	(38.68)
Variable	574.30	603.42	624.81	643.42
Total	538.80	566.89	587.23	604.74

2006 Project (\$)				
FY	2010	2011	2012	2013
Fixed	(41.19)	(42.38)	(43.61)	(44.88)
Variable	58.87	99.91	139.13	170.83
Total	17.68	57.53	95.52	125.95

FY	2014	2015	2016	2017
Fixed	(46.18)	(47.52)	(48.89)	(50.31)
Variable	209.15	244.87	281.51	318.44
Total	162.97	197.36	232.62	268.13

FY	2018	2019	2020	2021
Fixed	(51.77)	(53.27)	(54.82)	(56.41)
Variable	352.88	380.49	403.82	432.29
Total	301.11	327.21	349.01	375.88

FY	2022	2023	2024	2025	2026
Fixed	(58.04)	(59.73)	(61.46)	(63.24)	(65.07)
Variable	457.47	479.67	495.84	510.22	525.02
Total	399.42	419.94	434.39	446.98	459.95

Summary and Guidance

In summary, Adviser Edge believes that the change in RE has been a positive step forward for the 2005 and 2006 Mango Projects. Huntley is an independent, well resourced and highly regarded contract RE with experience in turnaround roles. The removal of variable fees is certainly appropriate, resulting in a lowering of the overall fees payable during the life of the project by a considerable margin.

Adviser Edge has considered the shift in billing cycle, which is being changed to match the financial year. Under the previous RE, billing for annual management fees and rent occurred in October each year, with investors required to pay four months in arrears and eight months in advance. This meant that investors were invoiced for picking and packing costs in advance; these costs are expected to become significant as production increases. There was no provision for off-setting costs against revenue, which created unwarranted cash flow issues for clients, particularly for those with significant numbers of units.

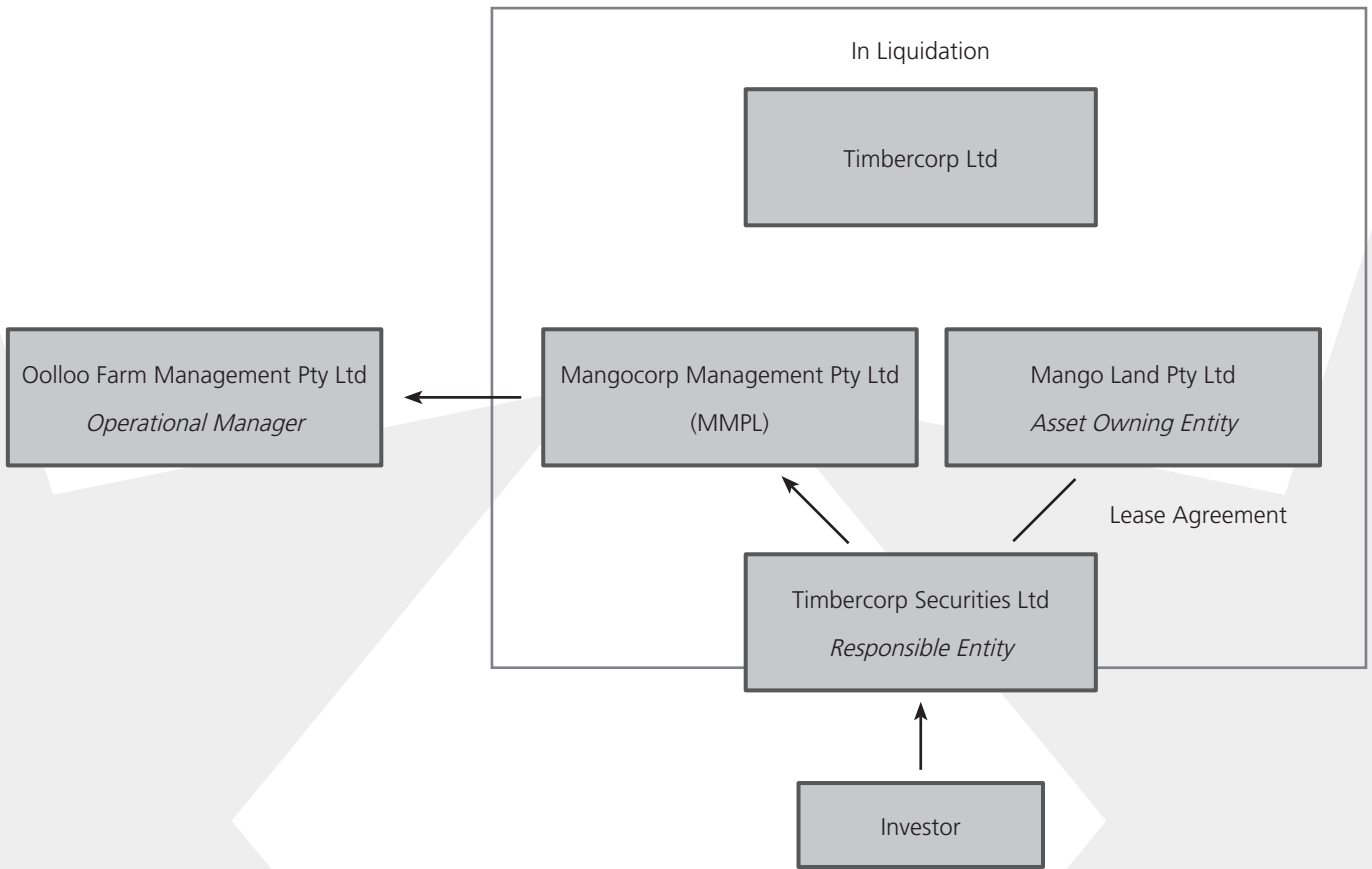
The change in RE has provided an opportunity for redress, moving the billing cycle in line with the start of the financial year. The new billing system, which consists of two installments, also reflects the operational cash flow cycle of the project, with growers required to fund the operational expenses until 31 December, and then fund any shortfall between operating income and actual costs of operation in arrears. This should result in the majority of picking and packing costs being offset against harvest proceeds. The effect of this changed arrangement is to reduce the need for growers to pre-pay a large portion of the costs, which eases the burden on growers and more appropriately reflects the way in which a normal well run agribusiness would operate. It also ensures that Oolloo will have access to free cash flow to fund orchard management operations.

Huntley has also changed the way in which funds are quarantined to ensure that the funds provided by growers to cover operating costs will not be used for any other purpose. This is a vast improvement on the 'bucket' approach previously adopted by Timbercorp and may serve as a model for other MIS projects henceforth. Investors need to be confident that their money, when provided, is protected from misuse and applied in a manner that will deliver a productive and profitable outcome.

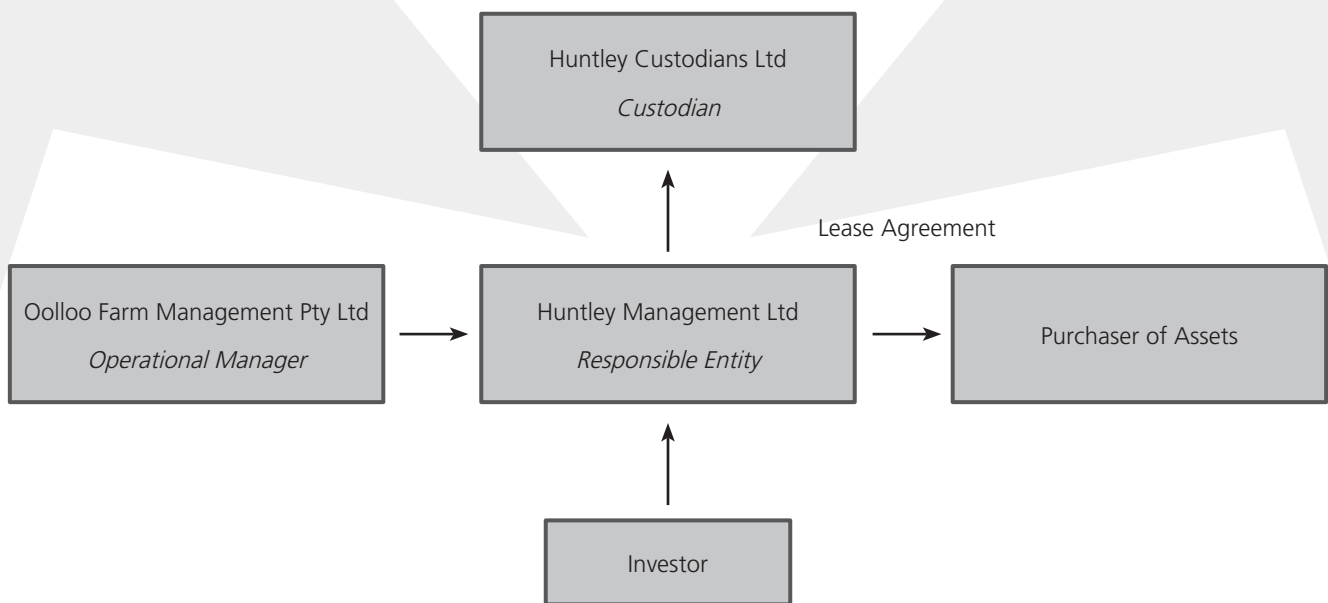
This is the first of the Timbercorp projects to make a successful transition to a new management arrangement and the changes made should be viewed in a positive light. Adviser Edge is confident that Huntley and the OneHarvest Group will work cooperatively to make the mango orchards commercially viable. Advisers should recognise that the normal risks of agriculture remain, with mango yields, quality, and market supply and demand ultimately determining whether profits are achieved.

Adviser Edge believes that the shift in billing cycle is in the interests of growers and should be supported.

Appendix 1 - Previous Management Structure



Appendix 2 - New Management Structure



Important Notice

This Adviser Note is general financial advice for financial advisers only. This advice does not take into account your, or your clients', objectives, financial situation or needs. Accordingly, it is up to you and your clients to consider whether any investment decision is suitable for your objectives, financial situation or needs.

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